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NEWS RELEASE

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PSC Allows Separate Accounting of LG&E, KU Ice Storm Costs *No decision made on recovery through future rates*

FRANKFORT, Ky. (Sept. 30, 2009) – The Kentucky Public Service Commission (PSC) today allowed Louisville Gas and Electric Co. (LG&E) and Kentucky Utilities Co. (KU) to set up separate accounts to track power restoration costs and other expenses associated with recovery from the damage caused by the severe ice storm in January.

The accounts, known as regulatory assets, are a tool that allows unusual or one-time costs to be deferred for a period of time for possible future recovery through rates.

While the establishment of regulatory assets is done in expectation of future cost recovery through rates, it is not a guarantee of recovery. That determination will be made in a rate case based upon the evidence presented in that proceeding.

KU is allowed to establish a regulatory asset of \$61.9 million, which is the amount the utility requested. LG&E is authorized to establish a regulatory asset of \$45.2 million, also the amount requested.

More than 205,000 (51 percent) of LG&E's 401,000 customers, most of them in Jefferson County, lost power during the ice storm. A subsequent wind storm in February did additional damage before recovery from the ice storm was complete.

Although KU had a smaller proportion of its customers lose power – 199,000 of 503,000 (40 percent) - damage to the KU system was more severe. Most of the KU outages were in western Kentucky, where many transmission lines fell.

The PSC in December authorized LG&E and KU to establish regulatory assets for the restoration expenses associated with Hurricane Ike. LG&E was authorized to establish a regulatory asset of \$24.1 million, while KU was allowed to establish a regulatory asset of \$2.56 million.

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LG&E will now have a total of \$69.3 million in storm-related costs in regulatory assets. The total for KU is \$64.46 million. Together, the two companies now have a total of \$133.76 million in deferred storm-related costs.

Although both companies are subsidiaries of E.ON U.S., any recovery of those costs through rates will be calculated separately for each utility.

One other utility, Kentucky Power Co., has asked the PSC to allow the establishment of a regulatory asset to account for costs related to the ice storm. A decision in that case is pending.

Utilities routinely seek separate accounting of costs related to natural disasters that cause significant damage and outages. KU was authorized to establish such an account following the February 2003 ice storm, while LG&E was granted a regulatory asset after the 1974 tornado in Louisville.

Recovery of regulatory assets generally occurs over a period of several years. Utilities typically seek to recover the assets in conjunction with a request to the PSC for a rate adjustment. The PSC may allow recovery of all or a portion of the storm-related costs, and will determine the time frame for the cost recovery.

In today's order, the PSC said a decision on what portion of the ice storm costs may be recovered from ratepayers won't be made until after the PSC completes its review of the utilities' disaster preparedness and storm restoration efforts. A report, which also examines utility performance following the outages caused by Hurricane Ike in September 2008, will be issued later this year.

The PSC is reviewing how LG&E, KU and other affected utilities responded to the ice storm and Hurricane Ike. The review is examining not only the efforts to restore electric power and telephone service, but also preparation for major outages, communication with customers and coordination with local governments.

Utilities have responded to several information requests from the PSC. Information has been received from local officials in affected cities and counties. The PSC review also will consider comments received from customers during and following the outages.

Today's order and related documents are available on the PSC Web site, psc.ky.gov. The case numbers are 2009-00175 (LG&E) and 2009-00174 (KU).

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.