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NEWS RELEASE

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PSC Accepts Settlement in KU and LG&E Environmental Compliance Cases

Agreement reached by diverse group of participants

FRANKFORT, Ky. (Dec. 15, 2011) – The Kentucky Public Service Commission (PSC) today accepted broad-based settlements in two cases establishing new environmental compliance plans and associated environmental surcharges for Kentucky Utilities Co. (KU) and Louisville Gas & Electric Co. (LG&E).

The compliance plans are intended to meet the requirements of several U.S. Environmental Protection Agency (EPA) regulations affecting coal-burning electric power plants.

Since 1994, a law enacted by the Kentucky General Assembly has entitled coal-burning utilities such as KU and LG&E to recover environmental compliance costs separately from their general rates. The costs are recovered through a surcharge that appears as a separate item on electric bills.

In orders issued today, the PSC said the settlements "when viewed in total, represent the most reasonable and cost effective course of action for (KU and LG&E) to meet their environmental obligations under the EPA regulations under consideration in this case."

KU and LG&E sought PSC authorization to spend a total of about \$2.5 billion to comply with the new federal environmental requirements. The settlement reduces the cost of KU's compliance plan by about \$225 million.

Major elements of the agreement include:

- Deferral of installation of certain air emission controls at the two oldest units of KU's three-unit E.W. Brown coal-fired generating station.
- A reduction, from 10.63 percent to 10.1 percent, in the rate of return the companies may earn on their investments in the new facilities to be built under the plan.

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- A shareholder contribution of \$500,000, paid over two years and divided equally between the LG&E and KU home energy assistance programs for low-income residential customers.
- A one-cent increase, to 16 cents, in the monthly charge all KU residential electric customers and all LG&E residential electric and gas customers pay into the fund for the home energy assistance program.

In addition to the companies, parties to the settlement include the Kentucky Office of Attorney General, representing ratepayers in general; Kentucky Industrial Utility Customers, Inc., representing large industrial power users; the Metropolitan Housing Coalition of Louisville and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc., representing low-income consumers; the Sierra Club and the Natural Resources Defense Council, representing environmental interests; the Kroger Co. and U.S. Department of Defense, both large electric customers; and Lexington-Fayette Urban County Government.

The settlements “represent diverse interest and divergent points of view,” the PSC said in the orders issued today. “The Commission is very encouraged by the scope and breadth of the Settlement Agreement and we compliment the parties to this matter on the results they were able to achieve.”

Both LG&E and KU are subsidiaries of PPL Corp. Kentucky Utilities has about 506,000 electric customers in 77 counties across Kentucky. Louisville Gas & Electric has about 401,000 electric customers in nine counties in the Louisville area and 312,000 natural gas customers in 21 counties.

The utilities originally estimated that total electric bills for LG&E residential customers would increase by about 19.2 percent by 2016, while KU residential customers would see total bills increase by about 12.2 percent over that same time. The settlement reduces the increases to an estimated 18.3 percent for LG&E customers and 9.65 percent for KU customers.

KU will spend about \$900 million for additional air emission controls at its Brown plant in Mercer County and its Ghent plant in Carroll County and to convert a coal ash pond at Brown to dry storage. KU estimates that the monthly bill for a 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 an increase \$7.47 by 2016 - \$1.99 less than under the original proposal.

LG&E will spend \$1.4 billion for additional air emission control equipment at its Mill Creek generating plant in Jefferson County and its Trimble County generating plant. The utility estimates that an LG&E customer using 1,000 kilowatt-hours of electricity per month will see the monthly bill increase by \$15.60 by 2016, or 73 cents less than under the original proposal.

In addition to adding new environmental controls, KU and LG&E are planning to retire LG&E's Cane Run generating plant in Jefferson County and KU's Green River plant in Muhlenberg County and Tyrone plant in Woodford County.

The utilities have applied to replace the lost generating capacity by constructing a gas-fired plant on the Cane Run site and purchasing an existing gas-fired facility in Oldham County. Those plans are the subject of a separate proceeding before the PSC.

The PSC conducted public meetings in the cases in Corbin, Henderson, Lexington and Louisville in September. The settlement was announced by the parties on Nov. 10, with a formal evidentiary hearing on the agreement conducted by the PSC that day.

Today's orders, the videotapes of the public meetings and the hearing and documents filed in the cases are available on the PSC website, psc.ky.gov. The case numbers are 2011-00161 (KU) and 2011-00162 (LG&E).

Also available on the PSC website are documents filed in the related KU and LG&E case seeking approval of the construction and purchase of gas-fired generating facilities. The case number is 2011-00401.

The PSC has produced a narrated slide show explaining how it reviews coal-related environmental compliance costs incurred by electric utilities. The presentation explains the legal basis for the recovery of environmental costs, the PSC's review process and the environmental surcharge through which the costs are passed on to a utility's ratepayers.

The video, which is about 10 minutes long, is available at this web address:

<http://www.youtube.com/watch?v=lvGmPHRtdNk>

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.