

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF PPL)	
CORPORATION, E.ON AG,)	
E.ON US INVESTMENTS CORP.,)	
E.ON U.S. LLC, LOUISVILLE GAS AND)	CASE NO. 2010-00204
ELECTRIC COMPANY AND)	
KENTUCKY UTILITIES COMPANY FOR)	
APPROVAL OF AN ACQUISITION)	
OF OWNERSHIP AND CONTROL)	
OF UTILITIES)	

TESTIMONY OF
LONNIE E. BELLAR
VICE PRESIDENT OF STATE REGULATION AND RATES
LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY

Dated: May 28, 2010

INTRODUCTION

2 **Q. Please state your name, position and business address.**

3 A. My name is Lonnie E. Bellar. I am the Vice President of State Regulation and Rates
4 for Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company
5 (“KU”) (collectively, “Companies”), and an employee of E.ON U.S. Services Inc.
6 My business address is 220 West Main Street, Louisville, Kentucky 40202. A
7 statement of my qualifications is attached as Appendix A.

8 **Q. Have you previously testified before the Kentucky Public Service Commission?**

9 A. Yes. I have testified before the Commission multiple times, including Case Nos.
10 2007-00562 (LG&E) and 2007-00563 (KU) concerning the disposition of KU’s and
11 LG&E’s merger surcredit mechanisms; in the Companies’ 2009 Environmental
12 Surcharge Compliance Plan proceedings, Case Nos. 2009-00197 (KU) and 2009-
13 00198 (LG&E), the Companies’ most recent base rate cases, Case Nos. 2008-00251
14 (KU) and 2008-00252 (LG&E); and in the current base rate proceedings, Case Nos.
15 2009-00548 (KU) and 2009-00549 (LG&E).

16 **Q. Please describe your work experience and educational background.**

17 A. I began my career with Kentucky Utilities in 1987 as an electrical engineer. I held
18 several engineering roles in the transmission and generation areas, and was eventually
19 promoted to Director of Generation Services in 2000. I then served as General
20 Manager of the LG&E Can Run and Ohio Falls power stations; Director of Financial
21 Planning and Controlling; and Director of Transmission.

22 I received a Bachelor of Science in Engineering Arts from Georgetown
23 College and a Bachelor of Science in Electrical Engineering from the University of

1 Kentucky. I have completed various management and executive training courses
2 sponsored by the E.ON Academy, including courses at Harvard University.

3 **Q. What is the purpose of your testimony?**

4 A. The purpose of my testimony is to discuss the affiliate transactions related to the
5 proposed acquisition and other regulatory issues.

6 **AFFILIATE TRANSACTIONS**

7 **Q. Will the proposed acquisition affect or change E.ON U.S. Services Inc. (“E.ON**
8 **Services”)?**

9 A. No. E.ON Services will continue to be a subsidiary of E.ON U.S. LLC (“E.ON
10 U.S.”). It will continue to act as a centralized service company to provide services to
11 E.ON U.S. and its subsidiaries, including LG&E and KU. PPL Corporation (“PPL”)
12 will continue to utilize its existing service company for its other subsidiaries.

13 **Q. Will the proposed acquisition adversely affect E.ON U.S.’s Notification of**
14 **Holding Company Status filed with the Federal Energy Regulatory Commission**
15 **(“FERC”) under the Public Utility Holding Company Act of 2005 (“PUHCA**
16 **2005”)?**

17 A. No. E.ON AG, for itself and its intermediate companies, including E.ON U.S., filed
18 Form 65, Notification of Holding Company Status, with FERC on June 15, 2006.
19 Following consummation of the proposed acquisition, E.ON U.S. will submit a
20 comparable Notification of Holding Company Status with FERC. Accordingly,
21 E.ON U.S. will be recognized as a holding company under PUHCA 2005, and will
22 continue to act as a holding company for the two utilities, LG&E and KU.

23

1 **Q. Will the proposed acquisition affect the Commission's authority to regulate**
2 **LG&E or KU's affiliate transactions?**

3 A. No. The transfer of ownership and control of LG&E and KU will not alter the
4 Commission's authority to regulate LG&E's or KU's affiliate transactions resulting
5 from the proposed acquisition. LG&E and KU will remain subject to the same laws
6 and rules that apply under the current E.ON AG – E.ON U.S. structure. Further, the
7 proposed acquisition and resulting transfer of ownership and control of LG&E and
8 KU will not prevent the Commission from reviewing LG&E's or KU's costs and
9 operations. Access to books, records, and management will not change, and E.ON
10 U.S.'s, LG&E's, and KU's books will continue to be kept in Kentucky. PPL commits
11 that the Commission be allowed access to those books and records. There will be no
12 change in the Commission's ability to make any inspection of books and records that
13 might be necessary to accomplish proper regulatory purposes.

14 **Q. Is there any area in which the Commission's regulatory oversight over affiliate**
15 **transactions could be affected by the proposed acquisition?**

16 A. No, there are no areas in which the Commission's regulatory oversight over affiliate
17 transactions could be affected by the proposed acquisition. E.ON Services will
18 continue to operate as a subsidiary of E.ON U.S. and serve as a centralized service
19 company for purposes of complying with PUHCA 2005. FERC will regulate the
20 provision of services and allocation of costs to ensure against any inappropriate cross-
21 subsidization within the E.ON U.S. holding company system and the greater PPL
22 holding company system.

23

EXISTING KU/LG&E OPERATING AGREEMENTS

Q. Will the proposed acquisition affect the Power Supply System Agreement (“PSSA”) or Transmission Coordination Agreement (“TCA”) between LG&E and KU?

A. No. The proposed acquisition will not affect the PSSA or TCA (collectively, the “Agreements”) between LG&E and KU. The Agreements were established as a result of the LG&E – KU merger in 1998 for the purpose of facilitating the joint operation and planning of the KU and LG&E generation and transmission assets. The Agreements provide for the joint operation and planning of the KU and LG&E transmission and generation systems and also establish separate joint committees for making business decisions concerning these assets. The primary objective of the Agreements is to maximize economy, efficiency, and reliability in the transmission system as a whole. It is anticipated that the members of the PSSA and TCA committees will remain the same, and changes in those committees will only result through the normal procedures of the respective committees.

CONCLUSION

Q. Please provide a summary of your testimony.

A. My testimony discusses the affiliate transactions, and shows that the proposed acquisition will not affect or change E.ON Services, and that E.ON Services will continue to provide service to LG&E and KU. My testimony also shows that the proposed acquisition will not affect the Commission’s authority to regulate LG&E’s or KU’s affiliate transactions, and that there is no area in which the Commission’s regulatory oversight over affiliate transactions could be affected. My testimony also shows that PPL does not currently have plans for LG&E or KU to be members of an

1 RTO. Finally, my testimony shows that the proposed acquisition will not affect the
2 PSSA or the TCA between LG&E and KU, and that the respective committees will
3 also not be affected.

4 **Q. What action are you requesting that the Commission take?**

5 A. I request that the Commission approve the proposed acquisition and resulting transfer
6 of ownership and control of LG&E and KU to PPL.

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

8 A. Yes.

APPENDIX A

Lonnie E. Bellar

E.ON U.S. Services Inc.
220 West Main Street
Louisville, Kentucky 40202

Education

Bachelors in Electrical Engineering;
University of Kentucky, May 1987
Bachelors in Engineering Arts;
Georgetown College, May 1987
E.ON Academy, Intercultural Effectiveness Program: 2002-2003
E.ON Finance, Harvard Business School: 2003
E.ON Executive Pool: 2003-2007
E.ON Executive Program, Harvard Business School: 2006
E.ON Academy, Personal Awareness and Impact: 2006

Professional Experience

E.ON U.S. LLC

Vice President, State Regulation and Rates	Aug. 2007 – Present
Director, Transmission	Sept. 2006 – Aug. 2007
Director, Financial Planning and Controlling	April 2005 – Sept. 2006
General Manager, Cane Run, Ohio Falls and Combustion Turbines	Feb. 2003 – April 2005
Director, Generation Services	Feb. 2000 – Feb. 2003
Manager, Generation Systems Planning	Sept. 1998 – Feb. 2000
Group Leader, Generation Planning and Sales Support	May 1998 – Sept. 1998

Kentucky Utilities Company

Manager, Generation Planning	Sept. 1995 – May 1998
Supervisor, Generation Planning	Jan. 1993 – Sept. 1995
Technical Engineer I, II and Senior, Generation System Planning	May 1987 – Jan. 1993

Professional Memberships

IEEE

Civic Activities

E.ON U.S. Power of One Co-Chair – 2007
Louisville Science Center – Board of Directors – 2008
Metro United Way Campaign – 2008
UK College of Engineering Advisory Board – 2009



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kendrick.riggs@skofirm.com

September 1, 2010

Via Hand Delivery

Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RECEIVED
SEP 07 2010
PUBLIC SERVICE
COMMISSION

**RE: Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp.,
E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities
Company for Approval of an Acquisition of Ownership and Control of Utilities
Case No. 2010-00204**

Dear Mr. DeRouen:

Enclosed please find for filing the original and twelve copies each of a Motion of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company for Leave to File Settlement Agreement and Testimony Thereon, Testimony on Settlement of Lonnie E. Bellar and Settlement Agreement, Stipulation and Recommendation in the above-referenced matter. Please confirm your receipt of these filings by placing the stamp of your Office with the date received on the enclosed additional copy and return them to me in the enclosed envelope.

