COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

VERIFIED JOINT APPLICATION OF LOUISVILLE	**)**
GAS AND ELECTRIC COMPANY AND	**)**
KENTUCKY UTILITIES COMPANY FOR A	**) CASE NO. 2013-00171**
REGULATORY ACCOUNTING ORDER	**)**

JOINT RESPONSES OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S
FIRST REQUESTS FOR INFORMATION

DATED JUNE 10, 2013

FILED: June 21, 2013

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Daniel K. Arbough

Daniel K. Arbough

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 21st day of June 2013.

Rhonda J. Anders (SEAL)
Notary Public

My Commission Expires:

August 31, 2015

LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY

Joint Response to Commission Staff's
First Request for Information Dated June 10, 2013

Case No. 2013-00171

Question No. 1

Witness: Daniel K. Arbough

Q-1. Identify the trustees or administrators of the LG&E Company Bargaining Employees' Retirement Plan and the LG&E and KU Retirement Plan.

A-1. For both the LG&E Company Bargaining Employees' Retirement Plan and the LG&E and KU Retirement Plan, the trustee is BNY Mellon and the record keeper is Mercer HR Services, LLC. LG&E and KU Energy LLC is the Administrator for the LG&E and KU Retirement Plan. Louisville Gas and Electric Company is the Administrator for the LG&E Company Bargaining Employees' Retirement Plan.

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Question No. 2

Witness: Daniel K. Arbough

Q-2. The Companies have requested an order by August 5, 2013 in this matter. Provide the absolute latest date the Commission could approve the Companies' request in order for them to finalize the lump-sum payment program by year-end.

A-2. The requested date for the order could be extended from August 5, 2013, to August 12, 2013, at the latest to accomplish the lump-sum payment program by year-end. The August 12, 2013 date is needed to allow Mercer HR Services, LLC adequate time for system programming, calculating lump-sum amounts, training call center staff, generating and mailing the announcement letter, election kits, and reminder letter, processing the elections, recalculating the lump sums based on the new interest rate, and issuing payments by year-end. It is important to complete the process by year-end to avoid the 2014 Pension Benefit Guaranty Corporation premium costs and trustee fees, which are calculated based on the number of participants in the pension plans at year-end. If the order is issued after August 12, 2013, it may jeopardize the Companies' ability to achieve the activities and timeline outlined in the Application by year-end.

LOUISVILLE GAS AND ELECTRIC COMPANY
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Joint Response to Commission Staff's
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Question No. 3

Witness: Daniel K. Arbough

Q-3. Refer to numbered paragraph 8 of the application which states:

> Until December 31, 2005, each employee hired by the Companies became eligible to participate in a defined benefit pension plan. Employees were enrolled in one of two plans. First, the LG&E Company Bargaining Employees' Retirement Plan ("LG&E Union Plan") was offered to LG&E's union employees. Second, the LG&E and KU Retirement Plan was offered to all other LG&E and KU employees (i.e., LG&E's non-union employees, all KU employees, LG&E and KU Services Company employees, and Western Kentucky Energy Corp. non-union employees). The Retirement Plans include active workers, retirees, and individuals who have left the Companies. Currently, there are approximately 2,800 participants in the LG&E Union Plan and approximately 5,300 in the LG&E and KU Retirement Plan.

a. Provide the current level of funding for each retirement plan.

b. Provide the expected level of funding for each retirement plan after the voluntary election.

c. State whether the purpose of the voluntary election is to improve pension funding, and if so, explain how the pension funding will be improved.

A-3.

a. The funded status ratio for the LG&E Union Plan and LG&E and KU Retirement plan as of December 31, 2012 was 87% and 72%, respectively. In January 2013 contributions were made to the LG&E Union Plan of $10.6 million and LG&E and KU Retirement Plan of $139.3 million. As a result, the funding status increased to approximately 90% for the LG&E Union Plan and 85% for the LG&E and KU

Retirement Plan. Please see the chart below showing the funded status ratio as of December 31, 2012 and the impact of the pension contributions in January 2013.

