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April 30, 2009

VIA OVERNIGHT MAIL

Eddie Roberson, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

electronically filed 5/1/09

Re: Petition of Kentucky Utilities Company for Approval of
Adjustment of its Electric Rates, Terms and Conditions of
Service and Revised Tariff

Dear Chairman Roberson:

Enclosed you will find the original, 4 copies and a disk of the above referenced Petition and a check for \$25.00 for the filing fee. An extra copy of the Petition is enclosed and marked "Company Copy." Please stamp it with the date of filing and return it in the enclosed self-addressed stamped envelope.

Collective Exhibit 4 is the record of Kentucky Utilities Company's ("Kentucky Utilities") most recent rate case before the Kentucky Public Service Commission ("KPSC") in Case No. 2008-00251. If hard copies of this record were produced, they would fill at least thirty-five banker boxes (i.e. seven bankers boxes for each set). Therefore, pursuant to TRA Rule 1220-1-1.05, Waiver of Rules, Kentucky Utilities respectfully moves that the Authority waive Rule 1220-1-1.03(4) that requires that five hard copies and a disk be filed with electronic filings. In lieu of the five hard copies of Collective Exhibit 4, Kentucky Utilities is filing five disks of Collective Exhibit 4, such that the filing includes: a) the original and four hard copies of the Petition (including Exhibits 1-3), b) five copies of a disk containing Collective Exhibit 4, and c) one disk containing the entire filing.

April 30, 2009
Page 2

Kentucky Utilities has five customers in Tennessee and is requesting the TRA to adopt the rates ordered by the KPSC; we therefore anticipate that this proceeding will be abridged. We expect that the Order of the KPSC which reflects the outcome of the Kentucky proceeding will be the document in the KPSC record most referred to by the Authority and hard copies are provided. Nevertheless, the entire record is available on the disk, if needed. Furthermore, as explained in its Petition, Kentucky Utilities is entitled to recover the expenses of a rate case in its rates. The rates proposed do not include this expense, which would make the proposed rate increase higher. In order to insulate its Tennessee customers from these costs, Kentucky Utilities' shareholders are absorbing the cost of prosecuting this proceeding.

Please contact me if you have any questions or need any additional information.

Sincerely,



D. Billye Sanders
Attorney for Kentucky Utilities Company

DBS/hmd

cc: Kendrick Riggs
W. Duncan Crosby, III
Allyson Sturgeon
Lonnie E. Bellar

Kentucky Utilities Company
(In Tennessee)
220 West Main Street
Louisville, Kentucky

Rates, Terms and Conditions for Furnishing

ELECTRIC SERVICE

In Claiborne County in the State of Tennessee
as filed with the

TENNESSEE REGULATORY AUTHORITY

Date Issued
May 1, 2009

Date Effective
June 1, 2009

Issued by
Lonnie E. Bellar, Vice President
State Regulation and Rates

Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 1, Original Sheet No. 1

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Date Issued: May 1, 2009

Date Effective: June 1, 2009

Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 5

Standard Rate

RS

Residential Service

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

Available for single phase delivery to single family residential service subject to the terms and conditions on Sheet No. 100 of this Tariff.

RATE

Customer Charge: \$5.00 per month

Plus an Energy Charge of: \$0.05716 per kWh

ADJUSTMENT CLAUSE

The bill amount computed at the charges specified above shall be increased or decreased in accordance with the following:

Phase-In Multipliers

Sheet No. 93

MINIMUM CHARGE

The Customer Charge shall be the minimum charge.

DUE DATE OF BILL

Customer's payment will be due within twelve (12) days from date of bill.

LATE PAYMENT CHARGE

If full payment is not received within three (3) days from the due date of the bill, a 5% late payment charge will be assessed on the current month's charges.

TERMS AND CONDITIONS

Service will be furnished under Company's Terms and Conditions applicable hereto.

Date Issued: May 1, 2009

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 1, Original Sheet No. 36

Standard Rate

P.O. LT.

Private Outdoor Lighting

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

Service under this schedule is offered, under the conditions set out hereinafter, for lighting applications on private residential property to Customers now receiving electric service from the Company at the same location. Service will be provided under written contract signed by Customer prior to service commencing, when facilities are required other than fixture(s).

RATE

STANDARD (SERVED OVERHEAD)

TYPE LIGHT	APPROX. LUMENS	kW RATING	MONTHLY CHARGE
Open Bottom Mercury Vapor	7,000*	.207	\$ 8.68
Open Bottom High Pressure Sodium	5,800	.083	\$ 4.82
Open Bottom High Pressure Sodium	9,500	.117	\$ 5.57

NOTE: * RESTRICTED TO THOSE FIXTURES IN SERVICE ON AUGUST 20, 1990. UPON FAILURE, EXISTING FIXTURES WILL EITHER BE REMOVED FROM SERVICE OR REPLACED WITH AVAILABLE LIGHTING AT THE CUSTOMER'S OPTION.

DIRECTIONAL (SERVED OVERHEAD)

TYPE LIGHT	APPROX. LUMENS	kW RATING	MONTHLY CHARGE
Directional High Pressure Sodium	9,500	.117	\$ 6.64

The Company will furnish a complete standard or directional fixture with appropriate mast arm on existing poles with available secondary voltage of 120/240.

Where the location of existing poles are not suitable or where there are no existing poles for mounting of lights, and the Customer requests service under these conditions, the Company may furnish the required facilities at an additional charge per month to be determined by the Company. These additional charges are subject to change by Company upon thirty (30) days prior written notice.

All facilities required by Company will be standard stocked material. When underground facilities are requested and the Company agrees to underground service, the Customer will be responsible for ditching and back-filling and seeding and/or repaving as necessary, and provide, own, and maintain all conduit.

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 36.1

Standard Rate

P.O. LT.

Private Outdoor Lighting

Company, where secondary voltage of 120/240 is available, will furnish, own, and maintain poles, fixtures and any necessary circuitry up to 100 feet. All poles and fixtures furnished by Company will be standard stocked materials. Where Customer's location would require the installation of additional facilities, Company may furnish, own, and maintain the requested facilities at an additional charge per month to be determined by Company. Such charges are subject to change by Company upon 30 days prior written notice.

Customer is to pay the monthly rate plus any additional charge determined above plus provide all ditching, back-filling, and repaving/seeding/sodding as necessary and provide, own, and maintain all conduit. Company may, at Customer's request, provide all ditching, back-filling, and repaving/seeding/sodding as necessary for payment, in advance, of Company's cost to provide those services. Upon termination of service, the Company shall not be required to remove underground facilities.

Where Customer has need for non-stocked styles of poles or fixtures, Company may agree to provide the requested styles for payment, in advance, by Customer of the cost difference between the requested styles and the stock materials. Customer accepts that Company's maintenance of non-stock materials is dependent on outside vendors and that maintenance of non-stock styles may be delayed or materials unavailable.

DECORATIVE HPS (SERVED UNDERGROUND)

TYPE POLE AND FIXTURE	APPROX. LUMENS	kW RATING	MONTHLY CHARGE
Acorn Decorative	4,000	0.060	\$11.01
Acorn Historic	4,000	0.060	\$17.13
Acorn Decorative	5,800	0.083	\$11.66
Acorn Historic	5,800	0.083	\$17.68
Acorn Decorative	9,500	0.117	\$12.50
Acorn Historic	9,500	0.117	\$18.61
Colonial	4,000	0.060	\$ 7.33
Colonial	5,800	0.083	\$ 7.89
Colonial	9,500	0.117	\$ 8.63
Coach	5,800	0.083	\$26.38
Coach	9,500	0.117	\$27.11
Contemporary	5,800	0.083	\$13.38
Contemporary	9,500	0.117	\$16.00

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 36.3

Standard Rate

P.O. LT.

Private Outdoor Lighting

Company to furnish, own, and maintain decorative poles, fixtures and any necessary circuitry up to 100 feet for the size lamps being used. Additional facilities required by Customer will be provided at a charge to be determined by the Company. These additional charges are subject to change by the Company upon 30 days prior written notice. All facilities furnished by the Company will be standard stocked material. Customer to pay rate plus any additional charges as determined above plus provide all ditching, back-filling, and repaving/seeding/sodding as necessary, and provide, own, and maintain all conduit. Upon termination of this service, the Company shall not be required to remove underground wiring

ADJUSTMENT CLAUSE

The bill amount computed at the charges specified above shall be increased or decreased in accordance with:

Phase-In Multipliers

Sheet No. 93

DUE DATE OF BILL

Payment is due within twelve (12) days from date of bill. Billing for this service to be made a part of bill rendered for other electric service.

DETERMINATION OF ENERGY CONSUMPTION

The kilowatt-hours will be determined as set forth on Sheet No. 67 of this Tariff.

TERM OF CONTRACT

For a fixed term of not less than five (5) years and for such time thereafter until terminated by either party giving thirty (30) days prior written notice to the other when additional facilities are required. Cancellation by Customer prior to the initial five-year term will require the Customer to pay to Company its cost of labor to install and remove facilities plus cost of non-salvageable material, prorated on the basis of the remaining portion of the five-year period.

Signed contracts will not be required when the fixture(s) are placed on existing pole with a 120 volt source.

TERMS AND CONDITIONS

1. Service shall be furnished under Company's Terms and Conditions, except as set out herein.
2. All service and necessary maintenance on the light and facilities will be performed only during regular scheduled working hours of the Company. The Company shall be allowed two (2) business days after notification by the Customer in which to restore service.

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 36.4

Standard Rate

P.O. LT.

Private Outdoor Lighting

3. The Customer shall be responsible for fixture replacement or repairs where such replacement or repairs are caused from willful damage, vandalism, or causes other than normal burnouts.
4. The Company shall own and maintain all facilities required in providing this service, except as noted above.

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Kentucky Utilities Company (In Tennessee)

T.R.A. No. 1, Original Sheet No. 45

Standard Rate

Special Charges

The following charges will be applied uniformly throughout Company's service territory. Each charge, as approved by the Tennessee Regulatory Authority, reflects only that revenue required to meet associated expenses.

RETURNED PAYMENT CHARGE

In those instances where a customer renders payment to Company which is not honored upon deposit by Company, the customer will be charged \$10.00 to cover the additional processing costs.

METER TEST CHARGE

a) Request Tests

Pursuant to TRA Rule 1220-4-4-.30, upon written request of a customer, the Company will make a test of the meter serving the customer once in a twelve-month period at no charge. A report of the results of the test together with a copy of TRA Rule 1220-4-4-31 will be provided to the customer within ten (10) business days after the completion of the test. A record of the report, together with a complete record of each test, will be kept on file at the office of the Company. For each additional test performed within a twelve-month period at the customer's written request, the customer will be charged \$60. Provided however, if the results of the test show that the meter is more than two percent (2%) fast as provided in TRA Rule 1220-4-4-.18, no testing charge will be assessed and a credit for overcharges will be made for a period equal to one-half of the time elapsed since the last test, not to exceed six (6) months.

b) Referee Tests

Pursuant to TRA Rule 1220-4-4-.31, upon written application to the Tennessee Regulatory Authority by a customer or the Company, a test will be made of the customer's meter under the supervision of the TRA. The first test pursuant to such an application in a 12-month period is at no charge. Thereafter, the application to the TRA shall be accompanied by a twenty-five dollar (\$25) fee payable to the Tennessee Regulatory Authority

DISCONNECTING AND RECONNECTING SERVICE CHARGE

A charge of \$25.00 will be made to cover disconnection and reconnection of electric service when discontinued for non-payment of bills or for violation of Company's Terms and Conditions, such charge to be made before reconnection is effected.

Residential and general service customers may request and be granted temporary suspension of electric service. In the event of such temporary suspension, Company will make a charge of \$25.00 to cover disconnection and reconnection of electric service, such charge to be made before reconnection is effected.

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 57

Standard Rate Rider

**NMS
Net Metering Service**

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

Available to customers who own, operate and maintain a generation system located on customer's premises, that use as its total fuel source solar, wind, hydro energy, or biomass, in parallel with Company's electric system to provide all or part of their electrical requirements, and who execute Company's written Net Metering Program Notification Form. The generation system shall be limited to a maximum capacity of 30 kilowatts.

NOTIFICATION

The customer shall submit a completed Net Metering Program Notification Form to Company at least 30 days prior to the date the customer intends to interconnect his generator to Company's facilities. Customer shall have all equipment necessary to complete the interconnection installed prior to such notification. Company shall have 30 days from the date of notification to determine whether the customer has satisfied the tariff requirements and shall notify customer. The date of notification shall be the third day following the mailing of the Net Metering Program Notification Form by customer. Customer may interconnect his generator thirty-one days after the date of notification, and begin operation unless Company provides notification of non-compliance to the tariff, prior to the 31st day.

METERING AND BILLING

Net Metering Service shall be measured in accordance with standard metering practices by metering equipment capable of registering power flow in both directions for each time period defined by the applicable rate schedule. If electricity generated by the customer and fed back to Company's system exceeds the electricity supplied to the customer from the system during a billing period, the customer shall receive a credit for the net delivery on the customer's bill for the succeeding billing period. Net metering service shall be measured using a single meter or, as determined by Company, additional meters.

LIABILITY INSURANCE

A customer with a generator with a rated capacity not exceeding 30 kilowatts shall maintain homeowner's insurance providing coverage in the amount of at least \$100,000 for the liability of the insured against loss arising out of the use of a generator.

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 57.1

Standard Rate Rider

**NMS
Net Metering Service**

ADDITIONAL CONTROLS AND TESTS

Company may install additional controls or meters, or conduct additional tests as it may deem necessary.

