

D. Billy Sanders

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December 1, 2010

Mary Freeman, Chairman Tennessee Regulatory Authority
c/o Sharla Dillon Dockets and Records Manager
460 James Robertson Parkway
Nashville, Tennessee 37219

FILED ELECTRONICALLY IN DOCKET OFFICE ON 12/01/10

DOCKET NO. 10-00223

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

Dear Chairman Freeman,

Enclosed are the original and four copies of the above referenced Petition and Exhibits 1 through 3, five disks of Collective Exhibit 4 and a check for the \$25 for the filing fee. The Petition and Exhibits 1 through 3 are also being filed electronically.

Collective Exhibit 4 is the record of the most recent rate case of Kentucky Utilities Company ("KU") before the Kentucky Public Service Commission ("KPSC") in Case No. 2009-00548. The record is voluminous and if hard copies of this record were provided, they would fill several boxes. Therefore, pursuant to TRA Rule 1220-1-1.05, Waiver of Rules, KU respectfully moves that the Authority waive Rule 1220-1-1.03(4) which requires that five hard copies 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.

KU has only four customers in Tennessee and is requesting that the TRA 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.

In KU's last rate case (TRA Docket No. 09-00059), the TRA allowed KU to provide notice of the rate proceeding by sending individual letters to its customers, in lieu of the newspaper notice required by TRA Rule 1220-4-1-.05(b) and to post the summary of the proposed changes in rates in the business office closest to the Tennessee customers (i.e. the Middlesboro, Kentucky business office, which is only 10 miles from KU's Tennessee

Mary Freeman, Chairman
December 1, 2010
Page 2

customers) instead of posting the summary in all of KU's offices as required by TRA Rule 1220-4-1.05(a). Because of the small number of customers, direct mail notice and a summary in the Middlesboro office is not only more cost effective and efficient for KU, it provides better notice to KU's Tennessee customers. Therefore, pursuant to TRA Rule 1220-1-1.05, Waiver of Rules, KU respectfully moves that the Authority: (1) waive TRA Rule 1220-4-1-.05(b) which requires newspaper notice of the rate increase filing and allow KU to notify its four customers with individual letters sent by first class U. S. mail; and (2) waive TRA Rule 1220-4-1-.05(a) which requires KU to make a summary of the proposed changes and the reasons for them available at each of the utility's business offices and allow KU to post the required summary at its Middlesboro office only.

As set forth in the testimony of Lonnie Bellar, KU is legally entitled to recover the cost of this rate increase proceeding from its Tennessee ratepayers; however, it has chosen not to do so because of the impact on so few customers. Consequently, KU's shareholders are absorbing the cost of prosecuting this proceeding. Furthermore, by way of comparison of electric rates paid by neighboring Tennessee customers of Powell Valley Electric Cooperative, Powell Valley's rates are 24% higher than the rates proposed by KU for its Tennessee customers.

We believe the record shows that the rates proposed are just and reasonable and respectfully request that the Petition be granted.

Please contact me if you have any questions.

Sincerely,



D. Billye Sanders
Attorney for Kentucky Utilities Company

Enclosures

c: Lonnie E. Bellar, Vice President, State Regulation and Rates, LG&E and KU Services Company
Allyson K. Sturgeon, Senior Corporate Attorney, LG&E and KU Services Company
Office of the Tennessee Attorney General & Reporter, Consumer Advocate & Protection Division

**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. 10-_____ |
| 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" or the "Authority") 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, One Quality Street, Lexington, Kentucky 40507. 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 four 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

¹ 390 U.S. 1 (1968).

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

Valley Electric Cooperative, came to serve nearly all of KU's former customers in Claiborne County. In November 2010, one Tennessee customer was disconnected and their meter removed, as their premises were found to be vacant upon inspection. KU continues to serve the remaining four Tennessee residential customers.

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 customers in Tennessee, all of whom are residential customers on a single distribution line. In TRA Docket No. 09-00059, the panel, "found that the cost to provide electricity to Tennessee customers should not be appreciably different from the cost to serve Kentucky customers along the same distribution line. Because the cost of electric service is similar between the Tennessee and Kentucky customers, the panel found that it is reasonable that all KU residential customers should pay the same base rate. The panel further found that adopting the rates approved for KU by the KPSC is preferable to creating even greater costs for KU (that may be passed on to Tennessee customers) by requiring separate cost studies and full rate case proceedings before the TRA."

5. Though KU seeks first to implement as many cost-saving strategies as are consistent with providing safe and reliable electric service, as well as excellent customer service, its continued necessary financial investments in facilities and programs to provide the service its customers desire and deserve necessitate a rate increase in Tennessee. KU has continued to make significant investments in its generation, transmission, and distribution facilities that are of historic scale, including the construction of a state-of-the-art coal-fired generating unit in Trimble County, Kentucky. The construction of Trimble County Unit 2

("TC2") is the most significant ongoing generation investment. In addition, KU has made capital investments to its electric transmission and distribution facilities. With this additional investment to serve customers, operating expenses associated with these new facilities such as property taxes and insurance have increased as well.

6. Even though KU's 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 enjoy electric rates among the lowest in the nation. KU's current residential electric energy rate is \$0.06805/kWh. By way of comparison, the national average retail price for electricity for residential customers in July 2010 was \$0.1201/kWh, which is 76% higher than the rate paid by KU's Kentucky residential customers. Neighboring Powell Valley Electric Cooperative's customers pay \$0.08440/kWh, which is 24% higher than KU's Kentucky residential rate. KU believes it will be just and reasonable for the Authority to approve KU's proposed Tennessee rates, which are the same as those the Kentucky Public Service Commission ("KPSC") recently approved for service in Kentucky.³ In addition, 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.

7. Moreover, KU is not implementing in Tennessee cost recovery mechanisms like those it has in Kentucky, such as its Environmental Cost Recovery and Fuel Adjustment Clause mechanisms. Such mechanisms provide KU nearly real-time recovery of its costs associated

³ In the Matter of: *Application of Kentucky Utilities for an Adjustment of Base Rates*, Kentucky Public Service Commission Case No. 2009-00548, final Order July 30, 2010. A complete copy of the KPSC's order is attached to KU's petition as Exhibit 2, and is available online at: http://www.psc.state.ky.us/pscscf/2009%20cases/2009-00548/20100730_PSC_ORDER.PDF.

with the mechanisms. Periodically, the recovery amounts the mechanisms provide are “rolled into” KU’s Kentucky base rates, allowing the mechanisms to reset.

8. 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 KPSC for its Kentucky customers without delay. KU will implement the increase subject to the remaining set of annual multipliers that were established in TRA Docket No. 09-00059⁴:

| | |
|--|--------|
| For the twelve consecutive monthly billings beginning August 1, 2010 | 0.6341 |
| For the twelve consecutive monthly billings beginning August 1, 2011 | 0.8171 |
| For all subsequent monthly billings beginning August 1, 2012 | 1.0000 |

These factors will be applied to all charges on the bills of KU’s Tennessee customers, except the Green Energy Rider.

9. 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:

⁴ The multipliers phased in the rates over four years with the first multiplier being 0.4512 for the twelve consecutive monthly billings beginning August 1, 2009.

- Victor A. Staffieri, Chairman, Chief Executive Officer, and President
- Paul W. Thompson, Senior Vice President – Energy Services
- Chris Hermann, Senior Vice President – Energy Delivery
- S. Bradford Rives, Chief Financial Officer
- Valerie L. Scott, Controller
- Shannon L. Charnas, Director - Utility Accounting and Reporting
- Ronald L. Miller, Director – Corporate Tax
- Daniel K. Arbough, Treasurer
- William E. Avera, President, FINCAP, Inc.
- Lonnie E. Bellar, Vice President – State Regulation and Rates
- W. Steven Seelye, Principal and Senior Consultant, The Prime Group, LLC
- Robert M. Conroy, Director – Rates
- John Wolfram, Director – Marketing and Customer Service⁵

| 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 |

⁵ John Wolfram's testimony was adopted by Sydney "Butch" Cockerill – Director, Revenue Collection, subsequent to the original filing of the Application.

| | | |
|----|--------------------------------|---|
| 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 consistent with the process approved by the Authority in TRA Docket No. 09-00059. As required by TCA § 65-5-103(a), the rates KU proposes for electric service for its Tennessee customers are just and reasonable.

10. This Petition for a general adjustment of electric base rates is supported by a twelve-month historical test year ending October 31, 2009.

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

Lonnie E. Bellar
Vice President, State Regulation and Rates
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-4830
Lonnie.Bellar@lge-ku.com

Allyson K. Sturgeon
Senior Corporate Attorney
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-2088
Allyson.Sturgeon@lge-ku.com

D. Billye Sanders
Attorney-at-Law
3514 Geneva Circle
Nashville, Tennessee 37209
(615) 500-7749
sanders.billye@gmail.com

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

By: *D. Billye Sanders*
D. Billye Sanders
Attorney-at-Law
3514 Geneva Circle
Nashville, Tennessee 37209
Telephone: (615) 500-7749

Allyson K. Sturgeon
Senior Corporate Attorney
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
Telephone: (502) 627-2088

Counsel for Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY)

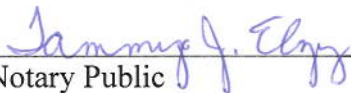
COUNTY OF JEFFERSON)

I, Lonnie E. Bellar, being duly sworn, state that I am the Vice President of State Regulation and Rates for Kentucky Utilities Company, the Petitioner in the subject proceeding; that I am authorized to make this verification of behalf of Kentucky Utilities Company; that I have read the foregoing Petition and Exhibits and know the content thereof; and that the same are true and correct to the best of my knowledge, information and belief.



Lonnie E. Bellar

Sworn and subscribed before me this 30th day of November, 2010



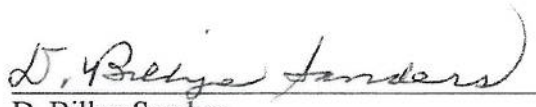
Notary Public

My Commission Expires : November 9, 2014

CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of December 2010, a true and correct copy of the foregoing Petition was served on the entity below by placing same in the U.S. mail, postage pre-paid addressed to:

Office of Attorney General & Reporter
Consumer Advocate and Protection Division
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 Jul. 30, 2010, in Case No. 2009-00548 |
| 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. 2009-00548 |

Exhibit 1

Kentucky Utilities Company
(In Tennessee)
One Quality Street
Lexington, 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
December 1, 2010

Date Effective
January 1, 2011

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

Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 1

| GENERAL INDEX | | | | |
|--|--|-------------------------|---------------------------|---|
| Standard Electric Rate Schedules – Terms and Conditions | | | | |
| <u>Title</u> | | <u>Sheet Number</u> | <u>Effective Date</u> | |
| General Index | | 1 | 01-01-11 | T |
| SECTION 1 - Standard Rate Schedules | | | | |
| RS Residential Service | | 5 | 01-01-11 | T |
| P.O. LT. Private Outdoor Lighting | | 36 | 01-01-11 | T |
| Special Charges | | 45 | 01-01-11 | T |
| SECTION 2 – Riders to Standard Rate Schedules | | | | |
| NMS Net Metering Service | | 57 | 01-01-11 | T |
| KWH Kilowatt-Hours Consumed By Lighting Unit | | 67 | 08-01-09 | |
| GER Green Energy Rider | | 70 | 01-01-11 | T |
| SECTION 4 – Adjustment Clauses | | | | |
| Phase-In Multipliers | | 93 | 01-01-11 | T |
| SECTION 5 – Terms and Conditions | | | | |
| Customer Bill of Rights | | 95 | 01-01-11 | T |
| General | | 96 | 08-01-09 | |
| Customer Responsibilities | | 97 | 01-01-11 | T |
| Company Responsibilities | | 98 | 08-01-09 | |
| Character of Service | | 99 | 08-01-09 | |
| Special Terms and Conditions Applicable to Rate RS | | 100 | 08-01-09 | |
| Billing | | 101 | 01-01-11 | T |
| Deposits | | 102 | 01-01-11 | T |
| Budget Payment Plan | | 103 | 01-01-11 | T |
| Discontinuance of Service | | 105 | 01-01-11 | T |

Date Issued: December 1, 2010

Date Effective: January 1, 2011

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

Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, 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 | |
| Basic Service Charge: | \$8.50 per month |
| Plus an Energy Charge of: | \$0.06805 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 Basic Service Charge shall be the minimum charge. | |
| DUE DATE OF BILL Customer's payment will be due within twelve (12) calendar days from the date of the bill. | |
| LATE PAYMENT CHARGE If full payment is not received within three (3) calendar 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: December 1, 2010

Date Effective: January 1, 2011

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

Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, 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

OVERHEAD SERVICE [Fixture Only]

Based on lighting choice, Company will furnish and install the lighting unit complete with lamp, fixture, photoelectric control and mast arm.

| <u>TYPE OF FIXTURE</u> | <u>APPROX. LUMENS</u> | <u>KW RATING</u> | <u>MONTHLY CHARGE</u> |
|----------------------------------|-----------------------|------------------|-----------------------|
| Open Bottom Mercury Vapor | 7,000* | .207 | \$ 9.52 |
| Open Bottom High Pressure Sodium | 5,800 | .083 | \$ 6.36 |
| Open Bottom High Pressure Sodium | 9,500 | .117 | \$ 6.90 |

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)

| <u>TYPE OF FIXTURE</u> | <u>APPROX. LUMENS</u> | <u>KW RATING</u> | <u>MONTHLY CHARGE</u> |
|----------------------------------|-----------------------|------------------|-----------------------|
| Directional High Pressure Sodium | 9,500 | .117 | \$ 8.01 |

ADDITIONAL FACILITIES

The Company will furnish a complete standard or directional fixture with appropriate mast arm on existing poles with available secondary voltage of 120/240. All facilities required by Company will be standard stocked material. The above rates for OVERHEAD SERVICE contemplate installation on an existing wood pole and, if needed, up to 150 feet of conductor.

Where the location of existing poles is not suitable or where there are no existing poles or adequate facilities 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.

Date Issued: December 1, 2010

Date Effective: January 1, 2011

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

Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 36.1

Standard Rate

P.O. LT.

Private Outdoor Lighting

UNDERGROUND SERVICE

Based on lighting choice, Company will furnish and install the lighting unit complete with lamp, fixture, photoelectric control, and aluminum pole.

| <u>TYPE OF POLE AND FIXTURE</u> | <u>APPROX. LUMENS</u> | <u>kW RATING</u> | <u>MONTHLY CHARGE</u> |
|------------------------------------|---------------------------|----------------------|---------------------------|
| <u>High Pressure Sodium</u> | | | |
| Acorn Decorative | 4,000 | 0.060 | \$12.51 |
| Acorn Historic | 4,000 | 0.060 | \$18.90 |
| Acorn Decorative | 5,800 | 0.083 | \$13.50 |
| Acorn Historic | 5,800 | 0.083 | \$19.78 |
| Acorn Decorative | 9,500 | 0.117 | \$14.13 |
| Acorn Historic | 9,500 | 0.117 | \$20.52 |
| Colonial | 4,000 | 0.060 | \$ 8.67 |
| Colonial | 5,800 | 0.083 | \$ 9.57 |
| Colonial | 9,500 | 0.117 | \$10.09 |
| Coach | 5,800 | 0.083 | \$28.88 |
| Coach | 9,500 | 0.117 | \$29.39 |
| Contemporary | 5,800 | 0.083 | \$21.45 |
| Additional Fixture | 5,800 | 0.083 | \$13.99 |
| Contemporary | 9,500 | 0.117 | \$21.59 |
| Additional Fixture | 9,500 | 0.117 | \$14.12 |

For UNDERGROUND SERVICE where secondary voltage of 120/240 is available, Company will furnish, own, and maintain poles, fixtures and any necessary circuitry up to 200 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.

Date Issued: December 1, 2010

Date Effective: January 1, 2011

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

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 36.2

Standard Rate

P.O. LT.
Private Outdoor Lighting

Customer Ordered Styles

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.

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) calendar days from the date of the 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-salvage 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 customer shall be responsible for reporting outages and other operating faults, and the Company will undertake to service the lighting equipment within two (2) business days after such notification by the customer.

