

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	)	
UTILITIES COMPANY FOR THE SIX-MONTH	)	
BILLING PERIODS ENDING JANUARY 31, 1999,	)	CASE NO.
JULY 31, 1999, AND JANUARY 31, 2000, AND FOR	)	2000-106
THE TWO-YEAR BILLING PERIOD ENDING	)	
JULY 31, 1998	)	

O R D E R

On July 19, 1994, the Commission approved Kentucky Utilities Company's ("KU") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> 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 efficient and

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<sup>1</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, final Order dated July 19, 1994.

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 August 1, 1998 to January 31, 1999, from February 1, 1999 to July 31, 1999, and from August 1, 1999 to January 31, 2000, and the two-year review of the surcharge as billed from August 1, 1996 to July 31, 1998.<sup>2</sup>

In anticipation that those parties to KU's last six-month review will desire to participate in this proceeding, the Attorney General's office ("AG"), Lexington-Fayette Urban County Government ("LFUCG"), 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. KU 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) August 1, 1998 through January 31, 1999; (b) February 1, 1999 through July 31, 1999; (c) August 1, 1999 through January 31, 2000;

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<sup>2</sup> Since KU's surcharge is billed on a two-month lag, the amounts billed from August 1998 through January 1999 are based on costs incurred from June 1998 through November 1998; amounts billed from February 1999 through July 1999 are based on costs incurred from December 1998 through May 1999; amounts billed from August 1999 through January 2000 are based on costs incurred from June 1999 through November 1999; and amounts billed from August 1996 through July 1998 are based on costs incurred from June 1996 through May 1998.

and (d) August 1, 1996 through July 31, 1998. At the public hearing there shall be no opening statements or summaries of testimony.

3. KU 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, KU shall forward a duplicate of the notice and request to the Commission.

4. KU 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, LFUCG, and KIUC are granted full intervention in this proceeding.

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

9. KU'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. 93-465, 96-605,<sup>3</sup> and 98-056<sup>4</sup> shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 14<sup>th</sup> day of March, 2000.

By the Commission

ATTEST:

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Executive Director

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<sup>3</sup> Case No. 96-605, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1994 to July 31, 1996.

<sup>4</sup> Case No. 98-056, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from (A) August 1, 1996 to January 31, 1997; (B) February 1, 1997 to July 31, 1997; and (C) August 1, 1997 to January 31, 1998.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2000-106 DATED MARCH 14, 2000

KU 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 KU shall be filed no later than..... 05/05/00

KU 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 KU to publish notice of hearing date ..... 07/12/00

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 KU and Intervenors ..... 07/19/00

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. 2000-106 DATED MARCH 14, 2000

#### INITIAL INFORMATION REQUEST

##### Billing Period August 1, 1998 through January 31, 1999

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the July 19, 1994 Order in Case No. 93-465, reflecting the format modifications ordered in Case Nos. 96-196<sup>1</sup> and 96-605, for the billing period August 1998 through January 1999. The amounts reported on these forms should reflect the Commission's decisions 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 August 1998 through January 1999, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

3. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Sales during Month, for the expense months of June through November 1998. During this period, KU reported \$27,149 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

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<sup>1</sup> 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.

4. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of June through November 1998. During this period, KU has reported construction work in progress (“CWIP”) balances for four of the 15 projects. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

5. Provide the calculations used to determine the weighted average cost for the 1998 vintage year of KU’s emission allowance inventory as of November 30, 1998. Include all supporting schedules, workpapers, and assumptions.

6. Explain the changes in the following expense levels:

a. Tyrone – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June through November 1998.

b. Green River – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June through November 1998.

c. E. W. Brown – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of June, August, October, and November 1998.

d. E. W. Brown – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June through November 1998.

e. Pineville – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of June through October 1998.

f. Pineville – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June through November 1998.

g. Ghent – Subaccount No. 50205, Scrubber Operation, for the expense months of June, September, and November 1998.

h. Ghent – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of June through November 1998.

i. Ghent – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of June, July, August, and November 1998.

j. Ghent – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June, July, August, and November 1998.

k. Ghent – Subaccount No. 51209, Scrubber Maintenance, for the expense months of June, August, September, October, and November 1998.

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

Billing Period February 1, 1999 through July 31, 1999

8. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the July 19, 1994 Order in Case No. 93-465, reflecting the format modifications ordered in Case Nos. 96-196 and 96-605, for the billing period February 1999 through July 1999. The amounts reported on these forms should reflect the Commission's decisions announced in prior six-month and two-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

9. For each month in the billing period February 1999 through July 1999, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

10. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Sales during Month, for the expense month of February 1999. During this period, KU reported \$5,069 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

11. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of December 1998 through May 1999. During this period, KU has reported CWIP balances for four of the 15 projects. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

12. Provide the calculations used to determine the weighted average cost for the 1999 vintage year of KU's emission allowance inventory as of May 31, 1999. Include all supporting schedules, workpapers, and assumptions.

13. Explain the changes in the following expense levels:

a. Tyrone – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1998 through May 1999.

b. Green River – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1998 through May 1999.

c. E. W. Brown – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of December 1998 and January, February, April, and May 1999.

d. E. W. Brown – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1998 through April 1999.

e. Pineville – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of December 1998 through April 1999.

f. Pineville – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of December 1998.

g. Ghent – Subaccount No. 50205, Scrubber Operation, for the expense months of January, February, and May 1999.

h. Ghent – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of December 1998 and April and May 1999.

i. Ghent – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of January through May 1999.

j. Ghent – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of January through May 1999.

k. Ghent – Subaccount No. 51209, Scrubber Maintenance, for the expense months of December 1998 and January through May 1999.

