

Louisville Gas and Electric Company

P.S.C. Gas No. 7, First Revision of Original Sheet No. 87.1
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.1

Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

Where:

TABMGCC represents the Total Annual Benchmark Gas Commodity Costs and is the annual sum of the monthly Benchmark Gas Commodity Costs (**BMGCC**) of gas purchased for system supply; and

HRF represents Historical Reservation Fees and is an annual dollar amount equal to Company's average annual supply reservation fees based on the 24-month period ended October 31 immediately preceding the PBR period.

BMGCC represents Benchmark Gas Commodity Costs and shall be calculated on a monthly basis and accumulated for the PBR period. BMGCC shall be calculated as follows:

$$\text{BMGCC} = \text{Sum } \{[\text{SZFQE}\% \times (\text{APV} - \text{PEFDCQ}) \times \text{SAI}_i] + [\text{PEFDCQ} \times \text{DAI}]\}$$

Where:

SZFQE% is the Supply Zone Firm Quantity Entitlement Percentage derived from Company's firm entitlements by pipeline and by zone for which indices are posted. The percentage represents the pro-rata portion of Company's firm lateral and mainline receipt point quantity entitlements by zone for each transportation contract by pipeline.

i represents each supply area.

APV is the actual purchased volumes of natural gas for system supply for the month. The APV shall include purchases necessary to cover retention volumes required by the pipeline as fuel.

PEFDCQ are the Purchases In Excess of Firm Daily Contract Quantities delivered to Company's city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

SAI is the Supply Area Index factor to be established for each supply area in which Company has firm transportation entitlements used to transport its natural gas purchases and for which price postings are available. The five supply areas are TGT-SL (Texas Gas Transmission - Zone SL), TGT-1 (Texas Gas Transmission - Zone 1), TGT-4 (Texas Gas Transmission - Zone 4), TGPL-0 (Tennessee Gas Pipeline - Zone 0), and TGPL-1 (Tennessee Gas Pipeline - Zone 1).

The monthly SAI for TGT-SL, TGT-1, TGT-4, TGPL-0 and TGPL-1 shall be calculated using the following formula:

$$\text{SAI} = [I(1) + I(2) + I(3)] / 3$$

DAI is the Delivery Area Index to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from either Texas Gas Transmission's Zone 4 or Tennessee Gas Pipeline's Zone 2.

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Lonnie E. Bellar

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PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

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Louisville Gas and Electric Company

P.S.C. Gas No. 7, First Revision of Original Sheet No. 87.2
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.2

Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

The monthly DAI for TGT-4 and TGPL-2 shall be calculated using the following formula:

$$DAI = [I(1) + I(2) + I(3)] / 3$$

Where:

I represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

The indices for each supply zone are as follows:

SAI (TGT-SL)

I(1) is the average of weekly *Natural Gas Week* postings for Gulf Coast Onshore Louisiana as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for Louisiana - Onshore South Texas Gas Zone SL averaged for the month.

I(3) is the *Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas Zone SL.

SAI (TGT-1)

I(1) is the average of weekly *Natural Gas Week* postings for North Louisiana as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for East Texas - North Louisiana Area - Texas Gas Zone 1 averaged for the month.

I(3) is the *Inside FERC's Gas Market Report* first-of-the-month posting for Texas Gas Zone1.

SAI (TGT-4)

I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Lebanon Hub.

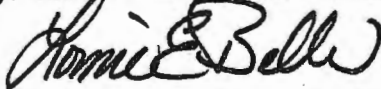
I(2) is the average of the daily high and low *Gas Daily* postings for Appalachia - Lebanon Hub averaged for the month.

I(3) is the *Inside FERC's Gas Market Report* first-of-the-month posting for Northeast Lebanon Hub.

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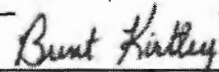
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Louisville Gas and Electric Company

P.S. C. Gas No. 7, First Revision of Original Sheet No. 87.3
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.3

Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

SAI (TGPL-0)

I(1) is the average of weekly *Natural Gas Week* postings for Gulf Coast Onshore Texas as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for South - Corpus Christi-Tennessee averaged for the month.

I(3) is the *Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee Zone 0.

SAI (TGPL-1)

I(1) is the average of weekly *Natural Gas Week* postings for Gulf Coast Onshore Louisiana as Delivered to Pipeline.

I(2) is the average of the daily high and low *Gas Daily* postings for Louisiana - Onshore South - Tennessee 500 Leg averaged for the month.

I(3) is the *Inside FERC's - Gas Market Report* first-of-the-month posting for Tennessee 500 leg.

DAI (TGT-4) and (TGPL-2)

I(1) is the average of weekly *Natural Gas Week* postings for Spot Prices on Interstate Pipeline Systems for Dominion - South.

I(2) is the average of the daily high and low *Gas Daily* postings for the Daily Price Survey for Appalachia - Dominion South Point.

