

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. 96-605
UTILITIES COMPANY AS BILLED FROM)	
AUGUST 1, 1994 TO JULY 31, 1996)	

O R D E R

On December 18, 1996, the Commission initiated its first two-year review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers from August 1, 1994 to July 31, 1996.¹ Pursuant to KRS 278.183(3), 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 the utility.

In anticipation that those parties to KU's last six-month review would desire to participate in this proceeding, the Attorney General's Office, Lexington-Fayette Urban County Government, and the Kentucky Industrial Utility Customers were deemed parties to this proceeding. A public hearing was held on April 8, 1997. All information requested at the public hearing has been filed.

¹ As KU's surcharge is billed on a two-month lag, the amounts billed from August 1994 through July 1996 are based on costs incurred from June 1994 through May 1996.

RECONCILIATION OF OVER- AND UNDER-RECOVERIES

The surcharge factor currently used is the result of dividing the monthly Kentucky jurisdictional surcharge revenue requirement by the average monthly Kentucky jurisdictional revenue. During the second and third six-month review cases, over-recoveries had been reflected as billing correction factors, which were combined with the surcharge factor for a given month. The net factor was then applied to customer billings. The application of the net surcharge factor during any six month period can cause an over- or under-recovery depending upon the difference between the level of revenues in the expense months and the billing months used to assess the surcharge. Because of this fact, the over-recovery the Commission ordered to be refunded to ratepayers in Case No. 95-445² has not been completed.

In order to properly compare the revenues actually collected with the revenue requirement allowed, KU proposed to modify the over- or under-recovery mechanism. KU suggested that an additional line item be included on ES Form 4.0 to reflect the over-recovery refund or under-recovery charge authorized by the Commission during a six-month review. KU believed that this change would allow the amount actually refunded or charged to be reconciled with the authorized jurisdictional revenue requirement. KU also proposed to continue the process of expressing over- and under-recoveries as billing correction factors.³

² Case No. 95-445, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from February 1, 1995 to July 31, 1995. This was KU's second six-month review.

³ Willhite Revised and Supplemental Testimony, at 4, 7, and 8.

The Commission has examined this issue and agrees that a modification to the current mechanism is needed. The need for this "true-up" adjustment is based on the fact that the billing correction factor is a result of dividing the review period's over- or under-recovery by Kentucky jurisdictional revenues for the review period. With the billing correction factor included in the monthly surcharge factor, the effect of differences between the expense and billing months' revenue levels impacts the amounts refunded to or collected from ratepayers. The continued use of the billing correction factor approach would require a true-up adjustment. However, because of the timing of the six-month surcharge reviews, this true-up adjustment would not occur until a year after the original over- or under-recovery was determined. The Commission finds that this delay for a true-up adjustment is unreasonable.

During the hearing, an alternative method was examined. Under this alternative, the over- or under-recovery adjustment determined during a six-month review would not be expressed as a billing correction factor, but in dollars.⁴ When the monthly surcharge factor is calculated, subsequent to the determination of an over- or under-recovery, the dollar adjustment would be added to or subtracted from the monthly Kentucky jurisdictional revenue requirement. This "direct" methodology would eliminate the need for KU's proposed "true-up" adjustment, since the over- or under-recovery is reflected directly in the calculation of the monthly surcharge factor. It would not be impacted by the differences in revenue levels as is the current methodology. The "direct"

⁴ The over- or under-recovery dollar amount could be returned in one monthly surcharge billing or spread over a series of months if its impact is significant.

methodology would also result in a more timely reconciliation of refunds or charges with authorized Kentucky jurisdictional revenue requirements. Modifying the surcharge mechanism to recognize over- and under-recoveries as dollar adjustments to the monthly Kentucky jurisdictional revenue requirements is the most reasonable option.

The adoption of this modification will require minor adjustments to reporting formats ES Forms 1.0 and 4.0. The modified formats are attached to this Order in Appendix B, and should be used in the monthly surcharge reports filed subsequent to this Order, with one exception. As noted previously, the third six-month review⁵ reflected the determined over-recovery as a billing correction factor. The reconciliation of this over-recovery refund will take place in the next six-month review. To accomplish the reconciliation of the over-recovery refund ordered in Case No. 95-445, KU had submitted a modified version of ES Form 4.0.⁶ The Commission believes this modified format is a reasonable means of accomplishing the reconciliation required for the over-recovery refund ordered in Case No. 96-196. KU will be permitted to submit this modified version of ES Form 4.0 when it provides its calculation of the over- or under-recovery during the next six-month review.⁷

⁵ Case No. 96-196, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1995 to January 31, 1996.