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

**Kentucky Utilities Company
(In Tennessee)**

T.R.A. No. 2, Original Sheet No. 36.3

T

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. 2, 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 cover 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

DISCONNECT/RECONNECT 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. 2, Original Sheet No. 57

Standard Rate Rider

NMS
Net Metering Service

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

Available to any customer-generator who owns and operates a generating facility located on Customer's premises that generates electricity using solar, wind, biomass or biogas, or hydro energy in parallel with Company's electric distribution system to provide all or part of Customer's electrical requirements, and who executes Company's written Application for Interconnection and Net Metering. The generation facility shall be limited to a maximum rated capacity of 30 kilowatts.

METERING AND BILLING

Net Metering Service shall be measured using a single meter or, as determined by Company, additional meters and 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. This net metering equipment shall be provided without any cost to the Customer. This provision does not relieve Customer's responsibility to pay metering costs embedded in the Company's TRA-approved base rates. Additional meters, requested by Customer, will be provided at Customer's expenses.

If electricity generated by Customer and fed back to Company's system exceeds the electricity supplied to Customer from the system during a billing period, Customer shall receive a credit for the net delivery on Customer's bill for the succeeding billing periods. Any such unused excess credits will be carried forward and drawn on by Customer as needed. Unused excess credits existing at the time Customer's service is terminated end with Customer's account and are not transferrable between customers or locations.

NET METERING SERVICE INTERCONNECTION GUIDELINES

General - Customer shall operate the generating facility 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, operate, 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 all generating 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. Customer agrees to inform Company of any changes it wishes to make to its generating or associated facilities that differ from those initially installed and described to Company in writing and obtain prior approval from Company.
5. Company will have the right to inspect and approve Customer's facilities described herein, and to 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 thereof.

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 57.1

Standard Rate Rider

NMS

Net Metering Service

6. Customer assumes all responsibility for the electric service on 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 or willful misconduct of Company.

Level 1 – A Level 1 installation is defined as an inverter-based generator certified as meeting the requirements of Underwriters Laboratories Standard 1741 and meeting the following conditions:

1. The aggregated net metering generation on a radial distribution circuit will not exceed 15% of the line section's most recent one hour peak load. A line section is the smallest part of the primary distribution system the generating facility could remain connected to after operation of any sectionalizing devices.
2. The aggregated net metering generation on a shared singled-phase secondary will not exceed 20 kVA or the nameplate rating of the service transformer.
3. A single-phase net metering generator interconnected on the center tap neutral of a 240 volt service shall not create an imbalance between the two sides of the 240 volt service of more than 20% of the nameplate rating of the service transformer.
4. A net metering generator interconnected to Company's three-phase, three-wire primary distribution lines, shall appear as a phase-to-phase connection to Company's primary distribution line.
5. A net metering generator interconnected to Company's three-phase, four-wire primary distribution lines, shall appear as an effectively grounded source to Company's primary distribution line.
6. A net metering generator will not be connected to an area or spot network.
7. There are no identified violations of the applicable provisions of IEEE 1547, "Standard for Interconnecting Distributed Resources with Electric Power Systems".
8. Company will not be required to construct any facilities on its own system to accommodate the net metering generator.

Customer desiring a Level 1 interconnection shall submit a —LEVEL 1 - Application for Interconnection and Net Metering. If Company shall notify Customer within 20 business days as to whether the request is approved or, if denied, the reason(s) for denial. If additional information is required, the Company will notify Customer, and the time between notification and submission of the information shall not be counted towards the 20 business days. Approval is contingent upon an initial inspection and witness test at the discretion of Company.

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Standard Rate Rider

NMS

Net Metering Service

Level 2 – A Level 2 installation is defined as generator that is not inverter-based; that uses equipment not certified as meeting the requirements of Underwriters Laboratories Standard 1741, or that does not meet one or more of the conditions required of a Level 1 net metering generator. A Level 2 Application will be approved if the generating facility meets the Company's technical interconnection requirements. Those requirements are available on line at www.lge-ku.com and upon request.

Customer desiring a Level 2 interconnection shall submit a "LEVEL 2 - Application for Interconnection and Net Metering." Company shall notify Customer within 30 business days as to whether the request is approved or, if denied, the reason(s) for denial. If additional information is required, the Company will notify Customer, and the time between notification and submission of the information shall not be counted towards the 30 business days. Approval is contingent upon an initial inspection and witness test at the discretion of Company.

Customer submitting a "Level 2 - Application for Interconnection and Net Metering" will provide a non-refundable inspection and processing fee of \$100, and in the event that the Company determines an impact study to be necessary, shall be responsible for any reasonable costs of up to \$1,000 of documented costs for the initial impact study.

Additional studies requested by Customer shall be at Customer's expense.

CONDITIONS OF INTERCONNECTION

Customer may operate his net metering generator in parallel with Company's system when complying with the following conditions:

1. Customer shall install, operate, and maintain, at Customer's sole cost and expense, any control, protective, or other equipment on Customer's system required by Company's technical interconnection requirements based on IEEE 1547, NEC, accredited testing laboratories, and the manufacturer's suggested practices for safe, efficient and reliable operation of the net metering generating facility in parallel with Company's system. Customer bears full responsibility for the installation, maintenance and safe operation of the net metering generating facility. Upon reasonable request from Company, Customer shall demonstrate compliance.
2. Customer shall represent and warrant compliance of the net metering generator with:
 - a) any applicable safety and power standards established by IEEE and accredited testing laboratories;
 - b) NEC, as may be revised from time-to-time;
 - c) Company's rules and regulations and Terms and Conditions, as may be revised by time-to-time;
 - d) all other local, state, and federal codes and laws, as may be in effect from time-to-time.
3. Any changes or additions to Company's system required to accommodate the net metering generator shall be Customer's financial responsibility and Company shall be reimbursed for such changes or additions prior to construction.
4. Customer shall operate the net metering generator in such a manner as not to cause undue fluctuations in voltage, intermittent load characteristics or otherwise interfere with the operation of Company's electric system. Customer shall so operate the generating facility in such a manner that no adverse impacts will be produced thereby to the service quality

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Standard Rate Rider

NMS

Net Metering Service

CONDITIONS OF INTERCONNECTION (continued)

- rendered by Company to any of its other customers or to any electric system interconnected with Company's electric system.
5. Customer shall be responsible for protecting, at Customer's sole cost and expense, the net metering generating facility from any condition or disturbance on Company's electric system, including, but not limited to, voltage sags or swells, system faults, outages, loss of a single phase of supply, equipment failures, and lightning or switching surges, except that the Company shall be responsible for repair of damage caused to the net metering generator resulting solely from the negligence or willful misconduct on the part of the Company.
 6. Following the initial testing and inspection of the generating facility and upon reasonable advance notice to Customer, Company shall have access at reasonable times to the generating facility to perform reasonable on-site inspections to verify that the installation, maintenance and operation of the net metering generator comply with the requirements of this rate schedule.
 7. Where required by the Company, Customer shall furnish and install on Customer's side of the point of interconnection a safety disconnect switch which shall be capable of fully disconnecting Customer's net metering generator from Company's electric service under the full rated conditions of Customer's net metering generator. The external disconnect switch (EDS) shall be located adjacent to Company's meters or the location of the EDS shall be noted by placing a sticker on the meter, and shall be of the visible break type in a metal enclosure which can be secured by a padlock. If the EDS is not located directly adjacent to the meter, Customer shall be responsible for ensuring the location of the EDS is properly and legibly identified for so long as the net metering generator is operational. The disconnect switch shall be accessible to Company personnel at all times. Company may waive the requirement for an external disconnect switch for a net metering generator at its sole discretion, and on a case by case basis.
 8. Company shall have the right and authority at Company's sole discretion to isolate the generating facility or require the Customer to discontinue operation of the net metering generator if Company believes that:
 - a) continued interconnection and parallel operation of the net metering generator with Company's electric system creates or contributes (or may create or contribute) to a system emergency on either Company's or Customer's electric system;
 - b) the net metering generator is not in compliance with the requirements of this rate schedule, and the non-compliance adversely affects the safety, reliability or power quality of Company's electric system; or
 - c) the net metering generator interferes with the operation of Company's electric system.In non-emergency situations, Company shall give Customer notice of noncompliance including a description of the specific noncompliance condition and allow Customer a reasonable time to cure the noncompliance prior to isolating the Generating Facilities. In emergency situations, where the Company is unable to immediately isolate or cause Customer to isolate only the net metering generator, Company may isolate Customer's entire facility.
 9. Customer agrees that, without the prior written permission from Company, no changes shall be made to the generating facility as initially approved. Increases in net metering generator capacity will require a new "Application for Interconnection and Net Metering" which will be evaluated on the same basis as any other new application. Repair and replacement of existing generating facility components with like components that meet UL 1741 certification requirements for Level 1 facilities and not resulting in increases in net metering generator capacity is allowed without approval.

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 57.4

Standard Rate Rider

NMS

Net Metering Service

10. Customer shall protect, indemnify and hold harmless Company and its directors, officers, employees, agents, representatives and contractors against and from all loss, claims, actions or suits, including costs and attorneys fees, for or on account of any injury or death of persons or damage to property caused by Customer or Customer's employees, agents, representatives and contractors in tampering with, repairing, maintaining or operating Customer's net metering generator or any related equipment or any facilities owned by Company except where such injury, death or damage was caused or contributed to by the fault or negligence of Company or its employees, agents, representatives or contractors. The liability of Company to Customer for injury to person and property shall be governed by the tariff(s) for the class of service under which Customer is taking service.
11. Customer shall maintain general liability insurance coverage (through a standard homeowner's, commercial or other policy) for generating facilities. Customer shall upon request provide Company with proof of such insurance at the time that application is made for net metering.
12. By entering into an Interconnection Agreement, or by inspection, if any, or by non-rejection, or by approval, or in any other way, Company does not give any warranty, express or implied, as to the adequacy, safety, compliance with applicable codes or requirements, or as to any other characteristics, of the generating facility equipment, controls, and protective relays and equipment.
13. Customer's generating facility is transferable to other persons or service locations only after notification to the Company has been made and verification that the installation is in compliance with this tariff. Upon written notification that an approved generating facility is being transferred to another person, customer, or location, the Company will verify that the installation is in compliance with this tariff and provide written notification to the customer(s) within 20 business days. If the installation is no longer in compliance with this tariff, the Company will notify Customer in writing and list what must be done to place the facility in compliance.
14. Customer shall retain any and all Renewable Energy Credits (RECs) generated by Customer's generating facilities.

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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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 57.5

Standard Rate Rider

NMS
Net Metering Service

LEVEL 1

Application for Interconnection and Net Metering

*Use this application form only for a generating facility that is inverter based and certified by a nationally recognized testing laboratory to meet the requirements of **UL 1741**.*

Submit this Application to:

Kentucky Utilities Company, Attn: Customer Commitment, P. O. Box 32010, Louisville, KY 40232

If you have questions regarding this Application or its status, contact KU at:

502-627-2202 or customer.commitment@lge-ku.com

Customer Name: _____ Account Number: _____

Customer Address: _____

Customer Phone No.: _____ Customer E-mail Address: _____

Project Contact Person: _____

Phone No.: _____ E-mail Address (Optional): _____

Provide names and contact information for other contractors, installers, or engineering firms involved in the design and installation of the generating facilities:

Energy Source: ☐ Solar ☐ Wind ☐ Hydro ☐ Biogas ☐ Biomass

Inverter Manufacturer and Model #: _____

Inverter Power Rating: _____ Inverter Voltage Rating: _____

Power Rating of Energy Source (i.e., solar panels, wind turbine): _____

Is Battery Storage Used: ☐ No ☐ Yes If Yes, Battery Power Rating: _____

Attach documentation showing that inverter is certified by a nationally recognized testing laboratory to meet the requirements of **UL 1741**.

Attach site drawing or sketch showing location of Utility's meter, energy source, (**optional: Utility accessible disconnect switch**) and inverter.

Attach single line drawing showing all electrical equipment from the Utility's metering location to the energy source including switches, fuses, breakers, panels, transformers, inverters, energy source, wire size, equipment ratings, and transformer connections.

Expected Start-up Date: _____

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 57.6

Standard Rate Rider

NMS
Net Metering Service

LEVEL 2

Application for Interconnection and Net Metering

Use this application form when a generating facility is not inverter-based or is not certified by a nationally recognized testing laboratory to meet the requirements of UL 1741 or does not meet any of the additional conditions under Level 1.

Submit this Application, along with an application fee of \$100, to:

Kentucky Utilities Company, Attn: Customer Commitment, P. O. Box 32010, Louisville, KY 40232

If you have questions regarding this Application or its status, contact KU at:

502-627-2202 or customer.commitment@lge-ku.com

Customer Name: _____ Account Number: _____

Customer Address: _____

Project Contact Person: _____

Phone No.: _____ E-mail Address (Optional): _____

Provide names and contact information for other contractors, installers, or engineering firms involved in the design and installation of the generating facilities:

Total Generating Capacity of Generating Facility: _____

Type of Generator: ☐ Inverter-Based ☐ Synchronous ☐ Induction

Power Source: ☐ Solar ☐ Wind ☐ Hydro ☐ Biogas ☐ Biomass

Adequate documentation and information must be submitted with this application to be considered complete. Typically this should include the following:

1. Single-line diagram of the customer's system showing all electrical equipment from the generator to the point of interconnection with the Utility's distribution system, including generators, transformers, switchgear, switches, breakers, fuses, voltage transformers, current transformers, wire sizes, equipment ratings, and transformer connections.
2. Control drawings for relays and breakers.
3. Site Plans showing the physical location of major equipment.
4. Relevant ratings of equipment. Transformer information should include capacity ratings, voltage ratings, winding arrangements, and impedance.
5. If protective relays are used, settings applicable to the interconnection protection. If programmable relays are used, a description of how the relay is programmed to operate as applicable to interconnection protection.
6. A description of how the generator system will be operated including all modes of operation.
7. For inverters, the manufacturer name, model number, and AC power rating. For certified inverters, attach documentation showing that inverter is certified by a nationally recognized testing laboratory to meet the requirements of UL 1741.
8. For synchronous generators, manufacturer and model number, nameplate ratings, and impedance data (Xd, Xd, & Xd).
9. For induction generators, manufacturer and model number, nameplate ratings, and locked rotor current.

Customer Signature: _____ Date: _____

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, 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. 2, 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 Voluntary monthly contributions of any amount in \$5.00 increments | |
| TERMS AND CONDITIONS a) Customers may contribute monthly as much as they like in \$5.00 increments (e.g., \$5.00, \$10.00, \$15.00, or more per month). An 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 pay the amount the customer pledged to contribute 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 monthly for the amount Customer pledged to contribute to the "Green Energy Program." Such billing will be added to Customer's billing under any standard rate schedules plus applicable riders plus applicable adjustment clauses. | |

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, 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 twelve consecutive monthly billings beginning August 1, 2009 | 0.4512 | T |
| For the twelve consecutive monthly billings beginning August 1, 2010 | 0.6341 | T |
| For the twelve consecutive monthly billings beginning August 1, 2011 | 0.8171 | T |
| For all subsequent monthly billings beginning August 1, 2012 | 1.0000 | T |

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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, 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 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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Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Lexington, 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.

Date Issued: December 1, 2010

Date Effective: August 1, 2009

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

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 Customer's 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.

Date Issued: December 1, 2010

Date Effective: January 1, 2011

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

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 Customer's connected load, whether in a single increment or over an extended period, Customer 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. Should Customer make a permanent change in the operation of electric equipment that materially reduces the maximum load required by Customer, Company may reduce Customer's contract capacity.

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

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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Date Effective: August 1, 2009

Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Lexington, 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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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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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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Date Effective: August 1, 2009

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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) calendar days from date of rendition thereof. If full payment is not received within three (3) calendar 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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Issued By: Lonnie E. Bellar, Vice President, State Regulation and Rates, Lexington, Kentucky

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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. In addition, Company may investigate usage deviations brought to its attention as a result of its ongoing meter reading or billing process, or customer inquiry. 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 may contact Customer to determine whether there have been changes such as different number of household members or work staff, additional or different appliances. 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.

