

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY FOR APPROVAL OF ) CASE NO. 98-426  
AN ALTERNATIVE METHOD OF )  
REGULATION OF ITS RATES AND SERVICE )

O R D E R

On January 20, 2000, Louisville Gas and Electric Company ("LG&E") filed a motion requesting the Commission to correct certain calculations in the January 7, 2000 Order relating to LG&E's environmental surcharge. The calculations were made by the Commission to exclude the environmental surcharge-related assets, revenues, and expenses from the determination of LG&E's base revenue requirement. LG&E contends that the following are errors, which should be corrected:

- Accumulated deferred income taxes were not deducted from the environmental surcharge rate base, resulting in an overstatement of the capitalization adjustment;
- The calculation of the cost of long-term debt omitted the adjustment necessary to remove the environmental surcharge rate base from the debt component of capitalization at the applicable pollution control bond rate;
- The debt component and the overall rate of return on capitalization were misstated as a result of the identified errors;
- The adjustment for the environmental surcharge failed to allocate to the off-system sales revenues a portion of the environmental costs; and
- LG&E's revenue sufficiency was overstated by \$1,081,159 as a result of the combined impact of the identified errors.

In addition, LG&E requested an extension of time, from January 27, 2000 until February 21, 2000, to file new tariffs reflecting the rate reduction mandated by the

Commission's January 7, 2000 Order. This extension, LG&E explains, will allow the Commission sufficient time to consider and correct the calculation errors before the new tariffs take effect on March 1, 2000.

On February 3, 2000, the Kentucky Industrial Utility Customers ("KIUC") filed a response in opposition to LG&E's motion, contending that it is procedurally defective. However, KIUC also has responded on the merits to the issues raised by LG&E. KIUC contends that the Commission did not err in allocating to jurisdictional customers all of the environmental surcharge capitalization and operating expense components of the environmental surcharge revenue requirement. KIUC argues that the removal of the environmental surcharge components at 100 percent is necessary because those components were initially included in capitalization and operating expenses at 100 percent. In addition, KIUC claims that LG&E's position would nullify the Commission's decision when it authorized the environmental surcharge to allocate the surcharge revenue requirement on the basis of total revenues. KIUC also states that LG&E incorrectly computed the income tax effects of the alleged calculation errors.

While KIUC did not respond to any of the other issues raised by LG&E, KIUC did discuss an unrelated environmental surcharge adjustment issue, which it also raised in its January 28, 2000 application for rehearing. The Commission will address that unrelated issue when it rules on KIUC's application for rehearing.

Based on a review of LG&E's motion, the Commission finds that the record is insufficient to conclusively determine whether the issues raised constitute errors that need to be corrected. Procedurally, LG&E's motion will be treated as a request for rehearing under KRS 278.400. The Commission notes that LG&E previously opposed

removing the effects of the environmental surcharge when determining its electric operation earnings.<sup>1</sup> Considering that this was the first base rate case that included an environmental surcharge, many of the issues decided were ones of first impression. Consequently, rehearing should be granted to afford all parties a further opportunity to investigate and evaluate these issues. The following issues related to the environmental surcharge adjustment will be reheard: the determination of the amount to be excluded from LG&E's capitalization, whether the cost of LG&E's debt should be adjusted to reflect the exclusion of the environmental surcharge, and whether environmental surcharge expenses should be allocated to off-system sales. A procedural schedule for these issues and any others subsequently granted rehearing is attached hereto as Appendix A.

The Commission further finds that LG&E's motion for an extension of time until February 21, 2000 to file revised tariffs should be granted, but the tariffs to be filed by that date must reflect the rate reduction mandated by the January 7, 2000 Order.

IT IS THEREFORE ORDERED that:

1. Rehearing shall be granted on the amount of environmental surcharge to be excluded from LG&E's capitalization, whether LG&E's cost of debt should be adjusted to reflect the exclusion of the environmental surcharge, and whether environmental surcharge expenses should be allocated to off-system sales.

2. The procedural schedule set forth in Appendix A shall be followed for the issues granted rehearing herein and any other issue subsequently granted rehearing. At the public hearing there shall be no opening statements or summaries of testimony.

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<sup>1</sup> Response to the Commission's July 16, 1999 Order, Item 7(a).

3. Any party filing testimony shall file an original and 12 copies. The original and at least three copies of the testimony shall be filed as follows:

- a. Together with cover letter listing each person presenting testimony.
- b. Bound in 3-ring binders or with any other fastener which readily opens and closes to facilitate easy coping.
- c. Each witness's testimony should be tabbed.
- d. Every exhibit to each witness's testimony should be appropriately marked.

4. LG&E's motion for an extension of time, until February 21, 2000, is granted and LG&E shall file by that date revised tariffs as directed by the January 7, 2000 Order.

Done at Frankfort, Kentucky, this 9<sup>th</sup> day of February, 2000.

By the Commission

ATTEST:

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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 98-426 DATED FEBRUARY 9, 2000

Verified, prepared direct testimony in support of  
any issue granted rehearing shall be filed by ..... March 2, 2000

Any request for information related to a rehearing  
issue shall be filed by ..... March 9, 2000

All responses to information requests shall  
be filed by ..... March 16, 2000

Verified, prepared response testimony on any  
issue granted rehearing shall be filed by ..... March 23, 2000

Last date for LG&E to publish notice of rehearing ..... March 23, 2000

Public hearing on the issues granted rehearing shall  
commence at 9:00 a.m., Eastern Standard Time, in  
Hearing Room 1 of the Commission's offices at 211  
Sower Boulevard, Frankfort, Kentucky, on ..... March 30, 2000