NET METERING SERVICE INTERCONNECTION GUIDELINES

Customer shall operate their generating facilities in parallel with Company's system under the following conditions and any other conditions required by Company where unusual conditions arise not covered herein:

1. Customer to own, install, and maintain all generating facilities on their premises. Such facilities shall include, but not be limited to, necessary control equipment to synchronize frequency, voltage, etc., between customer's and Company's system as well as adequate protective equipment between the two systems. Customer's voltage at the point of interconnection will be the same as Company's system voltage.
2. Customer will be responsible for operating generators and all facilities owned by customer, except as specified hereinafter. Customer will maintain its system in synchronization with Company's system.
3. Customer will be responsible for any damage done to Company's equipment due to failure of customer's control, safety, or other equipment.
4. Company at, its discretion, may require a suitable lockable, company accessible, load breaking manual disconnect switch or similar equipment, as specified by Company, to be furnished by customer at a location designated by Company to enable the separation or disconnection of the two electrical systems. The load breaking manual disconnect switch must be accessible to Company at all times.
5. Customer agrees to inform Company of any changes it wishes to make in its generating and/or associated facilities that is different from those initially installed and described to Company in writing and obtain prior approval from Company.
6. Company will have the right to inspect and approve customer's facilities, described herein, and conduct any tests necessary to determine that such facilities are installed and operating properly. However, Company will have no obligation to inspect, witness tests or in any manner be responsible for customer's facilities or operation.
7. The customer assumes all responsibility for the electric service on the customer's premises at and from the point of delivery of electricity from Company and for the wires and equipment used in connection therewith, and will protect and save Company harmless from all claims for injury or damage to persons or property occurring on the customer's premises or at and from the point of delivery of electricity from Company, occasioned by such electricity or said wires and equipment, except where said injury or damage will be shown to have been occasioned solely by the negligence of Company.

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 57.2

Standard Rate Rider

**NMS
Net Metering Service**

CONDITIONS OF INTERCONNECTION

A customer may begin operation of his generator on an interconnected basis when all of the following have been satisfied:

1. The customer has properly notified Company of his intent to interconnect by submission of the completed Net Metering Program Notification Form.
2. The net metering customer has installed a lockable, company accessible, load breaking manual disconnect switch, if required.
3. A licensed electrician has certified, by signing Company Net Metering Program Notification Form, that any required manual disconnect switch has been installed properly and that the generator has been installed in accordance with the manufacturer's specifications as well as all applicable provisions of the National Electrical Code.
4. The vendor has certified, by signing Company Net Metering Program Notification Form, that the generator being installed is in compliance with the requirements established by Underwriters Laboratories, or other national testing laboratories.
5. The customer has had the inverter settings inspected by Company, if the generator is a static inverter-connected generator with an alternating current capacity in excess of 10 kilowatts. Company may impose a fee on the customer of no more than \$50 for such inspection.
6. For non-static inverter-connected generators, the customer has interconnected according to Company's interconnection guidelines and Company has inspected all protective equipment settings. Company may impose a fee on the customer of no more than \$50 for such inspection.

DEFINITIONS

"Billing period" shall be the time period between the dates on which Company issues the customer's bills.

"Billing Period Credit" shall be the electricity generated by the customer that flows into the electric system and which exceeds the electricity supplied to the customer from the electric system during any billing period.

TERMS AND CONDITIONS

Except as provided herein, service will be furnished under Company's Terms and Conditions applicable hereto.

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Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 57.3

Standard Rate Rider

NMS

Net Metering Service

Net Metering Program Notification Form

INTERCONNECTION NOTIFICATION

APPLICANT HEREBY GIVES NOTICE OF INTENT TO OPERATE A GENERATING FACILITY.

Section 1. Applicant Information

Name: _____

Mail _____

Address: _____

City: _____ State: _____ Zip Code: _____

Facility Location (if different from above): _____

Daytime Phone Number: _____

KU Account Number : _____

Section 2. Generating Facility Information

Generator Type (check one): Solar _____, Wind _____, Hydro _____, Biomass _____

Generator Manufacturer, Model Name & Number: _____

Power Rating in Kilowatts: AC: _____ DC: _____

Inverter Manufacturer, Model Name & Number: _____

Battery Backup? (yes or no) _____

Section 3. Installation Information

Installation Date: _____ Proposed Interconnection Date: _____

Section 4. Certifications

1. The system hardware is listed by Underwriters Laboratories to be in compliance with UL 1741:

Signed (Vendor): _____ Date: _____

Name (printed): _____ Company: _____

Phone Number: _____

2. The system has been installed in accordance with the manufacturer's specifications as well as all applicable provisions of the National Electrical Code.

Signed (Licensed Electrician): _____ Date: _____

License Number: _____ Phone Number: _____

Mail Address: _____

City: _____ State: _____ Zip Code: _____

3. Utility signature signifies only receipt of this form.

Signed (Utility Representative): _____

Date: _____

I hereby certify that, to the best of my knowledge, all of the information provided in this Notice is true and correct.

Signature of Applicant _____

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 1, Original Sheet No. 67

Standard Rate Rider

Kilowatt-Hours Consumed By Street Lighting Units

APPLICABLE

Determination of energy set out below applies to the Company's non-metered lighting rate schedules.

DETERMINATION OF ENERGY CONSUMPTION

The applicable fuel clause charge or credit will be based on the kilowatt-hours calculated by multiplying the kilowatt load of each light times the number of hours that light is in use during the billing month. The kilowatt load of each light is shown in the section titled RATE. The number of hours a light will be in use during a given month is from dusk to dawn as shown in the following Hours Use Table.

HOURS USE TABLE

<u>Month</u>	<u>Hours Light Is In Use</u>
JAN	407
FEB	344
MAR	347
APR	301
MAY	281
JUN	257
JUL	273
AUG	299
SEP	322
OCT	368
NOV	386
DEC	415
TOTAL FOR YEAR	4,000 HRS.

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Kentucky Utilities Company (In Tennessee)

T.R.A. No. 1 , Original Sheet No. 70

Standard Rate Rider

GER

Green Energy Rider

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

Service under this rider is available to customers receiving service under Company's standard RS rate schedule as an option to participate in Company's "Green Energy Program" whereby Company will aggregate the resources provided by the participating customers to develop green power, purchase green power, or purchase Renewable Energy Certificates.

DEFINITIONS

- a) Green power is that electricity generated from renewable sources including but not limited to: solar, wind, hydroelectric, geothermal, landfill gas, biomass, biodiesel used to generate electricity, agricultural crops or waste, all animal and organic waste, all energy crops and other renewable resources deemed to be Green-e Certified.
- b) A Renewable Energy Certificate ("REC") is the tradable unit which represents the commodity formed by unbundling the environmental-benefit attributes of a unit of green power from the underlying electricity. One REC is equivalent to the environmental-benefits attributes of one (1) MWh of green power.

RATE

\$5.00 per 300 kWh block per month

TERMS AND CONDITIONS

- a) Customers may purchase as many whole blocks as they desire. The eligible customer may participate in Company's "Green Energy Program" by making a request to Company's Call Center or through Company's website enrollment form and may withdraw at any time through a request to Company's Call Center. Funds provided by Customer to Company are not refundable.
- b) Customers may not owe any arrearage prior to entering the "Green Energy Program". Any customer failing to fulfill payment for the requested blocks may be removed from the "Green Energy Program." Any Customer removed from or withdrawing from the "Green Energy Program" will not be allowed to re-apply for one (1) year.
- c) Customer will be billed as provided for under "Rate" times the number of blocks Customer has agreed to purchase per month. Such billing will be added to Customer's billing under any standard rate schedules plus applicable riders plus applicable adjustment clauses.
- d) The service under this rate schedule shall coincide with the three (3) year term of the contract under which Company contracts for the purchase of RECs. Six (6) months prior to expiration of said contract Company shall file for renewal of this rate schedule with the Tennessee Regulatory Authority ("TRA") and may adjust block prices to reflect market conditions as they exist at that time. Upon TRA approval of any change in rate, Company will provide sixty (60) days notice for Customer to adjust the number of blocks contracted for or withdraw from the "Green Energy Program". Service under this rate schedule will continue until the TRA renders a decision on the filing for renewal.

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 1, Original Sheet No. 93

Adjustment Clause	
Phase-In Multipliers	
APPLICABLE In all territory served by Kentucky Utilities Company and subject to the Jurisdiction of the Tennessee Regulatory Authority.	
AVAILABILITY OF SERVICE This schedule is a rider to the attached Kentucky Utilities Company tariff. All provisions of the various Terms and Conditions shall apply.	
RATE Following approval by the Tennessee Regulatory Authority any billing resulting from application of the rates approved by the Public Service Commission of Kentucky shall be adjusted by multiplying the total billing resulting from such rates by the factors shown below;	
	Multiplier
For the first twelve consecutive monthly billings	0.4512
For the second twelve consecutive monthly billings	0.6341
For the third twelve consecutive monthly billings	0.8171
For all subsequent monthly billings	1.0000

Kentucky Utilities Company (In Tennessee)

T.R.A. No. 1, Original Sheet No. 95

TERMS AND CONDITIONS

Customer Bill of Rights

As a residential customer of Kentucky Utilities Company, you have certain rights:

- You have the right to service, provided you (or a member of your household whose debt was accumulated at your address) are not indebted to the utility.
- You have the right to inspect and review the utility's rates and tariffed operating procedures during the utility's normal office hours.
- You have the right to be present at any routine utility inspection of your service conditions.
- You must be provided a separate, distinct disconnect notice alerting you to a possible disconnection of your service, if payment is not received.
- You have the right to dispute the reasons for any announced termination of your service.
- You have the right to negotiate a partial payment plan when your service is threatened by disconnection for non-payment.
- You have the right to participate in equal, budget payment plans for your natural gas and electric service.
- You have the right to maintain your utility service for up to thirty (30) days upon presentation of a medical certificate issued by a health official.
- You have the right to prompt (within 24 hours) restoration of your service when the cause for discontinuance has been corrected.
- Pursuant to TRA Rule 1220-4-4.19(2)(b), if you have not been disconnected, you have the right to maintain your electric service for up to thirty (30) days, in the event a physician, public health officer, or social service official certifies that discontinuation of the service will aggravate an existing medical emergency of the customer or other permanent resident of the premises where the service is rendered. During that 30 day period you have the right to receive from the Company names of agencies that may be able to provide you with assistance.
- If you have been disconnected due to non-payment, you have the right to have your electric service reconnected between the months of November through March provided you:
 - 1) Present a letter from a physician, public health officer, or social service official certifying that discontinuation of the service will aggravate an existing medical emergency of the customer or other permanent resident of the premises where the service is rendered, and
 - 2) Pay one third (1/3) of your outstanding bill (\$200 maximum), and
 - 3) Agree to a repayment schedule that will cause your bill to become current by October 15.
- You have the right to designate a third party who will receive a copy of any termination notice that is sent to you.

You have the right to contact the Tennessee Regulatory Authority regarding any dispute that you have been unable to resolve with your utility (call Toll Free 1-800-342-8359).

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Date Effective: June 1, 2009

Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

TERMS AND CONDITIONS

General

AUTHORITY RULES AND REGULATIONS

All electric service supplied by Company shall be in accordance with the applicable rules and regulations of the Tennessee Regulatory Authority ("TRA").

COMPANY TERMS AND CONDITIONS

In addition to the rules and regulations of the TRA, all electric service supplied by Company shall be in accordance with these Terms and Conditions, which shall constitute a part of all applications and contracts for service.

RATES, TERMS AND CONDITIONS ON FILE

A copy of the rate schedules, terms, and conditions under which electric service is supplied is on file with the TRA. A copy of such rate schedules, terms and conditions is available for public inspection in each office of Company where bills may be paid.

ASSIGNMENT

No order for service, agreement or contract for service may be assigned or transferred without the written consent of Company.

RENEWAL OF CONTRACT

If, upon the expiration of any service contract for a specified term, the customer continues to use the service, the contract (unless otherwise provided therein) will be automatically renewed for successive periods of one (1) year each, subject to termination at the end of any year upon thirty (30) days prior written notice by either party.

AGENTS CANNOT MODIFY AGREEMENT WITHOUT CONSENT OF TRA

No agent has power to amend, modify, alter, or waive any of these Terms and Conditions, or to bind Company by making any promises or representations not contained herein.

SUPERSEDE PREVIOUS TERMS AND CONDITIONS

These Terms and Conditions supersede all terms and conditions under which Company has previously supplied electric service.

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TERMS AND CONDITIONS
Customer Responsibilities

APPLICATION FOR SERVICE

A written application or contract, properly executed, may be required before Company is obligated to render electric service. Company shall have the right to reject for valid reasons any such application or contract.

All applications for service shall be made in the legal name of the party desiring the service.

Where an unusual expenditure for construction or equipment is necessary or where the proposed manner of using electric service is clearly outside the scope of Company's standard rate schedules, Company may establish special contracts giving effect to such unusual circumstances. Customer accepts that non-standard service may result in the delay of required maintenance or, in the case of outages, restoration of service.

TRANSFER OF APPLICATION

Applications for electric service are not transferable and new occupants of premises will be required to make application for service before commencing the use of electricity. Customers who have been receiving electric service shall notify Company when discontinuance of service is desired, and shall pay for all electric service furnished until such notice has been given and final meter readings made by Company.

CUSTOMER'S EQUIPMENT AND INSTALLATION

Customer shall furnish, install, and maintain at his expense all electrical apparatus and wiring to connect with Company's service drop or service line. All such apparatus and wiring shall be installed and maintained in conformity with applicable statutes, laws or ordinances and with the rules and regulations of the constituted authorities having jurisdiction. Customer shall not install wiring or connect and use any motor or other electricity-using device which in the opinion of Company is detrimental to its electric system or to the service of other customers of Company. Company assumes no responsibility whatsoever for the condition of Customer's electrical wiring, apparatus, or appliances, nor for the maintenance or removal of any portion thereof.

In the event Customer builds or extends its own transmission or distribution system over property Customer owns, controls, or has rights to, and said system extends or may extend into the service territory of another utility company, Customer will notify Company of their intention in advance of the commencement of construction.

OWNER'S CONSENT TO OCCUPY

Customer shall grant easements and rights-of-way on and across Customer's property at no cost to Company.

