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Governor

Leonard K. Peters  
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Energy and Environment Cabinet

Commonwealth of Kentucky  
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David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

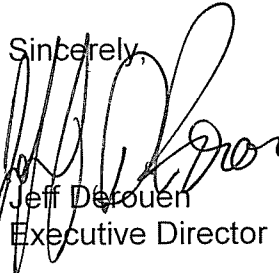
Charles R. Borders  
Commissioner

February 10, 2011

## PARTIES OF RECORD

RE: Informal Conference for  
Case No. 2010-00474  
Case No. 2010-00475

Enclosed please find a memorandum that has been filed in the record of the above-referenced cases. Any comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Any questions regarding this memorandum should be directed to Ron Handziak of the Commission Staff at 502-564-3940, extension 230.


Sincerely,  
  
Jeff Derouen  
Executive Director

Attachment

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Main Case File - Case No. 2010-00474  
Main Case File - Case No. 2010-00475

**FROM:** Ronald Handziak, Team Leader 

**DATE:** February 10, 2011

**RE:** Informal Conference of February 2, 2011

Pursuant to the Commission's December 27, 2010 Order, on February 2, 2011, representatives of Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU") and Commission Staff ("Staff") met at the Commission's offices to discuss LG&E and KU's testimony and responses to the first round of data requests in the current examination of the companies' environmental surcharge mechanism. A list of attendees is attached to this memorandum as Attachments 1 and 2

Representatives of LG&E and KU distributed a handout that provided an overview of their filing and their responses to information requested in Appendix B of the Commission's December 27, 2010 Order. The handout is attached to this memorandum as Attachment 3. LG&E and KU discussed the information contained in the handout, including the determination that there was an over-recovery of the surcharge for the billing period under review for both LG&E and KU. Commission Staff asked a few clarifying questions related to information included in the handout and the response to the data request. There being no other questions, the meeting adjourned.

cc: Parties of Record

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIRONMENTAL ) CASE NO.  
SURCHARGE MECHANISM OF KENTUCKY ) 2010-00474  
UTILITIES COMPANY FOR THE SIX-MONTH )  
BILLING PERIOD ENDING OCTOBER 31, 2010 )

February 2, 2011

Please sign in:

NAME	REPRESENTING
<u>Quang D. Nguyen</u>	<u>PSC</u>
<u>Ron Handziate</u>	<u>PSC - FA</u>
<u>Vicky S. Townes</u>	<u>PSC - FA</u>
<u>Robert Conroy</u>	<u>LGE / KU</u>
<u>Allyson Sturges</u>	<u>LGE / KU</u>
<u>Shannon Charnas</u>	<u>LGE / KU</u>
<u>Andrea Schroeder</u>	<u>LGE / KU</u>
<u>Lonnie Bellar</u>	<u>LGE / KU</u>
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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

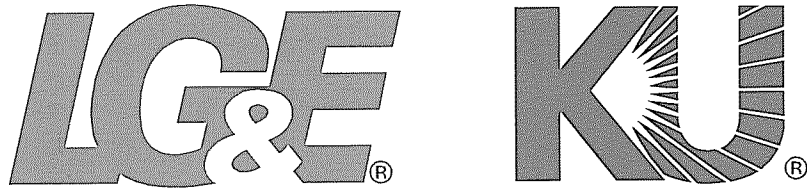
In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF LOUISVILLE	)	CASE NO.
GAS AND ELECTRIC COMPANY FOR THE	)	2010-00475
SIX-MONTH BILLING PERIOD ENDING	)	
OCTOBER 31, 2010	)	

February 2, 2011

Please sign in:

