



Commonwealth of Kentucky
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Public Service Commission

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PSC RULES ON LG&E AND KU RATE REQUESTS

FRANKFORT, Ky. (June 30, 2004) The Kentucky Public Service Commission (PSC) today granted rate increases to the Louisville Gas & Electric Co. (LG&E) and the Kentucky Utilities Co. (KU), although the rate increases were substantially smaller than the amounts originally requested by the companies.

The rate increases and other provisions of today's PSC decision reflect settlements reached by parties to the case, including groups representing low-income consumers, such as the Kentucky Association for Community Action, Inc., and representatives of major Kentucky industries, including the Kentucky Industrial Consumers, Inc.

The PSC issued its decision in orders signed by all three members – Chairman Mark David Goss, Vice Chairman Ellen Williams and Commissioner Marty Huelsmann.

“Ultimately, ratemaking decisions require weighing the needs of utilities against the impact of rate increases on consumers,” the PSC said in a statement issued today. “This is always a difficult task which neither the PSC nor its staff takes lightly.

“The PSC believes that today's decision, based as it is on considerable negotiation among the parties and coming as it does only after exhaustive review by the PSC and its staff, strikes the proper balance,” the PSC said. (A full text of the statement is attached.)

The rate increases approved for LG&E and KU were the first in many years. KU's last electric rate increase was in 1984. LG&E last was allowed to increase electric rates in 1990. But in 2000, LG&E's electric rates were lowered to pre-1990 levels. LG&E's gas rates were last increased in 2000.

The rate increases grant LG&E and KU the opportunity to earn a return on equity ranging from 10 percent to 11 percent. That is consistent with the authorized returns on equity for similar utility companies in other states.

Even with the rate increases, Kentucky's electric rates will remain the lowest in the region and among the lowest in the nation. (See accompanying map.)

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Under the rate increases approved today, average monthly residential electric bills will rise as follows (this does not include fuel costs adjustments or other surcharges or credits):

UTILITY	CURRENT BASE RATE	NEW BASE RATE	INCREASE(%)
LG&E electric (based on average usage of 950 kilowatt-hours/month)	\$55.94	\$60.93	\$4.99 (8.9%)
KU electric (based on average usage of 1,210 kilowatt-hours/month)	\$54.79	\$58.29	\$3.50 (6.4%)

The average monthly gas bill for LG&E customers will increase \$2.97 (4.3 percent), from \$69.71 to \$72.68, based on average usage of 7,300 cubic feet/month. This figure reflects the current wholesale cost of natural gas. But the gas rate increase approved for LG&E covers only the costs of distributing gas to its customers. The actual cost of the gas itself is unregulated (by federal law), fluctuates with market conditions and is passed on to customers on a dollar-for-dollar basis, with no profit for the gas company.

LG&E and KU are both subsidiaries of LG&E Energy LLC. LG&E has about 384,000 electric customers and nearly 312,000 natural gas customers in 16 counties in the Louisville area. KU serves about 477,000 customers in 77 Kentucky counties.

LG&E applied for a \$63.7 million increase in annual electric revenue, but the PSC granted a \$43.4 million increase, which is 32 percent less than requested. KU requested a \$58.2 million annual electric revenue increase, but was allowed a \$46.1 million increase, 21 percent less than requested. LG&E asked for a \$19.1 million annual gas revenue increase, but received \$11.9 million – 38 percent less than requested.

A partial settlement reached by all parties to the case – representing interests from low-income residents to major industrial consumers – addressed all issues except the size of the KU and LG&E electric rate increase. The Kentucky Office of Attorney General was a party to this partial settlement. The electric rates approved by the PSC reflect an agreement reached by all parties to the case except the Office of Attorney General.

Other key elements of the agreements and orders include:

- A program to assist low-income consumers in paying their utility bills. The program will be funded through a monthly assessment of 10 cents per residential meter. The assessments will not begin until the PSC approves the details of how the program will be administered and is assured the program will operate efficiently.
- The end of a program, known as the Earnings Sharing Mechanism, under which KU & LG&E customers shared in the profits and losses incurred by the two utilities. When profits exceeded certain levels, customers received a rebate representing a portion of the additional profits. When profits fell below a certain level, the customers were assessed a surcharge.