Should you have any questions, please call me at your earliest convenience.

Yours very truly,


Kendrick R. Riggs

KRR:ec
Enclosures as mentioned
cc: Counsel for Parties of Record

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BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE JOINT APPLICATION OF)	
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ELECTRIC COMPANY AND KENTUCKY)	
UTILITIES COMPANY FOR APPROVAL)	
OF AN ACQUISITION OF OWNERSHIP)	
AND CONTROL OF UTILITIES)	

**MOTION OF PPL CORPORATION, E.ON AG, E.ON US INVESTMENTS CORP.,
E.ON U.S. LLC, LOUISVILLE GAS AND ELECTRIC COMPANY AND
KENTUCKY UTILITIES COMPANY FOR LEAVE TO FILE SETTLEMENT
AGREEMENT AND TESTIMONY THEREON**

PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company ("Joint Applicants") hereby move the Public Service Commission ("Commission") for leave to file the enclosed Settlement Agreement, Stipulation, and Recommendation ("Settlement Agreement") and the Testimony on Settlement of Lonnie E. Bellar. In support of this Motion, the Joint Applicants state that they, the Commission staff and all of the intervenors in this proceeding met at the Commission on August 26, 27 and 30, 2010, to engage in arm's-length negotiations to settle the matters at issue in this proceeding. The Settlement Agreement that accompanies this Motion is the product of those negotiations and represents a unanimous and global settlement of the matters at issue in this proceeding. The Testimony on Settlement of Lonnie E. Bellar describes the Settlement Agreement and the process by which the parties reached it. The Joint Applicants desire to submit the Settlement Agreement and Testimony into the record of this proceeding for the Commission's consideration and approval of the proposed acquisition of E.ON U.S. LLC by PPL Corporation.

WHEREFORE, the Joint Applicants respectfully move the Commission to grant them leave to file in this proceeding the enclosed Settlement Agreement and Testimony on Settlement.

Dated: September 1, 2010

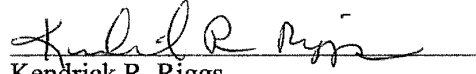
Respectfully submitted,

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Counsel and Corporate Secretary
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Louisville, Kentucky 40202
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Federal Republic of Germany
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*Counsel for E.ON AG, E.ON U.S. Investments
Corp., E.ON U.S. LLC, Louisville Gas and
Electric Company and Kentucky Utilities
Company*

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the above and foregoing Motion for Leave to File Settlement Agreement and Testimony Thereon was served, via hand delivery and electronic email, to the following persons on the 1st day of September 2010:

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Electric Company, and Kentucky Utilities
Company*

COMMONWEALTH OF KENTUCKY
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THE JOINT APPLICATION OF)
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AND CONTROL OF UTILITIES)

PUBLIC SERVICE
COMMISSION

CASE NO. 2010-00204

TESTIMONY ON SETTLEMENT OF
LONNIE E. BELLAR
VICE PRESIDENT OF STATE REGULATION AND RATES
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: September 1, 2010

1 **Q. Please state your name, position and business address.**

2 A. My name is Lonnie E. Bellar. I am the Vice President of State Regulation and Rates
3 for Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company
4 (“LG&E”) and an employee of E.ON U.S. Services Inc., which provides services to
5 LG&E and KU. My business address is 220 West Main Street, Louisville, Kentucky.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to discuss why adopting the terms of the Settlement
8 Agreement, Stipulation, and Recommendation (“Settlement Agreement”) reached by
9 all parties to these proceedings would produce a fair, just, and reasonable outcome
10 that would be in the public interest, satisfying the relevant requirement of KRS
11 278.020(6), and to recommend that the Commission incorporate all of the terms of
12 the Settlement Agreement into its final order in this proceeding. It is important to
13 note that the commitments and conditions set out in the Settlement Agreement are in
14 addition to the regulatory commitments contained in the Joint Application in this
15 proceeding, which is the most extensive and comprehensive list of such commitments
16 yet involving a change of control of LG&E and KU.¹

17 My testimony does not address PPL Corporation’s (“PPL”) financial,
18 technical, or managerial abilities to own and operate LG&E and KU (through its
19 ownership of E.ON U.S. LLC). The Joint Application and supporting exhibits,
20 testimony, and discovery responses have more than adequately shown that PPL

¹ The Joint Applicants originally offered 54 Regulatory Commitments, which were contained in Exhibit D to the Joint Application filed in this proceeding and were summarized at pages 20-28 of the Joint Application. As discussed later in my testimony, the parties have agreed in the Settlement Agreement to eliminate Regulatory Commitment No. 39, which related to a post-closing synergies study.

1 possesses those abilities, and the Settlement Agreement contains a provision pursuant
2 to which all of the parties to this proceeding have stipulated to that fact.

3 **Overview of Procedural Matters**
4 **and Settlement Agreement Negotiation Process**

5 **Q. Please describe the procedural background and posture of these proceedings.**

6 A. On April 28, 2010, PPL and E.ON AG announced a definitive agreement (the
7 Purchase and Sale Agreement, “PSA”) under which PPL would acquire E.ON U.S.
8 LLC (“E.ON U.S.”), the parent company of LG&E and KU.² By acquiring E.ON
9 U.S., PPL would acquire control over, and ownership of, LG&E and KU.

10 On May 20, 2010, PPL, E.ON AG, E.ON U.S. Investments Corp. (“EUSIC”),
11 E.ON U.S., LG&E, and KU (collectively, “Joint Applicants”) filed with the
12 Commission their notice of intent to file on May 28, 2010, a Joint Application under
13 KRS 278.020(5) and (6) for approval of the PSA.

14 On May 28, 2010, in accordance with their notice of intent, the Joint
15 Applicants filed their Joint Application in this proceeding, which, in addition to
16 seeking approval of the PSA on its own terms, contained 54 regulatory commitments
17 to ensure the proposed change of control would be in the public interest. The Joint
18 Applicants’ regulatory commitments addressed a wide array of issues, including,
19 among others, commitments to: ensure that retail customers do not pay any costs of
20 the proposed transaction;³ maintain LG&E’s and KU’s headquarters in Kentucky for

² There are no other planned changes in the corporate structure of E.ON U.S. and its subsidiaries. Although the names of the entities with “E.ON” in their current names will change after the closing, the current names of LG&E and KU will not be changed.

³ Regulatory Commitment No. 8.

1 15 years;⁴ have no planned reductions in workforce as a result of the transaction;⁵ and
2 maintain or improve current levels of community involvement, including charitable
3 contributions, for ten years.⁶

4 Several parties petitioned the Commission for intervention in this proceeding.
5 Ultimately, the Commission granted intervention to the Attorney General (“AG”);
6 Kentucky Industrial Utility Customers, Inc. (“KIUC”); The Kroger Co. (“Kroger”);
7 Kentucky School Boards Association (“KSBA”); the Community Action Council for
8 Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (“CAC”); the
9 Lexington-Fayette Urban County Government (“LFUCG”); Big Rivers Electric
10 Corporation (“BREC”); the Association of Community Ministries, Inc. (“ACM”), the
11 International Brotherhood of Electrical Workers, Local 2100 (“IBEW”); and The
12 Metropolitan Housing Coalition, Inc. (“MHC”). (The Joint Applicants and all of the
13 intervenors are collectively the “Parties.”)

14 The Parties have submitted into the record of this proceeding testimony, data
15 requests, and responses to data requests.

16 **Q. Did the Parties and Commission Staff meet to discuss a possible settlement of**
17 **these proceedings?**

18 A. Yes. The Parties and Commission Staff met at the Commission’s offices and engaged
19 in arm’s-length negotiations on August 26, 27, and 30, 2010, to discuss terms on
20 which it might be possible to reach a unanimous settlement agreement among the
21 Parties. Those negotiations were ultimately successful. Therefore, the Parties are

⁴ Regulatory Commitment No. 34.

⁵ Regulatory Commitment No. 16.

⁶ Regulatory Commitment No. 36.