	As of 12/31/2012	Add: Jan 2013 Contribution	Post Contribution
LG&E Union Plan			
Assets	$287.5	$10.6	$298.1
PBO	$331.7		$331.7
Funded Status	87%		90%
LG&E and KU Retirement Plan			
Assets	$780.2	$139.3	$919.5
PBO	$1,081.5		$1,081.5
Funded Status	72%		85%

b. Exhibit D to the Application shows the Uniform Take Rate scenarios for the LG&E Union Plan and LG&E and KU Retirement Plan. Assuming a 60% Uniform Take Rate, the funded status ratio (post the January 2013 contribution) would decrease from 90% to 89% for the LG&E Union Plan and from 85% to 84% for the LG&E and KU Non-Union Plan. Please see chart below showing the expected funding status for each retirement plan after the voluntary election.

	Post Contribution	60% Take Rate Impact	Post Election
LG&E Union Plan			
Assets	$298.1	($20.3)	$277.8
PBO	$331.7	($19.8)	$311.9
Funded Status	90%		89%
LG&E and KU Retirement Plan			
Assets	$919.5	($47.3)	$872.2
PBO	$1,081.5	($46.6)	$1,034.9
Funded Status	85%		84%

c. The purpose of the voluntary election is not to improve pension funding, but to mitigate certain risks associated with pension plan expenses.

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Question No. 4

Witness: Daniel K. Arbough

Q-4. Refer to numbered paragraph 11 of the application which states "the Companies expect to create some savings over time."

a. Identify and quantify the savings that are referred to in this statement.

b. Define what time frame is being referred to in the statement.

A-4.

a. As noted in paragraph 15 of the application, the savings result from the reduction in administrative costs of the plan. Annual PBGC premiums are currently $42 per participant and will increase to $49 per participant in 2014 and with inflation thereafter. This cost and associated increase will be avoided if a participant elects a lump-sum payment. The trustee also charges annual fees of approximately $49 per participant for its services which include distributing monthly checks and providing tax forms to participants. Once again, these charges are avoided if a participant elects to accept the lump-sum offer. The present value of these savings are shown in Exhibit E of the application. The present value of the savings exceeds the costs associated with implementing the Lump-Sum Option at each take rate as displayed in the attachment to this response. These economic benefits are in addition to the risk-mitigating benefits detailed in the application. Customers stand to gain from both economic and risk-mitigating benefits.

b. These savings start when the participant is paid the lump sum and accrue each month the participant would have otherwise received payments. The present value calculations assume the same mortality as used in calculating the pension liability and the lump sum amounts.

LG&E and KU
Lump-Sum Option
Summary of Benefits/(Costs)

($ millions)

Take Rate	Payment in Excess of Booked Liability		Implementation Costs	PV of Savings		Net Savings
	Union	Non-Union		Union	Non-Union	
40%	(0.3)	(0.4)	(0.3)	0.4	1.0	0.4
50%	(0.4)	(0.6)	(0.3)	0.5	1.3	0.5
60%	(0.5)	(0.7)	(0.3)	0.5	1.6	0.6
65%	(0.6)	(0.7)	(0.3)	0.6	1.7	0.7
70%	(0.6)	(0.8)	(0.3)	0.6	1.8	0.7
100%	(0.8)	(1.2)	(0.3)	0.9	2.6	1.2

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Question No. 5

Witness: Daniel K. Arbough

Q-5. Refer to numbered paragraph 16 of the application. Provide a comparison of the current corporate bond rates and 30-year Treasury rates, and the impact using corporate bond rates instead of 30-year Treasury rates will have on lump-sum payments to recipients.