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- Elimination of a variable rate structure under which LG&E's electric rates rose during the summer peak, when demand is highest, in order to encourage energy conservation. LG&E will monitor summer usage for two years to determine whether the rate change has any impact on energy consumption.

The orders, related case documents and videos of hearings in the case are posted on the PSC Web site, which is psc.ky.gov. The case numbers are 2003-00433 (LG&E) and 2003-00434 (KU).

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky. The PSC has approximately 110 employees.



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STATEMENT FROM THE PSC ON THE LG&E/KU RATE CASES

Today the Kentucky Public Service Commission (PSC) unanimously approved orders setting new electric rates for the Louisville Gas & Electric Company (LG&E) and the Kentucky Utilities Company (KU), and new gas rates for LG&E.

These were the first rate increases approved for LG&E and KU in many years. LG&E's last electric rate increase was in 1990. In fact, in 2000, LG&E lowered its electric rates to pre-1990 levels. LG&E's gas rates were last increased in 2000. KU's last electric rate increase was in 1984.

These increases also were far smaller than those originally sought by the companies. LG&E had applied for a \$63.7 million electric rate increase, but the PSC granted a \$43.4 million increase, which is 32 percent less than requested. LG&E had applied for a \$19.1 million gas rate increase, but the PSC granted an \$11.9 million increase, which is 38 percent less than requested. KU had applied for a \$58.2 million electric rate increase, but the PSC granted a \$46.1 million increase, which is 21 percent less than requested.

The rate increases range from \$2.97 to \$4.99 per month (4.3 percent to 8.9 percent) for the average customer. Very few of the things we purchase on a routine basis (milk, gasoline, cars, housing, health care, education) have increased that little over a comparable period of time.

The rate increases are well below the levels that would be in place if utility rates were adjusted to reflect the inflation rate. For example, the average monthly bill for a KU customer, instead of rising to \$58.29 (from \$54.79), would now be about \$96, if adjusted for inflation since the last increase in 1984. The total amount of inflation from 1984 to 2003 was about 77 percent.

Even with these increases, Kentucky's electric rates remain the lowest in the region and among the lowest in the nation. Kentucky's base natural gas rates are below the national average.

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It should be noted that the gas rate increase approved for LG&E covers only the costs of distributing gas to its customers. The actual cost of the gas itself is unregulated (by federal law), fluctuates with market conditions and is passed on to customers on a dollar-for-dollar basis, with no profit for the gas company.

The PSC order incorporates a partial settlement reached by all parties to the case on all issues except the size of the KU and LG&E electric rate increase. All parties to the case except the Kentucky Office of Attorney General agreed on the electric rates, and that agreement is reflected in the PSC's decision. The parties included groups representing Kentucky industries as well as those representing low-income utility customers.

The PSC would like to thank and commend the utilities and all the parties for their diligence and hard work in settling many of the issues in these complex cases. Even in the instance of the two issues which could not be fully settled, the work done by the parties was of great value to the PSC and its staff.