⁶ Willhite Revised and Supplemental Testimony, Exhibit RLW-S1.

⁷ However, because the Commission is adopting a "direct" adjustment methodology, the modified version of ES Form 4.0 will not need to show the last two lines, titled "Total Review Period Revenue (Column 5)" and "Correction Factor - Reduction/(Increase)."

SURCHARGE ROLL-IN

On July 28, 1995, the Franklin Circuit Court entered a judgment on the appeal of the Commission's Order in Case No. 93-465⁸ establishing an environmental surcharge for KU. The Court vacated that portion of the Order allowing KU to recover the current cost of environmental expenditures incurred before January 1, 1993, and remanded the case to the Commission. That judgment has been appealed to the Kentucky Court of Appeals by KU, the Commission, and others.

KU recommended that the Commission not incorporate the environmental surcharge into base rates at this time because of the ongoing judicial review. KU suggested that this case be held open until the conclusion of all appeals and the determination of refunds, if any. The Commission could then incorporate the environmental surcharge costs into base rates. KU indicated that this procedure would not affect its ability to make refunds if required at the conclusion of the appeals since it is maintaining the necessary records to identify the amounts paid by each customer.⁹

The Commission finds that the surcharge should not be incorporated into base rates until the appeals are concluded. Further, it is not necessary to leave this case open for what may be an indefinite period of time. This Order, like the prior KU surcharge review Orders, will be made subject to refund. Upon termination of the

⁸ Case No. 93-465, The Application of 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, Order dated July 19, 1994.

⁹ Willhite Direct Testimony, at 7-8.

appeals, the issues of refunds and incorporating the surcharge into base rates will be addressed.

SURCHARGE ADJUSTMENT

KU determined that for the six-month billing period of February 1, 1996 through July 31, 1996, it over-recovered its environmental costs by \$280,662.¹⁰ KU calculated a negative monthly correction factor of .606 percent¹¹ to be applied to the first billing month following the Commission's decision in this proceeding.

Based on a review of the evidence, the Commission finds KU's calculations to be reasonable except that one additional adjustment is required. In Case No. 96-196, the Commission removed certain ineligible operation and maintenance ("O&M") expenses from the surcharge calculations because they were not related to projects contained in KU's approved compliance plan.¹² KU's calculations for the billing months of February 1996 through July 1996 properly reflected this exclusion, but the first two six-month reviews did not. The ineligible expenses were reflected in the O&M expense baseline as well as every monthly filing during the first year of the surcharge.

¹⁰ Response to the Commission's Order dated December 18, 1996, Item 1, and Willhite Revised and Supplemental Testimony, Exhibit RLW-S1. KU originally determined a \$236,008 under-recovery of environmental costs but later determined a \$280,662 over-recovery after correcting the working capital portion of rate base and incorporating a "true-up" adjustment to reconcile the over-recovery refund ordered in Case No. 95-445.

¹¹ Willhite Revised and Supplement Testimony, Exhibit RLW-S1 and Transcript of Evidence, April 8, 1997, at 10. Since KU proposed to return the entire over-recovery in one month, the correction factor shown on Exhibit RLW-S1 must be multiplied by 6.

¹² Case No. 96-196, final Order dated October 17, 1996, at 6-8.

KRS 278.183(3) requires that, among other actions, the Commission disallow improper expenses during the two-year review period. O&M expenses not related to projects in KU's approved compliance plan are ineligible for inclusion in the surcharge calculations and must be excluded during this review. Therefore, the Commission has adjusted KU's over-recovery calculations to reflect the exclusion of ineligible O&M expenses recovered in the first and second six-month surcharge periods. The Commission has determined that KU over-recovered \$277,217, as shown in Appendix A.¹³

IT IS THEREFORE ORDERED that:

