

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE ENVIRONMENTAL |) | |
| SURCHARGE MECHANISM OF LOUISVILLE GAS |) | |
| AND ELECTRIC COMPANY FOR THE SIX-MONTH |) | CASE NO. |
| BILLING PERIODS ENDING APRIL 30, 1998, |) | 2000-105 |
| OCTOBER 31, 1998, AND OCTOBER 31, 1999, |) | |
| AND FOR THE TWO-YEAR BILLING PERIOD |) | |
| ENDING APRIL 30, 1999 |) | |

O R D E R

On April 6, 1995, the Commission approved Louisville Gas and Electric Company's ("LG&E") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). 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. The Commission has determined that it will be administratively

¹ Case No. 94-332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order dated April 6, 1995.

efficient and reasonable to review the pending six-month periods and the second two-year period in the same case. Therefore, the Commission hereby initiates the six-month reviews of the surcharge as billed from November 1, 1997 to April 30, 1998, from May 1, 1998 to October 31, 1998, and from May 1, 1999 to October 31, 1999, and the two-year review of the surcharge as billed from May 1, 1997 to April 30, 1999.²

In anticipation that those parties to LG&E's last six-month review will desire to participate in this proceeding, the Attorney General's office ("AG") and the Kentucky Industrial Utility Customers, Inc. ("KIUC") will be deemed parties to this proceeding. Since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. LG&E shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from (a) November 1, 1997 through April 30, 1998; (b) May 1, 1998 through October 31, 1998; (c) May 1, 1999 through October 31, 1999; and

² Since LG&E's surcharge is billed on a two-month lag, the amounts billed from November 1997 through April 30, 1998 are based on costs incurred from September 1997 through February 1998; amounts billed from May 1998 through October 1998 are based on costs incurred from March 1998 through August 1998; amounts billed from May 1999 through October 1999 are based on costs incurred from March 1999 through August 1999; and amounts billed from May 1997 through April 1999 are based on costs incurred from March 1997 through February 1999.

(d) May 1, 1997 through April 30, 1999. At the public hearing there shall be no opening statements or summaries of testimony.

3. LG&E shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, LG&E shall forward a duplicate of the notice and request to the Commission.

4. LG&E shall, by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the four periods under review.

5. 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 copying.
- c. Each witness's testimony should be tabbed.
- d. Every exhibit to each witness's testimony should be appropriately marked.

6. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions related to the information, with copies to all parties of record and an original and 12 copies to the Commission.

7. The AG and KIUC are granted full intervention in this proceeding.

8. Within 10 days of the date of this Order, LG&E shall provide the AG and KIUC each a copy of its monthly environmental surcharge reports as filed with the Commission for each review period.

9. LG&E's monthly environmental surcharge reports and supporting data for the review periods shall be incorporated by reference into the record of this case.

10. The case records of Case Nos. 94-332 and 98-057³ shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 14th day of March, 2000.

By the Commission

ATTEST:

Executive Director

³ Case No. 98-057, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1995 to April 30, 1997 and May 1, 1997 to October 31, 1997.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2000-105 DATED MARCH 14, 2000

LG&E shall file its prepared direct testimony and responses to the information requested in Appendix B no later than 04/20/00

All additional requests for information to LG&E shall be filed no later than..... 05/05/00

LG&E shall file responses to additional requests for information no later than..... 05/19/00

Intervenor testimony, if any, in verified prepared form shall be filed no later than 06/07/00

All requests for information to Intervenors shall be filed no later than..... 06/21/00

Intervenors shall file responses to requests for information no later than..... 07/06/00

Last day for LG&E to publish notice of hearing date 07/13/00

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of LG&E and Intervenors..... 07/20/00

Briefs, if any, shall be filed by..... 08/18/00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-105 DATED MARCH 14, 2000

INITIAL INFORMATION REQUEST

Billing Period November 1, 1997 through April 30, 1998

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 94-332, reflecting the format modifications ordered in Case Nos. 96-290¹ and 97-010,² for the billing period November 1997 through April 1998. The amounts reported on these forms should reflect the Commission's decision announced in prior six-month and two-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

2. For each month in the billing period November 1997 through April 1998, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

3. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of September 1997 through February 1998.

¹ Case No. 96-290, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from November 1, 1995 to April 30, 1996.

² Case No. 97-010, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1996 to October 31, 1996.

a. During this period, LG&E has included \$398,372 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees.

b. Explain why the permitting fees reported for the expense months of October through December 1997 were different each month.

4. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For each expense month covered by this review period (September 1997 through February 1998), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly electric operational revenues reported to the Commission in LG&E's monthly financial reports. Identify all reconciling items and describe each reconciling item.