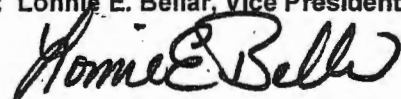
I(3) is the *Inside FERC's - Gas Market Report* first-of-the-month posting for Prices of Spot Gas Delivered to Pipeline for Dominion Transmission Inc. - Appalachia.

AGC represents Company's total annual Actual Gas Costs of natural gas purchased for system supply and is equal to the total monthly actual gas commodity costs and supply reservation fees plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments paid by Company to its suppliers accumulated for the PBR period. Such costs shall exclude labor related or other expenses typically classified as operating and maintenance expenses.

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Louisville Gas and Electric Company

P.S. C. Gas No. 7, First Revision of Original Sheet No. 87.4
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.4

Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

To the extent that AGC exceeds BGC for the PBR period, then the GAIF Shared Expenses shall be computed as follows:

$$\text{Shared Expenses} = \text{AGC} - \text{BGC}$$

To the extent that AGC is less than BGC for the PBR period, then the GAIF Shared Savings shall be computed as follows:

$$\text{Shared Savings} = \text{BGC} - \text{AGC}$$

TIF

TIF = Transportation Index Factor. The Transportation Index Factor shall be calculated by comparing the Total Annual Benchmark Monthly Gas Transportation Costs (**TABMGTC**) of natural gas transportation services during the PBR period, to the Total Annual Actual Gas Transportation Costs (**TAAGTC**) applicable to the same period to determine if any Shared Expenses or Shared Savings exist.

The Total Annual Benchmark Monthly Gas Transportation Costs (**TABMGTC**) are calculated as follows:

$$\text{TABMGTC} = \text{Annual Sum of Monthly BMGTC}$$

Where:

BMGTC is the Benchmark Monthly Gas Transportation Costs which include both demand and volumetric costs associated with natural gas pipeline transportation services. The BMGTC shall be accumulated for the PBR period and shall be calculated as follows:

$$\text{BMGTC} = \text{Sum} [\text{BM(TGT)} + \text{BM(TGPL)} + \text{BM(PPL)}]$$

Where:

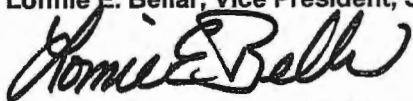
BM(TGT) is the benchmark associated with Texas Gas Transmission Corporation.

BM(TGPL) is the benchmark associated with Tennessee Gas Pipeline Company.

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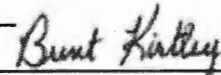


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Louisville Gas and Electric Company

P.S. C. Gas No. 7, First Revision of Original Sheet No. 87.5
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.5

Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

BM(PPL) is the benchmark associated with a proxy pipeline. The appropriate benchmark, which will be determined at the time of purchase, will be used to benchmark purchases of transportation capacity from non-traditional sources.

The benchmark associated with each pipeline shall be calculated as follows:

$$\text{BM(TGT)} = (\text{TPDR} \times \text{DQ}) + (\text{TPCR} \times \text{AV}) + \text{S\&DB}$$

$$\text{BM(TGPL)} = (\text{TPDR} \times \text{DQ}) + (\text{TPCR} \times \text{AV}) + \text{S\&DB}$$

$$\text{BM(PPL)} = (\text{TPDR} \times \text{DQ}) + (\text{TPCR} \times \text{AV}) + \text{S\&DB}$$

Where:

TPDR is the applicable Tariffed Pipeline Demand Rate.

DQ is the Demand Quantities contracted for by Company from the applicable transportation provider.

TPCR is the applicable Tariffed Pipeline Commodity Rate.

AV is the Actual Volumes delivered at Company's city-gate by the applicable transportation provider for the month.

S\&DB represents Surcharges, Direct Bills and other applicable amounts approved by the Federal Energy Regulatory Commission (FERC). Such amounts are limited to FERC-approved charges such as surcharges, direct bills, cashouts, take-or-pay amounts, Gas Supply Realignment and other Order 636 transition costs.

The Total Annual Actual Gas Transportation Costs (**TAAGTC**) paid by Company for the PBR period shall include both demand and volumetric costs associated with natural gas pipeline transportation services as well as all applicable FERC-approved surcharges, direct bills and cashouts included in S\&DB, plus the gains and/or losses from the use of financial hedging instruments and the financial transaction costs associated with such instruments. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

To the extent that TAAGTC exceeds TABMGTC for the PBR period, then the TIF Shared Expenses shall be computed as follows:


$$\text{Shared Expenses} = \text{TAAGTC} - \text{TABMGTC}$$

To the extent that TAAGTC is less than TABMGTC for the PBR period, then the TIF Shared Savings shall be computed as follows:

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Louisville Gas and Electric Company

P.S. C. Gas No. 7, First Revision of Original Sheet No. 87.6
Canceling P.S.C. Gas No. 7, Original Sheet No. 87.6

Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

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$$\text{Shared Savings} = \text{TABMGTC} - \text{TAAGTC}$$

Should one of Company's pipeline transporters file a rate change effective during any PBR period and bill such proposed rates subject to refund, the period over which the benchmark comparison is made for the relevant transportation costs will be extended for one or more 12-month periods, until the FERC has approved final settled rates, which will be used as the appropriate benchmark. Company will not share in any of the savings or expenses related to the affected pipeline until final settled rates are approved.