14. Refer to ES Form 3.0, Average Monthly Jurisdictional Revenue Computation R(m). For each expense month covered by this review period (December 1998 through May 1999), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly operational

revenues reported to the Commission in KU's monthly financial reports. Identify all reconciling items and describe each reconciling item.

15. Refer to ES Form 3.0, Average Monthly Jurisdictional Revenue Computation of R(m), for the expense months of March through May 1999. During these expense months, KU identified and excluded from its total off-system sales \$18,262,793 in transactions classified as "brokered sales."

a. Provide a detailed description of the type of transaction KU has identified as brokered sales. Include a discussion of the extent to which KU 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 KU 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 KU 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 KU treated the brokered sales revenues when determining its jurisdictional allocation ratio for those prior months.

f. Explain in detail why KU believes brokered sales revenues should be excluded from the determination of total company revenues and thus the jurisdictional allocation ratio.

Billing Period August 1, 1999 through January 31, 2000

16. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the July 19, 1994 Order in Case No. 93-465, reflecting the format modifications ordered in Case Nos. 96-196 and 96-605, for the billing period August 1999 through January 2000. The amounts reported on these forms should reflect the Commission's decisions announced in prior six-month and two-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

17. For each month in the billing period August 1999 through January 2000, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

18. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Sales during Month, for the expense months of July and November 1999. During this period, KU reported \$45,000 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

19. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of June 1999 through November 1999. During this period, KU has reported CWIP balances for two of the 15 projects. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

20. Provide the calculations used to determine the weighted average cost for the 1999 vintage year and all vintage years of KU's emission allowance inventory as of November 30, 1999. Include all supporting schedules, workpapers, and assumptions.

21. Explain the changes in the following expense levels:

a. Tyrone – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June 1999 through November 1999.

b. Tyrone – Subaccount No. 51209, Scrubber Maintenance, for the expense month of October 1999.

c. Green River – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June, August, September, and October 1999.

d. E. W. Brown – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of June through October 1999.

e. E. W. Brown – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June through November 1999.

f. E. W. Brown – Subaccount No. 51209, Scrubber Maintenance, for the expense months of July, September, and October 1999.

g. Pineville – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of June through September 1999.

h. Pineville – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of September 1999.

i. Pineville – Subaccount No. 51209, Scrubber Maintenance, for the expense months of October and November 1999.

j. Ghent – Subaccount No. 50205, Scrubber Operation, for the expense months of June, July, September, October, and November 1999.

k. Ghent – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of June through November 1999.

l. Ghent – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of June through November 1999.

m. Ghent – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June through November 1999.

n. Ghent – Subaccount No. 51209, Scrubber Maintenance, for the expense months of June through November 1999.

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

23. Refer to ES Form 3.0, Average Monthly Jurisdictional Revenue Computation of R(m), for the expense months of June through November 1999. During these expense months, KU identified and excluded from its total off-system sales \$93,530,968 in transactions classified as “brokered sales.”

a. Identify any expenses incurred by KU 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.

b. 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.

Billing Period August 1, 1996 through July 31, 1998

24. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the July 19, 1994 Order in Case No. 93-465, reflecting the format modifications ordered in Case Nos. 96-196 and 96-605, for the billing period August 1996 through July 1998. The amounts reported on these forms should reflect the Commission’s decisions announced in prior six-month and two-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

25. For each month in the billing period August 1996 through July 1998, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

26. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Sales during Month, for the expense months of December 1997 through May 1998. During this period, KU reported \$391,717 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales. In addition, explain why the sales reported for the expense month of May 1998 were significantly higher than previous months.

27. Refer to ES Form 2.0, Determination of Pollution Control Operating Expenses, for the expense month of January 1998. Explain why the insurance expense decreased from the level reported in December 1997.

28. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of December 1997 through May 1998. During this period, KU has reported CWIP balances for four of the 15 projects. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

29. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense month of April 1998. Explain the reason(s) for the item labeled "March Adjustment," which is shown in the calculation of the eligible depreciation expense.

30. Provide the calculations used to determine the weighted average cost for the 1998 vintage year of KU's emission allowance inventory as of May 31, 1998. Include all supporting schedules, workpapers, and assumptions.

31. Explain the changes in the following expense levels:

a. Tyrone – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1997 through May 1998.

b. Green River – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1997 through May 1998.

c. E. W. Brown – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of January, February, April, and May 1998.

d. E. W. Brown – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1997 through May 1998.

e. Pineville – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of December 1997 through May 1998.

f. Ghent – Subaccount No. 50205, Scrubber Operation, for the expense months of March through May 1998.

g. Ghent – Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of February, April, and May 1998.

h. Ghent – Subaccount No. 51207, Ash Handling – Maintenance, for the expense months of December 1997 through March 1998 and May 1998.

i. Ghent – Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1997 through February 1998 and April and May 1998.

j. Ghent – Subaccount No. 51209, Scrubber Maintenance, for the expense months of January through May 1999.

32. Refer to ES Form 3.0, Average Monthly Jurisdictional Revenue Computation R(m). For each expense month covered by this review period (June 1996 through May 1998), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly operational revenues reported to the Commission in KU's monthly financial reports. Identify all reconciling items and describe each reconciling item.

33. 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 KU 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. 93-465 has in KU'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 KU's base rates. Include any analysis that KU believes supports its position.

34. The incorporation of the surcharge into KU'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 KU believes would be necessary to the surcharge mechanism in order to recognize that costs 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.

35. 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 KU 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.