A-5. The corporate bond rates prescribed by IRC Section 417(e)(3) are broken into three segments with the cash flows in each segment discounted by the corresponding rate. The average corporate bond rates and 30 year Treasury rates for May 2013 are shown below:

30-year Treasury rate	3.11%
Corporate bond rates	
1-5 years	0.97%
5-20 years	3.76%
20 years and beyond	5.01%

The Pension Protection Act of 2006 requires that all lump sum offers be made using corporate bond rates. The impact of using the 30-year Treasury rates on the lump-sum payments is not available and requires original work by actuaries. The calculation of this information by the actuarial firm would cost approximately $10,000 and take 1-2 weeks.

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Question No. 6

Witness: Daniel K. Arbough

Q-6. Refer to numbered paragraph 19 of the application.

a. State whether the Companies still plan to proceed with the lump-sum payments if the Commission does not authorize regulatory treatment as requested. If so, explain.

b. Describe the eligibility requirements for terminated vested employees ("TVEs") to qualify for the lump-sum payment program.

c. State whether the approximately 1,500 eligible TVEs represent the total number of TVEs in the plans.

d. Provide the number of TVEs for each plan.

A-6.

a. The recognition of the existing regulatory asset over time along with the costs associated with paying the lump sums are prudent costs of service that should be recovered from rate payers. The Companies are not prepared to proceed with the lump-sum payment plan in its current form absent certainty on the regulatory accounting treatment given the potential magnitude of the Settlement Charges.

The request in this application to maintain regulatory asset treatment is based on settlement accounting requirements identified in Data Response No. 1-12 and the FERC accounting directives identified in the Application. The Commission's Orders in Case Nos. 2003-00433 and 2003-00434 approved the Companies' requests to establish the regulatory assets. Since then, in their last three rate cases, the Companies' test year pension expenses and associated regulatory assets and liabilities were calculated in accordance with the FERC directives. The application does not seek the establishment of a *new* regulatory asset of expenses to be treated as capital cost for an extraordinary, nonrecurring expense which could not have reasonably been anticipated such as the cost to restore an electrical system damaged from a tornado or an ice-storm. In this case, the vast majority of the costs associated with this program are already included in existing regulatory assets previously recognized in the Companies' last four base rate cases. Thus, this is largely a request to preserve existing treatment. The Companies are requesting the accounting order so that the timing of the recognition of the Settlement Charges, amortized over time, matches the corresponding reduction in pension expense and associated savings and risk-mitigation benefits resulting from the proposed program. This nonrecurring expense over time will result in savings that fully offset the costs.

In addition, the Companies are proposing an action that is optional and benefits rate payers, and should not incur an estimated $7.5 million charge for implementing programs such as this which provide economic and risk-mitigation benefits to customers.[1] Absent the requested relief, the Companies may consider a restructured offer that would be done in multiple steps which would have higher implementation costs and is less efficient. If the relief requested is granted, the net benefits to customers will be greater because the proposed lump-sum program is more efficient and less costly than other alternatives.

b. The lump-sum payment program will be offered to the following individuals that have a vested benefit under the LG&E Company Bargaining Employees' Retirement Plan or the LG&E and KU Retirement Plan and have not yet started receiving their monthly retirement annuity payment:
   - Former employees that terminated employment with the Company on or before June 30, 2013
   - Surviving spouses of deceased employees of the Company deceased on or before June 30, 2013
   - Ex-spouses (in accordance with the terms of a Qualified Domestic Relations Order) of former employees that terminated employment with the Company on or before June 30, 2013.

c. The TVEs described in item 6b above represent the total number of TVEs in the plans as of June 14, 2013. The only TVEs excluded from the program would be former employees that terminate employment on or after July 1, 2013, surviving spouses of employees deceased on or after July 1, 2013, or ex-spouses (in accordance with the terms of a Qualified Domestic Relations Order) of former employees that terminate employment on or after July 1, 2013.

d. As of June 14, 2013, the number of TVEs in each plan is as follows:
   - 407 TVEs in the LG&E Company Bargaining Employees' Retirement Plan
   - 1,004 TVEs in the LG&E and KU Retirement Plan

[1] The $7.5 million charge is an example and illustrates the effect of a sixty percent take rate on the LG&E Union Plan.