1 submitting for the Commission's consideration, and are recommending the
2 Commission to adopt all of the terms of, the Settlement Agreement attached hereto as
3 Exhibit LEB-1. The Parties recommend the terms of the Settlement Agreement as a
4 fair, just, and reasonable compromise between the Parties' various interests, and
5 believe that adopting all of its terms as the final resolution of this proceeding would
6 ensure that the proposed transaction is in the public interest, more than satisfying the
7 requirements of KRS 278.020(6). The Parties have further stipulated in the
8 Settlement Agreement that the resolution of this proceeding pursuant to the
9 Settlement Agreement is in accordance with law and for a proper purpose, as
10 contemplated by KRS 278.020(6), and that PPL has the financial, technical, and
11 managerial abilities to ensure that LG&E and KU continue to provide reasonable
12 service, as required by KRS 278.020(5).

13 Because the Parties negotiated the Settlement Agreement to be a
14 comprehensive and global resolution of the issues in this proceeding, they do not
15 recommend any particular element(s) of it in isolation, but rather respectfully submit
16 that all of its terms taken together, if adopted by the Commission, would produce a
17 fair, just, and reasonable result that is very much in the public interest.

18 Recognizing that the Settlement Agreement is the product of compromise and
19 negotiation between the Parties' positions, all of which may reasonably be litigated in
20 future change of control cases, the Parties further respectfully request and recommend
21 that if the Commission determines to adopt in its final orders the terms of the
22 Settlement Agreement, it should do so with the explicit caveat that the orders should
23 not be used as precedent, either before the Commission or elsewhere.

1 Finally, the Parties respectfully request and recommend that the Commission
2 not impose any additional conditions to, or burdens upon, the proposed change of
3 control transaction or any of the Joint Applicants in approving the proposed
4 transaction. As I explain in greater detail below, the Joint Applicants have made
5 significant concessions to achieve the Settlement Agreement; any further conditions,
6 requirements, or burdens would upset the carefully crafted and balanced
7 consideration reached by the Joint Applicants and the Parties.

8 **Q. What kinds of divergent interests do the Parties represent?**

9 A. The Parties represent the entire spectrum of interests and groups present in LG&E's
10 and KU's service territories, and comprise all of the parties to these proceedings. The
11 Parties include the AG, who is tasked by statute to represent the interests of all
12 customers. All major rate classes have at least one representative among the Parties:
13 residential (CAC, ACM, and MHC), commercial (Kroger), and industrial (KIUC).
14 The Parties represent the highly varied interests of low-income customers (CAC,
15 ACM, and MHC), school districts (KSBA), businesses (Kroger), industrial companies
16 (KIUC), unions (IBEW), municipalities (LFUCG), and even other electric utilities
17 (BREC). Each of the Parties advocated vigorously for its interests, and they represent
18 collectively as broad a spectrum of the public interest as could reasonably be
19 assembled.

20 The proffered Settlement Agreement is a product of hard-fought but good-
21 faith negotiations. Although the Commission certainly must render its final orders in
22 this proceeding on the basis of all the evidence of record, the Parties respectfully
23 request the Commission to adopt the terms of the Settlement Agreement as supported

1 by substantial evidence and as a fair, just, and reasonable resolution of this
2 proceeding that satisfies all of the requirements of KRS 278.020(5) and (6).

3 **Regulatory Commitments**

4 **Q. What regulatory commitments had the Joint Applicants made before entering**
5 **into settlement negotiations?**

6 A. The Joint Applicants filed their Joint Application in this proceeding with a list of 54
7 regulatory commitments, a list longer and more comprehensive than any contained in
8 the previous applications filed for change of control of LG&E and KU, which
9 previous applications the Commission ultimately approved. As noted above, the Joint
10 Applicants' regulatory commitments included commitments to:

- 11 • ensure that retail customers do not pay any costs of the proposed
12 transaction;⁷
- 13 • maintain LG&E's and KU's headquarters in Kentucky for 15 years;⁸
- 14 • have no planned reductions in workforce as a result of the transaction;⁹
15 and
- 16 • maintain or improve current levels of community involvement, including
17 charitable contributions, for ten years.¹⁰

18 The Joint Applicants continue to believe that these regulatory commitments,
19 taken with the rest of the evidence the Joint Applicants have submitted in this
20 proceeding, are more than sufficient to demonstrate that the proposed transaction is

⁷ Regulatory Commitment No. 8.

⁸ Regulatory Commitment No. 34.

⁹ Regulatory Commitment No. 16.

¹⁰ Regulatory Commitment No. 36.

1 for a proper purpose and in the public interest (and that it satisfies the other
2 requirements of KRS 278.020(5) and (6)).

3 **Q. Given the sufficiency of the regulatory commitments the Joint Applicants made**
4 **in their Joint Application, why did the Joint Applicants enter into negotiations to**
5 **achieve the Settlement Agreement?**

6 A. Although the Joint Applicants believed the regulatory commitments were sufficient to
7 satisfy the relevant requirements of KRS 278.020(5) and (6), it has long been
8 LG&E's and KU's policy under appropriate circumstances to seek broad agreement
9 of interested parties in contested proceedings. I have been informed that PPL fully
10 supports this policy and follows the same approach in proceedings before the
11 Pennsylvania Utility Commission. This approach has the benefit of fostering
12 understanding and good will among the interested parties, and ensures the public
13 interest truly is served by having the designated, experienced representatives of
14 different interest groups speak plainly and negotiate vigorously for their respective
15 constituencies. This process has the further benefit of permitting the Joint Applicants
16 to offer certain kinds of benefits to interested parties that the Commission could not
17 order through a non-negotiated resolution to the proceeding.

18 **Base Rate Stay-Out Commitment**

19 **Q. What is an example of a benefit the Joint Applicants were able to offer the**
20 **intervenors in the Settlement Agreement that the Commission could not order**
21 **absent a settlement?**

22 A. The best example of such a benefit in the Settlement Agreement is the cornerstone of
23 the agreement, namely the base rate stay-out commitment found in Article I. The
24 commitment prevents LG&E and KU from implementing new base rates for any of

1 their utility operations before January 1, 2013, subject to limited exceptions. LG&E
2 and KU may *file* base rate cases before that date, but no new base rates may go into
3 effect before January 1, 2013.¹¹

4 **Q. Why were PPL, PPL Kentucky, LG&E, and KU willing to make a commitment**
5 **as significant as a multi-year base rate stay-out?**

6 A. As all of the Parties would acknowledge, this was the hardest-fought of the
7 concessions made; however, PPL, PPL Kentucky, LG&E, and KU all believe that an
8 agreed, negotiated outcome to this proceeding is best for all of the Parties and best
9 serves the public interest. This commitment carefully balances the interest of
10 LG&E's and KU's retail customers in rate stability with the requirement of LGE and
11 KU to have strong financial health. It clearly demonstrates PPL's commitment to
12 working in Kentucky customers' interests as LG&E's and KU's ultimate parent, as
13 well as PPL's desire to remain as the utilities' ultimate parent for a long time to come.
14 For those reasons, PPL, PPL Kentucky, LG&E, and KU were willing and able to
15 make a commitment as significant as the multi-year base rate stay-out.

16 **Q. Why are there exceptions to the stay-out commitment, and what are they?**

17 A. Although PPL, PPL Kentucky, LG&E, and KU have committed not to place new base
18 rates into effect before January 1, 2013, there must be a bound of reasonableness to
19 the commitment; that is what the exceptions to the commitment provide. First,
20 Section 1.2.1 provides that each of LG&E and KU will retain the independent right to
21 seek Commission approval to defer extraordinary and uncontrollable costs (e.g., ice
22 or wind storm costs). As we know from recent history, such costs can be quite large
23 and must be recovered if the utilities are to remain financially healthy and capable of

¹¹ Settlement Agreement Section 1.1.

1 continuing to provide excellent service. Deferring the costs in regulatory assets has
2 proven to be a reasonable and effective mechanism to recover such costs, which is
3 why the Parties have agreed to this exception to the stay-out commitment. Notably,
4 though, this exception does not include a right to seek deferral for future base rate
5 recovery of any costs of the change of control transaction (e.g., transaction costs,
6 costs to achieve savings and management retention bonuses).

7 The second exception to the stay-out commitment is in Section 1.2.2 of the
8 Settlement Agreement, which states that LG&E and KU will retain the right to seek
9 emergency rate relief under KRS 278.190(2) to avoid a material impairment or
10 damage to their credit or operations. Like the first exception, this provision ensures
11 the utilities will be able to remain financially sound during the stay-out term. It
12 would be highly imprudent and unreasonable not to have such an exception in place.