1. KU shall deduct \$277,217 from the jurisdictional revenue requirement determined in its next monthly surcharge report.
2. KU's proposed correction factor and true-up mechanism are denied.
3. All surcharge revenues collected during the six-month period under review shall be subject to refund pending the final resolution of Case No. 93-465. KU shall maintain its records in a manner that will enable it, the Commission, or any of its customers to determine the amounts to be refunded and to whom due in the event a refund is ordered.
4. The modified reporting formats shown in Appendix B shall replace the corresponding formats authorized in Case No. 96-196. The modified formats shall be


¹³ Pages 2 through 6 of 6 in Appendix A contain the Commission's calculations reflecting the exclusion of ineligible O&M expenses. As the determination of KU's over-recovery is on a Kentucky jurisdictional basis only, the adjustment amounts shown are also Kentucky jurisdictional.

used in the monthly surcharge reports filed subsequent to this Order, except for the ES Form 4.0 which is to be filed in the next six-month review, as described in detail in this Order.

Done at Frankfort, Kentucky, this 16th day of May, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO. 96-605 DATED MAY 16, 1997

CALCULATION OF OVER/(UNDER) COLLECTION AND SURCHARGE ADJUSTMENT
JURISDICTIONAL ONLY BASIS

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	E(m), TOTAL CO. GROSS ENVIRONMENTAL SURCHARGE REVENUE REQUIREMENT Note 1	EXPENSE MONTH KENTUCKY JURISDICTIONAL ALLOCATION RATIO Note 2	KENTUCKY JURISDICTIONAL E(m) [(2) X (3)]	12-MONTH MOV. AVERAGE KY JURIS. REVENUE [Incl. FAC Excl. ES]	KENTUCKY JURISDICTIONAL ES REVENUE AS BILLED [Note 3]	KENTUCKY OVER/(UNDER) COLLECTION [Note 4]
DEC 1995	2,002,400	0.8218	1,645,572	45,240,694		
JAN 1996	2,060,057	0.8027	1,653,608	45,601,603		
FEB 1996	2,060,272	0.8092	1,667,172	45,989,228	1,933,131	287,559
MAR 1996	2,051,935	0.8080	1,657,963	46,216,905	1,722,213	68,605
APR 1996	2,050,292	0.8219	1,685,135	46,694,287	1,534,338	(132,834)
MAY 1996	1,841,819	0.8171	1,504,950	46,937,815	1,419,606	(238,357)
JUN 1996					1,486,233	(198,902)
JUL 1996					1,483,128	(21,822)
REVIEW PERIOD TOTALS	<u>12,066,775</u>		<u>9,814,400</u>	<u>276,680,532</u>	<u>9,578,649</u>	<u>(235,751)</u>
LESS OVER-RECOVERY TO BE REFUNDED PER 03/06/96 ORDER IN CASE NO. 95-445			<u>516,413</u>			<u>516,413</u>
ADJUSTED KENTUCKY JURISDICTIONAL E(m)			<u>9,297,987</u>		<u>9,297,987</u>	
OVER/(UNDER) COLLECTION FOR REVIEW PERIOD					<u>280,662</u>	<u>280,662</u>
ADD CORRECTION TO OVER-RECOVERY DUE TO INELIGIBLE O&M EXPENSE ADJUSTMENT, CASE NO. 95-060, KENTUCKY JURISDICTIONAL PORTION ONLY (See Page 4 of 6)						<u>(16,500)</u>
ADD CORRECTION TO OVER-RECOVERY DUE TO INELIGIBLE O&M EXPENSE ADJUSTMENT, CASE NO. 95-445, KENTUCKY JURISDICTIONAL PORTION ONLY (See Page 6 of 6)						<u>13,055</u>
TOTAL OVER/(UNDER) COLLECTION FOR REVIEW PERIOD, NET OF ALL ADJUSTMENTS						<u>277,217</u>

Note 1: E(m) = (RB/12)(ROR + (ROR - DR)(TR/(1-TR))) + PCOE - BAS. Reflects change in O&M incremental expenses eligible for inclusion in surcharge calculations and corresponding effect to pollution control working capital allowance, as ordered in the Commission's 10/17/96 Order in Case No. 96-196.

Note 2: ES Form 4.0, page 2 of 3. See Response to the Commission's 12/18/96 Order, Item 1.

Note 3: Surcharge Revenue As Billed from Monthly ES Form 3.0.