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TERMS AND CONDITIONS
Customer Responsibilities

ACCESS TO PREMISES AND EQUIPMENT

Company shall have the right of access to Customer's premises at all reasonable times for the purpose of installing, meter reading, inspecting, repairing, or removing its equipment used in connection with its supply of electric service or for the purpose of turning on and shutting off the supply of electricity when necessary and for all other proper purposes. Customer shall not construct or permit the construction of any structure or device which will restrict the access of Company to its equipment for any of the above purposes.

PROTECTION OF COMPANY'S PROPERTY

Customers will be held responsible for tampering, interfering with, breaking of seals of meters, or other equipment of Company installed on Customer's premises, and will be held liable for same according to law. Customer hereby agrees that no one except the employees of Company shall be allowed to make any internal or external adjustments of any meter or any other piece of apparatus which shall be the property of Company.

EXCLUSIVE SERVICE ON INSTALLATION CONNECTED

No other electric light or power service will be used by Customer on the same installation in conjunction with Company's service, either by means of a throw-over switch or any other connection.

LIABILITY

Customer assumes all responsibility for the electric service upon Customer's premises at and from the point of delivery of electricity and for the wires and equipment used in connection therewith, and will protect and save Company harmless from all claims for injury or damage to persons or property occurring on Customer's premises or at and from the point of delivery of electricity, occasioned by such electricity or said wires and equipment, except where said injury or damage will be shown to have been occasioned solely by the negligence of Company.

NOTICE TO COMPANY OF CHANGES IN CUSTOMER'S LOAD

The service connections, transformers, meters, and appurtenances supplied by Company for the rendition of electric service to its customers have a definite capacity which may not be exceeded without damage. In the event that Customer contemplates any material increase in his connected load, whether in a single increment or over an extended period, he shall immediately give Company written notice of this fact so as to enable it to enlarge the capacity of such equipment. In case of failure to give such notice Customer may be held liable for any damage done to meters, transformers, or other equipment of Company caused by such material increase in Customer's connected load.

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 97.2

TERMS AND CONDITIONS
Customer Responsibilities

PERMITS

Customer shall obtain or cause to be obtained all permits, easements, or certificates, except street permits, necessary to give Company or its agents access to Customer's premises and equipment and to enable its service to be connected therewith. In case Customer is not the owner of the premises or of intervening property between the premises and Company's distribution lines the customer shall obtain from the proper owner or owners the necessary consent to the installation and maintenance in said premises and in or about such intervening property of all such wiring or other customer-owned electrical equipment as may be necessary or convenient for the supply of electric service to customer. Provided, however, to the extent permits, easements, or certificates are necessary for the installation and maintenance of Company-owned facilities, Company shall obtain the aforementioned consent.

The construction of electric facilities to provide service to a number of customers in a manner consistent with good engineering practice and the least public inconvenience sometimes requires that certain wires, guys, poles, or other appurtenances on a customer's premises be used to supply service to neighboring customers. Accordingly, each customer taking Company's electric service shall grant to Company such rights on or across his or her premises as may be necessary to furnish service to neighboring premises, such rights to be exercised by Company in a reasonable manner and with due regard for the convenience of Customer.

Company shall make or cause to be made application for any necessary street permits, and shall not be required to supply service under Customer's application until a reasonable time after such permits are granted.

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TERMS AND CONDITIONS
Company Responsibilities

METERING

The electricity used will be measured by a meter or meters to be furnished and installed by Company at its expense and all bills will be calculated upon the registration of said meters. When service is supplied by Company at more than one delivery point on the same premises, each delivery point will be metered and billed separately on the rate applicable. Meters include all measuring instruments. Meters will be located outside whenever possible. Otherwise, meters will be located as near as possible to the service entrance and on the ground floor of the building, in a clean, dry, safe and easily accessible place, free from vibration, agreed to by Company.

POINT OF DELIVERY OF ELECTRICITY

The point of delivery of electrical energy supplied by Company shall be at the point, as designated by Company, where Company's facilities are connected with the facilities of Customer, irrespective of the location of the meter.

EXTENSION OF SERVICE

The main transmission lines of Company, or branches thereof, will be extended to such points as provide sufficient load to justify such extensions or in lieu of sufficient load, Company may require such definite and written guarantees from a customer, or group of customers, in addition to any minimum payments required by the Tariff as may be necessary. This requirement may also be made covering the repayment, within a reasonable time, of the cost of tapping such existing lines for light or power service or both.

COMPANY'S EQUIPMENT AND INSTALLATION

Company will furnish, install, and maintain at its expense the necessary overhead service drop or service line required to deliver electricity at the voltage contracted for, to Customer's electric facilities.

Company will furnish, install, and maintain at its expense the necessary meter or meters. (The term meter as used here and elsewhere in these rules and regulations shall be considered to include all associated instruments and devices, such as current and potential transformers, installed for the purpose of measuring deliveries of electricity to the customer.) Suitable provision for Company's meter, including an adequate protective enclosure for the same if required, shall be made by Customer. Title to the meter shall remain in Company, with the right to install, operate, maintain, and remove same. Customer shall protect such property of Company from loss or damage, and no one who is not an agent of Company shall be permitted to remove, damage, or tamper with the same. Customer shall execute such reasonable form of easement agreement as may be required by Company.

A reasonable time shall be allowed subsequent to Customer's service application to enable Company to construct or install the facilities required for such service. In order that Company may make suitable provision for enlargement, extension or alteration of its facilities, each applicant for commercial or industrial service shall furnish Company with realistic estimates of prospective electricity requirements.

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Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

TERMS AND CONDITIONS
Company Responsibilities

COMPANY NOT LIABLE FOR INTERRUPTIONS

Company will exercise reasonable care and diligence in an endeavor to supply service continuously and without interruption but does not guarantee continuous service and shall not be liable for any loss or damage resulting from interruption, reduction, delay or failure of electric service not caused by the willful negligence of Company, or resulting from any cause or circumstance beyond the reasonable control of Company.

COMPANY NOT LIABLE FOR DAMAGE ON CUSTOMER'S PREMISES

Company is merely a supplier of electricity delivered to the point of connection of Company's and Customer's facilities, and shall not be liable for and shall be protected and held harmless for any injury or damage to persons or property of Customer or of third persons resulting from the presence, use or abuse of electricity on Customer's premises or resulting from defects in or accidents to any of Customer's wiring, equipment, apparatus, or appliances, or resulting from any cause whatsoever other than the negligence of Company

LIABILITY

In no event shall Company have any liability to Customer or any other party affected by the electrical service to Customer for any consequential, indirect, incidental, special, or punitive damages, and such limitation of liability shall apply regardless of claim or theory. In addition, to the extent that Company acts within its rights as set forth herein and/or any applicable law or regulation, Company shall have no liability of any kind to Customer or any other party. In the event that the customer's use of Company's service causes damage to Company's property or injuries to persons, Customer shall be responsible for such damage or injury and shall indemnify, defend, and hold Company harmless from any and all suits, claims, losses, and expenses associated therewith.

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Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

TERMS AND CONDITIONS

Character of Service

Electric service, under the rate schedules herein, will be 60 cycle, alternating current delivered from Company's various load centers and distribution lines at typical nominal voltages and phases, as available in a given location, as follows:

SECONDARY VOLTAGES

Residential Service -

Single phase 120/240 volts three-wire service or 120/208Y volts three-wire where network system is available.

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Kentucky Utilities Company (In Tennessee)

T.R.A. No. 1, Original Sheet No. 100

TERMS AND CONDITIONS

Residential Rate Specific Terms and Conditions

Residential electric service is available for uses customarily associated with residential occupation, including lighting, cooking, heating, cooling, refrigeration, household appliances, and other domestic purposes.

1. Residential rates are based on service to single family units and are not applicable to multi-family dwellings served through a single meter. Where two or more families occupy a residential building, Company will require, as a condition precedent to the application of the residential rate, that the wiring in the building be so arranged as to permit each family to be served through a separate meter. In those cases where such segregation of wiring would involve undue expense to Customer, Company will allow service to two or more families to be taken through one meter, but in this event the minimum bills of the applicable residential rate shall be multiplied by the number of families thus served, such number of families to be determined on the basis of the number of kitchens in the building.
2. Single family unit service shall include usage of electric energy customarily incidental to home occupations, such as the office of a physician, surgeon, dentist, musician or artist when such occupation is carried on by Customer in his residence.
3. A residential building used by a single family as a home, which is also used to accommodate roomers or boarders for compensation, will be billed at the residential rate provided it does not exceed twelve (12) rooms in size. In determining the room rating of rooming and boarding houses, all wired rooms shall be counted except hallways, vestibules, alcoves, closets, bathrooms, lavatories, garrets, attics, storage rooms, trunk rooms, basements, cellars, porches and private garages.
4. If Customer's barns, pump house or other outbuildings are located at such distance from his residence as to make it impracticable to supply service thereto through his residential meter, the separate meter required to measure service to such remotely located buildings will be considered a separate service contract and billed as a separate customer.
5. Single-phase power service used for domestic purposes will be permitted under Residential Rate RS when measured through the residential meter subject to the conditions set forth below:
 - (a) Single-phase motors may be served at 120 volts if the locked-rotor current at rated voltage does not exceed 50 amperes. Motors with locked-rotor current ratings in excess of 50 amperes must be served at 240 volts.
 - (b) Any motor or motors served through a separate meter will be billed as a separate customer.

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TERMS AND CONDITIONS

Billing

METER READINGS AND BILLS

All bills will be based upon meter readings made in accordance with Company's meter reading schedule. Company, except if prevented by reasons beyond its control, shall read customers meters in accordance with its monthly schedule.

In the case of opening and closing bills when the total period between regular and special meter readings is less than thirty days, the minimum charges of the applicable rate schedules will be prorated on the basis of the ratio of the actual number of days in such period to thirty days.

When Company is unable to read Customer's meter after reasonable effort, or when Company experiences circumstances which make actual meter readings impossible or impracticable, Customer may be billed on an estimated basis and the billing will be adjusted as necessary when the meter is read.

In the event Company's meter fails to register properly by reason of damage, accident, etc., Company shall have the right to estimate Customer's consumption during the period of failure on the basis of such factors as heating degree days and consumption during a previous corresponding period and during a test period immediately following replacement of the defective meter.

Bills are due and payable at the office of Company during business hours, or at other locations designated by Company, within twelve (12) days from date of rendition thereof. If full payment is not received within three (3) days after the due date of the bill, a late payment charge will be assessed on the current month's charges. There will be no adverse credit impact on the customer's payment and credit record, including credit scoring, both internally and externally, and the account will not be considered delinquent for any purpose if the Company receives the customer's payment within fifteen days after the date on which the Company issues the customers bill.

Failure to receive a bill does not exempt Customer from these provisions of Company's Terms and Conditions.

READING OF SEPARATE METERS NOT COMBINED

For billing purposes, each meter upon Customer's premises will be considered separately and readings of two (2) or more meters will not be combined except where Company's operating convenience requires the installation of two (2) or more meters upon Customer's premises instead of one (1) meter.

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TERMS AND CONDITIONS

Billing

MONITORING OF CUSTOMER USAGE

In order to detect unusual deviations in individual customer consumption, Company will monitor the usage of each customer at least once annually. Should an unusual deviation in Customer's consumption be found which cannot be attributed to a readily identified cause, Company will perform a detailed analysis of Customer's meter reading and billing records. If the cause for the usage deviation cannot be determined from analysis of Customer's meter reading and billing records, Company will contact Customer by telephone or in writing to determine whether there have been changes such as different number of household members or work staff, additional or different appliances, changes in business volume, or known leaks in Customer's service line. Where the deviation is not otherwise explained, Company will test Customer's meter to determine whether it shows an average error greater than two (2) percent fast or slow. Company will notify Customer of the investigation, its findings, and any refunds or back-billing. In addition to the annual monitoring, Company will immediately investigate usage deviations brought to its attention as a result of its on-going meter reading or billing processes or customer inquiry.

RESALE OF ELECTRIC ENERGY

Electric energy furnished under Company's standard application or contract is for the use of Customer only and Customer shall not resell such energy to any other person, firm, or corporation on the Customer's premises, or for use on any other premises. This does not preclude Customer from allocating Company's billing to Customer to any other person, firm, or corporation provided the sum of such allocations does not exceed Company's billing.

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TERMS AND CONDITIONS

Deposits

GENERAL

- 1) Company may require a cash deposit or other guaranty from customers to secure payment of bills in accordance with TRA Rule 1220-4-4.15.
- 2) Deposits may be required from all customers not meeting satisfactory credit and payment criteria. Satisfactory credit for customers will be determined by utilizing independent credit sources (primarily utilized with new customers having no prior history with Company), as well as historic and ongoing payment and credit history with Company.
 - a) Examples of independent credit scoring resources include credit scoring services, public record financial information, financial scoring and modeling services, and information provided by independent credit/financial watch services.
 - b) Satisfactory payment criteria with Company may be established by paying all bills rendered, having no disconnections for nonpayment, having no late notices, having no defaulted credit arrangements, having no returned payments, having no meter diversion or theft of service.
- 3) Company may offer customers the option of paying all or a portion of their deposits in installments over a period not to exceed the first four (4) normal billing periods. Service may be refused or discontinued for failure to pay and/or maintain the requested deposit.
- 4) Interest on deposits will be calculated at the rate prescribed by law, from the date of deposit, and will be paid annually either by refund or credit to Customer's bills, except that no refund or credit will be made if Customer's bill is delinquent on the anniversary date of the deposit. If interest is paid or credited to Customer's bill prior to twelve (12) months from the date of deposit, the payment or credit will be on a prorated basis. Upon termination of service, the deposit, any principal amounts, and interest earned and owing will be credited to the final bill, with any remainder refunded to Customer.