13 Section 1.2.3 of the Settlement Agreement contains the third and final
14 exception to the stay-out commitment. It provides that the stay-out commitment will
15 not apply, directly or indirectly, to the operation of any of LG&E's and KU's cost-
16 recovery surcharge mechanisms (e.g., their environmental cost recovery, fuel charge
17 cost recovery, and demand-side management mechanisms) at anytime during the
18 stay-out term. The exception specifically allows base-rate roll-ins, which are part of
19 the normal operation of such mechanisms. This is in keeping with the utilities'
20 longstanding, standard practice, and is neutral from a customer-cost perspective.

21 **Acquisition Savings Sharing Deferral**

22 **Q. What is the proposed Acquisition Savings Sharing Deferral?**

23 A. KIUC witness Lane Kollen proposed a means of potentially sharing any acquisition-
24 related savings with LG&E's and KU's customers in his pre-filed direct testimony in

1 this proceeding. Mr. Kollen named his proposed sharing methodology the
2 “Acquisition Savings Sharing Deferral” (“ASSD”).¹² Under the terms of Settlement
3 Agreement Article II, LG&E and KU have agreed to implement the ASSD, with
4 certain modifications, in exchange for the elimination of Regulatory Commitment No.
5 39 from the Joint Applicants’ Application Exhibit D.¹³ The ASSD will be
6 implemented for each of LG&E’s and KU’s utility operations (i.e., LG&E gas, LG&E
7 electric, and KU) until five calendar years from the date on which the Commission
8 approves the Settlement Agreement or the first day of the calendar year during which
9 the utility operation’s new base rates go into effect, whichever comes first.¹⁴

10 Under the modified terms of the ASSD, LG&E and KU will book a
11 corresponding regulatory liability for 50% of the revenue that any of LG&E’s and
12 KU’s utility operations earn in excess of a return on equity (“ROE”) of 10.75%.¹⁵
13 Each utility operation’s ROE will be calculated on a calendar-year basis beginning on
14 January 1, 2011, in the same manner as presented in the applications of LG&E and
15 KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly
16 stated in the Commission’s Orders in Case Nos. 2009-00548 and 2009-00549.¹⁶ Each
17 utility operation will amortize its regulatory liabilities created under the ASSD, if any,
18 in base rates for a period to be determined by the Commission in the utility
19 operation’s next base rate case.¹⁷ This will have the effect of distributing to the
20 ratepayers 50% of any utility earnings over the 10.75% benchmark.

¹² Direct Testimony of Lane Kollen on Behalf of the Kentucky Industrial Utility Customers, Inc., at 15-19.

¹³ Settlement Agreement Section 2.1.

¹⁴ Settlement Agreement Section 2.9.

¹⁵ Settlement Agreement Sections 2.3 and 2.6.

¹⁶ Settlement Agreement Section 2.2.3.

¹⁷ Settlement Agreement Section 2.7.

1 While the ASSD methodology is in effect, if the actual earned ROE for any of
2 LG&E's and KU's utility operations exceeds 10.75%, the dollar amount of the
3 deferral for the regulatory liability will be computed in the same manner as presented
4 in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549
5 (detailed in Rives Exhibit 8), modified only to the extent explicitly stated in the
6 Commission's Orders in Case Nos. 2009-00548 and 2009-00549.¹⁸ For the purposes
7 of calculating the utility operations' ROEs, all capital, capitalization, cost rates for
8 debt, operating revenue, operating expense, and net income calculations, including
9 adjustments thereto, will be performed in the same manner as presented in the
10 applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified
11 only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-
12 00548 and 2009-00549.¹⁹ This approach has the advantages of using a straight-
13 forward and well accepted method for calculating the potential regulatory liability
14 and using a transparent, but efficient process for the review of they calculation.

15 **Q. Why is the proposed ASSD in the public interest?**

16 A. The Joint Applicants had proposed a regulatory commitment that would have
17 required PPL to file with the Commission within 60 days after the closing of the
18 proposed acquisition a petition setting forth a formal analysis of any potential
19 synergies and benefits from the transaction and a proposed methodology for allotting
20 an appropriate share of the potential synergies and benefits to LG&E's and KU's
21 ratepayers.²⁰ The ASSD is in the public interest because it efficiently addresses

¹⁸ Settlement Agreement Section 2.4.

¹⁹ Settlement Agreement Sections 2.2.1 and 2.2.2.

²⁰ Regulatory Commitment No. 39.

1 several potentially time-consuming and highly contested issues: (1) whether there are
2 any possible savings created by the PPL acquisition, and if so the amount of the
3 savings and (2) whether and, if so, how customers should receive any of the savings
4 through rates. The ASSD provides a comprehensive resolution of these questions
5 without the need for protracted, costly and time-consuming proceedings and litigation
6 that can arise from investigations into estimated savings and how they should be
7 shared between customers and shareholders. The ASSD is also in the public interest
8 because it strikes an appropriate balance between the need of E.ON US, LG&E and
9 KU to focus on the management of their businesses without the potential impediment
10 of estimated savings as a measure of their success while offering customers the
11 opportunity to receive 50% of the earnings over 10.75% without a debate on the
12 cause of the earnings or the tracking of savings. For this reason, the Settlement
13 Agreement provides that the ASSD will replace that regulatory commitment.²¹

14 **Q. What filings will LG&E and KU make with the Commission concerning the**
15 **ASSD on an annual basis?**

16 **A.** LG&E and KU will file with the Commission annual applications by April 1 of each
17 year beginning on April 1, 2012, for Orders approving their ASSD calculations and
18 their annual deferral amounts, if any.²² The annual applications will include the work
19 papers and source documents for the calculations.²³ The scope of each annual review
20 by the Commission of the ASSD calculations will be limited to checking the accuracy
21 of the calculations, confirming that the source documents support the values used in

²¹ Settlement Agreement Section 2.1.

²² Settlement Agreement Section 2.5.

²³ *Id.*

1 the calculations, and ensuring that LG&E and KU have complied with the terms of
2 the Settlement Agreement.²⁴ To ensure that the scope of the review proceedings stay
3 so limited, the Parties have committed not to propose any pro forma adjustments to
4 the annual ASSD computations or determinations by the Commission that are
5 different than, or in addition to, those stated in Settlement Agreement Article II.²⁵
6 LG&E and KU will serve copies of their annual filings on the AG and KIUC, as well
7 as on any of the other Parties to the Settlement Agreement that request to be served,
8 so that interested parties have an opportunity to participate in the annual review
9 proceedings.²⁶

10 **Protection of Utility Resources**

11 **Q. What commitments have PPL, PPL Kentucky²⁷, LG&E, and KU made in the**
12 **Settlement Agreement to keep the utilities financially healthy and insulated from**
13 **PPL's general administrative costs?**

14 **A.** PPL, PPL Kentucky, LG&E, and KU have made a number of commitments to ensure
15 that the financial health of LG&E and KU is preserved following the proposed
16 acquisition, and to ensure that PPL's general administrative costs are not "pushed
17 down" to the utilities.

18 First, PPL has acknowledged in the Settlement Agreement that attempts to
19 alter LG&E's and KU's capital structures could adversely affect the utilities' cost of
20 capital and financial integrity; therefore, PPL has agreed to assist LG&E and KU to

²⁴ *Id.*

²⁵ Settlement Agreement Section 2.8.

²⁶ Settlement Agreement Section 2.5.

²⁷ For convenience, E.ON U.S. LLC is referred to herein as "PPL Kentucky" in the settlement agreement and this record to reflect the fact that the name of E.ON U.S. LLC will change following the PPL acquisition.

1 maintain balanced capital structures.²⁸ This commitment is directly aimed at
2 maintaining the financial health of the utilities, and supplements the multiple kinds of
3 reporting and review the utilities already provide, and will provide post-transaction,
4 to the Commission, including the monthly filing with the Commission of financial
5 statements, quarterly Securities Exchange Commission filings that will be required
6 post-transaction, and semi-annual environmental surcharge mechanism reviews.²⁹
7 This Settlement Agreement commitment, in addition to such Commission monitoring
8 and review filings and proceedings, should be more than adequate to ensure the
9 utilities remain financially sound and adequately supported by equity capital.

10 Second, for a period of two years following the Commission's final order
11 approving the Settlement Agreement, PPL has committed to report to the
12 Commission any credit rating agency downgrade of the debt of PPL or any of PPL's
13 Kentucky-based operating subsidiaries within 30 days of such downgrade.³⁰ In its
14 report to the Commission, PPL will supply to the Commission and all interested
15 Parties a copy of the publicly available rating agency report containing such
16 downgrade.³¹ In addition, for a period of one year following the Commission's final
17 order approving the Settlement Agreement, PPL has committed to supply to the
18 Commission and all interested Parties a copy of any and all publicly available credit
19 rating agency reports on PPL Corporation within 30 days of the issuance of such

²⁸ Settlement Agreement Section 3.1.