Note 4: Billing Month Jurisdictional Revenue As Billed (Column 6) minus corresponding Expense Month Jurisdictional E(m) (Column 4).

DETERMINATION OF INELIGIBLE O&M EXPENSES

MONTH	ACCT. 50205 SCRUBBER OPERATION GREEN RIVER	ACCT. 51207 ASH HANDLING - MAINTENANCE TYRONE	ACCT. 51207 ASH HANDLING - MAINTENANCE GREEN RIVER	ACCT. 51207 ASH HANDLING - MAINTENANCE PINEVILLE	ACCT. 51209 SCRUBBER MAINTENANCE GREEN RIVER	MONTHLY INELIGIBLE O&M EXPENSES	12-MONTH INELIGIBLE O&M EXPENSES
O&M BASELINE, 12-MONTHS ENDING MAY 31, 1994:							
June 1993	0	(635)	8,323	(538)	4,796	11,946	
July 1993	9,273	1,105	5,333	5,543	21,102	42,356	
August 1993	7,438	366	6,617	(777)	4,964	18,608	
September 1993	12,312	4,857	2,518	0	22,609	42,296	
October 1993	0	1,071	17,786	0	27,706	46,563	
November 1993	6,876	4,797	9,583	0	(8,939)	12,317	
December 1993	0	(34)	17,011	0	3,158	20,135	
January 1994	0	928	3,368	383	(20)	4,659	
February 1994	0	341	27,949	732	0	29,022	
March 1994	0	247	23,284	(341)	5,499	28,689	
April 1994	0	0	4,609	0	150	4,759	
May 1994	0	158	34,476	0	19,062	53,696	
Baseline Adjustment	35,899	13,201	160,857	5,002	100,087	315,046	315,046
CASE NO. 95-060 EXPENSE MONTHS:							
June 1994	0	0	11,400	2,375	6,464	20,239	323,339
July 1994	0	1,579	(335)	328	5,231	6,803	287,786
August 1994	(2)	2,028	11,787	864	4,812	19,489	288,667
September 1994	0	49	8,932	12,694	(378)	21,297	267,668
October 1994	0	385	5,039	17,706	1,980	25,110	246,215
November 1994	0	803	13,745	20,469	256	35,273	269,171
Total for CN 95-060	(2)	4,844	50,568	54,436	18,365	128,211	
CASE NO. 95-445 EXPENSE MONTHS:							
December 1994	0	207	45,015	23,753	4,368	73,343	322,379
January 1995	0	7,975	16,856	9,589	2,812	37,232	354,952
February 1995	0	(2,321)	20,171	177	358	18,385	344,315
March 1995	0	267	8,875	(87)	22,210	31,265	346,891
April 1995	0	32	7,544	1,066	0	8,642	350,774
May 1995	0	544	(73)	199	1,489	2,159	299,237
Total for CN 95-445	0	6,704	98,388	34,697	31,237	171,026	