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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.

Date Issued: December 1, 2010

Date Effective: January 1, 2011

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

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 in the amount of \$135.
- 3) 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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Kentucky Utilities Company
(In Tennessee)

T.R.A. No. 2, Original Sheet No. 103

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 billing period, 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 or discontinue service to 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. 2, 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.

Date Issued: December 1, 2010

Date Effective: August 1, 2009

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

Exhibit 2

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------|---|------------|
| APPLICATION OF KENTUCKY |) | |
| UTILITIES COMPANY FOR AN |) | CASE NO. |
| ADJUSTMENT OF BASE RATES |) | 2009-00548 |

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|--------------------------|---|------------|
| APPLICATION OF KENTUCKY |) | |
| UTILITIES COMPANY FOR AN |) | CASE NO. |
| ADJUSTMENT OF BASE RATES |) | 2009-00548 |

O R D E R

Kentucky Utilities Company ("KU"), a wholly owned subsidiary of E.ON US LLC ("E.ON US"), is an electric utility that generates, transmits, distributes, and sells electricity to approximately 513,000 consumers in all or portions of 77 counties in Kentucky.¹

BACKGROUND

On December 30, 2009, KU filed a letter giving notice of its intent to file an application for approval of an increase in its electric rates based on a historical test year ending October 31, 2009. On January 29, 2010, KU filed its application, which included new rates to be effective March 1, 2010, based on a request to increase its electric revenues by \$135,285,293.² The application also included proposals to revise, add, and delete various tariffs applicable to its electric service. To determine the reasonableness of these requests, the Commission suspended the proposed rates for

¹ See KU's application, pages 1-2, for a list of the 77 counties. Also, operating under the name of Old Dominion Power Company, KU generates, transmits, distributes, and sells electricity to approximately 30,000 consumers in five counties in southwestern Virginia. KU also sells wholesale electric energy to 12 municipalities.

² KU's sister utility, Louisville Gas and Electric Company ("LG&E"), filed a rate application concurrently, which was docketed as Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates.

five months from their effective date, pursuant to KRS 278.190(2), up to and including July 31, 2010.

The following parties requested and were granted full intervention: the Kentucky Industrial Utility Customers, Inc. ("KIUC"); the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"); The Kroger Company ("Kroger"); the Kentucky School Boards Association ("KSBA"); the Kentucky Cable Telecommunications Association ("KCTA"); Community Action Council of Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); and Wal-Mart Stores East, LLP/Sam's East, Inc ("Wal-Mart").

On February 16, 2010, the Commission issued a procedural order establishing the schedule for processing this case. The schedule provided for discovery, intervenor testimony, rebuttal testimony by KU, a formal evidentiary hearing, and an opportunity for the parties to file post-hearing briefs.³ Intervenor testimonies were filed on April 22 and 23, 2010. KU filed its rebuttal testimony on May 27, 2010.

On June 2 and 3, 2010, an informal conference was held at the Commission's offices to discuss procedural matters and the possible resolution of pending issues.⁴ All parties except the AG participated in the conference. Also on June 2, 2010, the AG filed a motion to dismiss this case claiming that the pending acquisition of E.ON US by PPL Corporation ("PPL") renders the historical test year proposed by KU unreasonable

³ After establishing the procedural schedule for the evidentiary portion of the case, the Commission scheduled and conducted four public meetings in the service territories of KU and LG&E. The public meetings were held on April 27, 2010, in Harlan; May 3, 2010, in Louisville; May 4, 2010, in Madisonville; and May 6, 2010, in Lexington.

⁴ For administrative efficiency, the informal conference was a joint conference for this case and the rate case of LG&E, Case No. 2009-00549.

for use in setting rates.⁵ On June 7, 2010, KU and LG&E filed a joint response in opposition to the AG's motion to dismiss. The Commission, in an Order issued June 8, 2010, denied the AG's motion without prejudice, stating that "[t]he AG may pursue this issue and renew his motion if he so chooses" following the conclusion of the evidentiary hearing.

On June 8, 2010, KU, LG&E, and the intervenors in this case and in Case No. 2009-00549, with the exception of the AG, filed a Stipulation and Recommendation ("Stipulation"), intended to address all of the issues raised in the two rate cases. Under the terms of the Stipulation, the utilities and intervenors agreed to forego cross-examination of each other's witnesses at the hearing.

Because the Stipulation was not unanimous, the evidentiary hearing set for June 8, 2010, was convened as scheduled for the purposes of hearing (1) testimony by KU and LG&E in support of the Stipulation and (2) testimony by KU, LG&E and the AG on contested issues related to the amount of the revenue increases sought by KU and LG&E.⁶ On June 25 and 29, 2010, KU and the AG filed their post-hearing briefs, respectively. The AG also filed on June 29, 2010, a renewed motion to dismiss this case and the LG&E rate case, to which KU and LG&E filed a joint response on July 8, 2010. The instant matter now stands submitted to the Commission for a decision.

⁵ The AG also filed an identical motion to dismiss in the LG&E rate case, Case No. 2009-00549.

⁶ The AG stated at the hearing that he did not object to the manner in which non-revenue requirement issues were addressed and resolved in the Stipulation.

AG'S RENEWED MOTION TO DISMISS

On June 29, 2010, the AG filed a renewed motion to dismiss both KU's rate application and LG&E's, which is pending in Case No. 2009-00549. The basis for the renewed motion is a claim that the announced acquisition of KU and its affiliate, LG&E, by PPL has created a material change which renders the historic test year no longer reasonable for use in setting rates in this case. The AG previously filed a similar motion on June 2, 2010, prior to the evidentiary hearing held on June 8, 2010. By Order issued on June 8, 2010, the Commission denied the AG's earlier motion based on the absence of any evidentiary support for his claim that the historic test period was no longer reasonable for setting rates. That denial was, however, without prejudice to his renewing the motion after the hearing if he could present evidentiary support either through the supplemental testimony of his own witnesses or through cross-examination at the hearing.

The AG's renewed motion cites to a number of references in the record, some of which predate the hearing, which he argues support his claim that KU's test year is unreliable for setting rates. He also argues that the use of known and measurable adjustments will not render the test period reliable, and that the evidentiary record is insufficient to determine whether the proposed acquisition by PPL is irrelevant and immaterial to the rate case. Finally, he argues that if the PPL acquisition is approved, it will result in a material change to KU, but KU has failed to address in this case the impacts of that change on its going-forward operations.

On July 6, 2010, KU and LG&E filed a joint response in opposition to the AG's renewed motion. KU states that the evidentiary record cited by the AG shows nothing

more than vague allegations that if the PPL acquisition is consummated, it may have a potential impact at some time in the future. KU also dismisses the AG's claim that KU's witnesses were somehow remiss in failing to revise their testimony or data responses to reflect the impacts of the proposed PPL acquisition. No such revisions were necessary, according to KU, because the acquisition will have no impact on this rate case.

Based on the AG's renewed motion to dismiss and being otherwise sufficiently advised, the Commission finds that the evidentiary references cited by the AG do not demonstrate that the historic test year used in this case is unreliable for setting rates. At best, the AG's citations show that if the PPL acquisition is consummated, there is the mere potential for expenses to change at some indefinite time in the future.

The record does, however, contain other evidence, not cited by the AG, that demonstrates that the PPL acquisition has been structured to have no financial impact on KU.⁷ Thus, any impact of the proposed PPL acquisition are simply too far off and too remote to render unreliable KU's test year in this case, the 12 months ending October 31, 2009. The AG's evidentiary references do not persuade us to reject KU's test year for use in setting rates in this case. To the contrary, KU has shown its test year, with the pro forma adjustments, to be reliable as a starting point for setting rates.

The Commission also finds that, when a historic test year is used for setting rates, pro forma adjustments are allowed for changes that are known and measurable. But the mere fact that a future event, such as a proposed transfer of control, which is not now measurable, may cause changes in future revenues or expenses does not render the historic test year unreliable. There will always be future events that occur

⁷ June 8, 2010 Hearing Video Transcript at 1:15:50 pm.

well beyond the end of the test year that may have an impact on the future revenues or expenses of a utility. If a test year was rendered unreliable due to the potential that future events might impact revenues or expenses, no utility would ever be able to adjust its rates.

However, should a future event occur which does adversely impact the revenues or expenses of a utility, KRS Chapter 278 provides ample protection to all those who might be affected. Under KRS 278.260(1), any person with an interest in the rates, including the AG, may file with the Commission a complaint against any utility that any rate is unreasonable, and the Commission may on its own motion initiate such a complaint. And if the utility believes that its rates are unreasonable, it is authorized by KRS 278.180(1) to file a revised schedule of rates.

Finally, there are other consumer protections afforded by KRS Chapter 278, such as for a transaction involving a transfer of control, where the Commission "may grant any application . . . in whole or in part and with modification and upon terms and conditions as it deems necessary or appropriate." KRS 278.020(6). As we stated in our June 8, 2010 Order, the financial impacts of a proposed transfer of control have traditionally been considered as part of an application for approval of the transfer, not as part of a concurrent rate application. The AG, and others, are parties to PPL's application to acquire KU, and issues of the future financial impacts of that acquisition are properly considered in that case.

AG'S MOTION TO COMPEL

During the discovery phase of this proceeding, KU objected to a data request from the AG requesting KU to "[l]ist each proposed pro forma entry which was

considered in this filing but not made and state the reason(s) why the entry was not made.”⁸ The basis for KU’s objection was that such information was protected by the attorney-client privilege and the work product doctrine. KU asserted that decisions relating to its rate case adjustments were made in consultation with legal counsel and the response to this request would divulge the contents of communications with counsel and the mental impressions of counsel.

Due to KU’s objection to providing the information requested, the AG filed a motion to compel the responses, arguing that KU failed to provide specific reasons why the information requested would be covered by attorney-client privilege. The AG contends that such privilege “does not automatically attach because legal counsel has reviewed a matter.” The AG also requests that the procedural schedule be suspended until this discovery dispute is resolved.

KU and its sister company, LG&E, filed a joint response objecting to the AG’s motion to compel. KU asserts that compelling it to respond to the AG’s request for information regarding adjustments contemplated but not included in the rate application would necessarily disclose privileged communications between the utility and its counsel, which are protected from disclosure under the Kentucky Rules of Evidence, KRE 503(b). KU contends that any discussions it had with its attorneys concerning the choice of which *pro forma* adjustments to exclude is not subject to discovery under the absolute privilege applicable to opinion work product, as that privilege is codified in

⁸ AG’s Initial Data Request, Item AG 1-30.

the Kentucky Rules of Civil Procedure, CR 26.02(3)(a).⁹ KU notes that the creation of such adjustments and the determination of which adjustments to include in its rate application are always done in consultation with its counsel, making the facts and its counsel's opinions inseparable. Lastly, KU maintains that even if the information sought to be discovered were deemed to be fact work product rather than opinion work product, the AG has failed to establish that he has a substantial need of the materials in the preparation of his case and that he is unable to obtain the equivalent of the materials by other means entitling him to discovery of the information requested.

In his reply, the AG argues that KU's interpretation of the attorney-client and work product privileges was too broad. The AG avers that the privileges only protect disclosure of communications and not disclosure of the underlying facts by those communicating with the attorney. The AG states that the information requested is needed by his retained experts in order to properly and fully evaluate whether KU's proposed rate increase is fair, just, and reasonable. The AG further states that he cannot duplicate the information concerning possible pro forma adjustments based on the information in the application alone.

In its sur-reply, KU reiterated that the determination of which adjustments to include or exclude was based on the advice of counsel and made exclusively in the context of these legal proceedings. Thus, the information sought to be discovered is, part and parcel, privileged communication between KU and its counsel. KU contends that the AG's claims of substantial need and undue hardship are insufficient to entitle

⁹ CR 26.02(3) provides, in relevant part, that, "the court shall protect against disclosure of the mental impressions, conclusions, opinions, or legal theories of an attorney or other representative of a party concerning the litigation."

him to discovery of information protected by the work product privilege. KU points out that it has produced significant amounts of actual data and documents in addition to the volumes of information contained in its application to allow the AG's experienced and capable legal team as well as his three retained experts to fully process and evaluate the reasonableness of KU's proposed rate increase.

Based on the AG's motion and being otherwise sufficiently advised, the Commission finds that, while our proceedings are not governed by either Kentucky's Rules of Evidence or its Rules of Civil Procedure, any privilege so established which shields the disclosure of attorney-client communications must be recognized and applied here. The AG has correctly asserted that the attorney-client privilege does not automatically attach to everything reviewed by a person's counsel. However, under the facts as presented in this rate case, the information sought to be discovered is protected under the opinion work product privilege. The information that the AG seeks to discover -- pro forma adjustments contemplated by KU but not included in its rate application -- was formulated by KU in consultation with its counsel solely in anticipation of filing this base rate case. KU does not create or maintain lists of possible pro forma adjustments and expenses as part of its ordinary business practices. Because KU's potential pro forma adjustments are made in consultation with counsel in contemplation of litigation in rate proceedings, such information is protected by the work product privilege.

The AG claims to seek discovery of only the underlying facts of the communication between KU and its counsel regarding potential pro forma adjustments. However, since KU consults with its counsel prior to making a determination of whether a pro forma adjustment passes legal rate-making muster, the AG's request encroaches

into an area which would require KU to disclose the mental impressions, conclusions, opinions or legal theories of its attorneys. While the AG characterizes his discovery request as one limited to underlying facts, the disclosure of such information would, in essence, reveal KU's counsel's impressions of the legal strengths, weaknesses, and best strategic approach in this rate proceeding because the determination of which adjustments to include or exclude are, at their roots, matters of legal strategy. The information sought to be discovered by the AG is absolutely protected under the opinion work product privilege.

The Commission notes that our decision on this issue is expressly limited to discovery of adjustments contemplated, but not filed, by a party in a rate case. Further, our decision applies with equal force to shield from discovery rate case adjustments considered by a utility in conjunction with its counsel, as well as those considered by an intervenor in conjunction with its counsel. Even though contemplated rate case adjustments, when considered in conjunction with counsel, are not subject to discovery, all other aspects of a utility's rate application and its financial records are subject to discovery. Thus, all parties to a rate case have ample opportunity to test and verify the accuracy of the test year and the adjustments proposed thereto, and the need for additional adjustments to ensure that rates are fair, just, and reasonable.

In light of the fact that discovery has been completed and the proceedings are at a conclusion, the Commission finds that the AG's request to suspend the procedural schedule is moot.

STIPULATION

The Stipulation reflects the agreement of the parties, except for the AG, on all issues raised in this case as well as the LG&E rate case. The major provisions of the Stipulation as they relate to KU's revenues and rates are as follows:

- KU's electric revenues should be increased by \$98 million effective August 1, 2010.
- The allocations of the increases in KU's electric revenues are set forth in Exhibit 1 to the Stipulation and are fair, just and reasonable rates for KU, the parties and KU's customers.
- The electric rates in Exhibit 4 to the Stipulation are the fair, just, and reasonable rates for KU and those rates should be approved by the Commission.
- The monthly residential customer charge should be \$8.50.
- A reasonable range for KU's return on equity is 10.25 to 10.75 percent, with 10.63 percent continuing to be used in KU's monthly environmental cost recovery filings.

The Stipulation addresses several other issues, including revenue allocation, rate design, tariffs, and contributions to various low-income assistance programs. The major provisions of the Stipulation for KU's operations are as follows:

- New curtailable electric service riders, CSR 10 and CSR 30, will be implemented as set forth in Exhibit 4 to the Stipulation.
- Upon request, customers on either CSR 10 or CSR 30 will be provided monthly explanations for any curtailments.
- Upon request, KU will provide CSR customers with good-faith, non-binding estimates of the duration of requested service interruptions under Riders CSR10 and CSR 30.
- KU will work with its curtailable customers to install needed telecommunication and control equipment to allow for control of the customers' loads by KU.