²⁹ See Regulatory Commitment Nos. 21 and 22.

³⁰ Settlement Agreement Section 3.5.

³¹ *Id.*

1 reports.³² These commitments will assist the Commission in monitoring the utilities'
2 ongoing financial health.

3 Third, in connection with Regulatory Commitment No. 8, LG&E and KU
4 have committed to exclude expenses, such as depreciation or amortization, if any,
5 associated with other push-down accounting adjustments when determining amounts
6 to be recovered from ratepayers, as stated in the Joint Applicants' response to KIUC
7 Data Request No. 2-2.³³ Furthermore, PPL has committed that neither it nor its
8 service company will allocate costs to LG&E or KU including, but not limited to,
9 general corporate or service company overheads, except those costs directly incurred
10 for the provision of goods or services to the utilities and that are directly assigned for
11 that purpose.³⁴ The costs for goods and services provided to LG&E and KU by PPL
12 or its service company will be determined in the same manner the costs for goods and
13 services are determined when provided to LG&E and KU by E.ON U.S. Services,
14 Inc.³⁵ These commitments protect the utilities and their customers from bearing costs
15 unrelated to benefits they receive.

16 Fourth, PPL Kentucky, LG&E and KU have committed to maintain
17 appropriate tail insurance policies and coverage levels to help ensure they will be able
18 to meet outstanding obligations following the acquisition.³⁶

19 These provisions of the Settlement Agreement supplement the provisions in
20 the regulatory commitments that address the protection of utility resources, the

³² Settlement Agreement Section 3.6.

³³ Settlement Agreement Section 3.2.

³⁴ Settlement Agreement Section 3.3.

³⁵ *Id.*

³⁶ Settlement Agreement Section 3.7.

1 monitoring of the holding company and its subsidiaries, and the adequacy of
2 reporting to the Commission.³⁷

3 **Labor- and Workforce-Related Matters**

4 **Q. How have the Joint Applicants committed in the Settlement Agreement to**
5 **protect their workforce following the proposed acquisition transaction?**

6 A. The Settlement Agreement contains two provisions that address labor and workforce
7 relations. The first is a commitment by PPL, PPL Kentucky, and LG&E that there
8 will be no reductions to the unionized workforce of LG&E as a result of the change of
9 control transaction.³⁸ This commitment complements Regulatory Commitment No.
10 16, which states that the Joint Applicants have no plan to reduce LG&E's or KU's
11 workforce as a result of the proposed transaction.

12 The second provision is a confirmation by PPL, PPL Kentucky, and LG&E
13 that Regulatory Commitment No. 11 means that PPL will honor the terms of the
14 Neutrality Agreement between LG&E and IBEW Local 2100, which was most
15 recently renewed in November 2008.³⁹

16 These provisions of the Settlement Agreement supplement the provisions in
17 the regulatory commitments that address labor and work force related matters.⁴⁰

³⁷ Those regulatory commitments are summarized at pages 20-24 of the Joint Application.

³⁸ Settlement Agreement Section 4.2.

³⁹ Settlement Agreement Section 4.1.

⁴⁰ Those regulatory commitments are summarized at page 27 of the Joint Application.

Low-Income and Charitable Matters

Q. What commitments have the Joint Applicants made in the Settlement Agreement concerning low-income and charitable interests?

A. To demonstrate their ongoing commitment to the communities they serve, and in particular the most vulnerable of the utilities' customers, the Joint Applicants have made a number of commitments in the Settlement Agreement to supplement those made in the regulatory commitments in Exhibit D to the Joint Application in this proceeding. First, in connection with Regulatory Commitment No. 36, PPL Kentucky, LG&E, and KU have agreed to extend from 10 to 15 years their commitment to maintain or improve their current level of charitable contributions.⁴¹ Also in that vein, LG&E and KU have committed to extend by two years each of their contribution commitments to the ACM/Metro Match, Wintercare, and HEA programs made in their most recent base rate cases (Case Nos. 2009-00548 and 2009-00549).⁴²

Second, PPL, PPL Kentucky, LG&E, and KU have made two commitments in the Settlement Agreement to increase and enhance stakeholder participation in low-income policy and procedure discussions. One such commitment is that as part of PPL's review of LG&E's and KU's current and potential policies and practices concerning low-income customers (Regulatory Commitment No. 43), LG&E and KU have committed to hold a series of meetings with representatives of low-income advocacy groups operating in both service territories and the AG to discuss existing and potential offerings, including PPL Electric Utilities Corporation's offerings to

⁴¹ Settlement Agreement Section 5.1.

⁴² Settlement Agreement Section 5.4.

1 low-income customers.⁴³ Another is that PPL Kentucky, LG&E, and KU have agreed
2 to alternate the meeting locations for the Customer Commitment Advisory Forum
3 (“CCAF”) between the LG&E and KU service territories, and that PPL Kentucky will
4 ensure that the membership of the CCAF will be representative of, and balanced
5 between, the entire LG&E and KU service territories, with the agendas of such
6 meetings to be drafted with input from consumer advocate groups.⁴⁴

7 Third, LG&E and KU have agreed to continue the 15-cent-per-meter charge
8 for funding the Home Energy Assistance Program for an additional three-year term
9 (i.e., through September 30, 2015), assuming the Commission approves the charge.⁴⁵
10 This program has assisted many low-income customers who have needed assistance
11 with their energy bills, and this commitment will help ensure the program has funds
12 to continue that assistance for years to come.

13 Fourth, LG&E and KU have committed to review certain existing programs to
14 assist low-income and other customers to ensure those programs are operating as well
15 as they reasonably can. To that end, LG&E has agreed to review the restrictions on
16 the administrative costs and the emergency fund portion of the ASAP program that is
17 run by Affordable Energy Corporation.⁴⁶ Also, LG&E and KU have committed to
18 review the We Care program for further improvements to better integrate it with city,
19 community action, and other similar weatherization programs.⁴⁷ Lastly, LG&E and
20 KU have committed to review, with input from low-income groups, best practices in

⁴³ Settlement Agreement Section 5.2.

⁴⁴ Settlement Agreement Section 5.3.

⁴⁵ Settlement Agreement Section 5.5.

⁴⁶ Settlement Agreement Section 5.6.

⁴⁷ Settlement Agreement Section 5.7.

1 estimating Budget Payment Plan payments to avoid high “true-up” bills, which
2 review will start no later than six months from the date of the Commission’s final
3 Order approving the Settlement Agreement.⁴⁸

4 These provisions of the Settlement Agreement supplement the provisions in
5 the regulatory commitments that address the relationships of PPL and its Kentucky
6 subsidiaries with the community, including low-income customers and charitable
7 interests.⁴⁹

8 **School-Related Matters**

9 **Q. What commitments have the Joint Applicants made in the Settlement**
10 **Agreement to address the concerns of their school customers?**

11 A. Recognizing the importance of schools to the welfare of the Commonwealth
12 generally, and their value as LG&E’s and KU’s customers, the utilities have made
13 commitments in the Settlement Agreement specifically aimed at addressing concerns
14 raised by schools through the KSBA. First, KU and LG&E have agreed to appoint an
15 account manager to act as a single point of contact for school districts and schools
16 (public and private) in each of the service areas to provide knowledgeable and timely
17 service to schools.⁵⁰ LG&E and KU have further committed that the account
18 manager will meet with KSBA representatives and the AG within 60 days after the
19 closing of the acquisition transaction to discuss and resolve where possible each of
20 the concerns listed in the KSBA testimony in this proceeding.⁵¹

⁴⁸ Settlement Agreement Section 5.8.

⁴⁹ Those regulatory commitments are summarized at pages 26-27 of the Joint Application.

⁵⁰ Settlement Agreement Section 6.1.

⁵¹ Settlement Agreement Section 6.2.

1 increased (though some programs may be discontinued or modified as needed to
2 maintain effectiveness of particular programs and overall portfolio).⁵⁴ In addition,
3 LG&E and KU will continue to use the current advisory group process to obtain
4 periodic input from interested persons regarding DSM/energy efficiency programs.⁵⁵
5 This commitment will help ensure that these popular and productive programs remain
6 effective and responsive to customers' energy efficiency needs. In that vein, LG&E
7 and KU have also committed in the Settlement Agreement to perform a cost-benefit
8 analysis concerning their proposed Energy Education Center to ensure it, too, will be
9 an overall benefit to customers.⁵⁶

10 Third, LG&E and KU have committed to advance a web-based self-service
11 portal that will offer online billing and energy data management. This offering
12 should assist customers to manage better their energy consumption and bills.
13 Additionally, LG&E and KU have agreed to work with interested parties to help such
14 parties to set up the technology and to provide user training.⁵⁷

15 Fourth, PPL and PPL Kentucky have committed in the Settlement Agreement
16 that the proposed acquisition transaction will have no effect or impact on various
17 agreements associated with the unwind and termination of the lease agreement with
18 BREC, and that the PPL Kentucky and its affiliates will continue to be bound by and
19 for the terms of those agreements.⁵⁸ None of PPL, PPL Kentucky, LG&E, and KU

⁵⁴ Settlement Agreement Section 7.2.

