

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY FOR APPROVAL OF )  
COMPLIANCE PLAN AND TO ASSESS A )  
SURCHARGE PURSUANT TO KRS 278.183 TO ) CASE NO. 94-332  
RECOVER COSTS OF COMPLIANCE WITH )  
ENVIRONMENTAL REQUIREMENTS FOR COAL )  
COMBUSTION WASTES AND BY-PRODUCTS )

O R D E R

IT IS ORDERED that Kentucky Industrial Utility Customers ("KIUC") shall file the original and 12 copies of the following information with the Commission no later than February 1, 1995, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Mr. Falkenberg states on page 10 of his Direct Testimony that had the Commission used the surcharge methodology established in Big Rivers Electric Corporation ("Big Rivers") Case No. 94-032<sup>1</sup>

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<sup>1</sup> Case No. 94-032, Application of Big Rivers Electric Corporation to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance With Environmental Requirements of the Clean Air Act.

as the adopted surcharge methodology in Kentucky Utilities Company ("KU") Case No. 93-465<sup>2</sup>, many KU project costs initiated prior to January 1, 1993 would have been eliminated. How did Mr. Falkenberg reach this conclusion, since in his testimony in Case No. 93-465 he used as his base period the 12-months ending June 30, 1982?

2. Mr. Falkenberg states on page 11 of his Direct Testimony that the Commission's Order in Case No. 94-032 did not extensively discuss how the base period was selected. In its final Order in that proceeding, the Commission stated, "Big Rivers determined that the level of environmental compliance-related capital costs, O&M expenses, and administrative and general expenses reflected in its financial statements for the 12-month period ending December 31, 1992 were already included in its existing rates.(footnote omitted)"<sup>3</sup>

a. Was Mr. Falkenberg aware of this statement?

b. Has Mr. Falkenberg reviewed the application, testimony, data responses, and hearing transcripts from Case No. 94-032?

c. Was Mr. Falkenberg aware that Big Rivers' reason for using the December 31, 1992 base period involved the timing of its latest rate increase due to the workout plan and that the effective date of KRS 278.183 was not a factor in selecting the base period?

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<sup>2</sup> Case No. 93-465, 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.

<sup>3</sup> Id., final Order issued August 31, 1994, at 10.

3. Throughout his testimony, Mr. Falkenberg states that any project initiated prior to the effective date of KRS 278.183 should be disallowed and not included in the surcharge. In Case No. 93-465, KU proposed 15 projects, seven of which were begun and completed prior to the effective date of KRS 278.183.

a. Where in Mr. Falkenberg's filed testimony in Case No. 93-465 did he object to the inclusion of projects initiated prior to January 1, 1993? Provide the specific reference.

b. If he did not raise such an objection in Case No. 93-465, explain why it is appropriate to hold Louisville Gas and Electric Company ("LG&E") to a different standard than was applied to KU.

4. On page 15 of his Direct Testimony, Mr. Falkenberg opposes the inclusion of three LG&E projects required by the Air Pollution Control District of Jefferson County. KRS 278.183(1) states in part:

[A] utility shall be entitled to the current recovery of its costs of complying with . . . local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal in accordance with the utility's compliance plan (emphasis added) . . . .

Why does Mr. Falkenberg oppose the inclusion of these projects given the requirements of KRS 278.183(1)?

5. On pages 24 and 25 of his Direct Testimony, Mr. Falkenberg discusses the need to recognize retirements and replacements of utility plant caused by implementation of the compliance plan. He states that if the new replacement projects are allowed in the surcharge, the Commission should deduct the

costs of the original systems which have been retired or replaced. Explain what adjustments, if any, would need to be made for operation and maintenance ("O&M") expenses associated with the retirements or replacements. For purposes of this response, assume that LG&E's proposal concerning O&M expenses is adopted.

6. Mr. Falkenberg has taken issue with LG&E's failure to allocate some portion of its environmental compliance costs to off-system sales.

a. Is Mr. Falkenberg familiar with the Commission's treatment of off-system sales revenues in general rate cases?

b. How does the Commission's treatment of off-system sales revenues in general rate cases compare with Mr. Falkenberg's proposal for the treatment of off-system sales revenues within this surcharge proceeding?

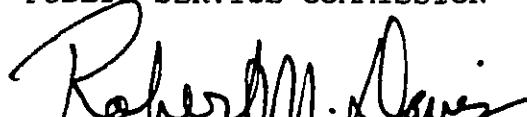
7. LG&E has proposed a percentage-of-revenues approach for calculating its surcharge that is similar to methods approved by the Commission in other environmental surcharge proceedings. Assuming this methodology is again approved by the Commission, what specific changes in LG&E's proposal would Mr. Falkenberg recommend in order to allocate environmental compliance costs to off-system sales?

Done at Frankfort, Kentucky, this 20th day of January, 1995.

ATTEST:

  
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Executive Director

PUBLIC SERVICE COMMISSION

  
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For the Commission