- The minimum demand ratchet for transmission service under Rate FLS will be 40 percent.
- The parties agree not to object to kVa-based billing for commercial and industrial rates in KU's next base rate proceeding.
- KU should be permitted to recover its actual rate case expenses for this case over a three-year period to begin in the month after the month in which a final order in this case is issued.
- The costs related to KU's 2001 and 2003 environmental compliance plans are to be recovered in its base rates and removed from KU's monthly environmental surcharge filings effective with the August 2010 expense month.
- KU should be permitted to amortize over ten years the regulatory assets previously authorized by the Commission for the costs incurred in conjunction with the 2008 wind storm and 2009 winter storm, with the amortization beginning in the month after the month in which the final order in this case is issued.
- KU should be permitted to amortize over four years the regulatory asset previously authorized by the Commission for KU's participation in the Kentucky Consortium for Carbon Storage ("KCCS"), with the amortization beginning in the month after the month in which the final order in this case is issued.
- KU should be permitted to amortize over ten years the regulatory asset previously authorized by the Commission for KU's participation in the Carbon Management Research Group ("CMRG"), with the amortization beginning in the month after the month in which the final order in this case is issued.
- KU commits to propose, in its next Demand-Side Management application, to modify its existing commercial conservation and rebates program to broaden the financial incentives for qualifying commercial customers to replace relatively inefficient equipment.
- The parties acknowledge that KU has established a FLEX Option program to allow customers unable to pay their bills, due to the timing of receipt of a monthly check, 16 additional days to pay their bills, the details of which are shown in Exhibit 7 to the Stipulation.

- KU's residential customer deposit shall be \$135. All other customer deposit amounts will be as filed by KU in this case.
- KU shall continue its current policy of permitting customers required to make a deposit as a condition of reconnection after disconnection for non-payment to make their deposits in up to four monthly installments, upon request.
- Starting October 1, 2010, residential customers receiving a pledge or notice of low-income energy assistance from an authorized agency will not be assessed a late payment charge for a period of 12 months.
- The due-date provisions of KU's tariffs will be modified to specify that the due date for payment is 12 calendar days from the date of the bill and that a late payment charge will be assessed if payment is not received within three calendar days of the due date.
- On and after August 1, 2010, KU will print on each bill issued to customers the date on which the bill was mailed.
- For 2011 and 2012, KU shall continue its current matching contribution from shareholder funds to the Wintercare program to match Wintercare funds collected from customers. KU's annual contribution for each of calendar years 2011 and 2012 shall not be less than \$100,000.
- For a period of two-years beginning February 6, 2011, KU shall make dollar-for-dollar contributions from shareholders to its Home Energy Assistance ("HEA") program to match HEA funds collected from customers (up to \$300,000 a year on a combined basis with LG&E).
- By January 1, 2011, KU will have decreased the targeted window of time in which to read a customer's meter from five days to three days.
- KU's per-attachment annual rental charge under Rate CTAC for cable television attachments shall be \$5.40.
- By July 1, 2011, KSBA's members located in KU's service territory will conduct an assessment to determine whether any school buildings could be more efficiently served under the now-frozen Rate AES rate schedule. KU will allow migration to the

AES rate schedule when appropriate that results in annual savings of up to \$500,000.

- o Except as modified in the Stipulation and the attached exhibits, the rates, terms and conditions proposed in KU's application shall be approved as filed.

In its application, KU proposed annual increases in its electric revenues of \$135,285,293. The AG proposed an annual decrease in KU's electric revenues of \$12,965,563. With the exception of the AG, the parties agree that an annual increase in electric revenues of \$98,000,000, as provided in the Stipulation, is reasonable. Since all parties have not reached a unanimous settlement on the level of revenues, the Commission must consider all the evidentiary record on this issue and render a decision based on a determination of KU's capital, rate base, operating revenues, and operating expenses, as would be done in any litigated rate case.

TEST PERIOD

KU proposes the 12-month period ending October 31, 2009 as the test period for determining the reasonableness of its proposed rates. Although the AG has renewed his motion to dismiss this case based on the alleged unreasonableness of the proposed test year, he utilized the same test period in his analysis of KU's revenue requirements. Other than his argument that the recently announced proposed acquisition of KU by PPL Corporation renders the test year unreliable, the AG has provided no other challenge to the test year.

The Commission finds it is reasonable to use the 12-month period ending October 31, 2009 as the test period in this case. That 12-month period is the most recent feasible period to use for setting rates, and the revenues and expenses incurred during that period are neither unusual nor extraordinary, except as have been adjusted

by normalization and known and measurable changes. In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

RATE BASE

Jurisdictional Rate Base Ratio

KU proposed a test-year-end Kentucky jurisdictional rate base of \$3,169,724,944. The Kentucky jurisdictional rate base is divided by KU's test-year-end total company rate base to derive the Kentucky jurisdictional rate base ratio ("jurisdictional ratio"). This jurisdictional ratio is then applied to KU's total company capitalization to derive KU's Kentucky jurisdictional capitalization. The jurisdictional ratio uses the test-year-end rate base before any rate-making adjustments applicable to either Kentucky jurisdictional operations or other jurisdictional operations.¹⁰ KU used a jurisdictional ratio of 87.15 percent.¹¹ The Commission has reviewed and agrees with the calculation of KU's test year electric rate base for purposes of establishing the jurisdictional ratio.

Pro Forma Jurisdictional Rate Base

KU calculated a pro forma jurisdictional rate base of \$3,085,279,594, which reflects the types of adjustments used by the Commission in prior rate cases to determine the pro forma rate base. The AG did not address KU's proposed rate base in

¹⁰ KU's other jurisdictional operations reflect the Old Dominion Power Company operations in Virginia and the wholesale municipal energy sales subject to the jurisdiction of the Federal Energy Regulatory Commission.

¹¹ Rives Direct Testimony, Exhibit 3.

his testimony. The Commission has accepted KU's electric rate base for rate-making purposes except for the cash working capital allowance, which is adjusted based on the adjustments to operation and maintenance expenses discussed later in this Order. Based on our findings, we have determined KU's pro forma electric rate base for rate-making purposes as of October 31, 2009 to be as follows:

| | |
|--|------------------------|
| Total Utility Plant in Service | \$5,157,750,801 |
| Add: | |
| Materials & Supplies | 105,261,354 |
| Prepayments | 3,231,585 |
| Cash Working Capital Allowance | <u>79,187,245</u> |
| Subtotal | <u>187,680,184</u> |
| Deduct: | |
| Accumulated Depreciation | 1,878,219,090 |
| Customer Advances | 2,365,522 |
| Accumulated Deferred Income Taxes | 288,218,304 |
| Investment Tax Credit | 83,532,076 |
| Asset Retirement Obligation – Net Assets | 3,839,326 |
| Asset Retirement Obligation – Regulatory Liabilities | 3,543,696 |
| Emission Allowances | <u>375,013</u> |
| Subtotal | <u>2,260,093,027</u> |
| Pro Forma Rate Base | <u>\$3,085,337,958</u> |

Reproduction Cost Rate Base

KU presented a total company reproduction cost rate base of \$6,547,011,443, and a Kentucky jurisdictional reproduction cost rate base of \$5,768,178,028.¹² The costs were determined principally by indexing the surviving plant and equity using the Handy-Whitman Index of Public Utility Construction Costs and the Consumer Price

¹² Id. Exhibit 5.

Index.¹³ The Commission has given appropriate consideration to the proposed reproduction cost rate base, but finds that using KU's historic cost for rate base is more appropriate and consistent with the precedents for KU as well as other jurisdictional utilities within Kentucky.

CAPITALIZATION

In its application, KU proposed an adjusted Kentucky jurisdictional capitalization of \$3,054,543,620.¹⁴ Included in its electric capitalization were adjustments to include KU's share of the Trimble County Joint Use Assets and to remove undistributed subsidiary earnings, the investment in Electric Energy, Inc., investments in the Ohio Valley Electric Corporation and others, and the environmental compliance investments which remain part of the environmental rate base included in KU's environmental surcharge mechanism. In its application, KU failed to remove the Investment Tax Credits related to its share of the Trimble County Joint Use Assets. Correction of this omission reduces KU's total adjusted Kentucky jurisdictional capitalization to \$3,051,991,904.¹⁵ The AG did not address KU's capitalization. KU determined its electric capitalization by multiplying its total company capitalization by the rate base jurisdictional allocation ratio described earlier in this Order. This is consistent with the approach used by the Commission in previous KU rate cases.

¹³ Id. at 28.

¹⁴ Id. Exhibit 2.

¹⁵ KU's Response to Commission Staff's Fourth Data Request, item 2, Revised Exhibit 2, Page 1 of 1.

REVENUES AND EXPENSES

For the test year, KU reported actual net operating income from electric operations of \$191,120,145. KU proposed a series of adjustments to revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income of \$169,167,271.¹⁶ During the proceeding, KU identified and corrected errors in several of the adjustments originally proposed in its application. These changes resulted in increasing KU's adjusted net operating income to \$170,557,613.¹⁷ The AG opposed five of the adjustments proposed by KU and recommended an additional adjustment regarding KU's federal income tax rates. We find that the adjustments proposed by KU and accepted by the AG are reasonable and should be accepted by the Commission. With regard to the remaining adjustments, which relate to: 1) the treatment of regulatory assets related to storm restoration costs; 2) the treatment of regulatory assets related to participation in carbon capture and storage projects; 3) electric weather normalization; and 4) the appropriate income tax rate, the Commission makes the following conclusions:

Storm-Related Regulatory Assets

KU requests recovery of amortization of regulatory assets for storm removal costs related to the 2008 Wind Storm and 2009 Winter Storm.¹⁸ Total electric expense

¹⁶ Rives Direct Testimony, Exhibit 1.

¹⁷ KU's Response to Commission Staff's Fourth Data Request, item 2, Revised Exhibit 1, Page 4 of 4.

¹⁸ The regulatory asset related to the 2008 wind storm was authorized in Case No. 2008-00457, while the regulatory asset related to the 2009 winter storm was authorized in Case No. 2009-00174.

adjustments related to the amortization of these items is \$2,454,286 for the 2008 Wind Storm and \$11,447,352 for the 2009 Winter Storm.¹⁹

The AG claims it is unnecessary for the Commission to allow rate recovery of the amortization expenses because these costs were "prefunded" through recovery of the asset removal cost component of KU's depreciation. The AG argues that KU has recovered \$329.4 million more in asset removal costs than its actual cost of removal expenses. Thus, he contends there are "excess" funds available to offset the deferred storm damage costs.²⁰

KU contends that amortization of the storm damage costs is appropriate for rate recovery as they reflect prudently incurred expenses which the Commission has authorized it to defer as regulatory assets. Further, KU points out that asset removal costs recovered via depreciation should only be used for their intended purpose, namely asset removal. Otherwise, the funds will not be available when assets require removal.²¹

We are not persuaded by the AG's arguments. The amounts deferred by KU were approved by the Commission in previous cases. The AG does not dispute the amounts that were deferred; he only challenges the rate treatment of these amounts. KU's proposal to amortize these amounts in this rate proceeding is in accordance with long-standing generally accepted rate-making practices employed by the Commission.

¹⁹ The adjustment related to the 2008 Wind Storm reflects reversing the net credits during the test year to establish the regulatory asset in addition to the five-year amortization of the asset.

²⁰ Majoros Testimony at 4 – 6.

²¹ Charnas Rebuttal Testimony at 1 – 5.

The amounts collected by KU through depreciation for asset removal costs should only be used for their intended purpose, which is to fund the costs to remove assets. Any concerns the AG has regarding the alleged "excessive" recovery of asset removal costs should be so stated by the AG when KU files its next depreciation case with the Commission.

Carbon Project Regulatory Assets

KU requests recovery of amortization of regulatory assets for research contributions paid to the KCCS and the CMRG. Total expense adjustments related to the amortization of these items is \$360,504 for the KCCS and \$1,940 for the CMRG.²²

Based on the same arguments he relies upon in contesting the storm-related adjustments, the AG contends the Commission should not allow rate recovery of these amortization expenses because these costs were also "prefunded" through recovery of the asset removal cost component of KU's depreciation. As with the storm-related regulatory assets, the AG argues that there are "excess" funds available to offset the deferred research contributions.²³

KU argues that amortization of the KCCS and CMRG costs is appropriate for rate recovery given that they are prudently incurred costs which the Commission has authorized it to defer as regulatory assets. As in the case of the storm-related costs, KU states that asset removal costs recovered via depreciation should only be used for their

²² The KCCS adjustment includes reversing the credit during the test year to establish the regulatory asset in addition to the amortization of the asset. The CMRG adjustment reflects the net of the test year expense and the yearly amortization.

²³ Majoros Testimony at 6.

intended purpose, asset removal, or the funds will not be available when assets require removal.²⁴

Again, the Commission is not persuaded by the AG's arguments. There is clearly no relationship between the costs of carbon capture and storage projects and the cost of removal component of KU's depreciation. The amounts deferred by KU were previously authorized by the Commission. KU's proposal to amortize these amounts in this rate proceeding is consistent with this Commission's long-standing generally accepted rate-making practices. The amounts collected by KU through depreciation for asset removal costs should only be used for their intended purpose, which is to fund the costs to remove assets. The AG can raise any concerns he has with alleged "excessive" recovery of asset removal costs when KU files its next depreciation case with the Commission.

Electric Weather Normalization

KU proposes an electric weather normalization adjustment which increases revenues by \$2,986,579 and expenses by \$1,489,506.²⁵ The AG opposes the proposed adjustment, arguing that KU's method is improper because it separates and analyzes each month of the year mutually exclusive from the other months and then adjusts only those months with significant temperature variations from the norm. This methodology ignores the fact that significant fluctuations in temperature in a given

²⁴ Charnas Rebuttal Testimony at 5 – 7.

²⁵ Rives Direct Testimony, Exhibit 1, Reference Schedule 1.11.

month may be offset by less dramatic fluctuations in other months when considered on a combined basis.²⁶

The Commission recognizes that KU's continued refinement to the method it uses to calculate the proposed adjustment has greatly improved its ability to measure the impact of temperature on its sales of electricity. However, the Commission shares the concerns expressed by the AG regarding the exclusive nature of the methodology employed by KU to develop its electric weather normalization adjustment. Accordingly, we will not approve KU's proposed electric weather normalization adjustment.

Income Tax Rate

In past rate cases, KU has been allowed rate recovery of state and federal income taxes based on statutory tax rates. It requested the same rate treatment in this case, using a state tax rate of 6 percent and a federal tax rate of 35 percent.

The AG claims that this method of tax recovery is unreasonable and that the Commission should instead use the same "effective tax rate" methodology as it used for Kentucky-American Water Company ("Kentucky-American") in Case No. 2004-00103.²⁷ The AG argues that KU does not actually pay the statutory tax rates because its profits are netted against losses of affiliated companies on a consolidated tax return. The AG calculated the effective federal tax rate paid by KU as 6 percent based on the average

²⁶ Watkins Testimony at 3 – 5.

²⁷ Case No. 2004-00103, Adjustment of Rates of Kentucky-American Water Company (Ky. PSC Feb 28, 2005).

tax payments for the previous two years. The AG calculated the impacts of these adjustments as reductions to KU's requested increase of \$56.7 million.²⁸

KU's rebuttal to the AG contains several arguments: 1) the AG's proposal represents a radical and abrupt departure from 20 years of well-established, sound, and balanced policy prohibiting affiliated cross-subsidization;²⁹ 2) the proposed adjustment violates KU's Corporate Policies and Guidelines for Intercompany Transactions, which require allocation of income tax liability on a "stand alone" basis; 3) the proposed adjustment violates the "benefits-burden" principal, meaning that, since its customers bore none of the risk of the losses incurred by the affiliates, which produced the tax losses, they should not benefit from those losses; 4) the proposed adjustment would preclude KU from the opportunity to achieve its authorized rate of return; 5) Case No. 2004-00103 should not be considered precedent-setting in this matter. In that case, the Commission approved the adjustment because Kentucky-American promoted the tax savings as a benefit to merger in Case No. 2002-00317,³⁰ a fact that is absent in the current situation; and 6) in previous KU cases, the Commission rejected effective tax rate adjustments proposed by the AG where the AG used 2004-00103 as a precedent.³¹

²⁸ Majoros Testimony at 6 – 7.