⁵⁵ *Id.*

⁵⁶ Settlement Agreement Section 7.6.

⁵⁷ Settlement Agreement Section 7.3.

⁵⁸ Settlement Agreement Section 7.4.

1 has any intention of doing anything other than honoring their obligations under those
2 agreements after the closing of the proposed acquisition transaction.

3 Fifth, and finally, as a further assurance that LG&E's and KU's customers
4 will be shielded from costs incurred by PPL and its other subsidiaries, PPL has
5 committed in the Settlement Agreement that no costs of the nuclear power from the
6 Susquehanna plant will be shifted to Kentucky ratepayers.⁵⁹

7 **Q. Have the Parties agreed that the Commission should approve the Joint**
8 **Application in this proceeding, as modified by the Settlement Agreement?**

9 A. Yes, the Parties have agreed that, except as modified by the Settlement Agreement,
10 the Commission should approve the Joint Application submitted in this proceeding.
11 The Joint Application demonstrates the transaction meets the regulatory criteria for
12 obtaining the approval of a change in control in ownership, including that the
13 transaction is consistent with the public interest; and the Settlement Agreement
14 provides further evidence that transaction is consistent with the public interest.

15 **Q. Except as modified by the Settlement Agreement, have the Joint Applicants**
16 **committed to honor the Regulatory Commitments they made in their Joint**
17 **Application in this proceeding?**

18 A. Yes, as noted above in my testimony the Joint Applicants have in the Settlement
19 Agreement unequivocally re-committed to the Regulatory Commitments contained in
20 Exhibit D to their Joint Application, except as modified by the Settlement Agreement.

⁵⁹ Settlement Agreement Section 7.5.

1 The Settlement Agreement has served to enhance, not detract from, the Regulatory
2 Commitments, and have made the proposed acquisition transaction undeniably in the
3 public interest.

4 **Q. Do you have a recommendation?**

5 A. Yes. The Parties respectfully recommend that the Commission approve the Joint
6 Applicants' Joint Application in this proceeding, as modified by the provisions,
7 terms, and conditions of the Settlement Agreement, to transfer ownership and control
8 of LG&E and KU to PPL (via PPL's acquisition of E.ON U.S. LLC, referred to
9 herein for convenience as PPL Kentucky) as fully satisfying all of the requirements of
10 KRS 278.020(5) and (6). The Regulatory Commitments the Joint Applicants made
11 before entering into the settlement process were the most extensive and
12 comprehensive list of such commitments yet involving a change of control of LG&E
13 and KU.⁶⁰ The Regulatory Commitments included, among others, commitments to
14 ensure that retail customers do not pay any costs of the proposed transaction;⁶¹
15 maintain LG&E's and KU's headquarters in Kentucky for 15 years;⁶² have no
16 planned reductions in workforce as a result of the transaction;⁶³ and maintain or
17 improve current levels of community involvement, including charitable contributions,
18 for ten years.⁶⁴ These commitments ensured that the proposed acquisition transaction
19 would have been in the public interest even absent the Settlement Agreement. But
20 with the Settlement Agreement's additional commitments and conditions, there is no

⁶⁰ The Regulatory Commitments are summarized at pages 20-28 of the Joint Application.

⁶¹ Regulatory Commitment No. 8.

⁶² Regulatory Commitment No. 34.

⁶³ Regulatory Commitment No. 16.

⁶⁴ Regulatory Commitment No. 36.

1 doubt that the proposed transaction meets all of the requirements of KRS 278.020(5)

2 and (6).

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

4 A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of E.ON U.S. Services, Inc., and that he has personal knowledge of the matters set forth in the foregoing testimony, and that 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 1st day of September 2010.

 (SEAL)

Notary Public

My Commission Expires:

November 9, 2010

Exhibit LEB-1

SETTLEMENT AGREEMENT, STIPULATION, AND RECOMMENDATION

This Settlement Agreement, Stipulation, and Recommendation (“Settlement Agreement”) is entered into this 1st day of September, 2010, by and among PPL Corporation (“PPL”), E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC (for convenience, E.ON U.S. LLC is referred to herein as “PPL Kentucky”), Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”) (referred to collectively herein as “the Joint Applicants”); Attorney General of the Commonwealth of Kentucky, Office of Rate Intervention (“AG”); Kentucky Industrial Utility Customers, Inc. (“KIUC”) and the interests of its participating members as represented by and through the KIUC; Lexington-Fayette Urban County Government (“LFUCG”); Big Rivers Electric Corporation (“BREC”); International Brotherhood of Electrical Workers, Local 2100 (“IBEW”); The Kroger Co. (“Kroger”); Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (“CAC”); Association of Community Ministries, Inc. (“ACM”); Kentucky School Boards Association (“KSBA”); and The Metropolitan Housing Coalition, Inc. (“MHC”), in the proceeding involving the Joint Applicants, which is the subject of this Settlement Agreement, as set forth below. (The Joint Applicants, AG, KIUC, LFUCG, BREC, IBEW, Kroger, CAC, ACM, KSBA and MHC are referred to collectively herein as the “Parties.”)

WITNESSETH:

WHEREAS, the Joint Applicants filed on May 28, 2010, with the Kentucky Public Service Commission (“Commission”) their Application and Testimony in *In the Matter of: The Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities*, and the Commission established Case No. 2010-00204 for the same (hereinafter referred to as the “acquisition proceeding”);

WHEREAS, the AG, KIUC, LFUCG, BREC, IBEW, Kroger, CAC, ACM, KSBA, and MHC have been granted intervention by the Commission in the acquisition proceeding;

WHEREAS, an informal conference in the acquisition proceeding, attended in person or by teleconference by representatives of the Parties and Commission Staff took place on August 26, 27, and 30, 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 acquisition proceeding that might be considered by the Parties to constitute reasonable means of addressing their concerns;

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

WHEREAS, it is understood by all Parties that this Settlement Agreement is a stipulation among the Parties concerning all matters at issue in the acquisition proceeding 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 Settlement Agreement;

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

WHEREAS, the Parties agree that PPL has the financial, technical, and managerial abilities to ensure that LG&E's and KU's utility operations (i.e., LG&E gas, LG&E electric, and KU) continue to provide reasonable service, as required by KRS 278.020(5);

WHEREAS, the Parties agree that resolution of the acquisition proceeding pursuant to this Settlement Agreement is in accordance with law, for a proper purpose, and is consistent with the public interest, all as contemplated by KRS 278.020(6); and

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

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

ARTICLE I. Stay-Out Commitment

Section 1.1. LG&E and KU commit to a base-rate “stay out” until January 1, 2013, such that any proposed new base rates shall not take effect before that date. Therefore, LG&E and KU may file base rate applications during 2012, but the proposed base rates shall not take effect before January 1, 2013.

Section 1.2. The terms of Section 1.1 shall not apply to the following:

Section 1.2.1. Each of LG&E and KU will retain the independent right to seek the approval from the Commission of the deferral of extraordinary and uncontrollable costs (e.g., ice or wind storm costs), but excluding any costs of the change of control transaction that is the subject matter of the acquisition proceeding (e.g., transaction costs, costs to achieve savings, and management retention bonuses).

Section 1.2.2. The utilities will retain the right to seek emergency rate relief under KRS 278.190 (2) to avoid a material impairment or damage to their credit or operations.

Section 1.2.3. The provisions in Section 1.1 shall not apply, directly or indirectly, to the operation of any of LG&E's and KU's cost-recovery surcharge mechanisms (e.g., their environmental cost recovery, fuel charge cost recovery, and demand-side management mechanisms) at any time during the term of Section 1.1, including any base-rate roll-ins, which are part of the normal operation of such mechanisms.

ARTICLE II. Acquisition Savings Sharing Deferral Methodology

Section 2.1. In exchange for eliminating Regulatory Commitment No. 39 (requiring the filing of a synergies analysis and sharing methodology) from the Joint Applicants' Application Exhibit D, LG&E and KU agree to adopt and implement the Acquisition Savings Sharing Deferral ("ASSD") methodology subject to the conditions in this Article II.

