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NEWS RELEASE

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PSC Grants Revenue Adjustments to LG&E and KU *Responds to customer complaints by ordering review of utility's billing practices*

FRANKFORT, Ky. (July 30, 2010) – The Kentucky Public Service Commission (PSC) today granted 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 the levels agreed to by the two utilities and most parties to the utilities' rate cases, among them the Kentucky Industrial Utility Customers Inc. (KIUC), two major retailers and advocates for low-income consumers. The Kentucky Office of Attorney General was the only party that did not enter into the agreements.

In orders issued today, the PSC said that accepting the partial settlements, known as stipulations, is in the public interest because it will "result in a lower rate increase than justified by our traditional rate-making analysis."

The PSC also noted in today's orders that it has received numerous complaints related to changes that LG&E and KU made to their billing and collection practices last year. In response to those complaints, the PSC has initiated a focused management audit that will review all aspects of LG&E's and KU's customer service functions.

With the new rates, residential electric customers of the two utilities will see their monthly bills increase by about \$7. LG&E residential natural gas customers will see their monthly bills increase by about \$4, a figure that does not include charges for the commodity cost of the natural gas itself.

LG&E and KU filed for rate increases in January. KU, which provides only electric service, sought a base revenue increase of \$135.2 million. The stipulation calls for an increase of \$98 million. LG&E asked to increase electric base revenue by \$95 million and natural gas base revenue by \$22.6 million. It agreed to increases of \$74 million in electric revenue and \$17 million in revenue from gas operations.

The electric revenue increases included recovery of the costs incurred by the two utilities to repair damage after the September 2008 wind storm and January 2009 ice storm.

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A public hearing on the proposed rates and partial settlements was held on June 8. The PSC held meetings to take public comment in Harlan, Lexington, Madisonville and Louisville.

The PSC found that the rates in the stipulations are fair, just and reasonable. The new rates take effect tomorrow.

The last rate adjustment for KU and LG&E came in February 2009. Electric rates remained essentially unchanged. The monthly base gas rate for LG&E residential customers increased by about \$7.

With today's changes, a typical KU residential customer using 1,000 kilowatt hours per month (a kilowatt-hour is the amount of electricity used by a 100-watt light bulb in 10 hours) will see a \$7.31 increase in the monthly bill.

The bill for an LG&E residential electric customer using 1,000 kilowatt-hours per month will increase by \$7.04. The base rates for an LG&E residential natural gas customer using 10,000 cubic feet per month will increase by \$4.05.

The rate changes are to base rates only. They do not include bill components that fluctuate on a regular basis, such as fuel cost adjustments and environmental costs on electric bills and the cost of natural gas itself. Nor do they include surcharges or credits related to energy conservation and assistance programs for low-income customers.

Other key provisions of the stipulations approved today include:

- LG&E and KU will recover the storm repair costs over a 10-year period.
- For at least two more years, the two utilities will continue to make matching contributions from shareholder funds to two programs that assist low-income customers.
- Beginning next year, LG&E and KU will reduce the window in which a customer's meter is read to three days from five days, thus reducing fluctuations in billing dates.
- Every bill LG&E and KU issue after today will include the date on which the bill was mailed. The companies will clarify their tariffs to specify that bills are due 12 calendar days after the billing date and that a late charge will be assessed if payment is not received within 15 calendar days of the billing date.
- The two utilities will continue to allow customers who are required to put up deposits in order to have service reconnected to spread the deposit payment over a four-month period.
- KU and LG&E will broaden the financial incentives they offer to commercial customers to improve energy efficiency by replacing old equipment.
- KU and LG&E will increase the rates they charge to cable television companies that attach their equipment to poles owned by the two utilities.

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The stipulations also change rates for non-residential customers, address issues related to large industrial customers who receive lower rates in exchange for allowing their service to be curtailed if necessary to meet other demand, and provisions regarding the rates charged to schools, including schools that have back-up generators.

The PSC noted that of the hundreds of public comments received regarding the rate case, many “raised issues related to (LG&E and KU’s) current billing and collection practices and procedures,” which changed when the utilities switched to a new computerized system last year.

Based on the customer complaints, the PSC said it is necessary perform a comprehensive review of the “efficiency and effectiveness of (LG&E and KU’S) customer service functions and all related supporting and operational functions that impact retail customers.” Topics to be covered include meter reading, accounting, billing and collections, call center operations, service installations, and disconnections and reconnections, the PSC said.

The PSC will select an independent consultant to conduct the focused management audit. Under state law, the cost of the review will be borne by the utilities.

Today’s orders also deny a renewed motion by the Kentucky Office of Attorney General to dismiss the rate cases because of the proposed sale of LG&E and KU to PPL Corp. The PSC denied an earlier motion to dismiss the rate cases, saying the issue could be explored during the rate case hearing.

Evidence presented at the rate case hearing did not support the Attorney General’s position that the proposed sale precludes a proper analysis of the rate adjustments, the PSC said. The financial implications of the sale are properly considered in the context of the PSC’s ongoing review of the proposed transaction, the PSC said.

LG&E has about 401,000 electric customers in nine counties in and around the Louisville area and 308,000 natural gas customers in 21 counties. KU has 504,000 customers in 77 Kentucky counties.

In addition to the Attorney General and KIUC, other parties to the cases included the U.S. Department of Defense; The Kroger Co.; Wal-Mart Stores East LLP/Sam’s East Inc.; the Kentucky School Boards Association; the Kentucky Cable Telecommunications Association; AARP; 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.

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 2009-00548 (KU) and 2009-00549 (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 100 employees.