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NEWS RELEASE

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PSC Accepts Settlement in LG&E and KU Rate Cases

Rate increases will be smaller than requested

FRANKFORT, Ky. (Dec. 20, 2012) – The Kentucky Public Service Commission (PSC) today accepted a settlement granting revenue adjustments that increase the base electric rates for customers of Kentucky Utilities Co. (KU) and the base electric and natural gas rates for customers of Louisville Gas and Electric Co. (LG&E).

The revenue adjustments are at levels agreed to by the two utilities, the Kentucky Office of Attorney General and other parties to the utilities' rate cases, among them the Kentucky Industrial Utility Customers Inc. (KIUC), Kroger Co., the Kentucky School Boards Association and advocates for low-income consumers.

In orders issued today, the PSC said that accepting the settlement is in the public interest because they result in a rates "consistent with those justified by our traditional rate-making analysis." The PSC found that the rates in the settlement are fair, just and reasonable. The new rates take effect on Jan. 1, 2013.

Under the settlement agreement, the average monthly bill for a typical KU residential customer will increase by \$5.16 (5.6 percent). A typical LG&E residential electric customer will see the average monthly bill increase by \$4.25 (5 percent). The average monthly bill for an LG&E residential natural gas customer will increase by \$5.57, a figure that includes a new surcharge for infrastructure improvements but does not take into account any fluctuations in the price of natural gas itself.

The settlement also includes an increase in the contribution company stockholders will make to help low-income customers, bringing it to \$1 million per year.

LG&E has about 401,000 electric customers in nine counties in and around the Louisville area and 320,000 natural gas customers in 17 counties. KU has 550,000 customers in 77 Kentucky counties.

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The PSC conducted a hearing on the settlement on Nov. 27. It also conducted public meetings in Harlan, Lexington and Louisville to take comments from ratepayers.

The last rate adjustments for KU and LG&E came in July 2010.

KU and LG&E said the base electric rate increases are needed to pay for upgrades to electric transmission and distribution systems, improvements at electric generating facilities and the hiring of additional employees, particularly in their customer service operations. The companies also cited increased costs to comply with tighter federal cyber security standards.

The rate changes approved today do not include bill components that fluctuate on a regular basis, such as fuel cost adjustments and environmental costs on electric bills, surcharges related to energy efficiency programs or the commodity cost of natural gas.

In today's orders, the PSC addressed numerous public comments that objected to the proposed allocation of the increase for residential customers. The comments suggested that rather than dividing the increase between the fixed monthly charge and the usage-based charge, the entire increase should be in the usage charge.

An increase solely in the usage-based charge, the commenters contended, would reward those customers who have invested in energy efficiency and encourage other customers to make similar investments.

The PSC analyzed the effect of allocating the entire increase to the usage-based portion of the rate and found that it would have a negligible effect on that portion of the total bill that fluctuates with energy usage and is within the customer's control. Thus, the allocation in the settlement is unlikely to discourage investments in energy efficiency, the PSC said.

Details of the settlement agreement follow.

Rates for Kentucky Utility customers

- Annual revenue for KU will increase by \$51 million (4 percent), which is \$31.4 million less than the \$82.4 million requested by the utility. As a result, the average monthly residential bill will increase by \$5.16, rather than \$7.41.
- The monthly residential customer charge will go from the current \$8.50 to \$10.75, while the rate per kilowatt-hour (a kilowatt-hour is the amount of electricity used by a 100-watt bulb in 10 hours) will go from 6.987 cents to 7.235 cents.

Rates for Louisville Gas & Electric electric customers

- Annual revenue from electricity sales for LG&E will increase by \$33.7 million (3.7 percent), which is \$28.4 million less than the \$62.1 million requested by the utility. As a result, the average monthly residential bill will increase by \$4.25, rather than \$7.25.
- The monthly residential customer charge will go from the current \$8.50 to \$10.75, while the rate per kilowatt-hour will go from 7.242 cents to 7.439 cents.

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Provisions that affect LG&E natural gas customers

- Annual revenue from natural gas delivery for LG&E will increase by \$15 million (6.1 percent), which is \$2.2 million less than the \$17.2 million requested by the utility. As a result, the average monthly residential bill will increase by \$5.65, rather than \$5.77.
- The monthly residential customer charge will go from the current \$12.50 to \$13.50, while the delivery charge will go from \$2.24 to \$2.64 per 1,000 cubic feet of gas.
- The remaining \$2.27 of the monthly increase will come through a surcharge to pay for replacement of aging natural gas infrastructure, including old and potentially unsafe connections between customer service lines and gas meters. Repair of those connections is currently a customer's responsibility.
- LG&E is proposing to take ownership of both the connections and the service lines, as well as responsibility for any necessary repairs or replacement. The surcharge will fund that program as well as LG&E's ongoing replacement of older natural gas distribution lines.
- Customers who replaced either their service lines or connections (also known as "risers") in 2011 or 2012 may apply for reimbursement to LG&E.
- LG&E also will reduce the threshold amount of gas commercial customers must consume in order to become eligible for transportation-only service that allows those customers to purchase gas from an independent third-party gas marketer.

Provisions that affect all KU and LG&E residential customers

- Late payment charges will be reduced to 3 percent of the unpaid bill, down from the current 5 percent.
- The due date for bills will be extended to at least 22 calendar days from the date the bill is issued, up from the current 12 days.
- The company shareholder annual contribution to energy assistance programs for low-income customers will be increased by \$350,000, bringing the total for both utilities to \$1 million per year.
- The monthly per-meter charge for residential customers that goes to fund the Home Energy Assistance Program for low-income customers will increase to 25 cents from the current 16 cents.

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The settlement also calls for KU and LG&E to establish a program to help public schools with energy efficiency. The utilities must submit an application for that program to the PSC by the end of February 2013.

In addition to the Attorney General, KIUC, Kroger, and the Kentucky Schools Boards Association, parties to the cases included Lexington-Fayette Urban County Government; the Association of Community Ministries; and Community Action for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties Inc. The last two organizations represent low-income utility customers. Gas marketers Hess Corp. and Stand Energy Corp. were intervenors in the LG&E case but were limited to certain issues.

Today's orders and other documents in the cases, as well as videos of the hearings and public meetings, are available on the PSC website, psc.ky.gov. The case numbers are 2012-00221 (KU) and 2012-00222 (LG&E).

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 90 employees.

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