²⁹ KU created a holding company approximately 20 years ago. Prior to then, it did not have non-utility affiliates and use of a consolidated tax return was not an issue.

³⁰ Case No. 2002-00317, A Change of Control of Kentucky American Water Company (Ky. PSC Dec. 20, 2002).

³¹ Rives Rebuttal Testimony at 1 – 19.

The Commission is not persuaded by the AG's arguments in this case on this issue any more than we were in Case No. 2003-00434.³² Acceptance of the adjustment would preclude KU from the opportunity to earn its authorized rate of return; would violate the "stand-alone" rate-making principal that the Commission has long employed; and would result in cross subsidization of KU and its ratepayers by its unregulated affiliates.

Net Operating Income Summary

After considering all pro forma adjustments and applicable income taxes, KU's adjusted net operating income is as follows:

| | |
|-------------------------------|----------------------|
| Operating Revenues | \$1,159,331,577 |
| Operating Expenses | <u>989,718,050</u> |
| Adjusted Net Operating Income | <u>\$169,613,527</u> |

RATE OF RETURN

Capital Structure

KU proposed an adjusted test-year-end capital structure containing 0.55 percent short-term debt, 45.60 percent long-term debt, and 53.85 percent common equity.³³ The AG recommends an adjusted capital structure for KU containing 50 percent long-term debt and 50 percent common equity based on his review of the capital structure ratios of proxy groups.³⁴ KU opposes the AG's proposal, citing its long-standing objective of achieving an "A" corporate credit rating as defined by Standard & Poors

³² Case No. 2003-00434, Adjustment of the Electric Rates, Terms and Conditions of Kentucky Utilities Company (Ky. PSC June 30. 2006).

³³ Rives Direct Testimony, Exhibit 2.

³⁴ Woolridge Testimony at 13.

("S&P"), and the need to maintain a common equity ratio, as adjusted by S&P, of 50 to 55 percent. Given the consistent downward nature of S&P's adjustments, KU argues that a common equity ratio set at 50 percent, prior to such adjustments would, at best, result in it maintaining its current "BBB" rating. KU also points to its historic equity ratios (including both common and preferred stock, when it had preferred stock) over the past ten years as ranging between 52.73 and 57.33 percent.³⁵ With its stated goal of achieving an "A" rating and its current equity ratio falling at the lower end of its historical equity ratios, the Commission finds that KU's capital structure for rate-making purposes should not be adjusted as recommended by the AG. Achieving an A rating will provide KU greater access to capital markets, access to lower-cost debt and greater financial flexibility. We find that KU's capital structure for rate-making purposes should include 0.55 percent short-term debt, 45.60 percent long-term debt, and 53.85 percent common equity, as proposed by KU.

Cost of Debt

KU proposed a cost of short-term debt and long-term debt of .22 percent and 4.68 percent, respectively.³⁶ KU filed updated financial information as of March 31, 2010 that included updated cost rates.³⁷ Based on this updated information, KU's cost of short- and long-term debt is 0.21 percent and 4.68 percent, respectively.

The AG recommended that KU's cost of debt as proposed in its application be

³⁵ Arbough Rebuttal Testimony at 1 – 4.

³⁶ Rives Direct Testimony, Exhibit 2.

³⁷ KU's Response to Commission Staff's Fourth Data Request, item 2, Revised Exhibit 2.

used by the Commission.³⁸ The AG agreed that if interest rates or other capital cost rates change, such changes should be used to determine the rate of return so that KU will have a reasonable opportunity to earn its allowed return.

The Commission finds it appropriate to recognize the cost rates for KU's short-term debt and long-term debt as of March 31, 2010 when determining its overall cost of capital. Updates to KU's short-term debt cost rates and long-term debt cost rates constitute known and measurable adjustments and using these updates, rather than the test-year-end cost rates, is more representative of the period in which the rates established in this Order will be in effect. These cost rates will be applied to the capital structure determined herein. Therefore, the Commission finds the cost of short-term debt and long-term debt to be 0.21 percent and 4.68 percent.

Return on Equity

KU estimated its required return on equity ("ROE") using the discounted cash flow method ("DCF"), the capital asset pricing model ("CAPM"), and the expected earnings approach.³⁹ KU included in its evaluation risks and challenges specific to jurisdictional utility operations in Kentucky, as well as flotation costs. Based on the results of the methods employed in its analysis, KU recommended an ROE of 10.5 to 12.5 percent.⁴⁰ KU recommended awarding the midpoint of the range, 11.5 percent, in

³⁸ Woolridge Testimony at 13. Note that although Mr. Woolridge states his acceptance and use of the cost of debt proposed in KU's application, he mistakenly states KU's cost of long-term debt at 4.61 percent in his testimony, which is the cost of debt proposed by LG&E in Case No. 2009-00549 and not the cost proposed by KU.

³⁹ Avera Direct Testimony at 4.

⁴⁰ Id. at 5.

order to support access to capital and recognize flotation costs.⁴¹ Through settlement negotiations, the Stipulation contains an agreement by all the parties except the AG that a reasonable range for KU's ROE is 10.25 to 10.75 percent.⁴²

KU employed a comparable risk proxy group in its analysis which consists of 14 electric utility companies classified by *The Value Line Investment Survey* ("Value Line") as having both electric and gas operations; S&P's corporate credit ratings of "BBB", "BBB+", "A-", or "A"; a Value Line Financial Strength Rating of "B++" or higher; and published earnings per share ("EPS") growth projections from at least two of the following: Value Line; Thomson I/B/E/S; First Call Corporation; and Zacks Investment Research. KU also applied the DCF model to a proxy group of comparable risk non-utility companies followed by Value Line that pay common dividends; have a Safety Rank of "1"; have investment grade credit ratings from S&P; and have a Value Line Financial Strength Rating of "B++" or higher. The same criterion was applied to this group as the utility group of having published EPS growth projections from the sources listed above.

As part of its analysis, KU provided a discussion of fuel adjustment clause and environmental cost recovery mechanisms that affect its rates for utility service. It also discussed the evolution of investors' risk perceptions for the utility industry due to erosion in credit quality, quoting S&P's identification of environmental compliance costs, decreasing demand, and increasing cost recovery filings as significant challenges for

⁴¹ Id.

⁴² Joint Motion for Leave to File Stipulation and Recommendation and Testimony, Bellar Testimony at 6.

the utility industry.⁴³ KU's need for additional capital for maintenance, replacements, and facilities additions will require support for KU's financial integrity and flexibility, and this will be impacted by energy market volatility and environmental considerations, according to KU. In addition to these factors, KU points to investors' recognition of the global recession's impact on KU's service territory as evidence of KU's need to support its credit standing and financial flexibility through the opportunity to earn a return that reflects these realities.

The AG criticized KU's ROE estimates on several grounds. The AG stated that KU's proxy group of utility companies includes companies with a low percentage of regulated utility operations revenue, and that the use of a proxy group of non-utility companies is inappropriate. The AG's major disagreement with KU's DCF analysis is the reliance on projected EPS growth rates in developing the growth factor component, and he contends that Value Line's estimated long-term EPS growth rates are overstated. The AG stated that the primary problem with KU's CAPM analysis is the market risk premium used in the analysis, which the AG contends is based on an expected stock market return which is not reflective of current market fundamentals. The AG disagreed with KU's expected earnings approach, and stated that it is subject to error and fails to provide a reliable estimate of KU's cost of equity capital. The AG also recommends against KU's proposed adjustment for flotation costs. The AG believes that KU's analysis overstates its required cost of equity.

The AG estimated KU's required ROE using the DCF model and the CAPM. Based on the results of these methods, giving primary weight to the DCF, the AG

⁴³ Id. at 9.

determined a ROE range of 7.8 to 9.5 percent for KU, recommending that the Commission award 9.5 percent, the upper end of the range.⁴⁴

The AG employed a proxy group in his analysis consisting of 20 utility companies listed as an electric or combination electric and gas utility by AUS Utility Reports; having regulated electric revenues of at least 80 percent of total revenues; with current data available in the Standard Edition of Value Line; having an investment grade bond rating; and having an annual dividend history of three years.

The AG supported his analysis with a discussion of current economic conditions, concluding that short- and long-term credit markets have “loosened” considerably,⁴⁵ and that the stock market has rebounded significantly from 2009’s lows. The AG’s discussion includes a reference to a study indicating that the investment risk of utilities is very low, and states that the cost of equity for utilities is among the lowest of all industries in the U.S. as measured by their betas.⁴⁶

On rebuttal, KU addressed the AG’s recommended ROE and his criticisms of KU’s analysis. KU compared its DCF analysis to that of the AG, stating that the AG presented historical results as being indicative of investors’ future expectations, while KU used forward-looking data, which is a superior method due to specific trends in dividend policies and evidence from the investment community; that the AG considered analysts’ EPS forecasts as being biased while KU’s application of the DCF model recognizes the importance of considering investors’ perceptions and expectations; that

⁴⁴ Woolridge Testimony at 2.

⁴⁵ Id. at 10.

⁴⁶ Id. at 19.

the AG relied upon personal views rather than the capital markets for investors' expectations; and that while KU excludes data in its analysis that would lead to illogical conclusions, the AG relies on averaging or using the median value to eliminate any bias. KU also addresses the AG's criticism of the use of a non-utility proxy group, saying that it would be inconsistent with the *Hope*⁴⁷ and *Bluefield*⁴⁸ cases to exclude non-utility company returns from consideration. KU counters the argument that the expected earning approach is not valid, saying that an allowed ROE for a utility company must be high enough to attract capital from investors who are looking for the best investment opportunity. KU recommended that the AG's CAPM analysis be disregarded, noting that the AG gave primary weight to its DCF analysis. KU defended the market return used in its CAPM analysis, saying that its analysis appropriately focuses on investors' current expectations. KU reiterates the need for a flotation cost adjustment in its ROE calculation, saying that there is no basis to ignore such an adjustment.

The Commission finds merit in both KU's and the AG's recommended ranges for ROE and their critiques of each other's analyses. The Commission takes note of several points made in each party's testimony and analysis. KU's argument concerning the appropriateness of using investors' expectations in performing a DCF analysis is more persuasive than the AG's argument that analysts' projections should be rejected in favor of historical results. The Commission agrees that analysts' projections of growth

⁴⁷ *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944).

⁴⁸ *Bluefield Water Works and Improvement Company v. Public Service Commission*, 262 U.S. 679 (1932).

will be relatively more compelling in forming investors' forward-looking expectations than relying on historical performance, especially given the current state of the economy. It also appears preferable to exclude extreme outliers in ROE analysis; for example, the AG's inclusion of negative results to calculate investors' required ROE does not comport with the constant growth assumption that is inherent in the DCF formula. Concerning the issue of using a non-utility proxy group in analyzing the required ROE for a utility, the Commission agrees with KU that investors are always looking for the best investment opportunity and that a utility is in competition with unregulated firms; however, the AG's discussion of the relative risk of electric utilities as reflected in their Value Line Betas supports the attractiveness of utility investments in comparison to riskier alternatives. As to flotation costs, the Commission agrees with the AG's position that no upward adjustment to the equity cost rate is necessary and that this finding is consistent with past Commission practice.

After weighing all the evidence of record, the Commission finds that KU's required ROE for electric operations falls within a range of 9.75 to 10.75 percent with a midpoint of 10.25 percent.

Rate of Return Summary

Applying the cost of debt and equity found appropriate herein to KU's capital structure produces a weighted cost of capital of 7.65 percent. The cost of capital produces a return on KU's pro forma rate base of 7.57 percent.

REVENUE REQUIREMENTS

The Commission has determined that, based upon KU's capitalization of \$3,051,991,905 and an overall cost of capital of 7.65 percent, KU's net operating

income that could be justified by the evidence of record is \$233,477,381. Based on the adjustments found reasonable herein, KU's pro forma net operating income for the test year is \$169,613,527. It would need additional annual operating income of \$63,863,856. After the provision for uncollectible accounts, the PSC Assessment, and state and federal income taxes, KU would have an electric revenue deficiency of \$101,680,163.

The calculation of this overall revenue deficiency is as follows:

| | |
|---------------------------------------|----------------------|
| Net Operating Income Found Reasonable | \$233,477,381 |
| Pro Forma Net Operating Income | <u>(169,613,527)</u> |
| Net Operating Income Deficiency | 63,863,854 |
| Gross Up Revenue Factor | <u>.62808570</u> |
| Overall Revenue Deficiency | <u>\$101,680,159</u> |

The Commission has found that KU's required ROE falls within a range of 9.75 percent to 10.75 percent, with a mid-point of 10.25 percent. Applying the findings herein on the reasonable cost of debt and the return on common equity to KU's capitalization would result in a justifiable revenue increase of \$101,680,159. The alternative proposal provided in the Stipulation is \$98,000,000. Based on the findings and conclusions herein, the Commission finds that the earnings resulting from the adoption of KU's alternative proposal will produce a reasonable result for both KU and its ratepayers. The \$98,000,000 revenue increase KU is willing to accept will result in fair, just, and reasonable electric rates for KU and its ratepayers. Therefore, the Commission will accept KU's alternative proposal that its revenues be increased by \$98,000,000 rather than the higher level justified by the record.

FINDINGS ON STIPULATION

Based upon a review of all the provisions in the Stipulation, an examination of the entire record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Stipulation are in the public interest and should be approved since they will result in a lower rate increase than justified by our traditional rate-making analysis. Our approval of the Stipulation is based solely on its reasonableness in toto and does not constitute precedent on any issue except as specifically provided for therein.

As noted above, KU's FLEX OPTION, described in detail in Exhibit 7 to the stipulation, will be continued. Upon questioning from the Commission at the hearing on June 8, 2010, KU indicated that it preferred that the FLEX OPTION not be made a part of the tariff, so as to enable KU the flexibility to make improvements to the program. The Commission will honor this request; however, before any change can be made to the FLEX OPTION, an informal conference with the Commission staff must be held whereby the rationale for the proposed change must be explained and justified to the satisfaction of the staff. The Commission appreciates the willingness of KU to develop and implement this plan which benefits its customers and does not want to limit the ability of KU to make necessary changes.

CUSTOMER SERVICE, BILLING AND COLLECTIONS

During the course of this proceeding, customers of KU filed with the Commission hundreds of complaints, in the form of letters, e-mails, and calls to the Commission, as well as comments presented at the local public meetings. While almost all of those complaints objected to the proposed rate increase, many raised issues related to KU's current billing and collection practices and procedures. The Commission also

recognizes that last year KU brought on-line a new computerized system, known as its Customer Care System ("CCS"), to handle multiple customer related functions, including customer billing. The CCS system was under design and installation for a number of years prior to its implementation. Based on the customer complaints presented to the Commission, we find that, pursuant to KRS 278.255, a focused management audit of the efficiency and effectiveness of KU's customer service functions and all related supporting and operational functions that impact retail customers should be performed. The scope of the management audit should include, but not be limited to, a review of all customer service-related functions including meter reading, customer-related accounting functions, customer information systems, billing and collections, call center functions, service installations, and disconnect and reconnect practices.

ORDERING PARAGRAPHS

The Commission, based on the evidence of record and the findings contained herein, HEREBY ORDERS that:

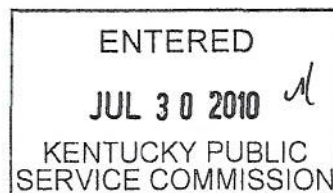
1. The rates and charges proposed by KU are denied.
2. The provisions in the Stipulation and Recommendation, as set forth in Appendix A hereto (without exhibits), are approved in their entirety.
3. The rates and charges for KU, as set forth in Appendix B hereto, are the fair, just, and reasonable rates for KU, and these rates are approved for service rendered on and after August 1, 2010.

4. A focused management audit shall be performed to review the efficiency and effectiveness of all of KU's customer service-related functions including all support and operational functions.