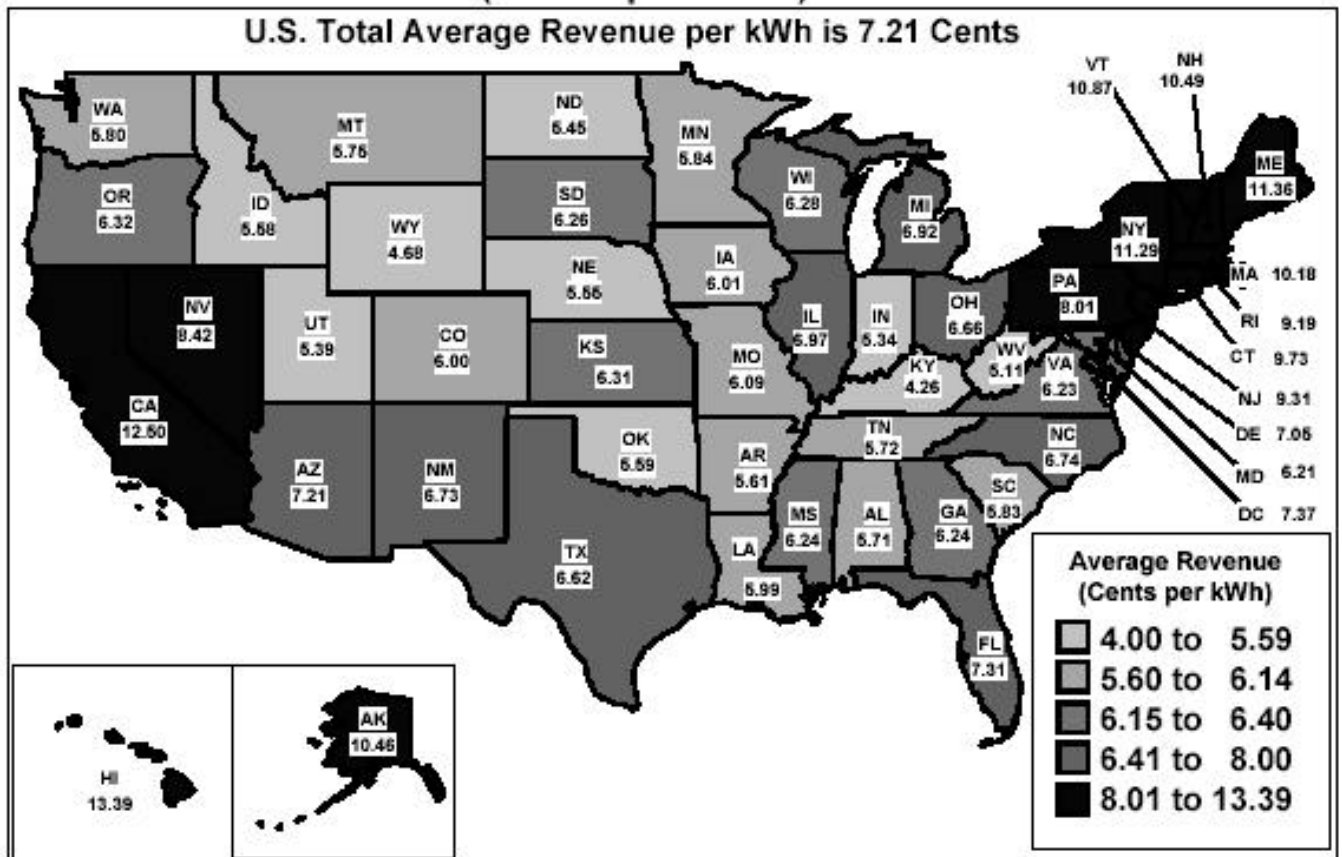
Commissioners make their decisions based on the evidence before them. They are assisted in this task by the PSC's experienced professional staff, which analyzes the record in a case and presents its recommendations to the Commission.

It is the PSC's statutory responsibility to ensure that the utilities in Kentucky remain in a sound financial condition that allows them to continue to deliver safe and reliable service to consumers. To do this, the PSC allows utilities to charge fair and just rates that provide a reasonable return on investment.

Ultimately, ratemaking decisions require weighing the needs of utilities against the impact of rate increases on consumers. This is always a difficult task which neither the PSC nor its staff takes lightly. The PSC believes that today's decision, based as it is on considerable negotiation among the parties and coming as it does only after exhaustive review by the PSC and its staff, strikes the proper balance.

The Kentucky Public Service Commission

**Figure 7.4 U.S. Electric Power Industry
Average Revenue per Kilowatthour by State, 2002
(Cents per kWh)**



Source: Energy Information Administration, Form EIA-861, "Annual Electric Power Industry Report."