CALCULATION OF ADJUSTED E(m) AND REVISED SURCHARGE FACTOR
CASE NO. 95-060 REVIEW PERIOD

	12-MONTHS ENDING JUNE 1994	12-MONTHS ENDING JULY 1994	12-MONTHS ENDING AUGUST 1994	12-MONTHS ENDING SEPTEMBER 1994	12-MONTHS ENDING OCTOBER 1994	12-MONTHS ENDING NOVEMBER 1994
ADJUSTMENT TO O&M EXPENSES:						
Reported Totals from ES Form 2.4	2,113,125	2,090,744	2,011,564	1,990,356	1,951,627	2,049,456
Less Ineligible O&M Expenses (from ES Form 2.5)	323,339	287,786	288,667	267,668	246,215	269,171
Adjusted O&M Expenses	1,789,786	1,802,958	1,722,897	1,722,688	1,705,412	1,780,285
Less Adjusted Baseline O&M (\$1,955,802 - \$315,046)	1,640,756	1,640,756	1,640,756	1,640,756	1,640,756	1,640,756
Twelve-Month Incremental O&M	149,030	162,202	82,141	81,932	64,656	139,529
Monthly Incremental (1/12th)	12,419	13,517	6,845	6,828	5,388	11,627
Working Capital Allowance (1/8th)	18,629	20,275	10,268	10,242	8,082	17,441
ADJUSTMENTS TO RATE BASE (Note 1):						
Eligible Pollution Control Plant	58,727,085	59,088,652	59,088,653	67,790,654	68,109,267	68,421,476
Eligible Pollution CWIP	106,993,712	110,932,540	119,115,947	115,577,862	123,916,555	131,395,881
Subtotal	165,720,797	170,021,192	178,204,600	183,368,516	192,025,822	199,817,357
Additions -						
Spare Parts	0	0	0	0	0	0
Limestone	0	0	0	0	13,112	39,192
Emission Allowances	2,097,900	2,097,900	2,097,900	2,097,900	2,097,900	2,097,900
Working Capital Allowance	18,629	20,275	10,268	10,242	8,082	17,441
Subtotal	2,116,529	2,118,175	2,108,168	2,108,142	2,119,094	2,154,533
Deductions -						
Accumulated Depreciation	9,627,814	9,817,445	10,007,077	10,196,709	10,386,340	10,575,972
Deferred Income Taxes	5,845,130	5,732,131	5,777,099	5,670,474	5,388,965	5,337,417
Deferred Investment Tax Credit	1,005,493	997,716	989,939	982,162	974,385	966,608
Subtotal	16,478,437	16,547,292	16,774,115	16,849,345	16,749,690	16,879,997
ADJUSTED RATE BASE	151,358,889	155,592,075	163,538,653	168,627,313	177,395,226	185,091,893
ADJUSTMENTS TO POLLUTION CONTROL OPERATING EXPENSES (Note 2):						
Monthly Incremental O&M Expenses	12,419	13,517	6,845	6,828	5,388	11,627
Depreciation & Amortization	187,083	187,055	187,026	187,055	187,055	187,055
Taxes Other Than Income	1,713	1,713	1,713	1,713	1,713	1,713
Insurance Expense	13,016	13,016	13,016	13,016	13,016	13,016
Emission Allowance Expense	0	0	0	0	0	0
Consultant Fee	67,020	0	0	0	14,938	763
ADJUSTED OPERATING EXPENSES	281,251	215,301	208,600	208,612	222,110	214,174
ADJUSTED E(m) AND REVISED SURCHARGE FACTOR:						
CALCULATION OF ADJUSTED E(m) -						
RB	151,358,889	155,592,075	163,538,653	168,627,313	177,395,226	185,091,893
RB/12	12,613,241	12,966,006	13,628,221	14,052,276	14,782,936	15,424,324
RATE OF RETURN	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%
RB/12 X RATE OF RETURN	737,875	758,511	797,251	822,058	864,802	902,323
PCOE	281,251	215,301	208,600	208,612	222,110	214,174
BAS	509,310	0	3,025	1,165	767	335
ADJUSTED E(m)	509,816	973,812	1,002,826	1,029,505	1,086,145	1,116,162
CALCULATION OF REVISED SURCHARGE FACTOR -						
ADJUSTED E(m)	509,816	973,812	1,002,826	1,029,505	1,086,145	1,116,162
R(m)	52,660,059	52,949,057	53,450,088	53,459,985	53,732,958	53,834,333
REVISED FACTOR: Adjusted E(m)/R(m)	0.97%	1.84%	1.88%	1.93%	2.02%	2.07%

Note 1: Except for Working Capital Allowance, all Rate Base information taken from Response to Commission's December 18, 1996 Order, Item 1, ES Form 4.1, June through November 1994 Period.

Note 2: Except for Monthly Incremental O&M Expenses, all Operating Expense information taken from Response to Commission's December 18, 1996 Order, Item 1, ES Form 4.2, June through November 1994 Period.

APPENDIX A

EFFECTS OF REVISED SURCHARGE FACTOR ON OVER-RECOVERY DETERMINED IN CASE NO. 95-060
 KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE - ES FORM 4.0
 SIX MONTH REVIEW - RECAP OF BILLING FACTORS AND REVENUE - RESTATED
 For the Period August 1994 through January 1995

