

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC)
COMPANY FOR AN ORDER APPROVING THE) CASE NO.
ESTABLISHMENT OF A REGULATORY ASSET) 2011-00380

O R D E R

On September 20, 2011, Louisville Gas and Electric Company (“LG&E”) filed an application seeking authority to establish a regulatory asset for its operation and maintenance costs incurred in connection with repairing damages and restoring electric service to its customers following a severe thunderstorm carrying high winds (the “Windstorm”) that struck the Louisville, Kentucky area on August 13, 2011. In its application, LG&E states that, in the immediate aftermath of the Windstorm, approximately 126,000 customers, or roughly one-third of its customer base, were without electricity. LG&E further states that it immediately began efforts to restore power to its customers; it was able to return to normal operations on August 17, 2011; and at the peak of its service restoration efforts, it dispatched 1,552 employees and contractors. In addition, LG&E states that the amount it incurred to repair the resulting damage and restore electric service exceeds the \$4.8 million in storm damage expense currently embedded in its base rates.¹

¹ Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates (Ky. PSC Oct. 21, 2010).

An abbreviated procedural schedule was established which provided for two rounds of discovery. Commission Staff issued two information requests. There were no intervenors in this matter. The case now stands submitted for decision.

LG&E'S POSITION

In its application, LG&E estimated that its 2011 Windstorm-related operation and maintenance costs would approximate \$7.3 million. In response to Commission Staff's Second Information Request,² LG&E updated its estimate to \$8.127 million based on actual costs and revised estimates as of November 7, 2011. Citing the magnitude of these costs, LG&E requests permission to record its actual 2011 Windstorm-related costs as a regulatory asset and defer such costs for future rate recovery. LG&E contends that the measures it took to restore service, and the related costs, were reasonable and prudent and should be recoverable as a necessary cost of providing electric service to its customers.

LG&E relies upon prior Commission decisions granting similar accounting treatment to LG&E and other utilities for extraordinary storm damages. Most recently, in Case Nos. 2008-00456 and 2009-00175,³ LG&E was authorized to establish regulatory assets related, respectively, to storm damage from Hurricane Ike and the January 2009

² Commission Staff's Second Information Request to Louisville Gas and Electric Company, item no. 1.a. (Ky. PSC Nov. 4, 2011).

³ Case No. 2008-00456, Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset (Ky. PSC Dec. 22, 2008); Case No. 2009-00175, Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset (Ky. PSC Sep. 30, 2009).

ice storm. Likewise, in Case Nos. 2008-00457 and 2009-00174,⁴ LG&E's sister utility, Kentucky Utilities Company ("KU"), was allowed to defer and amortize storm related costs for these same events. In Case No. 2003-00434,⁵ KU was allowed to defer and amortize a portion of its 2003 ice storm damage expenses. In Case No. 6220,⁶ LG&E was authorized to defer and amortize storm-related costs in the aftermath of the 1974 tornado.

In the instant case, LG&E claims that such accounting treatment will allow it to make appropriate adjustments on its books of account and remove its extraordinary storm-related costs from the expenses recorded on its books for calendar year 2011.

LG&E requests approval of its request by no later than December 31, 2011 to avoid distortion of its calendar year 2011 financial statements. In its application, LG&E states that it will only seek recovery of actual costs incurred and not for any estimates or contingencies. In response to Commission Staff's first information request, LG&E indicated it expects the amount of the final actual operations and maintenance costs to be known by December 31, 2011.

⁴ Case No. 2008-00457, Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset (Ky. PSC Dec. 22, 2008); Case No. 2009-00174, Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset (Ky. PSC Sep. 30, 2009).

⁵ Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company (Ky. PSC Jun. 30, 2004).

⁶ Case No. 6220, General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company (Ky. PSC Feb. 28, 1975).

DISCUSSION

LG&E's Windstorm-related damage and service restoration costs are extraordinary in nature based on their magnitude and the amount of storm damage expenses built into LG&E's rates. Reflecting the Windstorm costs as expenses on LG&E's 2011 books would have a significant impact on its 2011 financial results. Given the nature and impact of these costs, the Commission will authorize LG&E to establish, for accounting purposes only, a regulatory asset based on the actual storm damage and service restoration costs it incurred as a result of the Windstorm.

The Commission notes that the authorization of a regulatory asset is not an assurance that these costs will be recovered in rates. A decision on rate recovery will be made only after fully examining the reasonableness of these costs in the context of a future rate case. The Commission's determination of whether any of the Windstorm costs should be recovered in rates will include a detailed review of LG&E's storm preparedness and its response to the outage. In light of the increasing requests for regulatory assets for severe weather events in recent years and the Commission's recommendations in its November 2009 report on 2008's Hurricane Ike and the 2009 ice storm,⁷ we anticipate that any future rate review of the Windstorm costs will be more in-depth than previous reviews of the costs included in storm-related regulatory assets.

In summary, the Commission finds that LG&E should be allowed to create and record, for accounting purposes, a regulatory asset for its actual costs incurred to restore service during the Windstorm, not to exceed its November 7, 2011 projection of \$8.127 million. Further, the Commission agrees with LG&E's proposal that the

⁷ The Kentucky Public Service Commission Report on the September 2008 Wind Storm and the January 2009 Ice Storm.

regulatory asset should include only actual costs incurred, plus accruals for estimated costs until the actual amounts of the estimated costs are known.⁸ As stated earlier, the actual amount of all costs to be included in the regulatory asset is expected to be known by December 31, 2011. A downward adjustment to the amount of the regulatory asset will be necessary if total actual costs are less than the amount being approved herein. In the event that LG&E's total actual costs exceed \$8.127 million, the excess should be expensed. The Commission would not be meeting its regulatory responsibilities if, under the circumstances of unusual or extraordinary storm damage costs, it authorized a utility to create an "open-ended" regulatory asset.

IT IS THEREFORE ORDERED that:

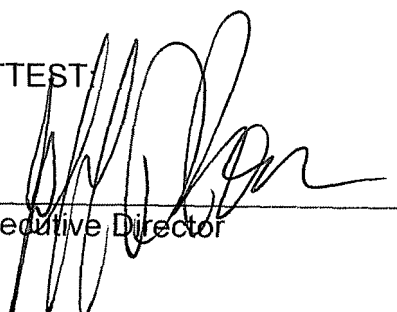
1. LG&E is authorized to establish, for accounting purposes, a regulatory asset in the amount of \$8.127 million, based on its costs for storm damages and service restoration due to the Windstorm that occurred August 13, 2011.
2. As its total actual Windstorm costs become known, LG&E shall adjust the amount of the asset downward if the total is less than \$8.127 million.
3. LG&E shall file the accounting entries it makes to establish and record the regulatory asset authorized herein. LG&E shall file these entries with the Commission no later than January 31, 2012.
4. The amount, if any, of the regulatory asset authorized herein that is to be amortized and recovered in rates shall be determined in LG&E's next rate case based on an examination of its storm preparedness, its storm restoration efforts, and the reasonableness of the costs incurred.

⁸ LG&E's September 20, 2011 Application, paragraph 17, page 8.

By the Commission

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST



Executive Director

Case No. 2011-00380

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