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Question No. 7

Witness: Daniel K. Arbough

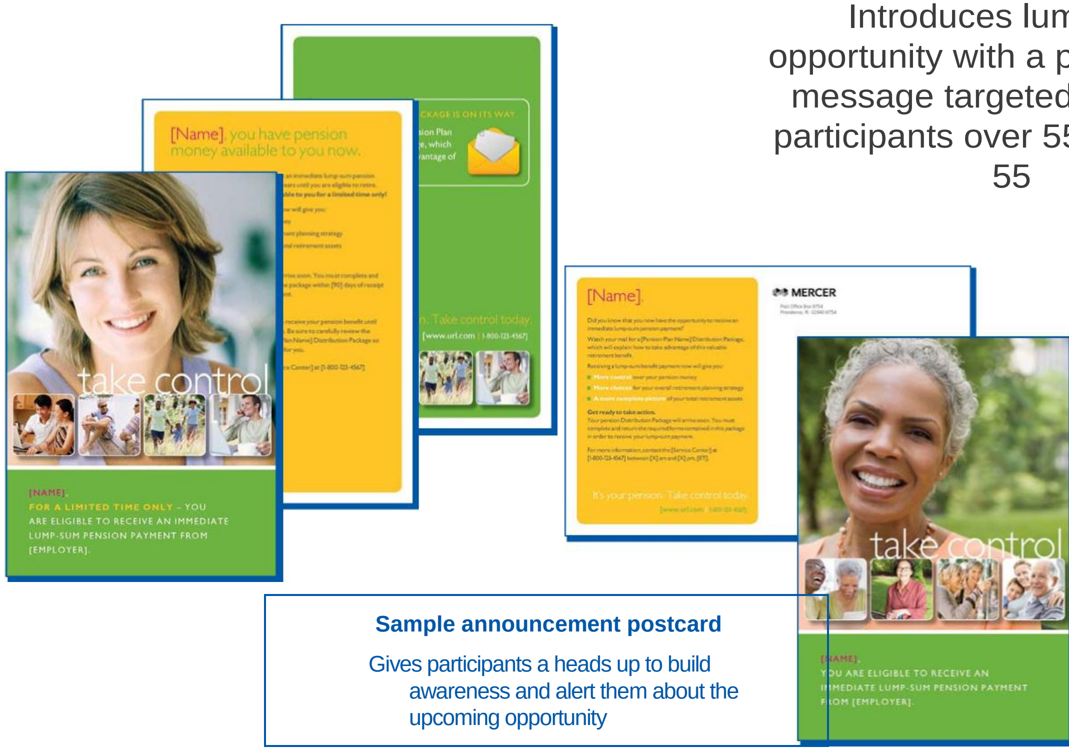
Q-7. Refer to numbered paragraphs 21 and 22 of the application. Provide examples of the announcement letter and election kits to be sent to the TVEs.

A-7. Please see attached example of the announcement letter and election kit that will be sent to the TVEs. The actual announcement letter and election kit are in the process of being drafted by Mercer HR Services, LLC.