(1)	(2) E(m)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
CURRENT EXPENSE MONTH	GROSS ENVIRON SURCHARGE REVENUE REQUIREMENT	ADJUSTED TOTAL COMPANY REVENUE [INCL FAC, EXCL ES]	EXP MONTH KY RETAIL JURIS REV [INCL FAC, EXCL ES]	BILLING MONTH	ENVIRON SURCHARGE MONTHLY BILLING FACTOR BILLED	ENVIRON SURCHARGE ADJ	BILL MONTH KY RETAIL JURIS REV [INCL FAC, EXCL ES]	ENVIRON SURCHARGE REVENUE	KY JURIS OVER/(UNDER) COLLECTION	TOTAL COMPANY OVER/(UNDER) COLLECTION
JUN 1994	507,472	52,660,059	42,241,455	AUG 1994	1.00%	0.36%	47,354,315	177,328	23,892	26,968
JUL 1994	981,190	52,949,057	48,021,788	SEP 1994	1.93%	1.75%	44,600,550	819,593	(21,719)	(26,033)
AUG 1994	1,010,279	53,450,088	47,354,315	OCT 1994	1.98%	1.88%	38,614,437	765,166	(125,095)	(174,073)
SEP 1994	1,035,195	53,459,985	44,600,550	NOV 1994	2.04%	1.93%	37,836,165	772,671	(88,120)	(125,380)
OCT 1994	1,090,033	53,732,958	38,614,437	DEC 1994	2.15%	2.02%	42,586,364	915,939	135,927	172,823
NOV 1994	1,121,979	53,834,333	37,836,165	JAN 1995	2.21%	2.07%	47,047,883	1,041,455	258,246	296,010
DEC 1994		54,146,155	42,586,364							
JAN 1995		53,927,737	47,047,883							
TOTALS	5,746,148							4,492,152	183,131	170,315
								4,492,152	199,631	192,169
									(16,500)	(21,854)

Corresponding Amounts from Appendix B, Case No. 95-060
 Correction to Over-Recovery Due to Ineligible O&M Expense Adjustment

COLUMN 3 ADJUSTED TOTAL COMPANY REVENUES INCLUDE OFF-SYSTEM SALES AS PROVIDED BY KU IN THE RESPONSE TO ITEM 8 OF THE MARCH 1, 1995 ORDER AND THE RESPONSE TO ITEM 2 OF KIUC'S FIRST SET OF DATA REQUESTS.

CALCULATION OF JUNE AND JULY ADJUSTED ES MONTHLY BILLING FACTOR:

	JUNE	JULY
FILED ES FACTOR FOR MONTH	1.00%	1.93%
KENTUCKY JURISDICTIONAL REVENUE (AUGUST AND SEPTEMBER)	47,354,315	44,600,550
ES REVENUE COLLECTED (AS REPORTED)	177,328	819,593
EFFECTIVE ES FACTOR BILLED	0.374%	1.838%
DETERMINATION OF PRO-RATA REVENUES -		
RATIO OF EFFECTIVE ES FACTOR TO FILED ES FACTOR	0.37447	0.95214
RECALCULATED ES FACTOR	0.970%	1.840%
APPLICATION OF RATIO TO RECALCULATED ES FACTOR	0.36%	1.75%