Section 2.2. The annual ASSD computations for LG&E and KU will be made on a calendar year basis beginning January 1, 2011 as follows:

Section 2.2.1. The computation of the adjusted jurisdictional revenues, expenses, and net operating income of LG&E's and KU's utility operations (i.e., LG&E gas, LG&E electric, and KU) will use the calculations in Rives Exhibit 1 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549. The following revenue and expense adjustments will be included, as applicable:

- Adjustment to eliminate unbilled revenues
- To adjust mismatch in fuel cost recovery
- To adjust base rates and FAC to reflect a full year of the base rate change and FAC roll-in

- Adjustment to eliminate Environmental Surcharge revenues and expenses
- To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in
- Off-system sales revenue adjustment for the ECR calculation
- To eliminate net brokered and financial swap revenues and expenses
- To eliminate rate mechanism revenue accruals
- To eliminate DSM revenue and expenses
- Adjustment to annualize year-end customers
- Adjustment to reflect annualized depreciation expenses
- Adjustment to reflect increases in labor and labor related costs
- Adjustment for pension, post retirement, and post employment costs
- Adjustment to reflect normalized storm damage expense
- Adjustment for injuries and damages FERC account 925
- Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016
- Adjustment to remove out-of-period items
- Adjustment to gas revenue and expenses to eliminate gas supply cost
- Adjustment to gas revenues for temperature normalization
- Prior income tax true-ups and adjustments

Section 2.2.2. The calculation of the adjusted jurisdictional capitalization, capital structure, and the cost rates for debt of LG&E or KU will use the computations as detailed in Rives Exhibit 2 and Rives Exhibit 3 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549. The following capitalization adjustments will be included, as applicable:

- Reacquired Bonds (not retired)
- Undistributed Subsidiary Earnings
- Investment in EEI
- Investments in OVEC and Other
- Trimble County Inventories
- Job Development Investment Credits
- Advanced Coal Investment Tax Credit
- Environmental Compliance Plans

Section 2.2.3. The calculation of the actual earned rate of return on common equity of LG&E and KU (i) will use the computations as detailed in Rives Exhibit 9 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549, and (ii) must reflect the adjusted jurisdictional net operating income, the adjusted jurisdictional capitalization, adjusted capital structure, and the reporting period end cost rates for debt calculated in conformity with the Section 2.2.1 and 2.2.2 computations.

Section 2.3. The threshold rate of return on common equity to be used in the ASSD methodology is 10.75%.

Section 2.4. If the actual earned rate of return on common equity for LG&E or KU, as computed in Section 2.2 is in excess of the Section 2.3 threshold rate of return on common equity, then the calculation of the revenue requirement equivalent of the excess return will be computed as detailed in Rives Exhibit 8 in the same manner as presented in the applications of LG&E and KU in Case Nos. 2009-00548 and 2009-00549, modified only to the extent explicitly stated in the Commission's Orders in Case Nos. 2009-00548 and 2009-00549.

Section 2.5. LG&E and KU will file with the Commission by April 1 of each calendar year, beginning April 1, 2012, annual applications for Orders approving their calculations in the ASSD methodology and their annual deferral amount, if any. The annual applications will include the work papers and source documents for the calculations in Section 2.2. Copies of each annual application will be served on the AG and KIUC, and to any other Party upon request. The scope of each annual review by the Commission of the calculations in the ASSD methodology will be limited to checking the accuracy of the calculations, confirming that the source documents support the values used in the calculations, and ensuring that LG&E and KU have complied with the terms of the Settlement Agreement.

Section 2.6. The Parties agree that 50% of the revenue requirement equivalent of the excess return amount for each utility operation, if any, as determined in Section 2.4 will be deferred as a regulatory liability for that utility operation pursuant to the Commission Order approving the annual deferral amount under Section 2.5.

Section 2.7. The annual ASSD deferral amount, if any, as established by the Commission Order in Section 2.5 shall be recorded by each utility operation in a regulatory liability account and returned to customers through an annual amortized amount in base rates for a period to be determined in the utility operation's next base rate case.

Section 2.8. LG&E, KU, and any intervening parties may not propose pro forma adjustments to the annual ASSD computations or determinations by the Commission different than, or additional to, those stated in Article II of this Settlement Agreement.

Section 2.9. The ASSD methodology for each of LG&E's and KU's utility operations will terminate on the earlier of the end of five calendar years or the first day of the calendar year during which new base rates go into effect for the utility operation.

ARTICLE III. Accounting and Other Financial Matters

Section 3.1. PPL acknowledges that attempts to alter LG&E's and KU's capital structures could adversely affect the utilities' cost of capital and financial integrity; therefore, PPL will assist LG&E and KU in maintaining balanced capital structures.

Section 3.2. In connection with Regulatory Commitment No. 8, LG&E and KU commit to exclude expenses, such as depreciation or amortization, if any, associated with other push-down accounting adjustments when determining amounts to be recovered from ratepayers, as stated in the Joint Applicants' response to KIUC Data Request No. 2-2.

Section 3.3. Neither PPL nor its service company will allocate costs to LG&E or KU including, but not limited to, general corporate or service company overheads, except those costs directly incurred for the provision of goods or services to the utilities and that are directly assigned for that purpose. The costs for goods and services provided to LG&E and KU by PPL or its

service company will be determined in the same manner the costs for goods and services are determined when provided to LG&E and KU by E.ON U.S. Services, Inc.

Section 3.4. With respect to Regulatory Commitment No. 6, LG&E and KU commit to obtain Commission approval prior to the transfer of any LG&E or KU Property, Plant and Equipment asset with an original book value in excess of \$1 million.

Section 3.5. For a period of two years following the Commission's final order approving this Settlement Agreement, PPL commits to report to the Commission and to the interested Parties any credit rating agency downgrade of the debt of PPL or any of PPL's Kentucky-based operating subsidiaries within 30 days of such downgrade. In its report, PPL will supply to the Commission and the interested Parties a copy of the publicly available rating agency report containing such downgrade.

Section 3.6. For a period of one year following the Commission's final order approving this Settlement Agreement, PPL will supply to the Commission and the interested Parties a copy of any and all publicly available credit rating agency reports on PPL Corporation within 30 days of issuance.

Section 3.7. PPL Kentucky, LG&E and KU commit to maintain appropriate tail insurance policies and coverage levels following the consummation of the change of control transaction.

ARTICLE IV. Labor- and Workforce-Related Matters

Section 4.1. PPL, PPL Kentucky, and LG&E confirm that Regulatory Commitment No. 11 means that PPL will honor the terms of the Neutrality Agreement between LG&E and IBEW Local 2100, which was most recently renewed in November 2008.

Section 4.2. PPL, PPL Kentucky, and LG&E commit that there will be no reductions to the unionized workforce of LG&E as a result of the change of control transaction.

ARTICLE V. Low-Income and Charitable Matters

Section 5.1. In connection with Regulatory Commitment No. 36, PPL Kentucky, LG&E, and KU agree to extend the term of the charitable contribution commitment from 10 years to 15 years.

Section 5.2. As part of PPL's review of current and potential policies and practices concerning low-income customers (Regulatory Commitment No. 43), LG&E and KU commit to hold a series of meetings with representatives of low-income advocacy groups operating in both service territories, including those groups who have intervened in the acquisition proceeding and the AG (if available), to discuss existing and potential offerings, including PPL Electric Utilities Corporation's offerings to low-income customers.

Section 5.3. PPL Kentucky, LG&E, and KU agree that the meeting locations for the Customer Commitment Advisory Forum ("CCAF") will be alternated between LG&E and KU service territories, and that PPL Kentucky will ensure that the membership of the CCAF will be representative of, and

balanced between, the entire LG&E and KU service territories. The agendas for CCAF meetings will be drafted with input from consumer advocate groups.

Section 5.4. LG&E and KU commit that the level of charitable contributions in Regulatory Commitment No. 36 includes an extension by two years of each of the contribution commitments LG&E and KU made to the ACM/Metro Match, Wintercare, and HEA programs in their most recent base rate cases (Case Nos. 2009-00548 and 2009-00549).

Section 5.5. LG&E and KU agree to continue the 15-cent-per-meter charge for funding the Home Energy Assistance Program for an additional three-year term (i.e., through September 30, 2015).

Section 5.6. LG&E agrees to review the restrictions on the administrative costs and the emergency fund portion of the ASAP program that is run by Affordable Energy Corporation.

Section 5.7. LG&E and KU commit to review the We Care program for further improvements to better integrate it with city, community action, and other similar weatherization programs.

Section 5.8. LG&E and KU commit to review best practices in estimating Budget Payment Plan payments to avoid high “true-up” bills. This review will be conducted with input from representatives of low-income advocacy groups operating in both of LG&E’s and KU’s service territories, including those groups who have intervened in the acquisition proceeding, and will start no

later than six months from the date of the Commission's final Order approving the Settlement Agreement.

ARTICLE VI. School-Related Matters

Section 6.1. KU and LG&E will appoint an account manager to act as a single point of contact for school districts and schools (public and private) in each of the service areas to provide knowledgeable and timely service to schools.

