



**STOLL
KEENON
OGDEN**

2000 PNC PLAZA
500 WEST JEFFERSON STREET
LOUISVILLE, KY 40202-2828
MAIN: (502) 333-6000
FAX: (502) 333-6099

KENDRICK R. RIGGS
DIRECT DIAL: (502) 560-4222
DIRECT FAX: (502) 627-8722
kendrick.riggs@skofirm.com

September 20, 2011

RECEIVED

SEP 20 2011

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

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

**RE: Application of Louisville Gas and Electric Company For an Order Approving the
Establishment of a Regulatory Asset**
Case No. 2011-_____

Dear Mr. DeRouen:

Enclosed please find and accept for filing the original and ten copies of Louisville Gas and Electric Company's Verified Application in the above-referenced matter.

Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me via our office courier.

Should you have any questions please contact me at your convenience.

Yours very truly,


Kendrick R. Riggs

KRR:ec

Enclosures

cc: Dennis G. Howard II
Michael L. Kurtz

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 20 2011

PUBLIC SERVICE
COMMISSION

In the Matter of:

**APPLICATION OF LOUISVILLE GAS AND
ELECTRIC COMPANY FOR AN ORDER
APPROVING THE ESTABLISHMENT OF A
REGULATORY ASSET**

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CASE NO. 2011-_____

**VERIFIED APPLICATION OF
LOUISVILLE GAS AND ELECTRIC COMPANY**

Louisville Gas and Electric Company (“LG&E”), by counsel, hereby petitions the Kentucky Public Service Commission (the “Commission”) for an accounting order by December 31, 2011, permitting LG&E to accumulate and defer for recovery in base rate proceedings before the Commission its expenses incurred to repair damage and restore service to its customers caused by a severe thunderstorm carrying high winds that struck the Louisville, Kentucky area on August 13, 2011 (the “Windstorm”).¹ In support of this Application, LG&E states as follows:

1. The full name and mailing address of LG&E are: Louisville Gas and Electric Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40232. LG&E is a Kentucky corporation authorized to do business in the Commonwealth of Kentucky.

2. LG&E is a utility engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail to 397,000 customers in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer and Trimble Counties. LG&E also purchases, stores, and transports natural gas and distributes and sells natural gas at retail to 321,000 customers in Jefferson County and portions of Barren,

¹ For the reasons stated in paragraph number 18 herein, LG&E proposes to record the regulatory asset that is the subject of this Application during its September accounting close, no later than October 5, 2011, contingent upon and subject to the final order of the Commission in this proceeding.

Bullitt, Green, Hardin, Hart, Henry, LaRue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble and Washington Counties. A certified copy of LG&E's Articles of Incorporation is on file with the Commission in Case No. 2010-00204,² and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

3. This Application is filed pursuant to KRS 278.220, which authorizes the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction. The Commission requires LG&E to use and follow the Uniform System of Accounts ("USoA") as promulgated by the Federal Energy Regulatory Commission.

4. Communications regarding this Application should be addressed to:

Kendrick R. Riggs
W. Duncan Crosby III
Barry L. Dunn
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828
Telephone: (502) 333-6000

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

THE WINDSTORM

5. On the evening of August 13, 2011, a severe thunderstorm carrying high winds passed through the service territories of LG&E and its sister utility, Kentucky Utilities Company ("KU") (collectively, the "Companies"). The Windstorm caused significant damage to the

² *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 Electric Company and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities*, Case No. 2010-00204 (filed on May 28, 2010).

Companies' distribution facilities and initially left approximately 165,000 of the Companies' customers without power.

6. LG&E's service territory was particularly hard hit by the Windstorm. The Windstorm caused more electric outages in LG&E's service territory than any event since the ice storm and subsequent windstorm that struck the Commonwealth in January and February 2009. In the immediate aftermath of the Windstorm, 126,000 LG&E customers—approximately one-third of all LG&E customers—were without electricity, and over 138,000 customers were affected by the outages.³ The electric outages and damage left by the storm resulted in the opening of Jefferson County Public Schools being delayed for two days.

7. The damage left behind by the Windstorm “was caused by straight-line winds, possibly in the form of successive downbursts.”⁴ The National Weather Service describes downbursts as “powerful winds that descend from a thunderstorm and spread out quickly once they hit the ground.”⁵ Downbursts are capable of producing wind speeds and damage equal to a tornado. Wind gusts in the Louisville area were measured at up to 69 miles-per-hour during the storm, with numerous other 50-plus miles-per-hour gusts reported.