Sample Announcement Letter

Announcement Postcard – Standard Communications Package

Introduces lump sum opportunity with a personalized message targeted to eligible participants over 55 and under 55



Sample announcement postcard

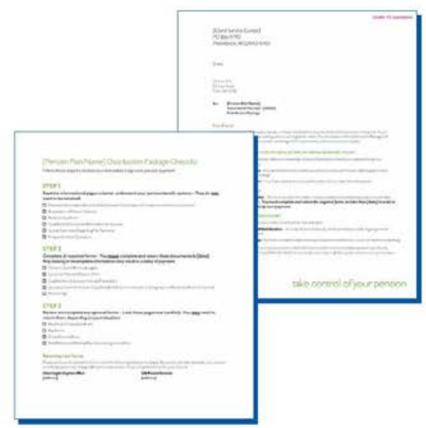
Gives participants a heads up to build awareness and alert them about the upcoming opportunity

PPL companies

Sample Election Form

Distribution Package – Standard Communications Package

Includes a personalized letter highlighting the considerations of taking a lump sum payment now, along with an easy-to-follow checklist



LG&E KU
PPL companies

LOUISVILLE GAS AND ELECTRIC COMPANY
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Question No. 8

Witness: Daniel K. Arbough

Q-8. Refer to numbered paragraph 23 of the application. State whether the companies have made preliminary calculations of the potential amount of the lump-sum payments under various take rates. Provide the results of the preliminary calculations.

A-8. The amounts shown in Exhibit D of the application in the row labeled "Fair value of assets settled" are the estimates of the lump-sum payments under the various take rates.

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Joint Response to Commission Staff's
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Case No. 2013-00171

Question No. 9

Witness: Daniel K. Arbough

Q-9. Refer to numbered paragraph 24 of the application, which states, "The Companies will issue payments approximately four weeks after the election deadline to those individuals who elect to participate in the Lump-Sum Payment Option." If a TVE elects the Lump-Sum Payment Option, explain whether this option can be rolled-over to a TVE's personal retirement fund without penalty or tax effect.

A-9. Pursuant to the terms of the plans and the Internal Revenue Code Section 402(c), a participant may directly or indirectly roll over all or a portion of the distribution that would otherwise be subject to income tax.

LOUISVILLE GAS AND ELECTRIC COMPANY
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Case No. 2013-00171

Question No. 10

Witness: Daniel K. Arbough

Q-10. Refer to numbered paragraph 25 of the application, which states, "...the 'take rate' for the Lump-Sum Payment Option will be between forty and sixty percent.'' Provide the number of TVEs within various age ranges (example, ages 26-30, ages 31- 35, ages 36-40, etc.) that are eligible for voluntary election.

A-10. The table below provides the age range information for the TVEs eligible for the program as of June 14, 2013:

Age Category	LG&E and KU Retirement Plan	LG&E Company Bargaining Employees Retirement Plan	Total of Both Plans
26 to 30	1	0	1
31 to 35	6	0	6
36 to 40	34	4	38
41 to 45	95	4	99
46 to 50	230	22	252
51 to 55	303	151	454
56 to 60	210	156	366
61 to 65	92	59	151
65+	33	11	44
Total	1,004	407	1,411

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Case No. 2013-00171

Question No. 11

Witness: Daniel K. Arbough

Q-11. Provide separately for LG&E and KU the estimated impact on their 2013 earnings and rate of return if regulatory treatment is not granted and the lump-sum payments are made.

A-11. As discussed in Data Response No. 1-6, the request in this application to maintain existing regulatory asset treatment is based on settlement accounting requirements identified in Data Response No. 1-12 and the FERC accounting directives identified in the Application. The Companies are requesting the accounting order so that the timing of the recognition of the Settlement Charges, amortized over time, matches the corresponding reduction in pension expense resulting from implementing the proposed program and to achieve the associated savings and risk-mitigation benefits. This nonrecurring expense over time will result in savings that fully offset the costs.

If regulatory accounting treatment is not granted and the lump-sum payments are made at the estimated 60% uniform take rate for both plans, the estimated increase in pension expense (settlement charge) for 2013 for LG&E and KU is $7.5 million and $0, respectively. This amount would be allocated between capital and expense. The after-tax increase in expense at LG&E would reduce the rate of return by approximately .25%.