RESIDENTIAL

- 1) Residential customers are those customers served under Residential Service, Sheet No. 5.
- 2) The deposit for a residential customer is \$135. Company will retain Customer's deposit for a period not to exceed twelve (12) months, provided Customer has met satisfactory payment and credit criteria.
- 4) If a deposit is held longer than eighteen (18) months, the deposit will be recalculated at Customer's request, and based on Customer's actual usage. If the deposit on account differs from the recalculated amount by more than \$10.00, Company may collect any underpayment and shall refund any overpayment by check or credit to Customer's bill. No refund will be made if Customer's bill is delinquent at the time of the recalculation.
- 5) If Customer fails to maintain a satisfactory payment or credit record, or otherwise become a new or greater credit risk, as determined by Company in its sole discretion, Company may require a new or additional deposit from Customer.

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TERMS AND CONDITIONS

Budget Payment Plan

Company's Budget Payment Plan is available to any residential customer. Under this plan, a customer may elect to pay, each month, a budgeted amount in lieu of billings for actual usage. A customer may enroll in this plan at any time.

The budgeted amount will be determined by Company and will be based on one-twelfth of Customer's usage for either an actual or estimated twelve (12) months. The budgeted amount will be subject to review and adjustment by Company at any time during Customer's budget year. If actual usage indicates Customer's account will not be current with the final payment in Customer's budget year, Customer will be required to pay their Budget Payment Plan account to \$0 prior to the beginning of the customer's next budget year.

If a customer fails to pay bills as agreed under the Budget Payment Plan, Company reserves the right to remove the customer from the plan, restore the customer to regular billing, and require immediate payment of any deficiency. A customer removed from the Budget Payment Plan for non-payment may be prohibited from further participation in the plan for twelve (12) months.

Failure to receive a bill in no way exempts a customer from the provisions of these terms and conditions.

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**TERMS AND CONDITIONS
Discontinuance of Service**

In accordance with, and subject to the rules and regulations of the Tennessee Regulatory Authority ("TRA"), Company shall have the right to refuse to, or discontinue to, serve an applicant or customer under the following conditions:

- A. When Company's or TRA's rules and regulations have not been complied with. However, service may be discontinued or refused only after Company has made a reasonable effort to induce Customer to comply with its rules and then only after Customer has been given at least ten (10) days written notice of such intention, mailed to his last known address.
- B. When a dangerous condition is found to exist on Customer's or applicant's premises. In such case service will be discontinued without notice or refused, as the case might be. Company will notify Customer or applicant immediately of the reason for the discontinuance or refusal and the corrective action to be taken before service can be restored or initiated.
- C. When Customer or applicant refuses or neglects to provide reasonable access and/or easements to and on his premises for the purposes of installation, operation, meter reading, maintenance, or removal of Company's property. Customer shall be given fifteen (15) days written notice of Company's intention to discontinue or refuse service.
- D. When Applicant is indebted to Company for service furnished. Company may refuse to serve until indebtedness is paid.
- E. When Customer or Applicant does not comply with state, municipal or other codes, rules and regulations applying to such service.
- F. When directed to do so by governmental authority.
- G. Service will not be supplied to any premises if Applicant or Customer is indebted to Company for service previously supplied at the same or any other premises until payment of such indebtedness shall have been made. Service will not be continued to any premises if Applicant or Customer is indebted to Company for service previously supplied at the same premises. Unpaid balances of previously rendered Final Bills may be transferred to any account for which Customer has responsibility and may be included on initial or subsequent bills for the account to which the transfer was made. Such transferred Final Bills, if unpaid, will be a part of the past due balance of the account to which they are transferred. When there is no lapse in service, such transferred Final Bills will be subject to Company's collections and disconnect procedures. Final Bills transferred following a lapse in service will not be subject to disconnection unless: (1) such service was provided pursuant to a fraudulent application submitted by Customer; (2) Customer and Company have entered into a contractual agreement which allows for such a disconnection; or (3) the current account is subsequently disconnected for service supplied at that point of delivery, at which time, all unpaid and past due balances must be paid prior to reconnect. Company shall have the right to transfer Final Bills between residential and commercial with residential characteristics (e.g., service supplying common use facilities of any apartment building) revenue classifications.

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TERMS AND CONDITIONS
Discontinuance of Service

Service will not be supplied or continued to any premises if at the time of application for service Applicant is merely acting as an agent of a person or former customer who is indebted to Company for service previously supplied at the same or other premises until payment of such indebtedness shall have been made. Service will not be supplied where Applicant is a partnership or corporation whose general partner or controlling stockholder is a present or former customer who is indebted to Company for service previously supplied at the same premises until payment of such indebtedness shall have been made.

- H. For non-payment of bills. Company shall have the right to discontinue service for non-payment of bills after Customer has been given at least ten days written notice separate from his original bill. Cut-off may be effected not less than twenty-seven (27) days after the mailing date of original bills unless, prior to discontinuance, a residential customer presents to Company a written certificate, signed by a physician, registered nurse, or public health officer, that such discontinuance will aggravate an existing illness or infirmity on the affected premises, in which case discontinuance may be effected not less than thirty (30) days from the original date of discontinuance. Company shall notify Customer, in writing, of state and federal programs which may be available to aid in payment of bills and the office to contact for such possible assistance.
- I. For fraudulent or illegal use of service. When Company discovers evidence that by fraudulent or illegal means Customer has obtained unauthorized service or has diverted the service for unauthorized use or has obtained service without same being properly measured, the service to Customer may be discontinued without notice. Within twenty-four (24) hours after such termination, Company shall send written notification to Customer of the reasons for such discontinuance of service and of Customer's right to challenge the termination. Company's right of termination is separate from and in addition to any other legal remedies which the utility may pursue for illegal use or theft of service. Company shall not be required to restore service until Customer has complied with all rules of Company and regulations of the TRA and Company has been reimbursed for the estimated amount of the service rendered and the cost to Company incurred by reason of the fraudulent use.
- J. The termination policy reflected in these Terms and Conditions will be provided to the customer annually or upon request.
- K. Customer has the right to designate a third party to receive any termination notices.
- L. Customer is not required to pay the disputed portion of a bill while that bill is in dispute.
- M. Service will not be discontinued on the day preceding a day or days on which the services of the Company are not available to the general public for the purpose of reconnecting the discontinued service, except when the termination is a due to: (a) a condition determined by the Company to be hazardous, (b) use of equipment in such a manner as to adversely affect the Company's equipment or the Company's service to others, (c) evidence of tampering with equipment furnished and owned by the Company, or (d) evidence of unauthorized use.

When service has been discontinued for any of the above reasons, Company shall not be responsible for any damage that may result therefrom.

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**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 1, Original Sheet No. 105.2

TERMS AND CONDITIONS
Discontinuance of Service

Discontinuance or refusal of service shall be in addition to, and not in lieu of, any other rights or remedies available to Company.

Company may defer written notice based on Customer's payment history provided Company continues to provide the required ten (10) days written notice prior to discontinuance of service.

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Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Louisville, Kentucky

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	CASE NO.
COMPANY TO FILE DEPRECIATION STUDY)	2007-00565

APPLICATION OF KENTUCKY UTILITIES)	CASE NO.
COMPANY FOR AN ADJUSTMENT OF)	2008-00251
ELECTRIC BASE RATES)	

O R D E R

Kentucky Utilities Company ("KU"), a wholly-owned subsidiary of E.ON U.S. LLC, is an electric utility that generates, transmits, distributes and sells electricity to approximately 502,000 retail customers in all or portions of 77 Kentucky counties.

BACKGROUND

On July 1, 2008, KU filed a notice of its intent to file an application for approval of increases in its electric rates, based on a historic test period ending April 30, 2008. On July 29, 2008, KU submitted its application seeking an increase in electric revenues of \$22.2 million, or 1.9 percent.¹ KU's application included new rates and revisions, deletions, and additions to its electric tariffs, all to be effective on September 1, 2008.

A review of the application revealed that it did not meet the minimum filing requirements set forth in 807 KAR 5:001, Section 10, and a notice of filing deficiencies was issued. In response to that notice, KU filed additional information on August 7,

¹ KU's sister company, Louisville Gas & Electric ("LG&E"), filed an application for a rate increase concurrent with KU's application which the Commission docketed as Case No. 2008-00252.

2008. The Commission then found, by Order dated August 15, 2008, that the additional information satisfied the minimum filing requirements as of August 7, 2008 and that the earliest possible date that KU's proposed rates could become effective was September 6, 2008. That Order also found that an investigation would be necessary to determine the reasonableness of KU's proposed rates and suspended the proposed rates for 5 months, pursuant to KRS 278.190(2), from September 6, 2008, up to and including February 5, 2009.

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); Lexington-Fayette Urban County Government; Kentucky Industrial Utility Customers ("KIUC"); Community Action Kentucky, Inc. ("CAK"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc.; and the Kroger Company.

The Commission's August 15, 2008 Order included a procedural schedule for processing this case. The schedule provided for discovery on KU's application, intervenor testimony, discovery on intervenor testimony, rebuttal testimony by KU, a public hearing, and an opportunity for the parties to file post-hearing briefs. The Commission also incorporated into this case KU's report on the results of a 3-year pilot program implementing a Small-Time-of-Day Service tariff and later consolidated into this case KU's application for approval of new depreciation rates.

On December 10, 2008, KU filed a motion requesting that an informal conference be scheduled on January 6, 2009 for the purposes of discussing procedural and substantive issues in these cases and to discuss settlement. The motion was granted

and an informal conference was held at the Commission's offices on January 6, 7 and 9, 2009.

On January 13, 2009, KU filed on behalf of itself and the intervenors a unanimous Settlement Agreement, Stipulation and Recommendation ("Agreement"). The Agreement consists of a 19-page document with 8 consecutively numbered exhibits. The exhibits are as follows: Exhibit 1, KU Rate Allocation; Exhibit 2, LG&E Electric Rate Allocation; Exhibit 3, LG&E Gas Rate Allocation; Exhibit 4, KU Tariffs; Exhibit 5, LG&E Electric Tariffs; Exhibit 6, LG&E Gas Tariffs; Exhibit 7, KU Depreciation Rates; and Exhibit 8, LG&E Depreciation Rates. The Agreement is attached to this Order as an Appendix. The exhibits are not attached due to their voluminous nature, but can be found on the Commission's website at http://psc.ky.gov/pscscf/2008%20cases/2008-00251/20090113_KU_Motion_and_Testimony.PDF.

At the public hearing held at the Commission's offices on January 13 and 15, 2009, the parties presented testimony in support of the Agreement. KU subsequently filed responses to data requests made at the hearing and the case now stands submitted for a decision.

The Commission notes at the outset that over the last six months, a substantial number of customers wrote, called or e-mailed our offices to express opposition to any increase in rates. The Commission held three public meetings in KU's service territory to provide a further opportunity for KU's customers to state their opinions on the proposed rate increases. Those meetings were held in Madisonville, Kentucky on January 6, 2009; in Middlesboro, Kentucky on January 8, 2009; and in Lexington, Kentucky on January 12, 2009.

AGREEMENT

The Agreement, attached as an Appendix to this Order, reflects a unanimous resolution of all issues raised in this case.² The major provisions of the Agreement pertaining to KU include the following:

- KU's rates will be reduced to recover \$8.851 million less in annual revenues, with the revised rates to be effective for service rendered on and after February 6, 2009.
- The decrease in KU's rates will be accomplished through reductions to the energy charges in all rate schedules except those with no energy charges, such as street lighting and outdoor lighting, where the reductions will be in the monthly charges per light, fixture, pole, etc.
- KU's depreciation expense will continue to be based on the Average Service Life ("ASL") methodology. The depreciation rates to be used are set forth in Exhibit 7 to the Agreement, with the cost of KU's new Customer Care System software to be depreciated over 10 years for accounting and ratemaking purposes.
- The return on equity ("ROE") included in KU's environmental cost recovery ("ECR") filings will be increased from 10.50 to 10.63 percent effective with the first expense month subsequent to approval of the Agreement.
- KU's costs associated with the Federal Energy Regulatory Commission ("FERC") approved settlement of the transmission rate dispute between KU,

² The Agreement is a comprehensive document which resolves all issues in KU's consolidated depreciation and rate cases, as well as LG&E's consolidated depreciation and rate cases, Case Nos. 2007-00564 and 2008-00252.

LG&E and East Kentucky Power Cooperative, Inc. ("East Kentucky") will be recorded as a regulatory asset and amortized over five years beginning in the month after approval of the Agreement.

- KU will be permitted to defer revenues related to the Midwest Independent System Operator's ("MISO") Schedule 10 expenses recorded between the end of the test year and February 6, 2009, as well as future adjustments to the MISO exit fee, as regulatory liabilities until the amounts can be amortized in future rate cases. The amortization of amounts related to the MISO Schedule 10 expenses and the MISO exit fee deferred as of the end of the test year will begin in the month after approval of the Agreement.
- Residential customer deposits will be \$135. All other customer deposits will be as proposed in KU's application.
- Residential customers indicating an inability to pay or difficulty in paying the full amount of the required deposit will be offered the option to pay all or a portion of the required deposit in installments over a period not to exceed the first four normal billing periods.
- KU's curtailable service riders will be modified, including increases in the monthly credit to participating customers and reductions in the annual and daily interruptions.
- Payment of a customer's bill will be due 12 days after the date of the bill; however, there will be no adverse credit impact, internally or externally, including credit scoring, nor will the account be considered delinquent, if the payment is received within 15 days from the date of the bill. Payments

received more than 15 days after the date of the bill will be subject to a late payment penalty which, for the Residential Service and General Service classes, will be 5 percent of the current month's charges.

- KU and CAK will consult on a plan for utility-approved emergency energy assistance agencies to annually pre-certify recipients of utility payment assistance so that any late payment charges for such pre-certified customers can be waived from December through March. Participation in such a program will be optional for any of the energy assistance agencies.
- KU will increase the monthly residential meter charge for the Home Energy Assistance ("HEA") program from \$0.10 to \$0.15 per meter. For two years following implementation of the rates included in the Agreement, or until rates take effect in KU's next base rate case, whichever is longer, KU and LG&E will contribute shareholder funds to the program to match HEA funds collected from customers, up to \$300,000 annually on a combined utilities basis.
- KU will amortize its actual rate case expenses associated with this case over three years beginning in the month after the Agreement is approved.