8. LG&E, as it continually does, fully utilized the best available resources to monitor the Windstorm. The Windstorm, however, was an unusual weather phenomenon that packed “a freak one-two punch of straight-line winds followed by powerful downburst of air.”⁶ As described by a National Weather Service meteorologist, “[w]e had a leading edge of wind ahead of the storm, then two to three minutes later different bursts of wind that pushed straight down

³ The windstorm also left over 38,000 KU customers without electricity, while impacting nearly 50,000 KU customers. KU's restoration costs, while significant, were not as great as LG&E's, and KU is not requesting a regulatory asset for its costs.

⁴ See National Weather Service, *What Caused the Strong Straight-Line Winds on Saturday?*, http://www.crh.noaa.gov/news/display_cmsstory.php?wfo=lmk&storyid=71894&source=0.

⁵ *Id.*

⁶ Dan Klepal, *Unusual Storm Caused Heavy Damage in Area*, *The Courier-Journal*, Aug. 16, 2011, at A6 (citing National Weather Service meteorologist John Gordon).

. . . . Normally, you just have rain behind the straight-line winds.”⁷ Forecasts did not predict the near hurricane-force winds experienced in the Louisville Metro area. Rather, the markedly unusual or abnormal combination of atmospheric conditions created conditions that even the best weather prediction resources did not identify far enough in advance to make a meaningful difference in LG&E’s preparations.

9. LG&E immediately began to restore the loss of power to its customers. Through the day-and-night efforts of LG&E’s personnel and contractors beginning on August 13, LG&E initiated a return to normal distribution operations on August 17. At their peak, these restoration efforts were carried out by 1,552 employees and contractors. Many of these restoration crews came from other states, including Tennessee, Alabama, Pennsylvania, West Virginia, and Michigan.

10. This assistance was greatly needed and resulted in power being restored to customers in a quicker fashion than otherwise would have been possible. LG&E’s need to summon contractors and mutual assistance was necessitated by the extraordinary number of downed lines. As a result of the Windstorm, 1,492 electric lines were downed in LG&E’s service territory. This plethora of downed lines required time- and labor-intensive work to repair, and resulted in the need for more equipment such as bucket trucks. Additionally, 88 poles were broken and the Companies received over 136,484 outage calls.

11. Repairing such extraordinary, significant, and widespread damage was costly, and far exceeded average annual storm-related costs. LG&E currently estimates that its Windstorm-related operations and maintenance costs will be approximately \$7.7 million. (A schedule detailing LG&E’s Windstorm repair costs charged to operation and maintenance expense is attached hereto as Exhibit 1.) These costs are estimates based on actual and estimated costs

⁷ *Id.*

incurred to date and reasonable estimates of contingencies. LG&E considers nearly \$400,000 of these costs as normal operating costs, and therefore estimates the current regulatory asset at approximately \$7.3 million.

12. Because property and casualty insurance for distribution and transmission storm damage is prohibitively expensive, LG&E does not carry such insurance. As a result, LG&E has not received, and will not receive, any insurance proceeds to offset its Windstorm damage costs.

13. LG&E's Windstorm-related costs are extraordinary and far exceed the amount of storm damage cost currently embedded in base rates, \$4,814,018.⁸ Moreover, LG&E's other storm damage costs for calendar year 2011, already over \$5.9 million in operations and maintenance costs through the end of August, exceed the amount embedded in base rates. When coupled with the Windstorm, total storm damage costs for calendar year 2011 currently exceed \$13 million.

14. LG&E asks the Commission to permit it to accumulate as a regulatory asset and defer for future recovery its actual incremental Windstorm-related operations and maintenance costs in the appropriate accounts. The measures LG&E took to restore service, and the costs related thereto, were reasonable and prudent, and should therefore be recoverable as a necessary cost of providing electric service to LG&E customers. If approved, LG&E will hold its deferred costs in Account No. 182.3, Other Regulatory Assets, until such time as the Commission considers them in a rate proceeding.⁹

⁸ See *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates*, Case No. 2009-00549, Response of Louisville Gas and Electric Company to the Fourth Data Request of Commission Staff, Attachment to Response to LGE KPSC-4 Question No. 2, Page 18, Revised Exhibit 1, Ref. Sched. 1.21, Sponsoring Witness Scott (May 10, 2010).

⁹ LG&E anticipates that, if the Commission grants its requested accounting treatment of Windstorm costs, LG&E will request amortization and rate recovery of those costs in LG&E's next base rate proceeding.

15. If the Commission grants LG&E's requested accounting treatment for its incremental Windstorm costs, it will have only a small impact on customers when the Commission subsequently approves amortization and rate recovery of the regulatory asset. For example, if the Commission approved a five-year amortization and recovery of LG&E's Windstorm-related regulatory asset, a residential customer using 1,000 kWh per month would see a bill increase of approximately \$0.20 per month.