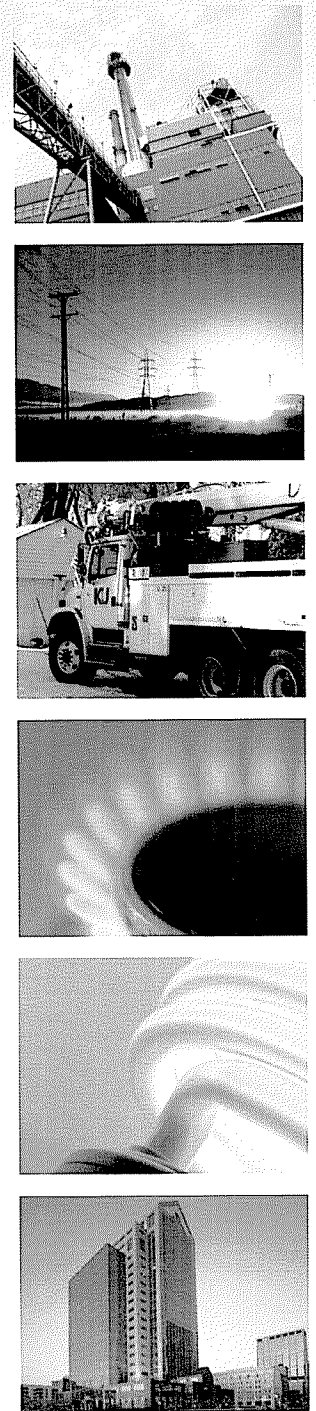
NAME	REPRESENTING
<u>Quang D Nguyen</u>	<u>PSC</u>
<u>Ron Handzick</u>	<u>PSC - FA</u>
<u>Vicky Starnes</u>	<u>PSC - FA</u>
<u>Robert Conroy</u>	<u>LGE / KU</u>
<u>Allyson Sturgeon</u>	<u>LGE / KU</u>
<u>Sharon Aarnas</u>	<u>LGE / KU</u>
<u>Andrea Schroeder</u>	<u>LGE / KU</u>
<u>Lonnie Bellor</u>	<u>LGE / KU</u>
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**PPL companies**

# **ECR Review Case Nos. 2010-00474 and 2010-00475**

*February 2, 2011*



# Overview

## —Review Period

- Six-month period for expense months of March 2010 through August 2010

## —Out-of-Period Correction

- February 2010 expense month corrected in April 2010

## —Elimination of 2001 and 2003 ECR Compliance Plans

# Operation of the ECR

- Components that make up the over-collections:
  - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
  - Use of 12-month average revenues to determine the billing factor
  - Out-of-period correction for the February 2010 expense month corrected in April 2010

# Over/(Under) Reconciliation

	KU	LG&E
Combined Over/(Under) Recovery	\$9,204,042	\$1,419,514
Due to Change in Rate of Return	1,034,889	(161,685)
Use of 12-Month Average Revenues	4,255,493	640,065
Feb-10 Expense Month Correction	<u>3,913,660</u>	<u>941,134</u>
Subtotal	<u>\$9,204,042</u>	<u>\$1,419,514</u>
Unreconciled Difference	( - )	( - )



# Out-of-Period Correction

- February 2010 expense month included an overstatement of ECR revenue collected through base rates
- Correction filed with April 2010 expense month as prior period adjustment and recovered through June 2010 billing factor
- Crosses two six-month review periods
- Adjustment in this proceeding to avoid compounding the over/under recovery for customers
  - Adjustment to KU is \$3,913,660
  - Adjustment to LG&E is \$941,134

# Out-of-Period Correction - KU

	Six-Month Review Expense Period Sep09-Feb10	Six-Month Review Expense Period Mar10-Aug10
Cumulative Over/(Under) Recovery	(\$4,490,751)	\$9,204,042
Feb10 Expense Month Correction	<u>3,913,660</u>	<u>(3,913,660)</u>
Net Over/(Under) Recovery	(\$577,091)	\$5,290,382

# Out-of-Period Correction - LG&E

	Six-Month Review Expense Period Sep09-Feb10	Six-Month Review Expense Period Mar10-Aug10
Cumulative Over/(Under) Recovery	(\$5,714,763)	\$1,419,514
Feb10 Expense Month Correction	<u>941,134</u>	<u>(941,134)</u>
Net Over/(Under) Recovery	(\$4,773,629)	\$478,380

# Net Over/(Under) Recovery Position

- Net over-recovery position – KU
  - Cumulative over-recovery for the 6-month period is \$9,204,042
  - Adjustment for out-of-period correction is \$3,913,660
  - Net over-recovery position is \$5,290,382
- Net over-recovery position – LG&E
  - Cumulative over-recovery for the 6-month period is \$1,419,514
  - Adjustment for out-of-period correction is \$941,134
  - Net over-recovery position is \$478,380

# 2001 and 2003 ECR Compliance Plans

- On July 30, 2010, the Commission approved the elimination of the 2001 and 2003 ECR Compliance Plans from the monthly filings for KU and LG&E
  - Plan eliminations were an approved provision in the most recent rate case settlement
  - Effective with August 2010 expense month filing, all associated costs are now recovered through base rates
  - ES Forms reflect zero-balances for 2001 and 2003 Plans

# Recommendations – KU and LG&E

- Approve refund of net over-collections:
  - KU over-collection of \$5,290,382 over a six month period
  - LG&E over-collection of \$478,380 over a one month period
- Find environmental surcharge amounts for the billing period ending October 2010 just and reasonable
- Approve the use of an overall rate of return on capital using a return on equity of 10.63% beginning in the second billing month following the Commission's Order
  - 11.04% for KU
  - 11.31% for LG&E