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PSC Allows Separate Accounting of LG&E August Wind Storm Costs

Decision on future recovery through rates will include review of storm response

FRANKFORT, Ky. (Dec. 27, 2011) – The Kentucky Public Service Commission (PSC) today allowed Louisville Gas and Electric Co. (LG&E) to establish a separate account to track power restoration costs and other expenses associated with recovery from the damage caused by a severe wind storm in August.

The account, known as a regulatory asset, is 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.

In an order issued today, the PSC said the future review of any recovery of costs will include a detailed look at LG&E's storm preparations and how well the company responded 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," the review will be more detailed than in previous cases involving storm costs, the PSC said. The 2009 report examined how utilities responded to the massive outages caused by the two storms..

"The Commission notes that the authorization of a regulatory asset is not an assurance that these costs will be recovered in rates," the PSC said in today's order. "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."

Today's order authorized LG&E to establish a regulatory asset of $8.1 million, which is the amount the utility requested.

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More than 126,000, or nearly one-third, of LG&E's electric customers lost power during a severe wind storm the evening of Aug. 13. Most of the outages were in Jefferson County.

Restoring power after the storm took four days and involved about 1,550 workers. In addition to employees and contractors from LG&E and sister utility Kentucky Utilities Co. (KU), the restoration and repair effort involved workers from other utilities that have mutual assistance agreements with LG&E.

Utilities routinely seek separate accounting of costs related to natural disasters that cause significant damage and outages.

This is the third time in three years that LG&E has sought and been granted regulatory assets related to unusual storm expenses. In 2008, LG&E was authorized to establish a regulatory asset of $24.1 million for expenses incurred in restoring power after Hurricane Ike. The following year LG&E was granted a regulatory asset of $45.2 million for restoration after the January 2009 ice storm and a wind storm two weeks later.

In applying for the regulatory asset for the August wind storm, LG&E said that its storm damage costs for 2011 exceed $14 million, which is nearly triple the annual amount budgeted for in its current rate structure.

LG&E has about 401,000 electric customers in nine counties in the Louisville area, with the vast majority in Jefferson County. LG&E's 312,000 natural gas customers are not affected by this case.

If granted, 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.

LG&E, KU and other utilities are recovering various storm costs in their current rates.

Today's order and related documents are available on the PSC website, psc.ky.gov. The case number is 2011-00380.

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.

-30-

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