

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 KENTUCKY	)	CASE NO.
UTILITIES COMPANY FOR THE TWO-YEAR	)	2011-00231
BILLING PERIOD ENDING APRIL 30, 2011	)	

O R D E R

On July 19, 1994, the Commission approved Kentucky Utilities Company's ("KU") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> Pursuant to KRS 278.183(3), at six month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At two year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of

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<sup>1</sup> Case No. 1993-00465, The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products (Ky. PSC Jul. 19, 1994).

the utility. Therefore, the Commission hereby initiates the two-year review of the surcharge as billed from May 1, 2009 to April 30, 2011.<sup>2</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, KU is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review; and (b) on a proposal to roll-in its environmental surcharge into existing base rates. In addition, KU is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. Since the period under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, KU has sought and been granted five amendments to its original environmental compliance plan and surcharge mechanism. Pursuant to our Order approving the Stipulation and Recommendation in Case No. 2009-00548,<sup>3</sup> all costs associated with KU's 2001 and 2003 amended compliance plans were rolled-in to KU's base rates. As a result, the environmental surcharge provides recovery of the costs associated with the three remaining amended environmental compliance plans. When determining its over- or under-recovery of the surcharge in this proceeding, KU should reflect the impacts of these prior cases, as applicable.

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<sup>2</sup> Since KU's surcharge is billed on a two-month lag, the amounts billed are based on costs incurred from March 2009 through February 2011.

<sup>3</sup> Case No. 2009-00548, Application of Kentucky Utilities Company for an Adjustment of Base Rates (Ky. PSC Jul. 30, 2010).

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. KU shall appear at the Commission's offices on the date set forth in Appendix A to submit itself to examination on the application of its environmental surcharge as billed to consumers from May 1, 2009 through April 30, 2011. At the public hearing there shall be no opening statements or summaries of testimony.

3. KU shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

4. Any party filing testimony shall file an original and ten copies.

5. a. The information requested herein is due on or before the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any requests to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

6. Within seven days of the Commission granting intervention to a party, KU shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

7. KU's monthly environmental surcharge reports and supporting data for the review periods shall be incorporated by reference into the record of this case.

8. The case records of Case Nos. 1993-00465, 2000-00439, 2002-00146, 2003-00068, 2003-00434, 2004-00426, 2006-00206 and 2009-00197<sup>4</sup> shall be incorporated by reference into the record of this case.


9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

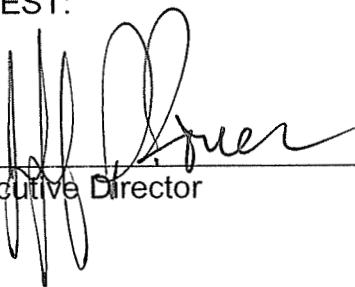
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<sup>4</sup> Case No. 1993-00465, Kentucky Utilities Company (Ky. PSC Jul. 19, 1994); Case No. 2000-00439, The Application of Kentucky Utilities Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Surcharge Tariff (Ky. PSC Apr. 18, 2001); Case No. 2002-00146, Application for Amended Environmental Compliance Plan and a Revised Surcharge to Recover the Costs (Ky. PSC Feb. 11, 2003); Case No. 2003-00068, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending January 31, 2001, July 31, 2001, January 31, 2002, and January 31, 2003, and for the Two-Year Billing Periods Ending July 31, 2000 and July 31, 2002 (Ky. PSC May 4, 2004); Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company (Ky. PSC Mar. 31, 2006); Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan and Recovery by Environmental Surcharge (Ky. PSC Jun. 20, 2005); Case No. 2006-00206, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct a Selective Catalytic Reduction System and Approval of Its 2006 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Dec. 21, 2006); and Case No. 2009-00197, Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2009 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Dec. 23, 2009).

By the Commission

ENTERED   
AUG 09 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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Executive Director

Case No. 2011-00231

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00231 DATED **AUG 09 2011**

- KU shall file its prepared direct testimony and responses to the information requested in Appendix B no later than ..... 09/07/11
- An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room No. 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues..... 09/28/11
- All additional requests for information to KU shall be filed no later than ..... 10/12/11
- KU shall file responses to additional requests for information no later than ..... 10/26/11
- Intervenor testimony, if any, in verified prepared form shall be filed no later than..... 11/09/11
- All requests for information to Intervenors shall be filed no later than ..... 11/23/11
- Intervenors shall file responses to requests for information no later than ..... 12/07/11
- Last day for KU to publish notice of hearing date ..... To be scheduled
- Public Hearing is to begin at 10:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of KU and Intervenors..... To be scheduled
- Briefs, if any, shall be filed by ..... To be scheduled

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00231 DATED

**AUG 09 2011**

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION  
TO KENTUCKY UTILITIES COMPANY

1. Concerning the rate of return on the five amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review.

2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the six-month review or the two-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.



3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported during each billing period under review for Pollution Control Deferred Income Taxes.

4. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the September 2010 through February 2011 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that KU believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into KU's base rates. Include any analysis that KU believes supports its position.

c. Does KU believe that there will need to be modifications to either the surcharge mechanism or the monthly surcharge reports, as a result of incorporating additional environmental surcharge amounts into KU's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.

6. In Case No. 2000-00439, the Commission ordered that KU's cost of debt and preferred stock would be reviewed and re-established during the six-month review case. Provide the following information as of February 28, 2011:

a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.

b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.

c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.

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