ANALYSIS OF THE AGREEMENT

KU proposed an annual rate increase of \$22.2 million. The AG proposed an annual decrease of \$41.3 million. KIUC proposed an annual rate decrease of \$68.6 million. No other intervenor addressed KU's proposed increase. The Agreement contains the parties' unanimous recommendation that existing rates should be decreased by \$8.851 million.

In considering the parties' recommended \$8.851 million decrease in rates, the Commission recognizes that KU's existing merger surcredit will terminate on the effective date of the new rates in this case. The merger surcredit, which has recently offset rates by \$10.55 million annually, was implemented in 1998 to flow back to ratepayers one-half of the estimated savings in expenses resulting from KU's merger with LG&E. In accordance with last year's agreement among the parties in Case No. 2007-00563,³ 100 percent of KU's merger savings will be reflected in the test year used in this rate case, and that obviates the need to continue the merger surcredit once new rates become effective. Other significant provisions of the Agreement are discussed in the following paragraphs.

Depreciation

KU sought approval of new depreciation rates it had originally proposed in Case No. 2007-00565 based on a depreciation study performed by Gannett Fleming, Inc. ("Gannett Fleming"). KU's new depreciation rates reflected Gannett Fleming's recommendation that it implement the Equal Life Group methodology, rather than continue to use the Average Service Life ("ASL") methodology. The Agreement calls for KU to continue to use the ASL methodology, although it will use new ASL rates that are based on the results of the Gannett Fleming depreciation study.

ROE – Environmental Cost Recovery

Typically, an electric utility with an environmental surcharge approved pursuant to KRS 278.183 uses the ROE from its most recent rate case in the return component of

³ The Plan of Kentucky Utilities Company for the Future Disposition of the Merger Surcredit Mechanism, Order dated June 26, 2008.

the environmental costs included in its surcharge. Since the Agreement in this proceeding does not include a specific ROE in support of the agreed-upon revenue decrease, the parties agreed that a 10.63 percent ROE be used in KU's monthly ECR filings. This represents an increase from the 10.5 percent ROE that has been included in its ECR filings for a number of years.

MISO Deferral / Regulatory Treatment

The Agreement authorizes KU to amortize over five years the \$9.8 million regulatory asset resulting from the Commission's approval of KU's exit from MISO in Case No. 2003-00266.⁴ It also provides for KU to defer any post-test year revenues related to MISO Schedule 10 expenses, as well as future adjustments to the MISO exit fee, as regulatory liabilities to be amortized in a future rate case. This treatment is consistent with Commission's decision in Case No. 2003-00266.

FERC Transmission Rate Settlement Costs

The dispute that led to the settlement of this issue related to East Kentucky's purchase of transmission capacity from MISO when KU and LG&E were members of MISO and when East Kentucky's load was, to some degree, on one, or both, of KU's and LG&E's transmission systems. These are costs which are also related to KU's exiting MISO, which the Commission previously approved. The Agreement recommends a five-year amortization for these FERC settlement costs. Given the

⁴ Case No. 2003-00266, Investigation Into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent System Operator, Inc., Order dated May 31, 2006.

nature of the costs, plus their connection to KU's exit from MISO, a five-year amortization period is appropriate.

HEA Increase – Shareholder Contribution

KU has operated its HEA program for several years and for virtually that entire time the Commission has encouraged KU to make some contribution of shareholder funds to the program. In the Agreement, on a combined basis with LG&E, KU has agreed to match the funds generated via the increased per meter charge of \$0.15, up to \$300,000 annually for the first two years following approval of the Agreement. Especially in today's economic conditions, the Commission compliments KU for making this commitment of shareholder dollars to assist its low-income customers in making payment on, and maintaining, their utility service.

SUMMARY

The Agreement provides that the rates, terms and conditions proposed in KU's application, except as modified by the Agreement, will become effective upon Commission approval of the Agreement. The parties recommend that the new rates become effective on February 6, 2009, and agree that, if the Agreement is approved, no requests for rehearing or appeals will be filed.

Based on a review of the provisions in the Agreement and the exhibits attached thereto; the voluminous record, including intervenor testimony and data responses; and the public comments, the Commission finds that the provisions of the Agreement are reasonable and in the public interest. The Agreement was the product of arms-length negotiations among knowledgeable, capable parties and should be approved. Such

approval is based solely on the reasonableness of the Agreement in total and does not constitute a precedent on any individual issue.

The Commission further finds that KU should revise its tariffs to reflect the provision of the Agreement specifying no adverse credit impact for customers paying within 15 days of the date of the bill. In addition, since KU will be unable to implement the 12-day bill due date for another few months, a copy of its existing bill format should be included in its tariffs along with a copy of its new bill format. Prior to implementing the new bill format and the payment due date of 12 days, KU should notify its customers of the changes through its monthly billings.

Residential Bill Comparisons

As a result of the Agreement, the base rate component of the bill of a typical KU electric residential customer using 1,000 kWh per month will decline from \$62.74 to \$62.16. However, as a result of the termination of the merger surcredit and the \$0.05 increase in the monthly HEA meter charge, the overall net impact on the customers' bill will be a slight increase of \$0.11.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by KU are denied.
2. The Agreement, attached hereto as an Appendix, is approved in its entirety.
3. KU shall continue to record depreciation on its utility plant for book and ratemaking purposes using the ASL methodology and the rates set forth in Exhibit 7 to the Agreement.

4. The rates, charges, terms, and conditions for electric service set forth in Exhibit 4 to the Agreement, with the modifications discussed above to the tariffs, are fair, just and reasonable for KU to charge for service rendered on and after February 6, 2009.

5. KU shall file, within 20 days of the date of this Order, its revised tariffs as set forth in Exhibit No. 4 to the Agreement and as modified by the findings herein reflecting that they were approved pursuant to this Order.

6. KU shall establish as regulatory liabilities all post-test year revenues related to MISO Schedule 10 expenses and future adjustments to its MISO exit fee until such time as they can be amortized in a future rate case.


7. KU shall establish a regulatory asset and begin a five-year amortization thereof, for the FERC settlement costs incurred in connection with the wholesale transmission rate dispute with East Kentucky relating to KU's exit from MISO.

8. KU shall defer and amortize over three years its actual rate case expenses incurred in conjunction with this proceeding.

Done at Frankfort, Kentucky, this 5th day of February, 2009.

By the Commission

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NOS. 2007-00565 and 2008-00251
DATED FEBRUARY 9, 2009

RECEIVED

JAN 13 2009

PUBLIC SERVICE
COMMISSION

SETTLEMENT AGREEMENT, STIPULATION, AND RECOMMENDATION

This Settlement Agreement, Stipulation, and Recommendation ("Settlement Agreement") is entered into this 12th day of January 2009, by and between Louisville Gas and Electric Company ("LG&E"); Kentucky Utilities Company ("KU") (LG&E and KU are hereafter collectively referenced as "the Utilities"); Commonwealth of Kentucky, ex. rel. Jack Conway, Attorney General, by and through the Office of Rate Intervention ("AG"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); The Kroger Company ("Kroger"); Lexington-Fayette Urban County Government ("LFUCG"); Community Action Kentucky, Inc. ("CAK"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); Association of Community Ministries ("ACM"); and, People Organized and Working for Energy Reform ("POWER") in the proceedings involving LG&E and KU which are the subject of this Settlement Agreement, as set forth below.

WITNESSETH:

WHEREAS, KU filed on July 29, 2008 with the Kentucky Public Service Commission ("Commission") its Application for Authority to Adjust Rates, In the Matter of: An Application of Kentucky Utilities Company for an Adjustment of Base Rates, and the Commission has established Case No. 2008-00251 to review KU's base rate application;

WHEREAS, LG&E filed on July 29, 2008 with the Commission its Application for Authority to Adjust Rates, In the Matter of: An Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates, and the Commission has established Case No. 2008-00252 to review LG&E's base rate application (Case Nos. 2008-00251 and 2008-00252 are hereafter collectively referenced as the "rate proceedings");

WHEREAS, the AG, KIUC, Kroger, and CAK have been granted intervention by the Commission in both of the rate proceedings; LFUCG and CAC have been granted intervention

by the Commission in Case No. 2008-00251 only; and ACM and POWER have been granted intervention by the Commission in Case No. 2008-00252 only;

WHEREAS, on August 22, 2008, the Commission granted consolidation of Case No. 2008-00251 with the case captioned *In the Matter of: Application of Kentucky Utilities Company to File Depreciation Study*, Case No. 2007-00565, and Case No. 2008-00252 with the case captioned *In the Matter of: Application of Louisville Gas and Electric Company to File Depreciation Study*, Case No. 2007-00564;

WHEREAS, pursuant to the terms of the Utilities' Small Time-of-Day ("STOD") pilot tariffs, the Utilities performed studies of their STOD rates after the three-year pilot period, which studies the Utilities filed in these proceedings pursuant to the Commission's August 15, 2008 Orders in these proceedings;

WHEREAS, a prehearing informal conference for the purpose of discussing settlement, attended in person by representatives of the AG, KIUC, Kroger, LFUCG, CAK, CAC, ACM and POWER, the Commission Staff and the Utilities, took place on January 6, 7, and 9, 2009 at the offices of the Commission during which a number of procedural and substantive issues were discussed, including potential settlement of all issues pending before the Commission in the above-referenced proceedings;

WHEREAS, all of the Parties hereto unanimously desire to settle all the issues pending before the Commission in the above-referenced proceedings;

WHEREAS, the adoption of this Agreement will eliminate the need for the Commission and the parties to expend significant resources litigating these proceedings, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order herein;

WHEREAS, it is understood by all Parties hereto that this Settlement Agreement is subject to the approval of the Commission, insofar as it constitutes an agreement by all parties to the rate proceedings 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 adjustments to the Utilities' rates, terms, and conditions;

WHEREAS, the Parties have spent many hours, over several days, in order to reach the stipulations and agreements which form the basis of this Settlement Agreement;

WHEREAS, all of the Parties, who represent diverse interests and divergent viewpoints, agree that this Settlement Agreement, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the above-referenced proceedings; and

WHEREAS, it is the position of the Parties hereto that this Settlement Agreement is supported by sufficient and adequate data and information, and should be approved by the Commission.

NOW, THEREFORE, for and in consideration of the premises and conditions set forth herein, the Parties hereby stipulate and agree as follows:

ARTICLE I. Revenue Requirement.

Section 1.1. The Parties hereto stipulate that the following decreases in annual revenues for LG&E electric and KU operations, for purposes of determining the base electric rates of LG&E and KU in the rate proceedings, are fair, just, and reasonable for the Parties and for all customers of LG&E and KU:

Section 1.1.1. LG&E Electric Operations: \$13,157,000;

Section 1.1.2. KU Operations: \$8,851,000.

The Parties hereto agree that these decreases in annual revenues for LG&E electric operations and for KU operations will be effective for service rendered on and after February 6, 2009.

Section 1.2. The Parties hereto agree that, effective for service rendered on and after February 6, 2009, an increase in annual revenues for LG&E gas operations of \$22,000,000, for purposes of determining the base rates of LG&E gas operations in the rate proceedings, is fair, just, and reasonable for the Parties and for all gas customers of LG&E.

ARTICLE II. Allocation of Revenue.

Section 2.1. The Parties hereto agree that the allocations of the decreases in annual revenues for KU and LG&E electric operations, and that the allocation of the increase in annual revenue for LG&E gas operations, as set forth on the allocation schedules designated Exhibit 1 (KU), Exhibit 2 (LG&E electric), and Exhibit 3 (LG&E gas) hereto, are fair, just, and reasonable for the Parties and for all customers of LG&E and KU.

Section 2.2. The Parties hereto agree that, effective February 6, 2009, the Utilities shall implement the electric and gas rates set forth on the tariff sheets in Exhibit 4 (KU), Exhibit 5 (LG&E electric), and Exhibit 6 (LG&E gas), attached hereto, which rates the Parties unanimously stipulate are fair, just, and reasonable and should be approved by the Commission.

ARTICLE III. Treatment of Certain Specific Issues.

Section 3.1. The Parties agree that LG&E and KU may amortize their actual rate case expenses in these proceedings over a three year period. The amortization shall begin in the month after which the Commission approves this Settlement Agreement.

Section 3.2. The Parties agree that the depreciation rates attached hereto as Exhibit 7 (KU) and Exhibit 8 (LG&E electric and gas), which include the depreciation of the cost of the

Utilities' new Customer Care System software over ten years, are based on the Average Service Life methodology and the service lives as filed in the respective applications, and shall be effective for the Utilities' accounting and ratemaking purposes upon the approval of this Settlement Agreement.

Section 3.3. *The Parties hereto agree that, effective as of the first expense month after which the Commission approves this Settlement Agreement, the return on equity that shall apply to the Utilities' recovery under their environmental cost recovery ("ECR") mechanism is 10.63%.*

Section 3.4. *The Parties hereto agree that the Commission should grant the Utilities' requests, as stated in their Applications, to establish and amortize over five years a regulatory asset for each of the Utilities for the costs associated with the transmission depancaking settlement agreement in Federal Energy Regulatory Commission Docket No. ER06-1458-000 between the Utilities and East Kentucky Power Cooperative, Inc. The amortization shall begin in the month after which the Commission approves this Settlement Agreement.*

Section 3.5. *The Parties hereto agree that the Commission should grant the Utilities' requests that revenues related to MISO Schedule 10 expenses deferred between the end of the test year and February 6, 2009, as well as any future adjustments to the MISO exit fee, be deferred as regulatory liabilities until the amounts can be amortized in future base rate cases. The amortization of the amounts related to MISO Schedule 10 expenses and the MISO exit fee already deferred as of the end of the test year shall begin in the month after which the Commission approves this Settlement Agreement.*

Section 3.6. *The Parties hereto agree that the Utilities' currently approved customer charges shall remain unchanged in the new rates, terms, and conditions proposed by this*

Settlement Agreement, with the exception of LG&E's gas residential customer charge, which shall increase by \$1.00 per month to \$9.50 per month.