Billing Period May 1, 1998 through October 31, 1998

5. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 94-332, reflecting the format modifications ordered in Case Nos. 96-290 and 97-010, for the billing period May 1998 through October 1998. The amounts reported on these forms should reflect the Commission's decision announced in prior six-month and two-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

6. For each month in the billing period May 1998 through October 1998, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

7. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of March 1998 through August 1998. During this period, LG&E has included \$385,584 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees.

8. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For each expense month covered by this review period (March 1998 through August 1998), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly electric operational revenues reported to the Commission in LG&E's monthly financial reports. Identify all reconciling items and describe each reconciling item.

Billing Period May 1, 1999 through October 31, 1999

9. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 94-332, reflecting the format modifications ordered in Case Nos. 96-290 and 97-010, for the billing period May 1999 through October 1999. The amounts reported on these forms should reflect the Commission's decision announced in prior six-month and two-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

10. For each month in the billing period May 1999 through October 1999, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

11. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of March 1999 through August 1999.

a. During this period, LG&E has included \$358,316 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees.

b. Explain why the permitting fees reported for the expense months of May through July 1999 were different each month.

12. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For each expense month covered by this review period (March 1999 through August 1999), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly electric operational revenues reported to the Commission in LG&E's monthly financial reports. Identify all reconciling items and describe each reconciling item.

13. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m), for the expense months of March 1999 through August 1999. During these expense months, LG&E identified and excluded from its total wholesale revenues \$75,472,598 in transactions classified as "brokered sales."

a. Provide a detailed description of the type of transaction LG&E has identified as brokered sales. Include a discussion of the extent to which LG&E generating, transmission, or distribution assets are involved in these transactions.

b. Describe the accounting treatment required by the Federal Energy Regulatory Commission for these types of transactions.

c. Identify any expenses incurred by LG&E in association with these transactions. If any of these expenses are included in the determination of the monthly

environmental surcharge revenue requirement, indicate for each expense month the account(s) and the amount of expenses associated with brokered sales.

d. Provide the following for each expense month in question:

1) A listing of the sellers and corresponding buyers involved with these brokered sales.

2) The total MWH sold in each expense month associated with brokered sales transactions.

3) Indicate whether the brokered sales revenues for each expense month reflect the total revenues or revenues net of all expenses.

e. Indicate when LG&E began its involvement with brokered sales transactions. If prior to March 1999, provide the same information for each applicable expense month as requested in part (d) above. Also state how LG&E treated the brokered sales revenues when determining its retail allocation percentage for those prior months.

f. Explain in detail why LG&E believes brokered sales revenues should be excluded from the determination of total company revenues and thus the retail allocation percentage.

Billing Period May 1, 1997 through April 30, 1999

14. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 94-332, reflecting the format modifications ordered in Case Nos. 96-290 and 97-010, for the billing period May 1997 through April 1999. The amounts reported on these forms should reflect the Commission's decision announced

in prior six-month and two-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

15. For each month in the billing period May 1997 through April 1999, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

16. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of September 1998 through February 1999.

a. During this period, LG&E has included \$364,402 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees.

b. Explain why the permitting fees reported for the expense months of September through December 1998 were different each month.

17. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For each expense month covered by this review period (March 1997 through February 1999), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly electric operational revenues reported to the Commission in LG&E's monthly financial reports. Identify all reconciling items and describe each reconciling item.

18. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that LG&E believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. Identify and describe the impact that the settlement agreement in Case No. 94-332 has in LG&E's determination of the amount of the surcharge to be incorporated into existing base rates.

c. The surcharge factor reflects a percentage of revenue approach, rather than a per KWH approach. Taking this into consideration, explain how the surcharge amount should be incorporated into LG&E's base rates. Include any analysis that LG&E believes supports its position.

19. The incorporation of the surcharge into LG&E's base rates will necessitate changes in the surcharge mechanism, as costs previously recovered through the surcharge mechanism would now be recovered through base rates.

a. Describe in detail any changes LG&E believes would be necessary to the surcharge mechanism in order to recognize that cost previously recovered through the surcharge would now be recovered through base rates.

b. Describe in detail any changes to the monthly surcharge reports that are needed due to the incorporation of the surcharge into base rates.

20. The environmental surcharge mechanism authorized for Kentucky Power Company, d/b/a American Electric Power, utilizes an approach where a current period environmental revenue requirement is compared to a base period environmental revenue requirement. The base period revenue requirement reflects those environmental costs included in existing base rates. Does LG&E believe that a similar

base/current revenue requirement comparison would be appropriate for its operations once the surcharge is incorporated into existing base rates? Explain the response.