

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)	
UTILITIES COMPANY FOR THE SIX-MONTH)	CASE NO.
BILLING PERIODS ENDING JULY 31, 2003,)	2006-00129
JANUARY 31, 2004, JANUARY 31, 2005,)	
JULY 31, 2005, AND JANUARY 31, 2006 AND)	
FOR THE TWO-YEAR BILLING PERIOD ENDING)	
JULY 31, 2004)	

O R D E R

On April 25, 2006, the Commission initiated this review of Kentucky Utilities Company's ("KU") environmental surcharge. On May 4, 2006, KU filed a motion seeking an expansion of the scope of the current 6-month and 2-year reviews and setting the next 6-month and 2-year surcharge reviews for periods that would match those for Louisville Gas and Electric Company ("LG&E").¹

KU states that the purpose of the proposed expansions is to synchronize its 6-month and 2-year billing review periods with those of LG&E. KU contends that synchronizing the billing review periods will simplify the current and future examinations for the Commission, KU, LG&E, and intervenors. KU argues that the proposed expansions will provide administrative efficiencies and economies by presenting

¹ LG&E's current surcharge review case is Case No. 2006-00130, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending October 31, 2003, April 30, 2004, October 31, 2004, October 31, 2005, and April 30, 2006, and for the Two-Year Billing Period Ending April 30, 2005.

comparable periods of review for consideration and examination. KU notes that it does not believe KRS 278.183(3) is an impediment to its proposed expansions, as this portion of the environmental surcharge statute concerns the timing of the reviews not the actual billing periods being reviewed.

KU states that if the Commission expands the scope of this proceeding as it has requested, it will provide the information requested in the April 25, 2006 Order for the additional surcharge review months. KU notes that if the Commission accepted its proposal to synchronize its future review periods with LG&E, KU's next 6-month review will examine the billing months of May through October 2006 and its next 2-year review will examine the billing months of May 2005 through April 2007.

KU served copies of the May 4, 2006 motion on the Office of the Attorney General ("AG") and the Kentucky Industrial Utility Customers, Inc. ("KIUC"). No comments have been received from either party concerning the motion.

The applicable part of KRS 278.183(3) states:

At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section. Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

KU's environmental surcharge was implemented in August 1994 while LG&E's environmental surcharge was implemented in May 1995. Consequently, the subsequent 6-month and 2-year surcharge review periods were based on 6-month and

2-year increments from the implementation dates. The respective holding companies for KU and LG&E merged in May 1998, and KU and LG&E are currently subsidiaries of E.ON U.S. LLC. The Commission has observed that the same utility personnel are involved in the preparation of the environmental surcharge monthly report filings and the periodic surcharge reviews for both utilities. In this proceeding and Case No. 2006-00130, the Commission established the same procedural schedules in recognition of this fact.

The Commission has reviewed KRS 278.183 and agrees with KU that the statute only requires the surcharge be reviewed at certain time intervals. Given the relationship between KU and LG&E, we also agree that synchronizing KU's and LG&E's billing periods would provide certain administrative efficiencies. Therefore, the Commission finds that KU's request to expand the scope of the current 6-month and 2-year surcharge reviews, synchronizing the billing periods under review with those of LG&E, is reasonable and should be approved. The Commission also finds it reasonable to continue this change on a prospective basis and that KU's next 6-month review will cover the billing months of May through October 2006 and the next 2-year review will cover the billing months of May 2005 through April 2007.

IT IS THEREFORE ORDERED that:

1. The current 6-month review of KU's environmental surcharge mechanism is expanded to include the billing period from February 1, 2006 through April 30, 2006.
2. The current 2-year review of KU's environmental surcharge mechanism is expanded to include the billing period from August 1, 2004 through April 30, 2005.

3. The next 6-month review of KU's environmental surcharge mechanism shall be for the billing period from May 1, 2006 through October 31, 2006. All subsequent 6-month examinations of the environmental surcharge mechanism shall be based on 6-month intervals from October 31, 2006.

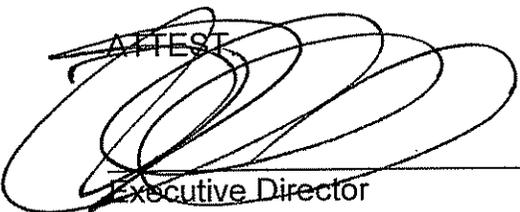
4. The next 2-year review of KU's environmental surcharge mechanism shall be for the billing period from May 1, 2005 through April 30, 2007. All subsequent 2-year examinations of the environmental surcharge mechanism shall be based on 2-year intervals from April 30, 2007.

5. KU shall provide the AG and KIUC with copies of the monthly environmental surcharge reports as filed with the Commission for the additional billing months included in this review within 5 days of the date of this Order.

6. KU shall reflect the expanded scope of the current 6-month and 2-year surcharge reviews in its responses to Item Nos. 1(a) and (b), 2, 3, 4, 5, 11(a) and (b), 12(a) through (d), and 17(a) through (c) of the data request attached to the Commission's April 25, 2006 Order.

Done at Frankfort, Kentucky, this 22nd day of May, 2006.

By the Commission


Executive Director