16. The Commission has approved such treatment for extraordinary storm damages for each of the Companies in the past. Most recently, the Commission approved regulatory asset treatment for the Companies' operating and maintenance expenses associated with the restoration of electric service following the early 2009 winter storm that impacted much of Kentucky.¹⁰ LG&E was authorized to create a regulatory asset for its incremental actual costs incurred, not exceeding \$45.2 million, while KU was likewise authorized to create a regulatory asset not exceeding \$61.9 million.¹¹ In both instances, the Commission required that the amounts should be revised downward if the Companies determined that their actual incremental operating expenses were less than those amounts.¹²

Also recently, the Commission approved regulatory asset treatment for the Companies' actual incremental operating and maintenance expenses associated with repairing the damage caused by the remnants of Hurricane Ike, which struck the Companies' service territories on September 14, 2008. In Orders dated December 22, 2008, the Commission approved regulatory

¹⁰ See *In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2009-00175, Order at 5 (Sept. 30, 2009); *In the Matter of: Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2009-00174, Order at 5 (Sept. 30, 2009).

¹¹ *Id.*

¹² *Id.*

assets in the amount of \$24.1 million for LG&E and \$2.56 million for KU on terms identical to those involved with the 2009 winter storm.¹³

Similarly, though more distant in time, in its June 30, 2004 Final Order in Case No. 2003-00434, the Commission allowed KU to defer and amortize the portion of its incremental 2003 ice storm damage expenses that it had not already recovered through insurance payments and KU's Earnings Sharing Mechanism.¹⁴ In its order approving an increase in KU's base rates, the Commission addressed KU's request for deferral and amortization of its incremental ice storm expenses, stating: "Given the nature and significance of the event, the Commission believes that KU's proposal to defer and amortize over 5 years the February 2003 ice storm [expenses] is reasonable."¹⁵

Finally, in a 1975 LG&E rate case, the Commission approved nearly all of LG&E's proposed adjustments to operating revenue and expenses, including (1) a reduction in test year operating expenses of the total amount of expenses LG&E incurred to repair damage from the 1974 tornado, and (2) an increase to test year operating expenses of one-fifth that amount, representing one year's worth of a five-year amortization of tornado-related expenses.¹⁶

17. Granting such treatment in this case will allow LG&E to make appropriate adjustments on its books of account for the regulatory asset and prevent LG&E from having to record its extraordinary storm operations and maintenance costs as expenses on its books. The

¹³ See *In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2008-00456, Order at 8 (Dec. 22, 2008); *In the Matter of: Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset*, Case No. 2008-00457, Order at 8 (Dec. 22, 2008).

¹⁴ *In the Matter of: An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Order at 39-41 (June 30, 2004).

¹⁵ *Id.* at 40.

¹⁶ *In the Matter of: General Adjustments in Electric and Gas Rates of Louisville Gas and Electric Company*, Case No. 6220, Testimony of Joseph A. Steltenpohl at 10 and Ex. 7, Schedule D (Feb. 28, 1975).

Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 980-340-25-1, *Recognition of Regulatory Assets*, addresses regulatory assets and states:

Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

- a. It is probable (as defined in Topic 450)¹⁷ that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
- b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

To comply with ASC 980-340-25-1, LG&E respectfully requests the Commission to state explicitly in its order that it is authorizing LG&E to accumulate in a regulatory asset and defer for future recovery the actual incremental amounts, and accruals for estimated amounts until actual costs can be determined, of extraordinary operations and maintenance expenses LG&E incurred to repair damage and restore service to customers following the Windstorm in a regulatory asset recorded in Account No. 182.3, Other Regulatory Assets.

18. Based on the Commission's orders cited in paragraph number 16 in this Application, LG&E is planning to record the requested regulatory asset on its books during the September accounting close, no later than October 5, 2011, subject to and contingent upon the Commission's final order in this proceeding. LG&E is a registrant under the Securities

¹⁷ "Probable" is defined in ASC 450-20-20 as meaning "[t]he future event or events are likely to occur."

Exchange Act of 1934, 15 U. S. C. § 78a *et seq.*, and as such, desires to have its revenues and expenses for the third quarter ending September 30, 2011, accurately reflect its business operations and avoid the potential distortion created by the impact of Windstorm-related operations and maintenance costs. In doing so, LG&E acknowledges the Commission's policy that utilities are required to obtain Commission approval prior to establishing any expense as a new regulatory asset.¹⁸ The establishment of the regulatory asset on October 5, 2011, is not made for the purpose of diminishing the Commission's policy, but to more accurately reflect the financial information on LG&E's filings with the Securities and Exchange Commission ("SEC"), subject to the Commission's final order in this proceeding. If the Commission denies the relief requested by LG&E in this Application, LG&E will reverse the accounting entries associated with the regulatory asset on its year-end financial statements filed with the SEC.