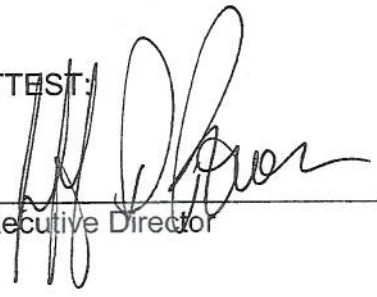
5. The AG's motions to dismiss and to compel data responses are denied.

6. Within 20 days of the date of this Order, KU shall file with this Commission its revised tariffs setting out the rates authorized herein, reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2009-00548 DATED **JUL 30 2010**

RECEIVED

JUN 08 2010

STIPULATION AND RECOMMENDATION

PUBLIC SERVICE

This Stipulation and Recommendation is entered into this 7th day of June 2010, 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"); Kentucky Industrial Utility Customers, Inc. ("KIUC") and the interests of its participating members as represented by and through the KIUC; The Kroger Co. ("Kroger"); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. ("CAC"); Association of Community Ministries ("ACM"); Kentucky Cable Telecommunications Association ("KCTA"); the United States Department of Defense and Other Federal Executive Agencies ("DOD/FEA"); Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, "Walmart"); Kentucky School Boards Association ("KSBA"); and AARP in the proceedings involving LG&E and KU, which are the subject of this Stipulation and Recommendation, as set forth below. (The Utilities, KIUC, Kroger, CAC, ACM, KCTA, DOD/FEA, Walmart, KSBA, and AARP are referred to collectively herein as the "Parties.")

WITNESSETH:

WHEREAS, KU filed on January 29, 2010, with the Kentucky Public Service Commission ("Commission") its Application for Authority to Adjust Rates, In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Base Rates, and the Commission has established Case No. 2009-00548 to review KU's base rate application;

WHEREAS, LG&E filed on January 29, 2010, with the Commission its Application for Authority to Adjust Rates, In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates, and the Commission has established Case No. 2009-00549 to review LG&E's base rate application (Case Nos. 2009-00548 and 2009-00549 are hereafter collectively referenced as the "rate proceedings");

WHEREAS, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), KIUC, Kroger, KCTA, and KSBA have been granted intervention by the Commission in both of the rate proceedings; CAC and Walmart have been granted intervention by the Commission in Case No. 2009-00548 only; and ACM, DOD/FEA, and AARP have been granted intervention by the Commission in Case No. 2009-00549 only;

WHEREAS, an informal conference, attended in person or by teleconference by representatives of the Parties, AG, and Commission Staff took place on June 2-3, 2010, at the offices of the Commission, during which a number of procedural and substantive issues were discussed, including terms and conditions related to the issues pending before the Commission in the rate proceedings that might be considered by all parties to constitute reasonable means of addressing their concerns;

WHEREAS, the Parties desire to recommend to the Commission that it enter its Order setting the terms and conditions that the parties believe are reasonable as stated herein;

WHEREAS, it is understood by the Parties that this Stipulation and Recommendation does not represent agreement on any specific theory supporting the appropriateness of any proposed or recommended adjustments to the Utilities' rates, terms, and conditions;

WHEREAS, it is understood by all Parties that this agreement is a stipulation among the Parties concerning all matters at issue in these proceedings pursuant to 807 KAR 5:001, Section 4(6);

WHEREAS, the Parties have spent many hours to reach the stipulations and agreements that form the basis of this Stipulation and Recommendation;

WHEREAS, the Parties, who represent diverse interests and divergent viewpoints, agree that this Stipulation and Recommendation, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the rate proceedings; and

WHEREAS, the Parties recognize that this agreement constitutes only an agreement among, and a recommendation by, themselves, and that all issues in these proceedings remain open for consideration by the Commission at the formal hearing in these proceedings.

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

ARTICLE I. Revenue Requirement

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

LG&E Electric Operations: \$74,000,000;

KU Operations: \$98,000,000.

The Parties agree that any increase in annual revenues for LG&E electric operations and for KU operations should be effective for service rendered on and after August 1, 2010.

Section 1.2. The Parties stipulate and agree that, effective for service rendered on and after August 1, 2010, an increase in annual revenues for LG&E gas operations of \$17,000,000, for purposes of determining the 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 agree that the allocations of the increases 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 agree that, effective for service rendered on and after August 1, 2010, the Utilities should implement the electric and gas rates set forth on the proposed tariff sheets in Exhibit 4 (KU), Exhibit 5 (LG&E electric), and Exhibit 6 (LG&E gas), attached hereto, which rates the Parties stipulate are fair, just, and reasonable for the Parties and for all customers of LG&E and KU.

ARTICLE III. Return on Equity

Section 3.1. The Parties agree that a reasonable range for the Utilities' return on equity is 10.25% - 10.75% in this case, and in connection with Section 3.2 below.

Section 3.2. The Parties agree that the return on equity applicable to the Utilities' recovery under their environmental cost recovery ("ECR") mechanism should remain at its current level, 10.63%, for all billing months subsequent to, and including, the first expense month after the month in which the Commission enters its Orders in these proceedings.

ARTICLE IV. Curtailable Service Riders

Section 4.1. The Parties agree that the Utilities shall replace their existing Curtailable Service Riders with two new Curtailable Service Riders, CSR10 and CSR30 as set forth in Exhibits 4 and 5. The maximum load permitted to take service under such riders per Utility shall be the current curtailable load under curtailable service riders as of August 1, 2010, plus 100 MW (combined across both new riders).

CSR10 shall: (1) require curtailment on ten minutes' notice; (2) require up to 100 hours per year of physical curtailment as described in the tariff, plus up to 275 hours per year of additional curtailment with a buy-through option; (3) provide a monthly credit of \$5.40/kW for transmission service and \$5.50/kW for primary service.

CSR30 shall: (1) require curtailment on thirty minutes' notice; (2) require up to 100 hours per year of physical curtailment as described in the tariff, plus up to 250 hours per year of additional curtailment with a buy-through option; (3) provide a monthly credit of \$4.30/kW for transmission service and \$4.40/kW for primary service.

Both new riders shall calculate the amount of buy-through kWh for a customer by subtracting the product of the customer's firm capacity and the number of hours subject to curtailment from the customer's total kWh consumption during the hours under curtailment:

Total kWh – (firm kW * hours curtailed)

If a customer “buys through” a curtailment period, the customer shall not be charged the otherwise applicable base rate energy charge or ECR rate in addition to the buy-through cost.

The rates, terms, and conditions of CSR10 and CSR30 are fully set out in the proposed tariff sheets contained in Exhibits 4 and 5 hereto.

Section 4.2. The Parties agree that, upon request, the Utilities will provide once per month to customers on either CSR 10 or CSR 30 an explanation of the reasons for any curtailments as described in the tariff.

Section 4.3. The Parties agree that, consistent with the Utilities’ current practice and 807 KAR 5:056 § 1(3)(c), buy-through revenues paid to the Utilities under Riders CSR10 and CSR30 shall be credited to net energy costs under the Utilities’ Fuel Adjustment Clauses.

Section 4.4. The Parties agree that, upon request, the Utilities shall provide to their CSR customers *good-faith, non-binding estimates of the duration of requested service interruptions* under Riders CSR10 and CSR30; however, customers taking such service shall likewise, upon request, provide to the Utilities *good-faith, non-binding short-term operational schedules*.

Section 4.5. The Parties agree that the Utilities will work with their curtailable customers to install the necessary telecommunication and control equipment to allow the Utilities to control curtailable customers’ loads, provided that the Utilities’ and the customer’s individual responsibilities are clearly defined, and the customer pays for the necessary equipment, all as set out more fully in the KU Rebuttal Testimony of W. Steven Seelye at

pages 44-46, and in the LG&E Rebuttal Testimony of W. Steven Seelye at pages 45-46, in the rate proceedings.

ARTICLE V. Treatment of Other Specific Issues

Section 5.1. The Parties agree that minimum demand ratchet for transmission service under KU's Rate FLS will be 40%. This is reflected in the proposed tariff sheets attached hereto in Exhibit 4.

Section 5.2. The Parties agree that LG&E will withdraw its proposal for kVA billing for the proposed Rate ITODP rate schedule. Instead, the rate structure for Rate ITODP will be same as the current Rate ITOD for primary service. This is reflected in the proposed tariff sheets attached hereto in Exhibit 5. KU's proposed kVA billing for proposed Rate ITOD for primary service shall be implemented.

Section 5.3. The Parties agree not to object to kVA-based demand billing for commercial and industrial rates in the Utilities' next base rate proceedings.

Section 5.4. The Parties agree that LG&E and KU should be permitted to amortize their actual rate case expenses in these proceedings over a three-year period. The amortization should begin in the month after the month in which the Commission enters its Orders in these proceedings.

Section 5.5. The Parties agree that all costs associated with KU's and LG&E's 2001 and 2003 environmental compliance plans shall be recovered in the Utilities' base rates and will be removed from the Utilities' monthly environmental surcharge filings effective with the August 2010 expense month after the Commission approves this Stipulation and Recommendation.

Section 5.6. The Parties agree that the Commission should grant LG&E's request, as stated in its Application, to establish and amortize over 24.75 years (the remaining term of the related debt agreements) a regulatory asset for the costs associated with the interest rate swap agreement between LG&E and Wachovia Bank, N.A., as discussed in the pre-filed direct testimony of Daniel K. Arbough. The amortization should begin in the month after the month in which the Commission enters its Orders in these proceedings.

Section 5.7. The Parties agree that the Commission should approve a ten-year amortization of the Utilities' regulatory assets approved by the Commission concerning the 2008 Wind Storm and 2009 Winter Storm, with such amortization to begin in the month after the month in which the Commission enters its Orders in these proceedings.

Section 5.8. The Parties agree that the Commission should approve a four-year amortization of the Utilities' regulatory assets approved by the Commission concerning the Kentucky Consortium for Carbon Storage ("KCCS"), with such amortization to begin in the month after the month in which the Commission enters its Orders in these proceedings.

Section 5.9. The Parties agree that the Commission should approve a ten-year amortization of the Utilities' regulatory assets approved by the Commission concerning the Carbon Management Research Group ("CMRG"), with such amortization to begin in the month after the month in which the Commission enters its Orders in these proceedings.

Section 5.10. The Parties agree that the following monthly basic service charge amounts shall be implemented:

| | |
|-------------------------------------|---------|
| LG&E and KU Rates RS, VFD, and LEV: | \$8.50 |
| LG&E Rate RRP: | \$13.50 |
| LG&E Rates RGS and VFD: | \$12.50 |
| KU Rate AES (single-phase): | \$17.50 |
| KU Rate AES (three-phase): | \$32.50 |
| LG&E and KU Rate GS (single-phase): | \$17.50 |
| LG&E and KU Rate GS (three-phase): | \$32.50 |
| LG&E Rate GRP (single-phase): | \$27.50 |
| LG&E Rate GRP (three-phase): | \$42.50 |

All other basic service charges shall be the amounts proposed by the Utilities in their Applications filed on January 29, 2010, in the rate proceedings. These basic service charges are reflected in the proposed tariff sheets attached hereto in Exhibits 4, 5 and 6.

Section 5.11. The Parties agree that the Utilities shall propose in their next Demand-Side Management Program application to modify their existing Commercial Conservation (Energy Audits) and Rebates Program to broaden the financial incentives for qualifying commercial customers to replace relatively inefficient equipment. The Utilities will seek input from potentially affected customers on possible modifications through a collaborative process. The modifications the Utilities will propose will include, but will not be necessarily limited to, the following: (1) adding

refrigeration to the kinds of equipment for which incentives are available; (2) introducing a Commercial Customized Rebates program to provide incentives to commercial customers to increase their energy efficiency by replacing or retrofitting equipment not covered by the existing Commercial Conservation/Rebate Program and (3) increasing the rebate cap per meter. To the extent that LED lighting retrofits associated with refrigeration cases located in the Utilities' service territories occurred from 2008 to the present, the Utilities clarify and confirm that under their existing business practices such actions qualify under the Utilities' existing Rebate Program for LED Lighting. The Utilities will work with any customer representatives to ensure the appropriate applications are completed and processed for the purpose of participating in the Utilities' existing Rebate Program for LED Lighting. To the extent that no rebate was provided in the immediately preceding year, the Utilities the Utilities clarify and confirm that under their existing business practices, customers may receive multi-year rebates in a single year where such multi-year rebates do not exceed the aggregate amounts. For example, under the Utilities' current business practices, a customer eligible for a \$50K/year could receive a \$100K/year rebate as long as no rebate was provided in the immediately preceding year.

Section 5.12. The Parties agree that the rates resulting from these proceedings for LG&E gas service will not be set on a Straight-Fixed Variable Design basis as had been proposed in the Application in the rate proceedings.

Section 5.13. The Parties acknowledge that KU and LG&E have established a FLEX Option program to allow customers on fixed incomes 16 additional calendar days to pay their bills (i.e., their bills are due 28 calendar days from the bill date), effectively allowing participating customers to pay their bills after they receive their monthly incomes.

The details of the FLEX Option, including eligibility requirements, are set out in Exhibit 7 hereto.

Section 5.14. The Parties agree that KU's and LG&E's residential electric customer deposit amounts shall remain unchanged from their current levels, and that effective for deposits requested on and after August 1, 2010, the residential gas service deposit amount shall be reduced. The residential customer deposits will be as follows: \$135 for LG&E electric; \$115 for LG&E gas; \$250 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 5.15. The Parties agree that the Utilities will continue their current policy of permitting customers who are required to make a deposit as a condition of reconnection following disconnection for non-payment to pay required deposits in up to four monthly installments upon request.

Section 5.16. The Parties agree that, beginning October 1, 2010, residential customers who receive a pledge for, or notice of, low-income energy assistance from an authorized agency will not be assessed or required to pay a late payment charge for the bill for which the pledge or notice is received, nor will they

be assessed or required to pay a late payment charge in any of the eleven (11) months following receipt of such pledge or notice. The Utilities retain the right to audit the program to ensure appropriate application of the waiver. The Utilities acknowledge that private information cannot be disclosed by the assistance agencies without authorization from the low-income customers.

Section 5.17. The Parties agree that the Utilities will modify the language of their tariff sheets concerning the due dates of bills and the date on which LPCs are assessed to clarify that payment is due twelve calendar days after the date on which a bill issues, and that an LPC will be assessed if payment is not received within three calendar days of the bill due date. For example, the “Due Date of Bill” provision of the KU residential service tariff sheet now reads, “Customer’s payment will be due within twelve (12) days from date of bill.” Pursuant to this Section, the “Due Date of Bill” provision of the KU residential service tariff sheet will read, “Customer’s payment will be due within twelve (12) calendar days from date of bill.”

Likewise, the “Late Payment Charge” provision of the KU residential service tariff sheet now reads, “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.” Pursuant to this Section, the “Late Payment Charge” provision of the KU residential service tariff sheet will read, “If full payment is not received within three

(3) calendar days from the due date of the bill, a 5% late payment charge will be assessed on the current month's charges."

These language changes are reflected in the proposed tariff sheets attached hereto in Exhibits 4, 5, and 6.

Section 5.18. The Parties agree that the Utilities shall print on each bill issued to customers on and after August 1, 2010, the date on which the bill was mailed.

Section 5.19. The Parties agree that for each of calendar years 2011 and 2012, the Utilities shall continue their current matching contribution from shareholder funds to the Wintercare program to match Wintercare funds collected from customers. KU's annual contribution for each of calendar years 2011 and 2012 shall not be less than \$100,000.

Section 5.20. The Parties agree that for a period of two years beginning February 6, 2011, the Utilities shall make a dollar-for-dollar contribution from shareholder funds to the Home Energy Assistance ("HEA") program to match HEA funds collected from customers (up to \$300,000 per year on a combined-Utilities basis).

Section 5.21. The Parties agree that LG&E will continue its current matching contribution to the ACM/Metro Match program for a period of two years following the implementation of the rates proposed in this Stipulation and Recommendation. LG&E's contribution to the ACM/Metro Match program for each of the two years shall not exceed \$225,000 per year. Section 5.21 is not contingent upon any other specific party's participation.

Section 5.22. The Parties agree that the targeted window of time in which the Utilities may read a customer's meter shall be decreased from the current five days to three days. Because it will take time for the Utilities to obtain the additional meter-reading personnel or services necessary to reduce the meter-reading targeted window from five to three days, the Utilities will have until January 1, 2011, to meet the terms of this provision.