Section 6.2. The account manager will meet with KSBA representatives and the AG (if available) within 60 days after the closing of the acquisition to discuss and resolve where possible each of the concerns listed in the KSBA testimony in the acquisition proceeding.

Section 6.3. KU commits to maintain an AES tariff as long as a separate tariff is justified by cost of service studies.

ARTICLE VII. Other Matters

Section 7.1. PPL Kentucky, LG&E, and KU agree to consult with the KIUC and the AG (if available) concerning economic development issues.

Section 7.2. PPL, PPL Kentucky, LG&E, and KU commit that there will be no erosion of LG&E's and KU's commitment to DSM/energy efficiency programs, and that [i] the overall scope of the existing programs will be maintained or increased (though some programs may be discontinued or modified as needed to maintain effectiveness of particular programs and overall portfolio), and [ii] LG&E and KU will continue to use the current advisory group process to obtain periodic input from interested persons regarding DSM/energy efficiency programs.

Section 7.3. LG&E and KU commit to advancing a web-based self-service portal that will offer online billing and energy data management. Additionally, LG&E and KU will work with interested parties to set up the technology and provide user training.

Section 7.4. PPL and PPL Kentucky commit that the proposed acquisition transaction will have no effect or impact on various agreements associated with the unwind and termination of the lease agreement with BREC (including agreements between PPL Kentucky, on the one hand, and Century Aluminum of Kentucky General Partnership, Century Aluminum Company, Alcan Corporation, and/or Alcan Primary Products Corporation, on the other hand), and that PPL Kentucky and its affiliates will continue to be bound by and for the terms of their respective agreements with BREC, Century Aluminum of Kentucky General Partnership, Century Aluminum Company, Alcan Corporation, , and Alcan Primary Products Corporation .

Section 7.5. PPL commits that no costs of the nuclear power from the Susquehanna plant will be shifted to Kentucky ratepayers.

Section 7.6. LG&E and KU commit to perform a cost-benefit analysis of the proposed Energy Education Center.

ARTICLE VIII. Miscellaneous Provisions.

Section 8.1. Except as specifically stated otherwise in this Settlement Agreement, the Parties agree that making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any Party hereto that any

computation, formula, allegation, assertion, or contention made by any other Party in these proceedings is true or valid.

Section 8.2. The Parties agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed herein and are consistent with the public interest for purposes of approving the PPL acquisition pursuant to KRS 278.020(6).

Section 8.3. The Parties agree that, following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission by September 1, 2010, together with a recommendation that the Commission enter its Orders on or before September 30, 2010 implementing the terms and conditions herein to become effective on consummation of the PPL acquisition.

Section 8.4. Each signatory waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Settlement Agreement, and each signatory further stipulates and recommends that the application (including the Regulatory Commitments in Exhibit D thereto), testimony, pleadings, and responses to data requests filed in the acquisition proceeding be admitted into the record (subject to all pending Petitions for Confidential Treatment and all applicable Confidentiality Agreements) and approved as filed, except as modified by this Settlement Agreement. The Parties stipulate that after the date of this Settlement Agreement they will not otherwise contest the Joint Applicants' application in the acquisition proceeding, as modified by this Settlement Agreement, during the hearing

of the acquisition proceeding, and that they will refrain from cross-examination of the Joint Applicants' witnesses during the hearing, except insofar as such cross-examination is of the witness offered by the Joint Applicants to support the Settlement Agreement.

Section 8.5. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved.

Section 8.6. 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 8.7. The Parties agree that if the Commission does not implement in its Order(s) in the acquisition proceeding all of the terms recommended herein, or if the Commission in its Order(s) in the acquisition proceeding adds or imposes additional conditions or burdens upon the proposed acquisition transaction or upon any or all of the Joint Applicants that are unacceptable to any or all of the Joint Applicants, then: (a) this Settlement Agreement 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 Settlement Agreement; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement

negotiations shall be binding on any of the Parties to this Settlement Agreement or be construed against any of the Parties.

Section 8.8. The Parties agree that this Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

Section 8.9. The Parties agree that this Settlement Agreement shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

Section 8.10. The Parties agree that this Settlement Agreement 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 Settlement Agreement.

Section 8.11. The Parties agree that, for the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation. The Parties further agree that: (1) PPL has the financial, technical, and managerial abilities to ensure that LG&E and KU continue to provide reasonable service, as required by KRS 278.020(5); and (2) the resolution proposed herein is in accordance with law, for a proper purpose, and is consistent with the public interest, all as contemplated by KRS 278.020(6).

Section 8.12. The Parties agree that neither the Settlement Agreement nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

Section 8.13. The signatories hereto warrant that they have informed, advised, and consulted with the Parties they represent in the acquisition proceeding in regard to the contents and significance of this Settlement Agreement, and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the Parties they represent.

Section 8.14. The Parties agree that this Settlement Agreement is a product of negotiation among all Parties, and that no provision of this Settlement Agreement shall be strictly construed in favor of, or against, any Party. Notwithstanding anything contained in this Settlement Agreement, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of LG&E and KU are unknown and that, if implemented, this Settlement Agreement shall be implemented as written.

Section 8.15. The Parties agree that this Settlement Agreement may be executed in multiple counterparts.

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

PPL Corporation

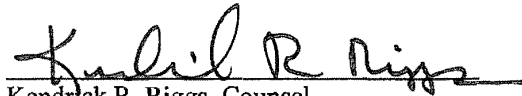
E.ON AG, E.ON US Investments Corp.,
E.ON U.S. LLC, Louisville Gas and Electric
Company and Kentucky Utilities Company

HAVE SEEN AND AGREED:

HAVE SEEN AND AGREED:



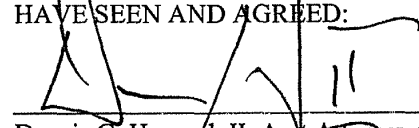
Richard Northern, Counsel
Robert J. Grey, General Counsel
Paul E. Russell, Associate General Counsel



Kendrick R. Riggs, Counsel
John R. McCall, General Counsel
Allyson K. Sturgeon, Sr Corporate Attorney

Attorney General of the Commonwealth
of Kentucky, Office of Rate Intervention

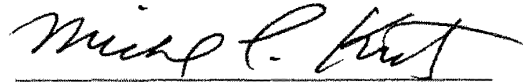
HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "Dennis G. Howard, II", written over a horizontal line.

Dennis G. Howard, II, Asst Attorney General
David Edward Spenard, Asst Attorney General
Lawrence W. Cook, Asst Attorney General

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

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

David F. Boehm, Counsel
Michael L. Kurtz, Counsel

AUG-31-10 03:54PM FROM-LFUCG LAW

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Lexington-Fayette Urban
County Government

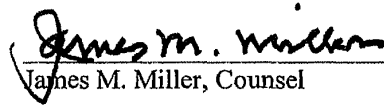
HAVE SEEN AND AGREED:

David J. Barberie Subject

David J. Barberie, Counsel to
Leslye M. Bowman, Director of Litigation *Particular*
Approval by Lexington Fayette
Urban County Council

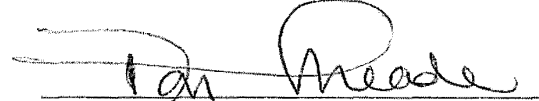
Big Rivers Electric Corporation

HAVE SEEN AND AGREED:


James M. Miller, Counsel

International Brotherhood of Electrical
Workers, Local 2100

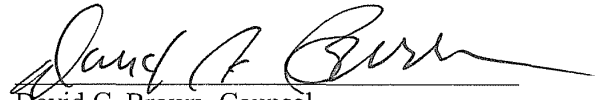
HAVE SEEN AND AGREED:



Don C. Meade, Counsel

The Kroger Co.

HAVE SEEN AND AGREED:



David C. Brown, Counsel

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

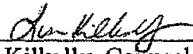
HAVE SEEN AND AGREED:



Iris G. Skidmore, Counsel

Association of Community Ministries, Inc.

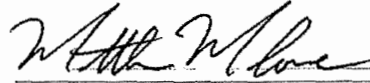
HAVE SEEN AND AGREED:



Lisa Kilkelly, Counsel
Eileen Ordoover, Counsel

Kentucky School Boards Association

HAVE SEEN AND AGREED:

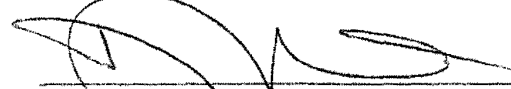
A handwritten signature in black ink, appearing to read "Matthew R. Malone", is written over a horizontal line.

Matthew R. Malone, Counsel

William H. May, II, Counsel

The Metropolitan Housing Coalition, Inc.

HAVE SEEN AND AGREED:



Tom Fitzgerald, Counsel