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PUBLIC SERVICE COMMISSION

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December 17, 2008

VIA HAND DELIVERY

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset***
Case No. 2008-00456

Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset
Case No. 2008-00457

Dear Ms. Stumbo:

Enclosed please find and accept for filing two originals and ten copies of the Joint Comments of Louisville Gas and Electric Company and Kentucky Utilities Company 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 in the enclosed self-addressed stamped envelope.

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

Sincerely,

W. Duncan Crosby III

WDC:ec
Enclosures
cc: Parties of Record

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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**

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER APPROVING THE ESTABLISHMENT OF A REGULATORY ASSET	)))))	**CASE NO. 2008-00457**

JOINT COMMENTS OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively "LG&E/KU" or the "Companies") respectfully submit these comments in support of their Applications in these proceedings. In brief, the Companies' Applications and subsequent responses to data requests from the Commission Staff and intervenors show the damage caused by Hurricane Ike was unprecedented in the Companies' service territories, affecting hundreds of thousands of customers and causing approximately 376,000 peak outages.[1] The Companies' response to this historic storm was rapid, effective, and otherwise reasonable under extraordinary circumstances. It is therefore appropriate for the Commission to approve a regulatory asset for each company to capitalize its operations and maintenances expenses associated with Hurricane Ike response and repair, each to be amortized and recovered through rates when the Commission approves such recovery in rate proceedings for the Companies. To ensure representative financial statements for both 2008 and 2009, the Companies respectfully

[1] KU Response to Commission Staff's First Data Request, DR No. 2 (Nov. 19, 2008).

request that the Commission issue orders granting the Companies their requested relief by December 31, 2008.

I. The Commission Should Authorize the Companies to Capitalize Their Operations and Maintenance Costs to Repair Hurricane Ike Damage Because Those Costs Were Reasonable.

To respond to what was the most devastating and costly storm to impact Kentucky in decades, Hurricane Ike, the Companies incurred significant but reasonable costs. The Companies' statistics concerning Hurricane Ike are historic and extraordinary: 376,000 peak outages; 418,000 outage calls; 10,799 wires down; 698 poles broken; 243 circuits out; and 2,943 restoration workers at peak.[2] The Companies incurred approximately $26.7 million in operations and maintenance expenses associated with Hurricane Ike ($24.1 million for LG&E, $2.6 million for KU), which, though clearly extraordinary, were reasonable and necessary due to the sheer magnitude of the storm's damage.[3]

A. The Hurricane Ike-related labor costs the Companies seek to capitalize for future recovery are reasonable and do not include labor costs already embedded in base rates.

One concern evident in the data requests the Companies received in these proceedings is that the Companies might inadvertently be seeking to recover labor costs already embedded in base rates; however, the Companies' Applications and their responses to data requests show conclusively that the labor costs the Companies seek Commission approval to capitalize for future rate recovery are truly incremental to the Companies' ordinary and base-rate-embedded labor costs. Exhibit 1 to each of the Companies' Applications shows that the Companies deducted approximately $2.2 million of internal and external labor costs from their Hurricane

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[2] KU Response to Commission Staff's First Data Request, DR No. 2 (Nov. 19, 2008)
[3] KU Application at Exh. 1; LG&E Application at Exh. 1.

Ike-related operations and maintenance costs to correct for costs the Companies' normal operations would have created, which normal operations costs are already embedded in base rates.[4] Because the overall operations and maintenance amount the Companies seek to capitalize contains labor costs that are truly incremental, it is appropriate to capitalize them as part of the regulatory assets the Companies seek to establish through these proceedings.

B. The Companies adhered to their Vegetation Management Plans, thereby avoiding possible additional and avoidable damage repair costs.

Although Hurricane Ike was a violent and destructive storm by any measure, with top wind gusts of up to 75 mph, the Companies helped prevent the storm from possibly causing even greater damage by having adhered to their Vegetation Management Plans ("VMPs") on all circuits.[5] By adhering to their VMPs, the Companies helped ensure that the damages Hurricane Ike caused were not exacerbated by neglect, but rather were minimized due to the Companies' vigilance. The Commission should therefore approve the full amounts of the Companies' proposed regulatory assets for Hurricane Ike-related operations and maintenance costs.

II. Regulatory Asset Treatment Is Appropriate for the Companies' Hurricane Ike Costs Because the Companies' Hurricane Ike-related Operations and Maintenance Costs Are Like Storm Costs the Commission Has Given the Same Accounting Treatment in the Past.

The Commission has approved such treatment for extraordinary storm damages for each of the Companies in the past. In its June 30, 2004 Final Order in Case No. 2003-00434, the Commission allowed KU to defer and amortize the portion of its 2003 ice storm damage expenses that it had not already recovered through insurance payments and KU's Earnings

[4] *See also* KU Response to AG's First Data Request, DR No. 3(c) & (d) (Nov. 19, 2008); LG&E Response to AG's First Data Request, DR No. 1(c) & (f) (Nov. 19, 2008); KU Responses to AG's Second Data Request, DR Nos. 3-5 (Dec. 4, 2008); LG&E Responses to AG's Second Data Request, DR No. 3 (Dec. 4, 2008).
[5] KU Response to AG's First Data Request, DR Nos. 6 & 10 (Nov. 19, 2008); LG&E Response to AG's First Data Request, DR Nos. 3 & 7 (Nov. 19, 2008).

Sharing Mechanism.[6] In its order approving an increase in KU's base rates, the Commission addressed KU's request for deferral and amortization of its 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."[7]

Likewise, 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.[8]

There is no question that the Companies' Hurricane Ike-related operations and maintenance costs are extraordinary, just as were KU's Ice Storm costs and LG&E's 1974 tornado costs. Indeed, as discussed below, both Companies had already incurred storm costs in 2008 that exceeded the amounts in their base rates when Hurricane Ike wreaked its havoc on the Companies' service territories. The same rate accounting treatment – regulatory asset treatment – is therefore appropriate for the Companies' Hurricane Ike costs.