CALCULATION OF ADJUSTED E(m) AND REVISED SURCHARGE FACTOR
CASE NO. 95-445 REVIEW PERIOD

	12-MONTHS ENDING DECEMBER 1994	12-MONTHS ENDING JANUARY 1995	12-MONTHS ENDING FEBRUARY 1995	12-MONTHS ENDING MARCH 1995	12-MONTHS ENDING APRIL 1995	12-MONTHS ENDING MAY 1995
ADJUSTMENT TO O&M EXPENSES:						
Reported Totals from ES Form 2.4	1,971,134	2,043,610	2,202,412	2,462,412	2,748,008	2,984,297
Less Ineligible O&M Expenses (from ES Form 2.5)	322,379	354,952	344,315	346,891	350,774	299,237
Adjusted O&M Expenses	1,648,755	1,688,658	1,858,097	2,115,521	2,397,234	2,685,060
Less Adjusted Baseline O&M (\$1,955,802 - \$315,046)	1,640,756	1,640,756	1,640,756	1,640,756	1,640,756	1,640,756
Twelve-Month Incremental O&M	7,999	47,902	217,341	474,765	756,478	1,044,304
Monthly Incremental (1/12th)	667	3,992	18,112	39,564	63,040	87,025
Working Capital Allowance (1/8th)	1,000	5,988	27,168	59,346	94,560	130,538
ADJUSTMENTS TO RATE BASE (Note 1):						
Eligible Pollution Control Plant	198,271,597	197,944,519	197,944,519	197,944,519	197,944,519	197,944,519
Eligible Pollution CWIP	6,773,623	9,941,110	13,272,656	15,044,388	16,998,589	18,538,699
Subtotal	205,045,220	207,885,629	211,217,175	212,988,907	214,943,108	216,483,218
Additions -						
Spare Parts	684,320	687,157	697,890	712,467	754,480	770,141
Limestone	115,316	92,860	127,584	127,584	116,224	168,876
Emission Allowances	2,097,900	2,026,720	1,969,361	1,926,371	1,898,062	1,859,099
Working Capital Allowance	1,000	5,988	27,168	59,346	94,560	130,538
Subtotal	2,898,536	2,812,725	2,822,003	2,825,768	2,863,326	2,928,654
Deductions -						
Accumulated Depreciation	10,879,680	11,595,292	12,312,831	13,030,371	13,747,911	14,465,449
Deferred Income Taxes	5,684,742	5,958,672	6,507,624	7,039,121	7,571,329	8,076,720
Deferred Investment Tax Credit	957,171	917,325	909,548	901,771	893,995	886,218
Subtotal	17,521,593	18,471,289	19,730,003	20,971,263	22,213,235	23,428,387
ADJUSTED RATE BASE	190,422,163	192,227,065	194,309,175	194,843,412	195,593,199	195,983,485
ADJUSTMENTS TO POLLUTION CONTROL OPERATING EXPENSES (Note 2):						
Monthly Incremental O&M Expenses	667	3,992	18,112	39,564	63,040	87,025
Depreciation & Amortization	358,104	712,477	712,477	712,477	712,478	712,478
Taxes Other Than Income	1,710	1,701	1,701	1,701	1,701	1,701
Insurance Expense	13,009	26,148	26,148	26,148	26,148	26,148
Emission Allowance Expense	0	71,180	57,359	42,990	28,309	38,963
Consultant Fee	0	0	0	0	0	0
ADJUSTED OPERATING EXPENSES	373,490	815,498	815,797	822,880	831,676	866,315
ADJUSTED E(m) AND REVISED SURCHARGE FACTOR:						
RB	190,422,163	192,227,065	194,309,175	194,843,412	195,593,199	195,983,485
RB/12	15,868,514	16,018,922	16,192,431	16,236,951	16,299,433	16,331,957
RATE OF RETURN	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%
RB/12 X RATE OF RETURN	928,308	937,107	947,257	949,862	953,517	955,419
PCOE	373,490	815,498	815,797	822,880	831,676	866,315
BAS	334	867	0	0	0	235,112
ADJUSTED E(m)	1,301,464	1,751,738	1,763,054	1,772,742	1,785,193	1,586,622
CALCULATION OF REVISED SURCHARGE FACTOR -						
ADJUSTED E(m)	1,301,464	1,751,738	1,763,054	1,772,742	1,785,193	1,586,622
R(m)	54,146,155	53,927,737	53,902,607	53,662,582	53,283,721	53,449,817
REVISED FACTOR: Adjusted E(m)/R(m)	2.40%	3.25%	3.27%	3.30%	3.35%	2.97%

Note 1: Except for Working Capital Allowance, all Rate Base information taken from Response to Commission's December 18, 1996 Order, Item 1, ES Form 4.1, December 1994 through May 1995 Period.

Note 2: Except for Monthly Incremental O&M Expenses, all Operating Expense information taken from Response to Commission's December 18, 1996 Order, Item 1, ES Form 4.2, December 1994 through May 1995 Period.

APPENDIX A

EFFECTS OF REVISED SURCHARGE FACTOR ON OVER-RECOVERY DETERMINED IN CASE NO. 95-445
 KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE - ES FORM 4.0
 SIX MONTH REVIEW - RECAP OF BILLING FACTORS AND REVENUE - RESTATED
 For the Period February 1995 through July 1995