Furthermore, the Commission's prior treatment of storm-related regulatory assets supports recording the regulatory asset now under ASC 980. In LG&E's most recent rate case, in regards to storm-related regulatory assets, the Commission observed: "[t]he amounts deferred by LG&E were approved by the Commission in previous cases. . . . LG&E's proposal to amortize these amounts in this rate proceeding is in accordance with long-standing generally accepted rate-making practices employed by the Commission."¹⁹

19. To reflect regulatory asset treatment of its Windstorm-related operations and maintenance expenses, LG&E will make, as applicable, the following journal entries:

¹⁸ See e.g., *In the Matter of: The Adjustment of Rates of the Union, Light, Heat and Power Company*, Case No. 2001-00092, Order at 14 (Jan. 31, 2002).

¹⁹ *In the Matter of: The Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates*, Case No. 2009-00549, Order at 21 (July 30, 2010).

Table 1: Journal Entries for Regulatory Asset Treatment of Windstorm Expenses	
Debits	Credits
<ul style="list-style-type: none"> • Acct. 182.3 - Other Regulatory Assets 	<ul style="list-style-type: none"> • 58x - Electric Distribution Operations Expenses • 59x - Electric Distribution Maintenance Expenses • 907 - Customer Service & Informational Operations Expenses • 925 - Administrative & General Operations Expenses - Injuries and Damages

The above entries will be reversed if the Commission does not approve LG&E's request for regulatory asset treatment of its Windstorm-related operations and maintenance expenses.

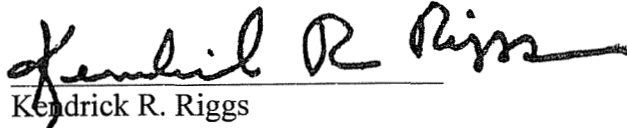
20. LG&E further requests that the Commission approve its requested accounting treatment at the earliest possible date, and no later than December 31, 2011, so that the Company can reflect the appropriate accounting on its books for the year ending December 31, 2011. This is necessary to avoid distortion in LG&E's year-end financial statements filed with the SEC, the accuracy of which it is important to maintain.

WHEREFORE, Louisville Gas and Electric Company respectfully requests that the Commission issue an order at the earliest possible date, and no later than December 31, 2011, granting it authority to:

1. Accumulate and defer for future recovery the actual incremental amounts and accruals for anticipated amounts of extraordinary operations and maintenance expenses LG&E incurred to repair damage and restore service to customers following the Windstorm in a regulatory asset recorded in Account No. 182.3, Other Regulatory Assets.

Dated: September 20, 2011

Respectfully submitted,

A handwritten signature in black ink, reading "Kendrick R. Riggs". The signature is written in a cursive style and is positioned above a horizontal line.

Kendrick R. Riggs
W. Duncan Crosby III
Barry L. Dunn
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828
Telephone: (502) 333-6000

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

Counsel for Louisville Gas and Electric Company

EXHIBIT 1

LG&E Windstorm Restoration Estimate Detail Summary


	Total Estimated LG&E Operating Expenses
Internal Labor	996,693
Subtotal Employee Labor	996,693
Lineman Contractors	2,662,554
Tree Trimming Contractors	771,780
PSRT Contractors	417,318
All Other Contractors	11,200
Subtotal Contractors	3,862,852
Materials	194,874
Call Center/Business Office	154,798
Hotel/Staging Area	298,976
Miscellaneous	1,540,161
Contingency	628,468
Total Distribution Cost total	7,676,822
<u>Estimated Amount considered Normal Operations:</u>	
Contractor Resource Costs - PSRT	(9,350)
Contractor Resource Costs - Operations	(16,123)
Contractor Resource Costs - Call Center	(10,314)
Internal Employee Resource Costs - LG&E Labor/Transportation	(256,808)
Internal Employee Resource Costs - Servco Labor/Transportation	(86,056)
Total Estimated Amount considered Normal Operation:	(378,651)
Total Regulatory Asset	7,298,171

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Verified Application was served via U.S. mail, first-class, postage prepaid, this 20th day of September 2011 upon the following persons:

Dennis G. Howard II
Lawrence W. Cook
Assistant Attorneys General
Office of the Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Michael L. Kurtz
Kurt J. Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202


Counsel for Louisville Gas and Electric Company