

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR APPROVAL OF AN)	
AMENDED COMPLIANCE PLAN FOR PURPOSES)	CASE NO.
OF RECOVERING THE COSTS OF NEW AND)	2000-386
ADDITIONAL POLLUTION CONTROL FACILITIES)	
AND TO AMEND ITS ENVIRONMENTAL COST)	
RECOVERY SURCHARGE TARIFF)	

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR APPROVAL OF AN AMENDED)	
COMPLIANCE PLAN FOR PURPOSES OF)	CASE NO.
RECOVERING THE COSTS OF NEW AND)	2000-439
ADDITIONAL POLLUTION CONTROL FACILITIES)	
AND TO AMEND ITS ENVIRONMENTAL)	
SURCHARGE TARIFF)	

O R D E R

On October 31, 2000, the Kentucky Industrial Utility Customers, Inc. ("KIUC") filed a letter requesting that the Commission retain an independent consultant to assist it in these cases. KIUC suggested that the consultant be instructed to examine eight specific issues:

1. Have the new environmental compliance costs been properly segregated between the power plants owned by Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), and the power plants leased and operated by Western Kentucky Energy Corp. ("WKE"), a wholly owned subsidiary of LG&E Energy Corp. ("LG&E Energy")?
2. To what extent were the environmental projects financed with pollution control debt and was such debt fairly distributed between regulated and unregulated activities of LG&E Energy?

3. What is the proper methodology to ensure that LG&E's and KU's actual financing costs during construction are recovered in the surcharge so as to provide full recovery, no more and no less?
4. What is the proper methodology to ensure that the actual cost of capital for permanent financing of the new environmental projects are recovered in the surcharge, no more and no less?
5. Is it more appropriate for the environmental surcharge to incorporate an "incremental" or a "baseline" approach?
6. What is the appropriate depreciable life of the various environmental projects?
7. Are appropriate audit procedures in place to ensure that the new operating and maintenance costs collected through the surcharge are properly associated only with the new environmental projects?
8. What is the appropriate manner in which to roll-in the existing surcharge to base rates to ensure "revenue neutrality"?

KIUC followed its letter request with a formal motion filed on November 8, 2000.

On November 3, 2000, LG&E and KU responded to the KIUC request. They state that because the issues to be considered in this proceeding are not new, unique, or beyond the expertise of the Commission and its Staff, the retention of a consultant would be an unnecessary expense. LG&E and KU note the experience the Commission has in regulating the operation of the environmental surcharge, not only for LG&E and KU, but for two other Kentucky electric utilities. Concerning the 8 specific issues identified by KIUC, they contend that the last issue dealing with roll-ins is outside the scope of these proceedings. As for the other 7 issues, LG&E and KU state that to the extent the issues are relevant, those issues are within the Commission Staff's expertise and competency to evaluate. LG&E and KU filed a more detailed response to the KIUC motion on November 13, 2000.

The Commission has considered the points raised by KIUC, LG&E, and KU, and finds that on the basis of the record now before us, it is not necessary to retain an independent consultant in conjunction with the processing of these applications. KIUC does not explain why 7 of the 8 issues it identifies need to be addressed by a Commission-retained, independent consultant. The one issue for which KIUC did provide an explanation involves the segregating of NOx environmental costs among the LG&E/KU-owned generating plants and the WKE leased plants. On this issue KIUC alleges that NOx compliance may have been achieved on an LG&E/KU/WKE aggregate basis. Even assuming KIUC's allegation is true, there is no reason to believe that the necessary NOx costs for individual LG&E and KU plants cannot be readily calculated. The remaining 7 issues, for which KIUC provided no explanation, deal with subjects this Commission has investigated before in other surcharge proceedings and which are traditionally addressed through discovery, testimony by the parties, and a public hearing. The procedural schedules issued in these cases on November 3, 2000 provide for two rounds of discovery requests to LG&E and KU, an opportunity for KIUC and other intervenors to file testimony, and a public hearing.

The Commission further finds that KIUC's eighth issue, concerning the appropriate manner to roll-in the existing surcharge into base rates, is beyond the scope of these proceedings. The issue of roll-ins will be addressed during the two-year reviews of LG&E's and KU's environmental surcharge. As provided for in Case Nos. 2000-105¹ and 2000-106,² the Commission will in the near future schedule an informal

technical conference for the parties and Commission Staff to discuss the issues associated with a future roll-in.

IT IS HEREBY ORDERED that KIUC's request that the Commission retain an independent consultant in these proceedings is denied.

Done at Frankfort, Kentucky, this 16th day of November, 2000.

By the Commission

¹ Case No. 2000-105, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 1998, October 31, 1998, and October 31, 1999, and for the Two-Year Billing Period Ending April 30, 1999, final Order dated October 17, 2000, at 5.

² Case No. 2000-106, 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, July 31, 1999, and January 31, 2000, and for the Two-Year Billing Period Ending July 31, 1998, final Order dated October 17, 2000, at 5.

ATTEST:


Executive Director