(1) CURRENT EXPENSE MONTH	(2) E(m) GROSS ENVIRON SURCHARGE REVENUE REQUIREMENT	(3) ADJUSTED TOTAL COMPANY REVENUE [INCL FAC, EXCL ES]	(4) EXP MONTH KY RETAIL JURIS REV [INCL FAC, EXCL ES]	(5) ENVIRON SURCHARGE MONTHLY BILLING FACTOR	(6) ADJ	(7) KY JURIS SURCHARGE REVENUE ALLOWED Note 3	(8) KY JURIS SURCHARGE REVENUE AS BILLED Note 4	(9) KY JURIS OVER/(UNDER) COLLECTION	(10) OVER/(UNDER) COLLECTION GROSS-UP FACTOR	(11) TOTAL COMPANY OVER/(UNDER) COLLECTION
DEC 1994	1,302,080	54,146,155	42,586,364							
JAN 1995	1,755,087	53,927,737	47,047,883	2.59%	2.40%	1,022,073	1,246,797	224,724	1.118259	251,300
FEB 1995	1,765,511	53,902,607	48,202,244	3.49%	3.25%	1,529,056	1,511,413	(17,643)	1.234895	(21,787)
MAR 1995	1,775,415	53,662,582	43,455,165	3.52%	3.27%	1,576,213	1,372,101	(204,112)	1.370452	(279,726)
APR 1995	1,788,192	53,283,721	38,880,405	3.56%	3.30%	1,434,020	1,390,762	(43,258)	1.371030	(59,308)
MAY 1995	1,585,296	53,449,817	38,985,150	3.56%	3.35%	1,302,494	1,506,108	203,614	1.262409	257,044
JUN 1995		53,273,498	42,199,876	3.12%	2.97%	1,157,859	1,524,002	366,143	1.099920	402,728
JUL 1995		53,396,566	48,545,843							
TOTALS	9,971,581					8,021,715	8,551,183	529,468		550,251
						8,034,770	8,551,183	516,413		532,777
								13,055		17,474

Corresponding Amounts from Appendix A, Case No. 95-445
 Correction to Over-Recovery Due to Ineligible O&M Expense Adjustment

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO. 96-605 DATED MAY 16, 1997

INDEX OF MODIFIED REPORTING FORMATS FOR THE
KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE
[Monthly, 6-Month Review, and 2-Year Review]

Monthly Reporting Formats:

ES Form 1.0 Calculation of E(m) and Jurisdictional Environmental
Surcharge Billing Factor

Six-Month and 2-Year Review Formats:

ES Form 4.0 Environmental Surcharge Recap
Page 1 of 2 - Calculation of Over/(Under) Collection

Note: While not requiring modification, all other Monthly and Review Formats are required to be filed as currently done.

**KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE REPORT
CALCULATION OF E(m) AND
JURISDICTIONAL ENVIRONMENTAL SURCHARGE BILLING FACTOR
For the Expense Month of _____**

CALCULATION OF E(m)

E(m) = (RB/12)[ROR + (ROR - DR)(TR/(1 - TR))] + PCOE - BAS

Where:

- E(m) = Total Company Environmental Surcharge Gross Revenue Requirement
- RB = Environmental Compliance Rate Base
- ROR = Rate of Return on Environmental Compliance Rate Base
- DR = Pollution Control Bond Rate
- TR = Composite Federal & State Income Tax Rate
- PCOE = Pollution Control Operating Expenses
- BAS = Gross Proceeds from By-Product and Allowance Sales

RB	= \$	
RB/12	= \$	
[ROR + (ROR - DR)(TR/(1 - TR))]	=	5.85%
RB/12 x 5.85%	= \$	
PCOE	= \$	
BAS	= \$	
E(m)	= \$	

CALCULATION OF JURISDICTIONAL ENVIRONMENTAL SURCHARGE
BILLING FACTOR

- Jurisdictional Allocation Ratio for Expense Month =
- Jurisdictional E(m): E(m) x Jurisdictional Allocation Ratio = \$
- Adjustment for Over/(Under) Recovery = \$
- Net Jurisdictional E(m): Juris. E(m) plus/minus Adjustment
for Over/(Under) Recovery = \$
- Jurisdictional R(m): Average Monthly Jurisdictional Revenue for
the 12 Months Ending with the Current
Expense Month = \$
- Jurisdictional Environmental Surcharge Billing Factor:
Net Jurisdictional E(m) + Jurisdictional R(m) (% of Revenue) =

Effective Date for Billing: _____

Submitted By: _____

Title: _____

Date Submitted: _____