III. The Companies' Storm Damage Costs for 2008 Already Exceeded the Amounts in Base Rates Before Hurricane Ike Arrived, Making the Hurricane Costs Truly Extraordinary, and Therefore Appropriate to Capitalize for Future Rate Recovery.

Hurricane Ike swept into Kentucky after a storm season that already had put a strain on the Companies, both of which had already incurred storm costs exceeding the storm repair costs included in their base rates. KU's actual storm damage operations and maintenance expenses that occurred from January 1, 2008 through September 30, 2008, excluding Hurricane Ike,

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[6] *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).
[7] *Id* at 40.
[8] *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 Exh. 7, Sched. D (Feb. 28, 1975).

totaled $5,753,814,[9] far in excess of the amount of storm damage cost currently embedded in KU's base rates, $1,311,391, and in excess of the amount proposed to be included in KU's pending rate case, $2,639,782.[10] Likewise, LG&E's actual storm damage operations and maintenance expenses that occurred from January 1, 2008 through September 30, 2008, excluding Hurricane Ike, totaled $4,917,028,[11] far in excess of the amount of storm damage cost currently embedded in LG&E's base rates, $2,583,017, and in excess of the amount proposed to be included in LG&E's pending rate case, $4,373,659.[12] The Companies' Hurricane Ike-related operations and maintenance costs, which are truly extraordinary, must be capitalized for future rate recovery, just as the Commission approved for the 2003 KU Ice Storm and the 1974 LG&E tornado.

IV. The Comprehensive Report the Companies Filed at the Commission's Request Concerning Their Conduct During and After Hurricane Ike Fully Satisfies Any Need for Further Investigation in These Proceedings, Making Now an Appropriate Time for the Commission to Issue Final Orders in These Proceedings.

Per the Commission's request, on November 26, 2008, the Companies filed a comprehensive, forty-six page report concerning Hurricane Ike and the Companies' response thereto, entitled, "Post-Storm Assessment Report of Louisville Gas and Electric Company and Kentucky Utilities Company, September 2008 'Ike' Windstorm." (The Companies updated the report on December 5, 2008.) The report provides the most complete account of all that

[9] KU Response to AG's Second Data Request, DR No. 1 (Dec. 4, 2008).
[10] *In the Matter of: An Adjustment of the Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Testimony of S. Bradford Rives at Exh. 1, Ref. Sched. 1.14 (Dec. 29, 2003); *In the Matter of: An Adjustment of the Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Order at 34-35 (June 30, 2004); *In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Base Rates*, Case No. 2008-00251, Testimony of S. Bradford Rives at Exh. 1, Ref. Sched. 1.18 (July 29, 2008)). Please note that this figure is a correction to the $1,442,144 stated in KU's Application at 6.
[11] LG&E Response to AG's Second Data Request, DR No. 1 (Dec. 4, 2008).
[12] LG&E Application at 6 (citing *In the Matter of: An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433, Testimony of S. Bradford Rives at Exh. 1, Ref. Sched. 1.14 (Dec. 29, 2003); *In the Matter of: An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433, Order at 38 (June 30, 2004); *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, Case No. 2008-00252, Testimony of S. Bradford Rives at Exh. 1, Ref. Sched. 1.18 (July 29, 2008)).

occurred, of the Companies' actions, concerning Hurricane Ike. With the report and all of the information the Companies have provided in their Applications and discovery responses in these proceedings, the record before the Commission is complete and detailed. The Companies respectfully submit that these proceedings are now ripe for decision.

V. If the Commission Is Able to Issue Orders in These Proceedings by December 31, 2008, the Companies Will Not Have to Correct Their Books Later, as They Would If the Commission Approves the Companies' Requested Regulatory Asset Treatment After December 31, 2008.

The Companies further request that the Commission approve their requested accounting treatment at the earliest possible date, and no later than December 31, 2008, so that they can reflect the necessary adjustments on their books for the year ending December 31, 2008. The Companies will close their books for the year ended December 31, 2008, on January 8, 2009. The Companies will need to record all transactions that impact their year-ending December 31, 2008 financial statements by January 7, 2009, to allow adequate time to analyze the pre-tax results, make the final tax calculation, and still close the books on January 8. To the extent possible, the Companies attempt to obtain all pertinent information when they start the closing process on the first business day after year-end (January 2). Because January 1 is a holiday, the Companies requested Orders by December 31. If the Commission issues orders granting relief after the books are closed for the year ending December 31, 2008, the Companies will have recorded Hurricane Ike-related operations and maintenance costs to expense, resulting in artificially decreased earnings in 2008 and artificially increased earnings in 2009. Therefore, to ensure representative financial statements for both 2008 and 2009, the Companies respectfully request that the Commission issue orders granting the Companies their requested relief by December 31, 2008.

VI. Conclusion

In sum, the Companies' response to Hurricane Ike, an historic and devastating storm, was rapid, effective, and otherwise reasonable under extraordinary circumstances. The operations and maintenance costs the Companies incurred to repair the storm damage are both extraordinary and reasonable, and are truly incremental to amounts embedded in base rates. It is therefore appropriate for the Commission to approve a regulatory asset for each company to capitalize these expenses for later recovery through base rates. The Companies respectfully request that the Commission issue orders granting the Companies' requested relief by December 31, 2008, to ensure representative financial statements for both 2008 and 2009.

Dated: December 17, 2008

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing was served on the following persons on the 17th day of December, 2008, by United States mail, postage prepaid:

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