Section 3.7. The Parties hereto agree that the Utilities' merger surcredits will terminate February 6, 2009, and the total distribution of the merger surcredits will be prorated to that date.

Section 3.8. The Parties hereto agree that the following residential customer deposit amounts shall be implemented: \$135 for LG&E electric; \$160 for LG&E gas; \$295 for LG&E electric and gas combined; and \$135 for KU. All other customer deposit amounts will be as filed by the Utilities in these proceedings.

Section 3.9. The Parties hereto agree that, if a residential customer indicates an inability to pay or difficulty in paying a required customer deposit, the appropriate Utility shall offer the customer the option to pay all or a portion of the required deposit in installments over a period not to exceed the first four normal billing periods.

Section 3.10. The Parties hereto agree to the following changes to the following *Curtailable Service Riders* for LG&E electric and KU: the CSR1 credit will increase from the currently approved level by \$2.00 per kW; CSR1 customers will be interruptible for no more than 200 hours annually, and no more than two interruptions per day; the CSR2 credit will increase from the currently approved level by \$1.50 per kW; CSR2 customers will be interruptible for no more than 425 hours annually, and no more than two interruptions per day. The amount of load that can be eligible for the CSR2 rider shall be limited to an aggregate of 100 MW per Utility.

Section 3.11. The Utilities agree to work with interested parties to study the feasibility of measuring demand for generation service to multi-site customers based on conjunctive demand, where "conjunctive demand" herein refers to the measured demand at a meter at the time that the

total demand of a multi-site customer's loads, measured over a coinciding time period, has reached its peak during the billing period.

Section 3.12. The Parties hereto agree that payment for a customer's bill shall be due to the appropriate Utility twelve days after the date on which the Utility issues the bill, though there will be no adverse credit impact on the customer's payment and credit record, including credit scoring, both internally and externally, and the account will not be considered delinquent for any purpose if the Utility receives the customer's payment within fifteen days after the date on which the Utility issues the customer's bill. If the appropriate Utility does not receive the customer's payment within fifteen days after the date on which the Utility issues the customer's bill, the Utility may assess a late payment charge as set out in the Utility's proposed tariffs in these proceedings. The Parties acknowledge and agree that LG&E and KU will not be able to implement the change in the due date of customers' bills and that KU will not be able to implement its late payment charge until the first billing cycle following the full operation of its new Customer Care System.

Section 3.13. The Parties hereto agree that the Utilities, CAK, and ACM/POWER will consult with each other concerning the design of a plan regarding the identification of late payment charges for low income customers associated with utility assistance payments. Specifically, they shall discuss the implementation of a plan by which CAK, ACM/POWER, their member agencies, and other Utility-approved emergency energy assistance agencies ("Assistance Agencies") would annually pre-certify recipients of certain utility payment assistance, conceptually similar to the pre-certification program currently in place in the Commonwealth of Virginia, which would allow the Utilities' Kentucky operations to waive the late payment charges for such pre-certified customers during the months of December through

March each year. Participation in such a pre-certification program would be optional to any or all of the Assistance Agencies.

Section 3.14. The Parties hereto agree that the Utilities shall increase the currently approved monthly residential meter charge (for gas and electric meters) for the Home Energy Assistance ("HEA") program from \$0.10 to \$0.15 per meter. For a period of two years following the implementation of the rates proposed in this Settlement Agreement or until rates take effect in the Utilities' next base rate proceedings, whichever is longer, the Utilities shall make a dollar-for-dollar contribution from shareholder funds to the HEA program to match HEA funds collected from customers (up to \$300,000 per year on a combined-Utilities basis).

Section 3.15. The Parties hereto agree that, except as modified in this Settlement Agreement and the exhibits attached hereto, the rates, terms, and conditions proposed by the Utilities in the rate proceedings shall be approved as filed. Approval of this Settlement Agreement shall not be construed to approve or deny the adjustments to LG&E's and KU's electric revenues and expenses associated with the normalization of weather.

ARTICLE IV. Miscellaneous Provisions.

Section 4.1. Except as specifically stated otherwise in this Settlement Agreement, the Parties agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any computation, formula, allegation, assertion or contention made by any other party in these proceedings is true or valid.

Section 4.2. The Parties hereto agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and request the Commission to approve the Settlement Agreement.

Section 4.3. The Parties hereto agree that, following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission by January 12, 2009 together with a request to the Commission for consideration and approval of this Settlement Agreement for rates to become effective on February 6, 2009.

Section 4.4. Each party waives all cross-examination of the other parties' witnesses unless the Commission disapproves this Agreement, and each party further stipulates and recommends that the Notice of Intent, Notice, Application, testimony, pleadings, and responses to data requests filed in this proceeding be admitted into the record. The Parties stipulate that after the date of this Settlement Agreement they will not otherwise contest the Utilities' proposals, as modified by this Settlement Agreement, in the hearing of the above-referenced proceedings regarding the subject matter of the Settlement Agreement, and that they will refrain from cross-examination of the Utilities' witnesses during the hearing, except insofar as such cross-examination is in support of the Settlement Agreement.

Section 4.5. The Parties hereto agree that this Settlement Agreement is subject to the acceptance of and approval by the Commission. The Parties hereto further agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

Section 4.6. If the Commission issues an order adopting this Settlement Agreement in its entirety, 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.

Section 4.7. The Parties hereto agree that, if the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) this Settlement Agreement shall be void and withdrawn by the parties hereto from further consideration by the Commission and

none of the parties shall be bound by any of the provisions herein, provided that no party is precluded from advocating any position contained in this Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Settlement Agreement or be construed against any of the Parties.

Section 4.8. The Parties hereto agree that, should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement, then the parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this agreement.

Section 4.9. The Parties hereto agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

Section 4.10. The Parties hereto agree that this Settlement Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

Section 4.11. The Parties hereto agree that this Settlement Agreement constitutes the *complete agreement and understanding* among the parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

Section 4.12. The Parties hereto agree that, for the purpose of this Settlement Agreement 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.

Section 4.13. The Parties hereto agree that neither the Settlement Agreement nor any of the 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 or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

Section 4.14. The signatories hereto warrant that they have appropriately informed, advised, and consulted their respective Parties in regard to the contents and significance of this Settlement Agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of their respective Parties

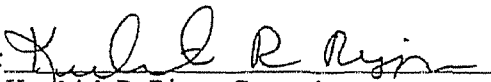
Section 4.15. The Parties hereto agree that this Settlement Agreement is a product of negotiation among all parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any party. Notwithstanding anything contained in the Settlement Agreement, the parties recognize and agree that the effects, if any, of any future events upon the operating income of the Utilities are unknown and this Settlement Agreement shall be implemented as written.

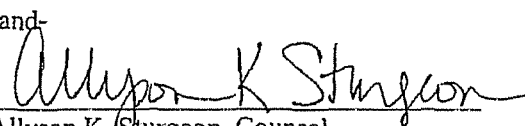
Section 4.16. The Parties hereto agree that this Settlement Agreement may be executed in multiple counterparts.

IN WITNESS WHEREOF, the parties have hereunto affixed their signatures:

Louisville Gas and Electric Company
and Kentucky Utilities Company

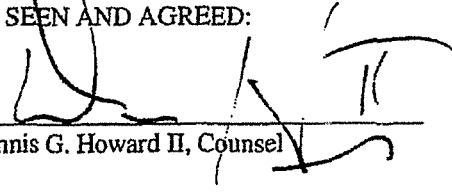
HAVE SEEN AND AGREED:

By: 
Kendrick R. Riggs, Counsel

-and-
By: 
Allyson K. Sturgeon, Counsel

Commonwealth of Kentucky, ex. rel. Jack
Conway, Attorney General, by and through the
Office of Rate Intervention

HAVE SEEN AND AGREED:

By: 
Dennis G. Howard II, Counsel


Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

By: Michael L. Kurtz
Michael L. Kurtz, Counsel

The Kroger Company

HAVE SEEN AND AGREED:

By: 
David C. Brown, Counsel

Lexington-Fayette Urban County Government

HAVE SEEN AND AGREED:


By: Willis L. Wilson

Willis L. Wilson, Counsel

*Rendering approval of the Fayette
Urban County Council*

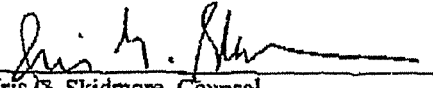
Community Action Kentucky, Inc.

HAVE SEEN AND AGREED:

By: 
Joe F. Childers, Counsel

Community Action Counsel for
Lexington-Fayette, Bourbon, Harrison
and Nicholas Counties, Inc.

HAVE SEEN AND AGREED: .

By: 
Iris G. Skidmore, Counsel

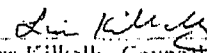
Association of Community Ministries

HAVE SEEN AND AGREED:

By: *Lisa Kil Kelly*
Lisa Kil Kelly, Counsel

People Organized and Working for
Energy Reform

HAVE SEEN AND AGREED:

By: 
Lisa Kilkelly, Counsel

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

In the Matter of:

**PETITION OF KENTUCKY UTILITIES)
COMPANY FOR APPROVAL OF)
ADJUSTMENT OF ITS ELECTRIC RATES,) DOCKET NO. 09-_____
TERMS AND CONDITIONS OF SERVICE)
AND REVISED TARIFF)**

**DIRECT TESTIMONY OF
LONNIE E. BELLAR
VICE PRESIDENT OF STATE REGULATION AND RATES
KENTUCKY UTILITIES COMPANY**

Filed: May 1, 2009

Commission recently approved as fair, just, and reasonable for KU's Kentucky customers.

Q. Why does KU have only five Tennessee customers?

A. Tennessee is unique among states with respect to its electric utilities due to the predominance of the Tennessee Valley Authority. The Tennessee Comptroller's website states:

Tennessee's electric industry has some unique features. Most customers in the United States purchase electricity from integrated utilities, meaning that one entity owns all three stages of production. In Tennessee, the Tennessee Valley Authority provides power with an integrated generation and transmission system to 98 percent of customers in the state, which is served by 63 municipal systems and 23 rural electric cooperatives that purchase electricity exclusively from TVA. For its distributors, TVA also acts as the regulator for the systems' rates and reliability. The only major exception is the greater Kingsport area, which is served by Kingsport Power, a distributor owned by the integrated, investor-owned American Electric Power Company. In addition to Kingsport, the other private utility customers in Tennessee consist of 60 customers served by Entergy Arkansas in West Tennessee and five customers served by Kentucky Utilities Company in Claiborne County. Two other investor-owned utilities, Tapoco and Appalachian Power, sell wholesale power in Tennessee.¹

It was not always so, however. Prior to the U.S. Supreme Court's 1968 decision in *Hardin v. Kentucky Utilities Company*,² KU served significantly more customers in Tennessee, including several hundred customers in Tazewell and New Tazewell, and nearly 2,000 customers overall in Claiborne County.³ After the Court's decision, however, the Tennessee Valley Authority's affiliate, Powell Valley Electric Cooperative, came to serve nearly all of KU's former customers in Claiborne County.

¹ Available at: <http://www.comptroller1.state.tn.us/repository/RE/electric.pdf>.

² 390 U.S. 1 (1968).

³ See *Kentucky Utilities Co. v. Tennessee Valley Authority*, 375 F.2d 403, 407 (Nov. 15, 1966).

1 KU continues to serve its five Tennessee residential customers because it would be
2 cost-prohibitive for Powell Valley Electric Cooperative to serve them.

3 **Q. Have KU's Kentucky and Virginia rates increased at all over the past forty**
4 **years?**

5 A. Yes, they have, though KU's retail customers in Kentucky and Virginia still enjoy
6 electric rates among the lowest in the nation. For example, KU's residential
7 customers in Kentucky pay an average of \$0.065/kWh, which is less than 60% of the
8 national average, \$0.112/kWh.

9 **Q. Why would it be just and reasonable for KU's Tennessee customers to have the**
10 **same rates for electric service as KU's Kentucky customers?**

11 A. It would be just and reasonable for KU's Tennessee customers to have the same
12 electric rates as KU's Kentucky customers because there is no difference between the
13 cost to serve KU's customers in Bell County, Kentucky, and those in Fork Ridge,
14 Tennessee; indeed, some of KU's customers in Bell County take service from the
15 same electric distribution line that serves Fork Ridge. Though there is no difference
16 in the cost to serve these two groups of customers, KU's current residential electric
17 service rate is \$0.016/kWh, just ¼ of what KU's Kentucky residential customers pay.
18 By way of further comparison, neighboring Powell Valley Electric Cooperative's
19 customers pay an average of \$0.078/kWh, which is 20% higher than the average
20 KU's Kentucky residential customers pay. For these reasons, KU believes it will be
21 just and reasonable for the Authority to approve KU's proposed Tennessee rates,

1 which are the same as those the Kentucky Public Service Commission recently
2 approved for service in Kentucky.⁴

3 **Q. Other than bringing KU's Tennessee rates into parity with KU's Kentucky rates,**
4 **why is such a rate and tariff change necessary?**

5 A. Though KU seeks first to implement as many cost-saving strategies as are consistent
6 with providing safe and reliable electric service, as well as excellent customer service,
7 its continued necessary financial investments in facilities and programs to provide the
8 service its customers desire and deserve necessitate a rate increase in Tennessee.
9 More particularly, to ensure reliability of service to native load, KU has, among other
10 things, made substantial investments in its utility infrastructure during the last several
11 years, including transmission and distribution systems and electric generation. For
12 example, the Company is spending approximately \$670 million to build a coal-fired
13 power plant in Trimble County, Kentucky. As a result of these types of investments,
14 since September 30, 2003, KU has increased its net investment in plant for electric
15 operations by over \$1.251 billion.