At a 100% uniform take rate, the estimated increase in pension expense (settlement charge) for 2013 for LG&E and KU is $21.5 million and $13.4 million, respectively. These amounts do not add to the aggregate totals shown in Exhibit D of the application because a portion of the settlement charge from the LG&E and KU Retirement Plan will be allocated to companies other than LG&E and KU. The settlement charge would be allocated between capital and expense. The after-tax increase in expense at LG&E would reduce the rate of return by approximately .65% while KU's rate of return would be reduced by .25%.

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Question No. 12

Witness: Daniel K. Arbough

Q-12. Refer to Exhibit D, pages 1 and 2, of the application.

a. Under the section titled "Estimated impact of lump sum window," provide the derivation of the amounts shown in the 100 percent column for "Projected benefit obligation settled" and "Fair value of assets settled."

b. Under the section titled "Amounts recognized in accumulated other comprehensive income," provide the derivation of the amounts shown for "Prior service cost" and "Unrecognized loss (gain)."

c. Under the section titled "One-time accounting impact," provide the derivation of the amounts shown for "Estimated settlement threshold'' and "Percentage of obligation settled."

d. Under the section titled "One-time accounting impact," explain the line reference "Settlement accounting triggered?"

e. Under the section titled 'One-time accounting impact," confirm that the line referenced as "One-time settlement charge" represents the estimated amount that the Companies are requesting be granted regulatory asset treatment for the take rates provided.

f. For each uniform take rate shown for each plan, provide the amount paid to participants that is in excess of the booked liability for the participants.

A-12.

The attached excel file shows the derivation of many of the items discussed in the responses below.

a. The "Projected benefit obligation settled" in the 100 percent column is the PBO included in the accounting pension liability based on 1,500 TVEs at December 31, 2012. It is the present value of the expected future benefit payments to be paid to the TVE's using the discount rate prescribed by GAAP. The "Fair value of assets settled" is the amount of the lump sums that would be paid to 1,500 TVE's if all elected to accept the offer. It is the present value of the expected future benefit payments to be paid to the TVE's using the corporate bond curve required by IRC Section 417(e) as the discount rate.

b. For the LG&E Company Bargaining Employees' Retirement Plan the amounts shown in "Prior service cost" and "Unrecognized loss (gain)" are the amounts calculated by the actuary at December 31, 2012. The sum of these amounts is booked in LG&E's Regulatory Assets (account 182.3). At December 31, 2012, this amount was $140.3 million.

   For the LG&E and KU Retirement Plan, the amounts shown in "Prior service cost" and "Unrecognized loss (gain)" are also the amounts calculated by the actuary at December 31, 2012. LG&E and KU's share of the sum of these amounts are shown in Regulatory Assets (account 182.3). At December 31, 2012, this amount was $80.2 million for the LG&E Non-Union portion and $136.0 million for the KU portion. The remaining $121.9 million of the total $338.1 million presented on Attachment D of the application for this plan are allocated to other companies in the LG&E and KU Energy LLC group.

c. The amounts shown for "Estimated settlement threshold" are the sum of the service cost and interest cost components of the estimated 2013 pension expense. As noted in paragraph 31 of the application, Settlement Charges are triggered when the lump-sums paid by either one of the individual plans exceed the sum of that plan's service cost plus interest cost in the year the lump sums are paid. The relevant accounting guidance for the calculation of the Settlement Charges is found in ASC 715-30-35-79 through 715-30-35-83. A copy of the accounting guidance is attached to this data response.

   The "Percentage of obligation settled" is derived by:

   1. Calculating the new PBO by adding a) the "Projected benefit obligation" (which is the benefit obligation prior to the settlement) and b) the "Balance sheet impact".

