COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter or

JOINT APPLICATION OF DUKE ENERGY KENTUCKY, INC., KENTUCKY POWER COMPANY, KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES RELATED TO CERTAIN PAYMENTS MADE TO CARBON MANAGEMENT RESEARCH GROUP AND THE KENTUCKY CONSORTIUM FOR CARBON STORAGE	))))))))	CASE NO. 2008-00308

ORDER

On July 25, 2008, Duke Energy Kentucky, Inc. ("Duke Energy"), Kentucky Power Company ("Kentucky Power"), Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, "Applicants") jointly filed for authorization to establish regulatory assets and liabilities related to their payments to the Carbon Management Research Group ("CMRG") and the Kentucky Consortium for Carbon Storage ("KCCS"). The CMRG is a partnership between academia, the private sector and state government, in the form of the University of Kentucky Center for Applied Energy Research ("CAER"), created in response to the directive in Section 52 of House Bill 1 ("HB 1") of the Second Extraordinary Session of the 2007 General Assembly regarding the management of carbon and carbon dioxide associated with existing coal-fired electric generating facilities in Kentucky. The KCCS was created by the Kentucky Geological Survey, a bureau of geological research and information at the University of Kentucky, and the Governor's Office of Energy Policy (now the Department of Energy

Development and Independence) to study the feasibility of geologic storage in Kentucky of carbon dioxide from Kentucky's coal-fired electric generating facilities.

The only intervenor in this matter is the Office of the Attorney General. A procedural schedule was issued which provided for discovery on the Applicants and the opportunity for parties to request either a formal hearing or informal conference. The Applicants responded to an initial data request from Commission Staff ("Staff") and Duke Energy responded to a follow-up request from Staff. No one requested a hearing or informal conference. Therefore, the case stands submitted for decision.

ISSUES AND PROPOSAL

The CMRG and KCCS were designed as partnerships between government and private industry stakeholders. Their work could have direct impacts on the Applicants, all of which generate electricity with coal-fired generation facilities. The CMRG sought a 10-year funding commitment from the Applicants to match other funding it receives. The KCCS sought a one-time funding commitment from each of the Applicants to match other funding available to it.

Duke Energy and Kentucky Power, subject to the Commission's approval in this proceeding, have each agreed to provide up to 10 years of conditional funding to CMRG of up to $200,000 annually to match funding provided CMRG by other sources. Additional funding after the first year will be dependent on progress made, work products delivered and CMRG's ability to secure additional funding sources. KU and LG&E jointly agreed to provide up to $200,000 annually for 10 years.

KU and LG&E jointly agreed to provide KCCS up to $1.8 million in funding over two years. KU and LG&E, Peabody Energy and ConocoPhillips have formed the Western Kentucky Carbon Storage Foundation, Inc., a 501(c)(3) entity, to collect and manage all industry contributions to KCCS. Duke Energy chose not to provide funding to KCCS at the present time because it has already committed substantial funding to study carbon sequestration at its East Bend Generating Station. Kentucky Power elected not to provide funding at the present time because it is studying carbon sequestration through its parent, American Electric Power ("AEP"), at an AEP affiliate's coal-fired generating station in West Virginia.

The Applicants propose that their commitments to make payments to CMRG and KCCS be treated as regulatory assets until recovery is provided for within each Applicant's next base rate case.[1] At that time, the Applicant will propose to amortize the regulatory asset for ratemaking purposes over the life of each project: 10 years for CMRG and four years for KCCS.

FINDINGS AND ORDERS

The Commission appreciates the Applicants' participation in the projects being undertaken by CMRG and KCCS. The issues of carbon management and carbon sequestration hold the potential for affecting the customers of all electric utilities subject to our jurisdiction. Accordingly, the Commission is greatly interested in the work of entities such as CMRG and KCCS which addresses these issues.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the Applicants' request for authority to

[1] Although styled as a request to establish regulatory assets and liabilities, the application included no discussion of regulatory liabilities. Accordingly, the Commission is treating the Applicants' request strictly as a request to establish regulatory assets.

record payments to CMRG and KCCS as regulatory assets is reasonable and should be approved. The matters of rate recovery and recording regulatory liabilities will be reserved for consideration within each Applicant's next electric base rate case.

IT IS THEREFORE ORDERED that:

1. Duke Energy, Kentucky Power, KU and LG&E shall record their payments to CMRG as regulatory assets in conformance with the provisions of their joint application.

2. KU and LG&E shall record their payments to KCCS as regulatory assets in conformance with the provisions of the joint application.

Done at Frankfort, Kentucky, this 30th day of October, 2008.

By the Commission

Chairman Armstrong abstains from the decision on KU and LG&E.

Vice Chairman Gardner abstains from the decision on Kentucky Power.

ATTEST:

Stephanie Stumbo

Executive Director