16 KU's commitment to enhancing its facilities for providing electric service has
17 not in any way compromised its commitment to provide superior customer service.
18 Indeed, KU and its sister utility, LG&E, have consistently been top performers for
19 electric utilities of their size in the Midwest region in the J.D. Power and Associates
20 customer satisfaction surveys, having never finished lower than third place since
21 1999. KU's Tennessee customers have access to this excellent customer service via

⁴ See *In the Matter of: Application of Kentucky Utilities for an Adjustment of Base Rates*, Kentucky Public Service Commission Case No. 2008-00251, Order (Feb. 5, 2009). A complete copy of the Kentucky PSC's order is attached to KU's Petition as Exhibit 2, and is available online at: http://psc.ky.gov/pscscf/2008%20cases/2008-00251/20090205_PSC_Order.PDF.

1 KU's Middlesboro, Kentucky service center, only ten miles from KU's Tennessee
2 customers.

3 **Q. If the Authority approves KU's Petition, will a KU Tennessee customer's energy**
4 **cost match a KU Kentucky customer's energy cost?**

5 A. No, even after the four-year phase-in period I discuss below, a KU Tennessee
6 customer's energy cost will be less than a KU Kentucky customer's energy cost
7 because KU is not proposing in this proceeding to implement in Tennessee cost
8 recovery mechanisms like those it has in Kentucky, such as its Environmental Cost
9 Recovery ("ECR") and Fuel Adjustment Clause ("FAC") mechanisms. Such
10 mechanisms provide KU nearly real-time recovery of its costs associated with the
11 mechanisms. Periodically, the recovery amounts the mechanisms provide are "rolled
12 into" KU's Kentucky base rates, allowing the mechanisms to reset. As explained
13 further below, KU reserves the right to seek to adjust its Tennessee base rates to
14 match its Kentucky base rates when they change, regardless of whether the change
15 results from a base rate proceeding or an adjustment mechanism "roll-in" in
16 Kentucky. Because of the time delay associated with seeking changes in rates across
17 jurisdictions, KU's Tennessee rates will always lag its Kentucky rates.

18 **Q. How does KU propose to implement its rate and tariff changes?**

19 A. KU believes it would be fair, just, and reasonable for its Tennessee customers'
20 electric rates to be the same as those recently approved by the Kentucky Public
21 Service Commission for its Kentucky customers without delay; however, KU
22 recognizes that the rate increase it is proposing in Tennessee is significant in relative
23 terms. KU therefore proposes to increase its Tennessee rates in equal annual

1 increments over four years, after which time they will be equal to KU's current
2 Kentucky rates. KU proposes to achieve this phasing-in of its current Kentucky rates
3 by using a set of annual multipliers set out in the tariff sheet entitled, "Adjustment
4 Clause PM: Phase-In Multipliers." These multipliers will be applied to all charges on
5 the bills of KU's Tennessee customers (except the Green Energy Rider, which I
6 describe further below).

7 In the event that KU's base rates or other tariff items change in Kentucky
8 during the "phase-in" period in Tennessee, KU will petition the Authority for
9 approval to change the rates being phased-in from the rates proposed in this
10 proceeding to whatever KU's new Kentucky rates are, subject to the same multipliers
11 proposed above and without changing the remaining phase-in period. After the
12 phase-in process is complete, KU will petition the Authority for approval to put its
13 new Kentucky rates into effect in Tennessee whenever its Kentucky rates change.

14 **Q. Does KU seek the Authority's approval to petition the Authority in the future to**
15 **adjust KU's Tennessee base rates following a KU base rate change in Kentucky**
16 **resulting from proceedings other than a full base rate proceeding?**

17 **A.** Yes. As I discuss above, KU's Kentucky base rates can change as a result of one of
18 three kinds of proceedings before the Kentucky Public Service Commission: (1) a full
19 base rate proceeding; (2) a "roll-in" proceeding concerning KU's Fuel Adjustment
20 Clause mechanism; and (3) a "roll-in" proceeding concerning KU's Environmental
21 Cost Recovery mechanism. The latter two proceedings are not as cumbersome as a
22 full base rate proceeding because only fuel or environmental cost components of base
23 rates are adjusted ("rolled in") therein. KU seeks the Authority's approval in this

1 proceeding to petition the Authority in the future to adjust KU's Tennessee base rates
2 following not only a Kentucky base rate proceeding, but also following an FAC or
3 ECR "roll-in," supported by the full evidentiary record of such a proceeding.

4 **Q. What additional services and programs will KU's Tennessee customers be able**
5 **to enjoy if the Authority approves KU's Petition?**

6 A. KU's proposed tariff changes for its Tennessee customers will bring with it
7 significant benefits in addition to bringing their rates into parity with KU's Kentucky
8 customers. First, KU's Demand-Side Management ("DSM") and energy efficiency
9 programs will now be available to KU's Tennessee customers. These programs are
10 designed to help customers reduce their energy costs and should help reduce the
11 impact of KU's proposed rate increases. These programs include: home energy
12 audits to help customers become more energy efficient; demand conservation, which
13 is a voluntary, compensated load control program allowing KU to shut off
14 participating customer's air conditioner compressors during times of high demand;
15 and a compact fluorescent light ("CFL") program, providing incentives for customers
16 to use highly efficient CFLs instead of ordinary incandescent light bulbs.⁵

17 Second, KU's proposed Tennessee tariff will offer a net metering rate
18 schedule. Net metering allows customers who own small, often renewable energy
19 facilities, such as wind, solar power or home fuel cells to receive credit for the
20 electricity they generate.

⁵ KU recovers the cost of its Kentucky-jurisdictional DSM and energy efficiency programs from its Kentucky customers through a surcharge mechanism. Though KU does not propose such a mechanism in this proceeding, it reserves the right to propose a similar mechanism or other means of cost recovery in the future. Until that time, KU's shareholders will absorb the cost to provide these benefits to KU's Tennessee customers.

1 Third, KU's proposed Tennessee tariff will offer a Green Energy Rider (Rider
2 GER), which will allow customers to purchase 300 kWh blocks of energy from
3 renewable sources for \$5.00 per month per block.⁶ This allows environmentally
4 conscientious customers effectively to shrink their carbon footprints as much as they
5 like.

6 **Q. Why will KU's DSM and energy efficiency programs be particularly beneficial**
7 **to KU's Tennessee customers?**

8 A. KU believes that its DSM and energy efficiency programs will be particularly
9 valuable to its Tennessee customers because, likely due to such low rates, they
10 consume a very high amount of electricity on average; KU's Tennessee customers
11 currently consume an average of 2,590 kWh of electricity every month, whereas the
12 average KU residential customer consumes only 1,135 kWh each month. KU
13 anticipates that if its Tennessee customers avail themselves of KU's DSM and energy
14 efficiency programs, the customers will use electricity more efficiently and will
15 reduce the impact of KU's proposed rate changes.

16 **Q. What evidentiary support is KU providing to support its rate and tariff change**
17 **requests?**

18 A. Because KU is proposing to amend its Tennessee rates to match those recently
19 approved by the Kentucky Public Service Commission (as well as to use in Tennessee
20 certain tariff sheets approved as part of KU's Kentucky tariff), KU has appended to
21 its Petition a CD containing the entire record of KU's recent rate proceeding before

⁶ KU does not produce or purchase actual energy generated by renewable resources as part of its green energy tariff; rather, KU uses green energy rate funds to purchase Renewable Energy Certificates ("RECs"). An REC is a guaranty that 1 MWh of renewable energy has been produced somewhere in the United States, perhaps offsetting an equivalent amount of energy that would have been generated with fossil fuels.

1 the Kentucky Commission. This evidence includes verified testimony from
2 numerous KU company witnesses and outside experts, as well as a detailed cost-of-
3 service study, supporting KU's Kentucky rate application, but also supporting the
4 eventually settled outcome in that proceeding. KU believes it supports the fairness
5 and reasonableness of its Petition that the outcome of KU's recent Kentucky
6 Commission proceeding was negotiated in good faith between all intervenors to that
7 proceeding, including the Kentucky Commission staff, the Kentucky Attorney
8 General, industrial customers' representatives, and low-income customers' advocates,
9 all of whose testimony and other evidence is included in the record KU has appended
10 to its Petition.

11 **Q. What is your closing recommendation to the Authority?**

12 A. I respectfully ask that the Authority approve KU's Petition in full, which over the
13 course of four years will bring the rates of KU's Tennessee customers to parity with
14 those currently in effect for KU's Kentucky customers, which rates the Kentucky
15 Public Service Commission approved on February 5, 2009. I believe that these rates
16 are just and reasonable, and are more than amply supported by the evidence presented
17 in KU's recent Kentucky rate proceeding, the complete record of which is attached to
18 KU's Petition as Collective Exhibit 4.

19 **Q. Does this conclude your testimony?**

20 A. Yes.

VERIFICATION

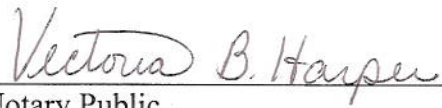
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says he is the Vice President of State Regulation and Rates for Kentucky Utilities Company and Louisville Gas and Electric Company, that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



LONNIE E. BELLAR

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of April 2009.

 (SEAL)

Notary Public

My Commission Expires:

Sept 20, 2010



**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

In the Matter of:

PETITION OF KENTUCKY UTILITIES)	
COMPANY FOR APPROVAL OF)	
ADJUSTMENT OF ITS ELECTRIC RATES,)	DOCKET NO. 09-_____
TERMS AND CONDITIONS OF SERVICE)	
AND REVISED TARIFF)	

**KENTUCKY UTILITIES COMPANY'S
PETITION FOR AUTHORITY TO ADJUST RATES**

Petitioner, Kentucky Utilities Company ("KU"), pursuant to T.C.A. § 65-5-103 and TRA Rule 1220-4-1-.05, hereby petitions the Tennessee Regulatory Authority ("TRA") for authority to adjust its base electric rates. In support of its Petition, KU states as follows:

1. The full name and address of KU are: Kentucky Utilities Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40232. KU is a Kentucky corporation authorized to do business in Tennessee.

2. KU is a utility engaged in the electric business. KU generates and purchases electricity, and distributes and sells electricity at retail, serving over 500,000 customers in the Commonwealths of Kentucky and Virginia, and five residential customers in Fork Ridge, Tennessee.

Prior to the U.S. Supreme Court's 1968 decision in *Hardin v. Kentucky Utilities Company*,¹ KU served significantly more customers in Tennessee, including several hundred customers in Tazewell and New Tazewell, and nearly 2,000 customers overall in Claiborne County.² After the Court's decision, however, the Tennessee Valley Authority's affiliate, Powell Valley Electric Cooperative, came to serve nearly all of KU's former customers in Claiborne

¹ 390 U.S. 1 (1968).

² See *Kentucky Utilities Co. v. Tennessee Valley Authority*, 375 F.2d 403, 407 (Nov. 15, 1966).

County. KU continues to serve its five Tennessee residential customers because it would be cost-prohibitive for Powell Valley Electric Cooperative to serve them.

3. This Petition constitutes notice to the TRA pursuant to TRA Rules 1220-4-1-.04 and 1220-4-1-.06 of the changes proposed to be made to KU's electric base rates and tariff.

4. KU requests TRA approval for a change in existing rates and tariffs for electric service for its five customers in Tennessee, all of whom are residential customers on a single distribution line. For over forty years, KU has provided retail electric service at the same rates to its Tennessee retail customers. During that time, KU has made significant investments to build, operate, and maintain electric generation, transmission, and distribution facilities to meet its customers' growing energy needs. KU has experienced cost increases resulting from inflation and changes in the market that have caused prices for fuel and materials to rise. Throughout this time, KU has absorbed the continuous increases; however, KU cannot continue to provide service to its Tennessee customers at the current rates in light of these continuous cost increases.

5. To ensure reliability of service to native load, KU has, among other things, made substantial investments in its utility infrastructure during the last several years, including transmission and distribution systems and electric generation. For example, the Company is spending approximately \$670 million to build a coal-fired power plant in Trimble County, Kentucky. As a result of these types of investments, since September 30, 2003, KU has increased its net investment in plant for electric operations by over \$1.251 billion.

6. Though much has changed since KU's last Tennessee rate case, some things have not, particularly KU's commitment to excellent customer service. KU and its sister utility, Louisville Gas & Electric Company ("LG&E"), have consistently been top performers for

electric utilities of their size in the Midwest region in the J.D. Power and Associates customer satisfaction surveys, having never finished lower than third place since 1999.

7. Even though KU's Kentucky and Virginia customers have experienced periodic rate increases over the years to help KU address rising costs and to reflect the investments KU has made in its facilities to serve customers, KU's retail customers in Kentucky and Virginia enjoy electric rates among the lowest in the nation. For example, KU's residential customers in Kentucky pay an average of \$0.065/kWh, which is less than 60% of the national average, \$0.112/kWh. KU's residential customers in Tennessee, however, pay just \$0.016/kWh, just ¼ of what KU's residential customers in neighboring Bell County, Kentucky pay, notwithstanding that there is no difference between the cost to serve KU's customers in Bell County, Kentucky, and those in Fork Ridge, Tennessee. Indeed, some of KU's customers in Bell County take service from the same electric distribution line that serves Fork Ridge. By way of further comparison, neighboring Powell Valley Electric Cooperative's customers pay an average of \$0.078/kWh, which is 20% higher than the average KU's Kentucky residential customers pay. For these reasons, KU believes it will be fair, just, and reasonable for the TRA to approve KU's proposed Tennessee rates, which are the same as those the Kentucky Public Service Commission recently approved for service in Kentucky.³

8. KU further believes its proposed tariff changes and base rate increase are just and reasonable in view of the fact that as part of the cost of providing service KU is entitled to recover from its customers the cost of prosecuting rate cases such as this. If KU sought such recovery from its Tennessee customers for a full-blown cost-of-service study and filing,

³ See *In the Matter of: Application of Kentucky Utilities for an Adjustment of Base Rates*, Kentucky Public Service Commission Case No. 2008-00251, Order (Feb. 5, 2009). A complete copy of the Kentucky PSC's order is attached hereto as Exhibit 2, and is available online at: http://psc.ky.gov/pscscf/2008%20cases/2008-00251/20090205_PSC_Order.PDF.

however, its rates would be significantly higher than those KU proposes in this proceeding. To insulate its Tennessee customers from the cost of this abridged rate proceeding, KU's shareholders are absorbing KU's cost to prosecute this proceeding.