Section 5.23. The Parties agree that the per-attachment annual rental charge under Rate CTAC (Cable Television Attachment Charges) shall be \$5.40 for KU and \$5.35 for LG&E, as shown in the proposed tariff sheets attached hereto in Exhibits 4 and 5.

Section 5.24. The Parties agree that by July 1, 2011, KSBA's members located in the KU service territory will conduct an assessment of their KU accounts to determine whether any school building may be more efficiently served under the now-frozen Rate AES rate schedule. KU will agree to review promptly each assessment to determine each school's eligibility and whether migration to Rate AES may be more cost-advantageous on a prospective basis to one or more of the KSBA member schools located in the KU territory. KU agrees to allow such migration where appropriate up to \$500,000 projected annual savings to such member schools in total. Should the KSBA members identify a number of school buildings that exceed the \$500,000 annual savings total restriction herein, and KU concurs that such school buildings are eligible to be served under Rate AES, KU agrees that at the time of its next base rate case it will propose in

its application to allow those additional school buildings to migrate to Rate AES, subject to any modifications KU may propose. Any school buildings wherein a KSBA representative school board planned and committed to the construction of an "all electric" facility, and the KSBA can demonstrate through prior school board resolutions or meeting notes that such plans and commitments were made prior to the date of this Stipulation, and such plans and commitments were clearly based in part on the anticipated continuation of Rate AES, all to the reasonable satisfaction of KU, KU agrees these facilities may be considered to be served under Rate AES on a prospective basis. Any KSBA member school that notified KU prior to the date of this Stipulation in a documentable format of its interest in being served under Rate AES for any all electric school facility that has or is in the process of migrating to Rate AES shall not be counted toward the \$500,000 restriction herein. Nothing herein shall be construed to create or vest a right in the members of the KSBA to the continuation of or rate structure for Rate AES in any form in the future.

Section 5.25. The Parties agree that LG&E shall exempt from the application of Rate DGGS locations that install back-up generators using less than 2,000 cf/hr (approximately equivalent to a 200 kVA gas-fired generator) if the customers who own such generators agree to use them only to provide emergency power. The proposed Rate DGGS tariff sheet contained in Exhibit 6 hereto contains this exemption.

Section 5.26. The Parties agree that, except as modified in this Stipulation and Recommendation 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 Stipulation and Recommendation 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 VI. Miscellaneous Provisions.

Section 6.1. Except as specifically stated otherwise in this Stipulation and Recommendation, the Parties agree that making this Stipulation and Recommendation 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 6.2. The Parties agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein.

Section 6.3. The Parties agree that, following the execution of this Stipulation and Recommendation, the Parties shall cause the Stipulation and Recommendation to be filed with the Commission by June 7, 2010, together with a recommendation that the Commission enter its Orders implementing the terms and conditions herein for rates to become effective on August 1, 2010.

Section 6.4. Each signatory waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Stipulation and Recommendation, and each signatory 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 Stipulation and Recommendation they will not otherwise contest the Utilities' proposals, as modified by this Stipulation and Recommendation, in the hearing of the rate proceedings, 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 Stipulation and Recommendation.

Section 6.5. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Stipulation and Recommendation be accepted and approved.

Section 6.6. If the Commission issues an order adopting all of the terms and conditions recommended herein, 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 6.7. The Parties agree that if the Commission does not implement in its Orders in these proceedings all of the terms recommended herein, then: (a) this Stipulation and Recommendation shall be void and withdrawn by the Parties 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 Stipulation and Recommendation; and (b) neither the terms of this Stipulation and Recommendation nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Stipulation and Recommendation or be construed against any of the Parties.

Section 6.8. The Parties agree that this Stipulation and Recommendation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

Section 6.9. The Parties agree that this Stipulation and Recommendation shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

Section 6.10. The Parties agree that this Stipulation and Recommendation constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contemporaneously herewith, shall be null and void, and shall be deemed to have been merged into this Stipulation and Recommendation.

Section 6.11. The Parties agree that, for the purpose of this Stipulation and Recommendation 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 6.12. The Parties agree that neither the Stipulation and Recommendation 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. This Stipulation and Recommendation shall not have any precedential value in this or any other jurisdiction.

Section 6.13. The Parties warrant that they have informed, advised, and consulted with the Parties they represent in the rate proceedings in regard to the contents and significance of this Stipulation and Recommendation, and based upon the foregoing are authorized to execute this Stipulation and Recommendation on behalf of the Parties they represent.

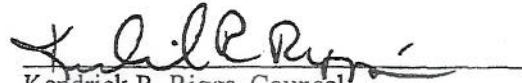
Section 6.14. The Parties agree that this Stipulation and Recommendation is a product of negotiation among all Parties, and that no provision of this Stipulation and Recommendation shall be strictly construed in favor of, or against, any party. Notwithstanding anything contained in this Stipulation and Recommendation, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of the Utilities are unknown and that, if implemented, this Stipulation and Recommendation shall be implemented as written.

Section 6.15. The Parties agree that this Stipulation and Recommendation may be executed in multiple counterparts.

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

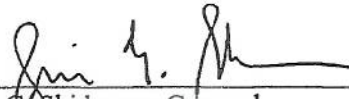
Louisville Gas and Electric Company
and Kentucky Utilities Company

HAVE SEEN AND AGREED:


Kendrick R. Riggs, Counsel
Allyson K. Sturgeon, Counsel

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

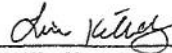
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Iris G. Skidmore", written over a horizontal line.

Iris G. Skidmore, Counsel

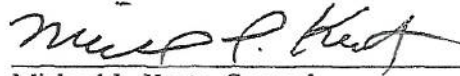
Association of Community Ministries

HAVE SEEN AND AGREED:

A handwritten signature in cursive script, appearing to read "Lisa Kil Kelly", is written over a horizontal line.

Lisa Kil Kelly, Counsel

Kentucky Industrial Utility Customers, Inc.
HAVE SEEN AND AGREED:

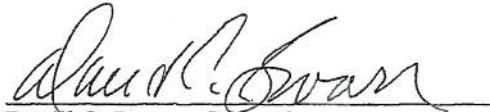
A handwritten signature in cursive script, appearing to read "Michael L. Kurtz", written over a horizontal line.

Michael L. Kurtz, Counsel

Kurt J. Boehn, Counsel

The Kroger Co.

HAVE SEEN AND AGREED:

A handwritten signature in cursive script, appearing to read "David C. Brown", written over a horizontal line.

David C. Brown, Counsel

Kentucky School Boards Association

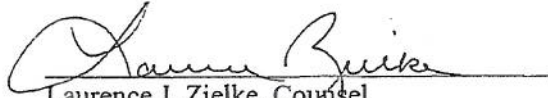
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Matthew R. Malone". The signature is written in a cursive, flowing style with a horizontal line extending from the end of the name.

Matthew R. Malone, Counsel

Kentucky Cable Telecommunications
Association

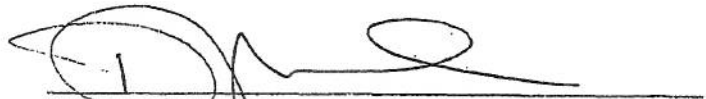
HAVE SEEN AND AGREED:

A handwritten signature in cursive script, appearing to read "Laurence J. Zielke", written over a horizontal line.

Laurence J. Zielke, Counsel
Gardner F. Gillespie, Counsel
Dominic F. Perella, Counsel

AARP

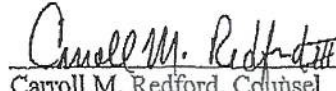
HAVE SEEN AND AGREED:

A handwritten signature in black ink, consisting of a large loop followed by a series of smaller loops and a long horizontal stroke.

Hon. Tom FitzGerald
On behalf of AARP

Wal-Mart Stores East, LLP and
Sam's East, Inc.

HAVE SEEN AND AGREED:

A handwritten signature in cursive script, appearing to read "Carroll M. Redford", is written over a horizontal line.

Carroll M. Redford, Counsel
Holly Rachel Smith, Counsel

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2009-00548 DATED JUL 30 2010

The following rates and charges are prescribed for the customers in the area served by Kentucky Utilities Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE RS RESIDENTIAL SERVICE

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$8.50 |
| Energy Charge per kWh | \$.06805 |

SCHEDULE VFD VOLUNTEER FIRE DEPARTMENT

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$8.50 |
| Energy Charge per kWh | \$.06805 |

SCHEDULE GS GENERAL SERVICE RATE

| | |
|---|-----------|
| Basic Service Charge per Month – Single Phase | \$17.50 |
| Basic Service Charge per Month – Three Phase | \$32.50 |
| Energy Charge per kWh | \$.07796 |

SCHEDULE A.E.S. ALL ELECTRIC SCHOOL

| | |
|---|-----------|
| Basic Service Charge per Month – Single Phase | \$17.50 |
| Basic Service Charge per Month – Three Phase | \$32.50 |
| Energy Charge per kWh | \$.06706 |

SCHEDULE PS
POWER SERVICE

Secondary Service:

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$90.00 |
| Demand Charge per kW: | |
| Summer Rate | \$12.78 |
| Winter Rate | \$10.53 |
| Energy Charge per kWh | \$.03386 |

Primary Service:

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$90.00 |
| Demand Charge per kW: | |
| Summer Rate | \$12.60 |
| Winter Rate | \$10.33 |
| Energy Charge per kWh | \$.03386 |

SCHEDULE TODS
TIME-OF-DAY SECONDARY SERVICE

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$200.00 |
| Demand Charge per kW: | |
| Peak Demand Period | \$ 4.37 |
| Intermediate Demand Period | \$ 2.91 |
| Base Demand Period | \$ 3.53 |
| Energy Charge per kWh | \$.03576 |

SCHEDULE TODP
TIME-OF-DAY PRIMARY SERVICE

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$300.00 |
| Demand Charge per kVA: | |
| Peak Demand Period | \$ 4.09 |
| Intermediate Demand Period | \$ 2.73 |
| Base Demand Period | \$ 1.70 |
| Energy Charge per kWh | \$.03608 |

SCHEDULE RTS
RETAIL TRANSMISSION SERVICE

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$500.00 |
| Demand Charge per kVA: | |
| Peak Demand Period | \$ 3.73 |
| Intermediate Demand Period | \$ 2.49 |
| Base Demand Period | \$ 1.04 |
| Energy Charge per kWh | \$.03500 |

SCHEDULE FLS
FLUCTUATING LOAD SERVICE

| | |
|--------------------------------|-----------|
| <u>Primary:</u> | |
| Basic Service Charge per Month | \$500.00 |
| Demand Charge per kVA: | |
| Peak Demand Period | \$ 2.48 |
| Intermediate Demand Period | \$ 1.59 |
| Base Demand Period | \$ 1.75 |
| Energy Charge per kWh | \$.03505 |

| | |
|--------------------------------|-----------|
| <u>Transmission:</u> | |
| Basic Service Charge per Month | \$500.00 |
| Demand Charge per kVA: | |
| Peak Demand Period | \$ 2.48 |
| Intermediate Demand Period | \$ 1.59 |
| Base Demand Period | \$ 1.00 |
| Energy Charge per kWh | \$.03033 |

SCHEDULE ST. LT.
STREET LIGHTING SERVICE

Rate per Light per Month: (Lumens Approximate)

Standard/Ornamental Service:

| | <u>Standard</u> | <u>Ornamental</u> |
|-----------------------------|-----------------|-------------------|
| <u>Incandescent System:</u> | | |
| 1,000 Lumens | \$ 3.04 | \$ 3.69 |
| 2,500 Lumens | \$ 4.05 | \$ 4.84 |
| 4,000 Lumens | \$ 6.15 | \$ 7.07 |
| 6,000 Lumens | \$ 8.06 | \$ 9.08 |

Mercury Vapor:

| | | |
|---------------|----------|----------|
| 7,000 Lumens | \$ 8.55 | \$ 10.77 |
| 10,000 Lumens | \$ 10.09 | \$ 12.06 |
| 20,000 Lumens | \$ 12.35 | \$ 13.92 |

High Pressure Sodium:

| | | |
|---------------|----------|----------|
| 4,000 Lumens | \$ 6.67 | \$ 9.50 |
| 5,800 Lumens | \$ 7.54 | \$ 10.37 |
| 9,500 Lumens | \$ 8.15 | \$ 11.19 |
| 22,000 Lumens | \$ 12.58 | \$ 15.62 |
| 50,000 Lumens | \$ 20.50 | \$ 22.06 |

Decorative Underground Service:

Acorn with Decorative Pole

| | |
|--------------|----------|
| 4,000 Lumens | \$ 12.51 |
| 5,800 Lumens | \$ 13.50 |
| 9,500 Lumens | \$ 14.13 |

Acorn with Historic Pole

| | |
|--------------|---------|
| 4,000 Lumens | \$18.90 |
| 5,800 Lumens | \$19.78 |
| 9,500 Lumens | \$20.52 |

Colonial

| | |
|--------------|---------|
| 4,000 Lumens | \$ 8.67 |
| 5,800 Lumens | \$ 9.57 |
| 9,500 Lumens | \$10.09 |

Coach

| | |
|--------------|---------|
| 5,800 Lumens | \$28.88 |
| 9,500 Lumens | \$29.39 |

Contemporary

| | |
|---------------|---------|
| 5,800 Lumens | \$15.30 |
| 9,500 Lumens | \$17.93 |
| 22,000 Lumens | \$21.65 |
| 50,000 Lumens | \$27.68 |

Gran Ville

| | |
|---------------|---------|
| 16,000 Lumens | \$49.34 |
|---------------|---------|

SCHEDULE P.O. LT.
PRIVATE OUTDOOR LIGHTING

Rate per Light per Month: (Lumens Approximate)

Standard (Served Overhead):

Mercury Vapor

| | |
|---------------|---------|
| 7,000 Lumens | \$ 9.52 |
| 20,000 Lumens | \$12.35 |

High Pressure Sodium

| | |
|---------------|---------|
| 5,800 Lumens | \$ 6.36 |
| 9,500 Lumens | \$ 6.90 |
| 22,000 Lumens | \$12.58 |
| 50,000 Lumens | \$20.50 |

Directional (Served Overhead):

High Pressure Sodium

| | |
|---------------|---------|
| 9,500 Lumens | \$ 8.01 |
| 22,000 Lumens | \$11.99 |
| 50,000 Lumens | \$17.25 |

Metal Halide Commercial and Industrial Lighting:

Directional Fixture

| | |
|----------------|----------|
| 12,000 Lumens | \$ 12.38 |
| 32,000 Lumens | \$ 17.75 |
| 107,800 Lumens | \$ 37.26 |

Directional Fixture with Wood Pole

| | |
|----------------|----------|
| 12,000 Lumens | \$ 16.61 |
| 32,000 Lumens | \$ 21.98 |
| 107,800 Lumens | \$ 41.49 |

Directional Fixture with Metal Pole

| | |
|----------------|----------|
| 12,000 Lumens | \$ 24.79 |
| 32,000 Lumens | \$ 30.16 |
| 107,800 Lumens | \$ 49.67 |

Contemporary Fixture

| | |
|----------------|----------|
| 12,000 Lumens | \$ 13.55 |
| 32,000 Lumens | \$ 19.42 |
| 107,800 Lumens | \$ 40.48 |

Contemporary Fixture with Metal Pole

| | |
|----------------|----------|
| 12,000 Lumens | \$ 25.96 |
| 32,000 Lumens | \$ 31.83 |
| 107,800 Lumens | \$ 52.89 |

