

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)	2010-00242
SIX-MONTH BILLING PERIOD ENDING)	
APRIL 30, 2010)	

O R D E R

On July 13, 2010, the Commission initiated a six-month review of Louisville Gas and Electric Company's ("LG&E") environmental surcharge as billed to customers for the six-month period November 1, 2009 through April 30, 2010.¹ Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of a utility's environmental surcharge. After hearing, the Commission may, by temporary adjustment of the surcharge, disallow any surcharge amounts that are not just and reasonable and reconcile past surcharge collections with actual costs recoverable pursuant to KRS 278.183(1). There are no intervenors in this case.

The Commission issued a procedural schedule that provided for discovery, the filing of prepared testimony, an informal conference, and a public hearing. LG&E filed prepared direct testimony and responded to requests for information. On September 1, 2010, LG&E and Commission Staff ("Staff") participated in an informal conference to

¹ LG&E's surcharge is billed on a two-month lag. Thus, surcharge billings for November 2009 through April 2010 are based on costs incurred from September 2009 through February 2010.

discuss the issues in the case. During the conference, Staff requested further information, which LG&E submitted on September 7, 2010. In that same response, LG&E also requested that this case be submitted for a decision based on the existing record without a public hearing. Based on the absence of intervenors and finding good cause, the Commission will grant LG&E's request and decide this case based on the evidence of record without a hearing.

SURCHARGE ADJUSTMENT

The July 13, 2010 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred during the period of review, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. LG&E determined that it had a net under-recovery of environmental costs for the billing period ending April 30, 2010 of \$4,773,629.² It proposed that the net under-recovery be collected from customers over a six-month period beginning in the second full billing month following the Commission's Order in this proceeding.³

The Commission has reviewed and finds reasonable LG&E's calculation of a net under-recovery of \$4,773,629 for the billing period covered in this proceeding. The Commission also finds reasonable LG&E's proposal to increase the total jurisdictional environmental surcharge revenue requirement by \$795,605 per month for the first five months and \$795,604 for the following one month, beginning in the second full billing

² Robert M. Conroy Direct Testimony, at 7.

³ Id., at 11.

month following the date of this Order. LG&E calculates that a residential customer using 1,000 kWh per month will experience an increase in the environmental surcharge billed of approximately \$0.95 per month for six months to recover the net under-recovery.

RATE OF RETURN

LG&E provided the outstanding balances for its long-term debt, short-term debt, and common equity as of February 28, 2010, the last expense month of the review period. It also provided the blended interest rates for its long-term and short-term debt as of February 28, 2010.⁴ Using this information, along with the currently approved 10.63 percent return on equity,⁵ LG&E calculated an overall rate of return on capital, before income tax gross-up, of 7.91 percent.⁶ LG&E also provided the overall rate of return on capital reflecting the tax gross-up approach approved in Case No. 2004-00421.⁷

⁴ Response to Commission Staff's Data Request dated August 4, 2010, Item 5.b., page 2 of 2.

⁵ Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment of Electric and Gas Base Rates (Ky. PSC July 30, 2010).

⁶ Response to Commission Staff's Data Request, dated August 4, 2010, Item 5.c., page 1 of 2.

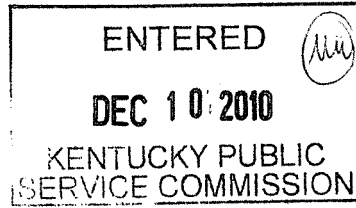
⁷ Case No. 2004-00421, The Application of Louisville Gas and Electric Company for Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC Jun. 20, 2005); and Response to the Commission Staff's Data Request in this proceeding dated August 4, 2010, Item 5.c. In the response, LG&E determined that the income tax gross-up factor was 0.550, which would produce a tax grossed-up weighted average cost of capital of 11.18 percent.

The Commission has reviewed LG&E's determination of the overall rate of return on capital and finds 7.91 percent to be reasonable. The Commission has also reviewed the determination of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2004-00421. Therefore, the Commission finds that the weighted average cost of capital of 7.91 percent and the income tax gross-up factor of 0.55 should be used in all LG&E monthly environmental surcharge filings beginning in the second full month following the date of this Order.

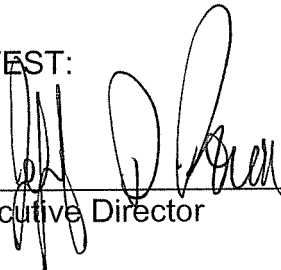
IT IS THEREFORE ORDERED that:

1. LG&E's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. The amounts billed by LG&E through its environmental surcharge for the period from November 1, 2009 through April 30, 2010 are approved.
3. LG&E shall add \$795,605 per month for the first five months and \$795,604 for the following one month to its jurisdictional environmental revenue requirement determined in the month beginning in the second full month following the date of this Order, as discussed herein.
4. LG&E shall use an overall rate of return on capital of 7.91 percent and a tax gross-up factor of 0.55 in all monthly environmental surcharges beginning in the second full month following the date of this Order.

By the Commission



ATTEST:



Executive Director

Case No. 2010-00242

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