9. Moreover, KU is not proposing in this proceeding to implement in Tennessee cost recovery mechanisms like those it has in Kentucky, such as its Environmental Cost Recovery ("ECR") and Fuel Adjustment Clause ("FAC") mechanisms. Such mechanisms provide KU nearly real-time recovery of its costs associated with the mechanisms. Periodically, the recovery amounts the mechanisms provide are "rolled into" KU's Kentucky base rates, allowing the mechanisms to reset. As explained further below, KU reserves the right to seek to adjust its Tennessee base rates to match its Kentucky base rates when they change, regardless of whether the change results from a base rate proceeding or an adjustment mechanism "roll-in" in Kentucky. Because of the time delay associated with seeking changes in rates across jurisdictions, KU's Tennessee rates will always lag its Kentucky rates.

10. KU believes it would be fair, just, and reasonable for its Tennessee customers' electric rates to be the same as those recently approved by the Kentucky Public Service Commission for its Kentucky customers without delay. However, KU recognizes that the rate increase it is proposing in Tennessee is significant in relative terms. KU therefore proposes to increase its Tennessee rates in equal annual increments over four years, after which time they will be equal to KU's current Kentucky rates. KU proposes to achieve this phasing-in of its current Kentucky rates by using a set of annual multipliers set out in the tariff sheet entitled, "Adjustment Clause PM: Phase-In Multipliers." These multipliers will be applied to all charges on the bills of KU's Tennessee customers (with the exception of the Green Energy Rider described below).

In the event that KU's base rates or other tariff items change in Kentucky during the "phase-in" period in Tennessee, KU will petition the TRA for approval to change the rates being phased-in from the rates proposed in this proceeding to whatever KU's new Kentucky rates are, subject to the same multipliers proposed above and without changing the remaining phase-in period.⁴ After the phase-in process is complete, KU will petition the TRA for approval to put its new Kentucky rates into effect in Tennessee whenever its Kentucky rates change.

As discussed in Paragraph 9 above, KU's Kentucky base rates can change as a result of one of three kinds of proceedings before the Kentucky Public Service Commission: (1) a full base rate proceeding; (2) a "roll-in" proceeding concerning KU's Fuel Adjustment Clause mechanism; and (3) a "roll-in" proceeding concerning KU's Environmental Cost Recovery mechanism. The latter two proceedings are not as cumbersome as a full base rate proceeding because only fuel or environmental cost components of base rates are adjusted ("rolled in") therein. KU seeks the Authority's approval in this proceeding to petition the Authority in the future to adjust KU's Tennessee base rates following not only a Kentucky base rate proceeding, but also following an FAC or ECR "roll-in," supported by the full evidentiary record of such a proceeding.

11. KU's proposed tariff changes for its Tennessee customers will bring with it significant benefits in addition to bringing its rates into parity with KU's Kentucky customers. First, KU's Demand-Side Management ("DSM") and energy efficiency programs will now be available to KU's Tennessee customers. These programs are designed to help customers reduce

⁴ For example, if the TRA approves KU's Petition in this proceeding and assuming there are no other rate changes approved by the TRA, in two and a half years a Tennessee residential customer's rate will be KU's current Kentucky residential rate (\$0.05716/kWh) multiplied by the then-current phase-in multiplier (0.8134), for an effective rate of \$0.04649. If KU's Kentucky rates increased three months later to \$0.08/kWh and the TRA approved the increase subject to the phase-in (as KU proposes), a Tennessee residential customer's rate would increase to \$0.08/kWh multiplied by the same then-current multiplier (0.8134), for an effective rate of \$0.06507.

their energy costs and should help reduce the impact of KU's proposed rate increases. These programs include: home energy audits to help customers become more energy efficient; demand conservation, which is a voluntary, compensated load control program allowing KU to shut off participating customer's air conditioner compressors during times of high demand; and a compact fluorescent light ("CFL") program, providing incentives for customers to use highly efficient CFLs instead of ordinary incandescent light bulbs.⁵

KU believes that its DSM and energy efficiency programs will be particularly valuable to its Tennessee customers, who currently consume an average of 2,590 kWh of electricity every month, whereas the average KU residential customer consumes only 1,135 kWh each month. KU anticipates that if its Tennessee customers avail themselves of KU's DSM and energy efficiency programs, the customers will use electricity more efficiently and will reduce the impact of KU's proposed rate changes.

Second, KU's proposed Tennessee tariff will offer a net metering rate schedule. Net metering allows customers who own small, often renewable energy facilities, such as wind, solar power or home fuel cells to receive credit for the electricity they generate.

Third, KU's proposed Tennessee tariff will offer a Green Energy Rider (Rider GER), which will allow customers to purchase 300 kWh blocks of energy from renewable sources for \$5.00 per month per block.⁶ This allows environmentally conscientious customers effectively to shrink their carbon footprints as much as they like.

⁵ KU recovers the cost of its Kentucky-jurisdictional DSM and energy efficiency programs from its Kentucky customers through a surcharge mechanism. Though KU does not propose such a mechanism in this proceeding, it reserves the right to propose a similar mechanism or other means of cost recovery in the future. Until that time, KU's shareholders will absorb the cost to provide these benefits to KU's Tennessee customers.

⁶ KU does not produce or purchase actual energy generated by renewable resources as part of its green energy tariff; rather, KU uses green energy rate funds to purchase Renewable Energy Certificates ("RECs"). An REC is a guaranty that 1 MWh of renewable energy has been produced somewhere in the United States, perhaps offsetting an equivalent amount of energy that would have been generated with fossil fuels.

12. KU supports its request for a change in its existing rates and tariffs for electric service with the verified testimony of Lonnie E. Bellar, Vice President – State Regulation and Rates (Exhibit 3). Mr. Bellar provides a general overview of the need for this base rate and tariff change, and sponsors the exhibits to this Petition, the first of which is KU’s proposed revised tariff for electric service in Tennessee (Exhibit 1), and the second of which is a CD containing an electronic copy of the entire record of KU’s recent Kentucky base rate case proceeding (Collective Exhibit 4). For the convenience of the Authority and the parties, the Order of the Kentucky Public Service Commission approving the rates and tariff has been marked separately and is attached as Exhibit 2 but is also a part of the record in Collective Exhibit 4. Also part of that record is KU’s Kentucky Application, which includes the testimony and exhibits of the following persons:

- Victor A. Staffieri, Chairman, Chief Executive Officer, and President
- Chris Hermann, Senior Vice President – Energy Delivery
- Paul W. Thompson, Senior Vice President – Energy Services
- S. Bradford Rives, Chief Financial Officer
- Valerie L. Scott, Controller
- Lonnie E. Bellar, Vice President – State Regulation and Rates
- Shannon L. Charnas, Director of Utility Accounting and Reporting
- Sidney L. “Butch” Cockerill, Director – Revenue Collections
- Robert M. Conroy, Director – Rates
- William E. Avera, President, FINCAP, Inc.
- W. Steven Seelye, Principal and Senior Consultant, The Prime Group, LLC

Tab	Kentucky Filing Requirement	Description
1	807 KAR 5:001 Section 10(1)(a)1	Reason for Rate Adjustment
2	807 KAR 5:001 Section 10(1)(a)2	Most Recent Annual Reports
3	807 KAR 5:001 Section 10(1)(a)3	Articles of Incorporation
4	807 KAR 5:001 Section 10(1)(a)4	Limited Partnership Agreement
5	807 KAR 5:001 Section 10(1)(a)5	Certificate of Good Standing
6	807 KAR 5:001 Section 10(1)(a)6	Certificate of Assumed Name
7	807 KAR 5:001 Section 10(1)(a)7	Proposed Tariff
8	807 KAR 5:001 Section 10(1)(a)8	Proposed Tariff Changes
9	807 KAR 5:001 Section 10(1)(a)9	Statement about Customer Notice
10	807 KAR 5:001 Section 10(2)	Notice of Intent
11	807 KAR 5:001 Section 10(3)	Customer Notice Information
12	807 KAR 5:001 Section 10(4)(a)	Sewer Utility Notices
13	807 KAR 5:001 Section 10(4)(b)	Typewritten Notices by Mail
14	807 KAR 5:001 Section 10(4)(c)	Other Customer Notices
15	807 KAR 5:001 Section 10(4)(d)	Publisher's Affidavit
16	807 KAR 5:001 Section 10(4)(e)	Verification - Mailed Notices
17	807 KAR 5:001 Section 10(4)(f)	Sample Notices Posted
18	807 KAR 5:001 Section 10(4)(g)	Comply w/ 807 KAR 5:051, Section 2
19	807 KAR 5:001 Section 10(5)	Hearing Notice Published
20	807 KAR 5:001 Section 10(6)(a)	Describe and Explain Adjustments
21	807 KAR 5:001 Section 10(6)(b)	Testimony (Revenues > \$1.0 mm)
22	807 KAR 5:001 Section 10(6)(c)	Testimony (Revenues < \$1.0 mm)
23	807 KAR 5:001 Section 10(6)(d)	New Rates Effect - Overall Revenues
24	807 KAR 5:001 Section 10(6)(e)	Average Customer Class Bill Impact
25	807 KAR 5:001 Section 10(6)(f)	Local Telephone Exchange Companies
26	807 KAR 5:001 Section 10(6)(g)	Analysis of Customer Bills
27	807 KAR 5:001 Section 10(6)(h)	Revenue Requirements Determination
28	807 KAR 5:001 Section 10(6)(i)	Reconcile Rate Base & Capitalization
29	807 KAR 5:001 Section 10(6)(j)	Current Chart of Accounts
30	807 KAR 5:001 Section 10(6)(k)	Annual Auditor's Opinion(s)
31	807 KAR 5:001 Section 10(6)(l)	FERC Audit Reports
32	807 KAR 5:001 Section 10(6)(m)	FERC Form 1s
33	807 KAR 5:001 Section 10(6)(n)	Depreciation Study
34	807 KAR 5:001 Section 10(6)(o)	Computer Software, Hardware, etc.
35	807 KAR 5:001 Section 10(6)(p)	Stock or Bond Prospectuses
36	807 KAR 5:001 Section 10(6)(q)	Annual Reports to Shareholders

37	807 KAR 5:001 Section 10(6)(r)	Monthly Management Reports
38	807 KAR 5:001 Section 10(6)(s)	SEC Reports (10Ks, 10Qs, and 8Ks)
39	807 KAR 5:001 Section 10(6)(t)	Affiliate, et. al., Allocations/Charges
40	807 KAR 5:001 Section 10(6)(u)	Cost-of-Service Study
41	807 KAR 5:001 Section 10(6)(v)	Local Telephone Exchange Companies
42	807 KAR 5:001 Section 10(7)(a)	Financial Statements w/ Adjustments
43	807 KAR 5:001 Section 10(7)(b)	Capital Construction Budget
44	807 KAR 5:001 Section 10(7)(c)	Pro Forma Adjustments - Plant
45	807 KAR 5:001 Section 10(7)(d)	Pro Forma Adjustments - Operating
46	807 KAR 5:001 Section 10(7)(e)	Period-End Customer Additions, etc.

KU is filing its Petition in this format in view of the precedent of *In re: Petition of Entergy Arkansas, Inc. for Approval of Changes in Rates for Retail Electric Service*, Docket No. 06-00216. In that proceeding, Entergy filed with the Authority its entire Arkansas Public Service Commission Application, testimony, and exhibits.⁷ The Authority conducted a public hearing thereon and ultimately issued an order adopting the rates the Arkansas Commission had approved.⁸ KU is therefore similarly filing the entire record of its recent Kentucky Public Service Commission proceeding herewith for the Authority's consideration.

13. As required by TCA § 65-5-103(a), the rates KU proposes for electric service for its five Tennessee customers are just and reasonable.

14. This Petition for a general adjustment of electric base rates is supported by a twelve-month historical test year ending April 30, 2008.

15. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

⁷ *In re: Petition of Entergy Arkansas, Inc. for Approval of Changes in Rates for Retail Electric Service*, Tennessee Regulatory Authority Docket No. 06-00216, Petition (Aug. 24, 2006).

⁸ *In re: Petition of Entergy Arkansas, Inc. for Approval of Changes in Rates for Retail Electric Service*, Tennessee Regulatory Authority Docket No. 06-00216, Order Adopting Decision of Arkansas Public Service Commission (Jan. 17, 2008).

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WHEREFORE, Kentucky Utilities Company respectfully petitions the Tennessee Regulatory Authority to enter an order:

1. Approving the revised tariff sheets for electric service in Tennessee attached hereto as Exhibit 1; and
2. Granting all other relief to which Kentucky Utilities Company may be entitled.

Respectfully submitted,

Kentucky Utilities Company

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Counsel for Kentucky Utilities Company

CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of April 2009, a true and correct copy of the foregoing Petition was served on the person below by hand delivery or by placing same in the U.S. mail, postage pre-paid:

Timothy Phillips
Consumer Advocate and Protection Division
Office of Attorney General
2nd Floor
425 5th Avenue North
Nashville, Tennessee 37243-0491

Mailing address:

P.O. Box 20207
Nashville, Tennessee 37202



D. Billye Sanders

Exhibits to Petition

Exhibit 1	Revised Tennessee Tariff
Exhibit 2	Order of the Kentucky Public Service Commission dated Feb. 5, 2009, in Case No. 2008-00251
Exhibit 3	Testimony of Lonnie E. Bellar before the TRA
Collective Exhibit 4	Record of KU's rate case before the KY Public Service Commission, Case No. 2008-00251