Decorative HPS (Served Underground):

| | |
|----------------------------|----------|
| Acorn with Decorative Pole | |
| 4,000 Lumens | \$ 12.51 |
| 5,800 Lumens | \$ 13.50 |
| 9,500 Lumens | \$ 14.13 |
| Acorn with Historic Pole | |
| 4,000 Lumens | \$ 18.90 |
| 5,800 Lumens | \$ 19.78 |
| 9,500 Lumens | \$ 20.52 |
| Colonial | |
| 4,000 Lumens | \$ 8.67 |
| 5,800 Lumens | \$ 9.57 |
| 9,500 Lumens | \$ 10.09 |
| Coach | |
| 5,800 Lumens | \$ 28.88 |
| 9,500 Lumens | \$ 29.39 |
| Contemporary | |
| 5,800 Lumens | \$ 21.45 |
| Additional Fixture | \$ 13.99 |
| 9,500 Lumens | \$ 21.59 |
| Additional Fixture | \$ 14.12 |
| 22,000 Lumens | \$ 27.38 |
| Additional Fixture | \$ 15.91 |
| 50,000 Lumens | \$ 30.67 |
| Additional Fixture | \$ 19.20 |
| Gran Ville | |
| 16,000 Lumens | \$ 49.34 |

SCHEDULE ST. LT. AND P.O. LT.
GRANVILLE ACCESSORIES

| | |
|--|----------|
| Single Crossarm Bracket (Existing Poles Only) | \$ 17.78 |
| Twin Crossarm Bracket | \$ 19.79 |
| 24 Inch Banner Arm | \$ 3.09 |
| 24 Inch Clamp Banner Arm | \$ 4.26 |
| 18 Inch Banner Arm | \$ 2.84 |
| 18 Inch Clamp Banner Arm | \$ 3.52 |
| Flagpole Holder | \$ 1.31 |
| Post-Mounted Receptacle | \$ 18.46 |
| Base-Mounted Receptacle | \$ 17.81 |
| Additional Receptacle (2 Receptacles on Same Pole) | \$ 2.52 |
| Planter | \$ 4.28 |
| Clamp On Planter | \$ 4.75 |

SCHEDULE LE
LIGHTING ENERGY SERVICE

| | |
|-----------------------|-----------|
| Energy Charge per kWh | \$.05465 |
|-----------------------|-----------|

SCHEDULE TE
TRAFFIC ENERGY SERVICE

| | |
|---|-----------|
| Basic Service Charge per Delivery per Month | \$3.14 |
| Energy Charge per kWh | \$.07000 |

SCHEDULE CTAC
CABLE TELEVISION ATTACHMENT CHARGES

| | |
|--------------------------------------|---------|
| Per Year for Each Attachment to Pole | \$ 5.40 |
|--------------------------------------|---------|

RATE CSR 10
CURTAILABLE SERVICE RIDER 10

| | <u>Transmission</u> | <u>Primary</u> |
|---------------------------------|---------------------|----------------|
| Demand Credit per kW | \$ 5.40 | \$ 5.50 |
| Non-compliance Charge Per kW | \$ 16.00 | \$ 16.00 |

RATE CSR 30
CURTAILABLE SERVICE RIDER 30

| | <u>Transmission</u> | <u>Primary</u> |
|---------------------------------|---------------------|----------------|
| Demand Credit per kW | \$ 4.30 | \$ 4.40 |
| Non-compliance Charge Per kW | \$ 16.00 | \$ 16.00 |

STANDARD RIDER FOR EXCESS FACILITIES

| | |
|---|-------|
| Monthly Charge for Leased Facilities | 1.54% |
| Monthly Charge for Facilities Supported by One-time CIAC Payment | .74% |

SCHEDULE RC
STANDARD RIDER FOR REDUNDANT CAPACITY CHARGE

Capacity Reservation Charge per kW:

| | |
|------------------------|--------|
| Secondary Distribution | \$.85 |
| Primary Distribution | \$.68 |

SCHEDULE SS
STANDARD RIDER FOR SUPPLEMENTAL OR STANDY SERVICE

Contract Demand per kVA:

| | |
|--------------|---------|
| Secondary | \$ 6.54 |
| Primary | \$ 6.17 |
| Transmission | \$ 5.99 |

SCHEDULE LEV
LOW EMISSION VEHICLE SERVICE

| | |
|--------------------------------|-----------|
| Basic Service Charge per Month | \$ 8.50 |
| Energy Charge per kWh: | |
| Off Peak Hours | \$.04722 |
| Intermediate Hours | \$.06823 |
| Peak Hours | \$.13133 |

METER PULSE CHARGE

| | |
|---|---------|
| Charge per Month per Installed Set of Pulse Generating Equipment | \$ 9.00 |
|---|---------|

CUSTOMER DEPOSITS

| | |
|--|-----------|
| Customers Served Under General Service Rate GS | \$ 220.00 |
|--|-----------|

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Exhibit 3

**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. 10-_____
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: December 1, 2010

1 approved new base rates for KU's Kentucky customers effective August 1, 2010.¹
2 KU petitions to make the approved rates effective for its Tennessee customers
3 effective January 1, 2011.

4 **Q. Why does KU have only four Tennessee customers?**

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

8 Tennessee's electric industry has some unique features. Most customers in the
9 United States purchase electricity from integrated utilities, meaning that one
10 entity owns all three stages of production. In Tennessee, the Tennessee Valley
11 Authority provides power with an integrated generation and transmission
12 system to 98 percent of customers in the state, which is served by 63 municipal
13 systems and 23 rural electric cooperatives that purchase electricity exclusively
14 from TVA. For its distributors, TVA also acts as the regulator for the systems'
15 rates and reliability. The only major exception is the greater Kingsport area,
16 which is served by Kingsport Power, a distributor owned by the integrated,
17 investor-owned American Electric Power Company. In addition to Kingsport,
18 the other private utility customers in Tennessee consist of 60 customers served
19 by Entergy Arkansas in West Tennessee and five customers served by
20 Kentucky Utilities Company in Claiborne County. Two other investor-owned
21 utilities, Tapoco and Appalachian Power, sell wholesale power in Tennessee.²
22

23 It was not always so, however. Prior to the U.S. Supreme Court's 1968 decision in
24 *Hardin v. Kentucky Utilities Company*,³ KU served significantly more customers in
25 Tennessee, including several hundred customers in Tazewell and New Tazewell, and
26 nearly 2,000 customers overall in Claiborne County.⁴ After the Court's decision,
27 however, the Tennessee Valley Authority's affiliate, Powell Valley Electric

¹ In the Matter of: *Application of Kentucky Utilities for an Adjustment of Base Rates*, Kentucky Public Service Commission Case No. 2009-00548, final Order July 30, 2010. A complete copy of the KPSC's order is attached to KU's Petition as Exhibit 2, and is available online at: http://www.psc.state.ky.us/pscscf/2009%20cases/2009-00548/20100730_PSC_ORDER.PDF.

² Available at <http://www.comptroller1.state.tn.us/repository/RE/electric.pdf>. (p. 3 of Introduction/Industry Overview)

³ 390 U.S. 1 (1968)

⁴ See *Kentucky Utilities Co. v. Tennessee Valley Authority*, 375 F.2d 403, 407 (Nov. 15, 1966).

1 Cooperative, came to serve nearly all of KU's former customers in Claiborne County.
2 In November 2010, one Tennessee customer was disconnected and their meter
3 removed, as their premises were found to be vacant upon inspection. KU continues to
4 serve the remaining four Tennessee residential customers.

5 **Q. How does KU's residential electric rates compare to neighboring Powell Valley**
6 **Electric Cooperative's rates?**

7 A. KU's current residential electric service energy rate in Kentucky is \$0.06805/kWh.
8 By way of comparison, Powell Valley Electric Cooperative's customers pay
9 \$0.08440/kWh, which is 24% higher than the rate paid by KU's Kentucky residential
10 customers. KU believes it will be just and reasonable for the Authority to approve
11 KU's proposed Tennessee rates, which are the same as those the KPSC recently
12 approved for service in Kentucky. In addition, there is no difference in the cost to
13 serve KU's customers in Bell County, Kentucky, and those in Fork Ridge, Tennessee;
14 indeed, some of KU's customers in Bell County take service from the same electric
15 distribution line that serves Fork Ridge.

16 **Q. Has the Authority found that the cost to provide electric service to Tennessee**
17 **customers is approximately the same to serve Kentucky customers, and that it is**
18 **preferable for Tennessee customers to adopt rates approved by the Kentucky**
19 **Public Service Commission?**

20 A. Yes, in Docket No. 09-00059, the TRA, "found that the cost to provide electricity to
21 Tennessee customers should not be appreciably different from the cost to serve
22 Kentucky customers along the same distribution line. Because the cost of electric
23 service is similar between the Tennessee and Kentucky customers, the panel found

1 that it is reasonable that all KU residential customers should pay the same base rate.
2 The panel further found that adopting the rates approved for KU by the KPSC is
3 preferable to creating even greater costs for KU (that may be passed on to Tennessee
4 customers) by requiring separate cost studies and full rate case proceedings before the
5 TRA.”

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

8 A. Though KU seeks first to implement as many cost-saving strategies as are consistent
9 with providing safe and reliable electric service, as well as excellent customer service,
10 its continued necessary financial investments in facilities and programs to provide the
11 service its customers desire and deserve necessitate a rate increase in Tennessee. KU
12 has continued to make significant investments in its generation, transmission, and
13 distribution facilities that are of historic scale, including the construction of a state-of-
14 the-art coal-fired generating unit in Trimble County, Kentucky. The construction of
15 Trimble County Unit 2 (“TC2”) is the most significant ongoing generation
16 investment. In addition, KU has made capital investments to its electric transmission
17 and distribution facilities. With this additional investment to serve customers,
18 operating expenses associated with these new facilities such as property taxes and
19 insurance have increased as well.
20 KU’s commitment to enhancing its facilities for providing electric service has not in
21 any way compromised its commitment to provide superior customer service. Indeed,
22 KU and its sister utility, LG&E, have consistently been top performers for electric
23 utilities of their size in the Midwest region in the J.D. Power and Associates customer

1 satisfaction surveys. They have been rated highest in overall customer satisfaction 15
2 times, and PPL Corporation (KU's parent company) 16 times. These are the two
3 highest all-time award tallies for the J.D. Power and Associates utility studies. KU's
4 Tennessee customers have access to this excellent customer service via KU's
5 Middlesboro, Kentucky service center, only ten miles from KU's Tennessee
6 customers.

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

9 A. No, a KU Tennessee customer's energy cost will be less than a KU Kentucky
10 customer's energy cost because KU is not proposing in this proceeding to implement
11 in Tennessee cost recovery mechanisms like those it has in Kentucky, such as its
12 Environmental Cost Recovery and Fuel Adjustment Clause mechanisms. Such
13 mechanisms provide KU nearly real-time recovery of its costs associated with the
14 mechanisms. Periodically, the recovery amounts the mechanisms provide are "rolled
15 into" KU's Kentucky base rates, allowing the mechanisms to reset. As approved in
16 TRA Docket No. 09-00059, KU reserves the right to seek to adjust its Tennessee base
17 rates to match its Kentucky base rates when they change, regardless of whether the
18 change results from a base rate proceeding or an adjustment mechanism "roll-in" in
19 Kentucky. Because of the time delay associated with seeking changes in rates across
20 jurisdictions, KU's Tennessee rates will always lag its Kentucky rates. Furthermore,
21 as discussed below, KU's Tennessee customers' energy cost will still be subject to the
22 four year phase-in multipliers established in Docket No. 09-00059.

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

1 A. KU believes it would be fair, just, and reasonable for its Tennessee customers'
2 electric rates to be the same as those recently approved by the KPSC for its Kentucky
3 customers without delay subject to the remaining years of the four year phase-in
4 multipliers approved by the Authority in KU's last rate case. Any billing resulting
5 from the application of the rates approved by the KPSC will be adjusted by
6 multiplying the total billing resulting from such rates by the factors set forth by the
7 "Phase-In Multipliers" Rate Sheet No. 93. KU therefore proposes to increase its
8 Tennessee rates based on those remaining factors as shown below:

9 For the twelve consecutive monthly billings beginning August 1, 2010 0.6341

10 For the twelve consecutive monthly billings beginning August 1, 2011 0.8171

11 For all subsequent monthly billings beginning August 1, 2012 1.0000

12 The basic service charge and rate per kWh with the applicable phase-in factors are
13 presented below:

14 (Jan 2011– Jul 2011):

15 Basic service charge – \$5.39 per month

16 Energy Charge – 4.315 cents per kWh

17 (Aug 2011 – Jul 2012):

18 Basic service charge – \$6.95 per month

19 Energy Charge – 5.560 cents per kWh

20 (Aug 12 and beyond):

21 Basic service charge – \$8.50 per month

22 Energy Charge – 6.805 cents per kWh

1 The multipliers are applied to all charges on the bills of KU's Tennessee customers,
2 except the Green Energy Rider.

3 **Q. Are the phase-in multipliers affected by KU seeking an adjustment to its rates**
4 **before the four years have expired?**

5 A. No, KU is petitioning the Authority for approval to change the rates being phased-in
6 to KU's new Kentucky rates, subject to the same multipliers without changing the
7 remaining phase-in period.

8 **Q. Describe the three kinds of proceedings that can increase KU's base rates in**
9 **Tennessee based on KPSC proceedings.**

10 A. KU's Kentucky base rates can change as a result of one of three kinds of proceedings
11 before the KPSC: (1) a full base rate proceeding; (2) a "roll-in" proceeding
12 concerning KU's Fuel Adjustment Clause; and (3) a "roll-in" proceeding concerning
13 KU's Environmental Cost Recovery. The latter two proceedings are not as
14 cumbersome as a full base rate proceeding because only fuel or environmental cost
15 components of base rates are adjusted ("rolled in") therein. KU seeks the Authority's
16 approval in this petition to adjust KU's Tennessee base rates following the ruling by
17 the KPSC in a full base rate proceeding. Since the last adjustment in Tennessee in
18 Docket No. 09-00059, KU has adjusted its Kentucky base rates as a result of "roll-in"
19 proceedings for the Fuel Adjustment Clause and Environmental Cost Recovery. The
20 effect of both roll-ins are included in the base rates recently approved by the KPSC.

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

1 A. Because KU is proposing to amend its Tennessee rates to match those recently
2 approved by the KPSC (as well as to use in Tennessee certain tariff sheets wording
3 changes approved as part of KU's Kentucky tariff), KU has appended to its Petition a
4 CD containing the entire record of KU's recent rate proceeding before the KPSC.
5 This evidence includes verified testimony from numerous KU company witnesses and
6 outside experts, as well as a detailed cost-of-service study, supporting KU's Kentucky
7 rate application. All testimony and other evidence in the proceeding are included in
8 the record KU has appended to its Petition.

9 **Q. On October 21, 2010 KU obtained approval from the TRA for transfer of**
10 **control of KU from E.ON AG (E.ON) to PPL Corporation (PPL), as a result of**
11 **the acquisition of E.ON by PPL. Has that acquisition been consummated?**

12 A. The acquisition was consummated on November 1, 2010. Documents related to the
13 transaction were filed with the TRA in Docket No. 10-00118.

14 **Q. Did the acquisition have an impact on the need for a rate increase?**

15 A. No. The proposed rate increase for Tennessee customers is based on the findings of
16 the KPSC for KU's historical test period for the twelve months ending October 31,
17 2009. The test period is prior to the announcement of the acquisition.

18 **Q. Is KU seeking to recover the cost of filing this rate adjustment proceeding in**
19 **Tennessee?**

20 A. No. Although KU is legally entitled to recover the cost of a rate increase proceeding
21 from the ratepayers in Tennessee, it has chosen not to do so because of the impact on
22 so few customers. Consequently, KU's shareholders are absorbing the cost of
23 prosecuting this proceeding.

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

2 A. I respectfully ask that the Authority approve KU's Petition in full, which rates the
3 KPSC approved on July 30, 2010 to be effective August 1, 2010 for Kentucky retail
4 customers. I believe that these rates are just and reasonable, and are more than amply
5 supported by the evidence presented in KU's recent Kentucky rate proceeding, the
6 complete record of which is attached to KU's Petition as Collective Exhibit 4.

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

8 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, 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 30th day of November 2010.

 (SEAL)

Notary Public

My Commission Expires:

November 9, 2014

Collective Exhibit 4

Collective Exhibit 4

Collective Exhibit 4 is a CD
containing the complete record
of KU's Most Recent Rate Case
in Kentucky, Case No. 2009-00548