OSSIF

OSSIF = Off-System Sales Index Factor. The Off-System Sales Index Factor shall be equal to the Net Revenue from Off-System Sales (**NR**).

Net Revenue is calculated as follows:

$$\text{NR} = \text{OSREV} - \text{OOPC}$$

Where:

OSREV is the total revenue associated with off-system sales and storage service transactions.

OOPC is the out-of-pocket costs associated with off-system sales and storage service transactions, and shall be determined as follows:

$$\text{OOPC} = \text{OOPC}(\text{GC}) + \text{OOPC}(\text{TC}) + \text{OOPC}(\text{SC}) + \text{OOPC}(\text{UGSC}) + \text{Other Costs}$$

Where:

OOPC(GC) is the Out-of-Pocket Gas Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm supply contracts, the OOPC(GC) shall be the incremental cost to purchase the gas available under Company's firm supply contracts. For off-system sales not using Company's firm supply contracts, the OOPC(GC) shall be the incremental costs to purchase the gas from other entities.

OOPC(TC) is the Out-of-Pocket Transportation Costs associated with off-system sales transactions. For off-system sales utilizing Company's firm transportation agreements, the OOPC(TC) shall be the incremental cost to use the transportation available under Company's firm supply contracts. For off-system sales not using Company's firm transportation agreements, the OOPC(TC) shall be the incremental costs to purchase the transportation from other entities.

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Experimental Performance Based Rate Mechanism

OOPC(SC) is the Out-of-Pocket Storage Costs associated with off-system sales of storage. If this is gas in Company's own storage it shall be priced at the average price of the gas in Company's storage during the month of the sale. If this is gas from the storage component of Texas Gas's No-Notice Service, this gas shall be priced at the replacement cost.

OOPC(UGSC) is the Out-of-Pocket Underground Storage Costs associated with off-system sales of storage services. For the off-systems sales of storage services utilizing Company's on-system storage, the OOPC(UGSC) shall include incremental storage losses, odorization, and other fuel-related costs such as purification, dehydration, and compression. Such costs shall exclude labor-related expenses.

Other Costs represent all other incremental costs and include, but are not limited to, costs such as applicable sales taxes and excise fees plus the gains and/or losses from the use of financial hedging instruments and the transaction costs associated with such instruments. Such costs shall exclude labor-related or other expenses typically classified as operating and maintenance expenses.

ACSP

ACSP = Applicable Company Sharing Percentage. The ACSP shall be determined based on the PTAGSC.

Where:

PTAGSC = Percentage of Total Actual Gas Supply Costs. The PTAGSC shall be the TPBRR stated as a Percentage of Total Actual Gas Supply Costs and shall be calculated as follows:

$$\text{PTAGSC} = \frac{\text{TPBRR}}{\text{TAGSC}}$$

Where:

TAGSC = Total Actual Gas Supply Costs. The TAGSC shall be calculated as follows:

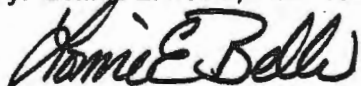
$$\text{TAGSC} = \text{AGC} + \text{TAAGTC}$$

If the absolute value of the PTAGSC is less than or equal to 4.5%, then the ACSP of 25% shall be applied to TPBRR to determine CSPBR. If the absolute value of the PTAGSC is greater than 4.5%, then the ACSP of 25% shall be applied to the amount of TPBRR that is equal to 4.5% of TAGSC to determine a portion of CSPBR, and the ACSP of 50% shall be applied to the amount of TPBRR that is in excess of 4.5% of TAGSC to determine a portion of CSPBR. These two portions are added together to produce the total CSPBR.

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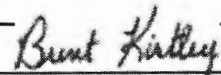
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Adjustment Clause

PBR

Experimental Performance Based Rate Mechanism

BA

BA = Balance Adjustment. The BA is used to reconcile the difference between the amount of revenues billed or credited through the CSPBR and previous application of the BA and revenues which should have been billed or credited, as follows:

- 1) For the CSPBR, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the CSPBR and the actual amount used to establish the CSPBR for the period.
- 2) For the BA, the balance adjustment amount will be the difference between the amount billed in a 12-month period from the application of the BA and the actual amount used to establish the BA for the period.

Review

Within 60 days of the end of the fourth year of the five-year extension, Company will file an assessment and review of the PBR mechanism for the first four years of the five-year extension period. In that report and assessment, Company will make any recommended modifications to the PBR mechanism.

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