2. Dividing the "Fair value of assets settled" (this is the amount of the lump sum payments) by the new PBO amount from step 1 above.

d. The "Settlement accounting triggered" line refers to whether the lump-sums paid out during the year have exceeded the sum of the service cost component plus the interest cost component of the pension expense.

e. The line referenced as "One-time settlement charge" represents the estimated amount that the companies are requesting be granted regulatory asset treatment. This number is calculated by:

    1. Adding a) the "Unrecognized loss (gain)" line plus b) the "Balance sheet" impact" to arrive at a new "Unrecognized loss (gain)"
    2. Multiplying a) the result from step one above times b) the "Percentage of obligation settled" line for each respective take rate. If the lump-sum payment option was not offered the vast majority of this "One-time settlement charge" would be recognized through pension expense over time, just as it would be if treated as a regulatory asset if approved in this case. The only incremental expense would be the amount shown in the "Balance sheet impact" line which should be more than offset by plan administration cost savings. The revised Exhibit D attached hereto illustrates the change in the regulatory assets under each take rate assuming the accounting regulatory asset order is not approved and assuming it is approved. For the LG&E and KU Retirement Plan, the sum of the changes in the regulatory assets for KU and LG&E do not add to the total amount for the plan as other companies in the LG&E and KU Energy LLC group are allocated a portion of the costs.

f. For each uniform take rate shown in Exhibit D, the amount paid to participants that is in excess of the booked liability for the participants is shown in the row labeled "Balance sheet impact."

715-30 Defined Benefit Plans—Pension

Settlements

35-79 *The maximum gain or loss subject to recognition in earnings when a pension obligation is settled is the net gain or loss remaining in accumulated other comprehensive income plus any transition asset remaining in accumulated other comprehensive income from initial application of this Subtopic. That maximum amount includes any gain or loss first measured at the time of settlement. The maximum amount shall be recognized in earnings if the entire projected benefit obligation is settled. If only part of the projected benefit obligation is settled, the employer shall recognize in earnings a pro rata portion of the maximum amount equal to the percentage reduction in the projected benefit obligation. If the purchase of a participating annuity contract constitutes a settlement under the guidance in paragraphs 715-30-35-85 through 35-89, the maximum gain (but not the maximum loss) shall be reduced by the cost of the participation right before determining the amount to be recognized in earnings.*

35-80 *See Example 2 (paragraph 715-30-55-202) for illustrations of the settlement related guidance presented in this Subsection.*

35-81 *Plan assets and the projected benefit obligation shall be measured as of the date the settlement occurs (that is, as of the date that the criteria for a settlement are met and settlement accounting becomes appropriate) to determine the maximum gain or loss subject to pro rata recognition in earnings and the percentage reduction in the projected benefit obligation. The effects of a settlement can be reliably measured only if based on measures of plan assets and the projected benefit obligation as of the date of the settlement because intervening events (such as investment gains or losses, or gains or losses from changes in interest rates) after a prior measurement date could change the relevant amounts.*

35-82 *Recognition in earnings of gains or losses from settlements is required if the cost of all settlements during a year is greater than the sum of the service cost and interest cost components of net periodic pension cost for the pension plan for the year. However, if the cost of all settlements in a year is less than or equal to the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year, gain or loss recognition in earnings is permitted but not required for those settlements. The accounting policy adopted for recognition in earnings of gains or losses from settlements shall be applied consistently from year to year.*

35-83 *The cost of a settlement is determined as follows for each of the different settlement types:*

1. *a. For a cash settlement, the amount of cash paid to employees*
2. *b. For a settlement using nonparticipating annuity contracts, the cost of the contracts*
3. *c. For a settlement using participating annuity contracts, the cost of the contracts less the amount attributed to participation rights. See paragraph 715-30-35-57."*

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Joint Response to Commission Staff's
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Question No. 13

Witness: Daniel K. Arbough

Q-13. Refer to Exhibit E of the application. Identify and quantify window implementation costs.

A-13. The window program will be conducted by the plan's record keeper Mercer HR Services, LLC. Mercer's cost to implement and conduct the window is estimated to be $347,000. The actual fees could be lower or higher depending on the final scope of the project. This cost will be borne by the two retirement plans.