

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES	)	
COMPANY FOR APPROVAL OF ITS 2002	)	CASE NO.
COMPLIANCE PLAN FOR RECOVERY BY	)	2002-00146
ENVIRONMENTAL SURCHARGE	)	

O R D E R

On August 12, 2002, Kentucky Utilities Company ( KU ) filed an application, pursuant to KRS 278.183, seeking Commission approval of an amended environmental compliance plan consisting of new and additional pollution control facilities and to amend its Environmental Surcharge ( ES ) tariff. KU maintains that it will need these facilities and will incur the related compliance costs in order to comply with the requirements of the Clean Air Act,<sup>1</sup> the Resource Conservation and Recovery Act,<sup>2</sup> and other federal, state, or local environmental requirements applicable to coal combustion waste and by-products from facilities used for the generation of energy from coal. KU proposed that its amended ES tariff become effective for bills rendered on and after March 1, 2003.

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ( AG ), and Kentucky Industrial Utility Customers, Inc. ( KIUC ). A consolidated hearing was held on December 20, 2002 for this case and Case No. 2002-

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<sup>1</sup> As amended, 42 U.S.C.A. § 7401 *et seq.*

<sup>2</sup> As amended, 42 U.S.C.A. § 6901 *et seq.*

00147,<sup>3</sup> the companion case for Louisville Gas and Electric Company ( LG&E ). All information requested at the public hearing has been filed, and the parties have submitted briefs.

### BACKGROUND

KU is a privately owned electric utility that generates, transmits, distributes, and sells electricity to approximately 471,000 consumers in all or parts of 77 counties in Kentucky.<sup>4</sup> KU is a wholly owned subsidiary of LG&E Energy Corporation, a non-utility holding company.<sup>5</sup>

KRS 278.183 provides that a utility shall be entitled to the current recovery of its costs of complying with the Clean Air Act as amended and those federal, state, or local environmental requirements that apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. Pursuant to KRS 278.183(2), a utility seeking to recover its environmental compliance costs through an environmental surcharge must first submit to the Commission a plan that addresses compliance with the applicable environmental requirements. The plan must also include the utility's testimony concerning a reasonable return on compliance-related capital expenditures

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<sup>3</sup> Case No. 2002-00147, The Application of Louisville Gas and Electric Company for Approval of Its 2002 Compliance Plan for Recovery by Environmental Surcharge.

<sup>4</sup> Operating under the name of Old Dominion Power Company, KU generates, transmits, distributes, and sells electricity to approximately 29,200 consumers in 5 counties in southwestern Virginia. KU also sells wholesale electric energy to 12 municipalities.

<sup>5</sup> LG&E Energy Corporation is a wholly owned subsidiary of Powergen plc, an international holding company based in the United Kingdom. Powergen plc is a wholly owned subsidiary of E.ON AG, an international holding company based in the Federal Republic of Germany.

and a tariff addition containing the terms and conditions of the proposed surcharge applied to individual rate classes. Within 6 months of submission, the Commission must conduct a hearing to:

- (a) Consider and approve the compliance plan and rate surcharge if the plan and rate surcharge are found reasonable and cost-effective for compliance with the applicable environmental requirements;
- (b) Establish a reasonable return on compliance-related capital expenditures; and
- (c) Approve the application of the surcharge.

KU's original compliance plan and environmental surcharge were approved by the Commission in 1994 ( 1994 Plan ) in Case No. 1993-00465.<sup>6</sup> The 1994 Plan was comprised of 15 capital projects at various generating stations involving a flue gas desulfurization system, ash pond enhancements, precipitator enhancements, continuous emission monitoring systems, and other pollution control equipment required by federal, state, or local environmental regulations applicable to coal combustion and by-products. The ES tariff for the 1994 Plan provided for a formula to calculate the retail monthly environmental surcharge gross revenue requirement ( ES revenue requirement ) and applicable monthly surcharge factor. The rate of return authorized for the 1994 Plan environmental capital expenditures was 5.85 percent, which was based on the actual cost of KU's December 1993 pollution control bond issue.<sup>7</sup>

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<sup>6</sup> Case No. 1993-00465, 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.

<sup>7</sup> Id. at 19.

KU added new pollution control facilities to its compliance plan and environmental surcharge through amendments that were approved by the Commission in 2001 ( 2001 Plan ) in Case No. 2000-00439.<sup>8</sup> The 2001 Plan contained two capital projects at various generating stations involving advanced low NOx burner systems, selective catalytic reduction NOx reduction technology facilities, neural network technology, and overfire air systems and burner modifications required by the emission limits mandated by the Environmental Protection Agency and the Clean Air Act. The ES tariff for the 2001 Plan amended the ES tariff for the 1994 Plan and provided for a formula to calculate the ES revenue requirement and applicable monthly surcharge factor.

In Case No. 2000-00439 the rate of return on the 1994 Plan environmental capital expenditures was reset to 6.27 percent, which was based on the weighted average cost of KU s pollution control debt as of December 31, 2000.<sup>9</sup> In addition, the Commission established that at the 6-month surcharge reviews a true-up calculation would be made to reflect changes during the review period in the weighted average cost of pollution control debt.<sup>10</sup> The rate of return on the 2001 Plan environmental capital expenditures was based on KU s overall rate of return on capital, reflecting KU s jurisdictional capital structure and corresponding debt and preferred stock cost rates as

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<sup>8</sup> Case No. 2000-00439, The Application of Kentucky Utilities Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Surcharge Tariff, final Order dated April 18, 2001.

<sup>9</sup> Id. at 17.

<sup>10</sup> Id. at 18-19.

of December 31, 2000.<sup>11</sup> The cost of debt and preferred stock were scheduled to be reviewed and re-established during the 6-month surcharge review cases. Like the 1994 Plan rate of return, at the 6-month surcharge reviews a true-up calculation would be made to reflect changes during the review period in the cost of debt. The rate of return on common equity was set at 11.50 percent, with the overall rate of return on capital being 9.65 percent. The overall rate of return is then grossed up to reflect the income tax effect resulting from the returns on preferred stock and common equity.<sup>12</sup>

### 2003 COMPLIANCE PLAN

KU is adding new pollution control facilities to the 1994 and 2001 Plans to reflect its continuing efforts to control fly and bottom ash. The second amendment to the compliance plan ( 2003 Plan ) proposed by KU calls for one additional capital project that involves raising the embankment crest elevation of the ash pond dike at the Ghent generating station from 760 feet to 800 feet. The 2003 Plan has a total estimated capital cost of \$17.3 million.<sup>13</sup> KU had previously secured a permit from the Kentucky

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<sup>11</sup> Id. at 23-26. During rehearing the Commission included short-term debt and accounts receivable financing in KU s jurisdictional capital structure along with the corresponding cost rates as of December 31, 2000. See Orders on Rehearing dated May 14, 2001 and August 30, 2001.

<sup>12</sup> The overall rate of return reflects the KU jurisdictional capital structure and cost rates as of December 31, 2000. The capital structure is made up of short-term debt, long-term debt, preferred stock, and common equity. While KU has been authorized to include accounts receivable financing in its capital structure, as of December 31, 2000 there was no amount available to recognize. The rate of return on common equity is 11.50 percent, which is the same return authorized in KU s last rate case and utilized in KU s earnings sharing mechanism. The overall rate of return on capital before gross-up for taxes is 9.65 percent. The gross-up factor is applied to the preferred stock and common equity components of the overall rate of return on capital, and reflects a composite federal and state income tax rate of 40.3625 percent.

<sup>13</sup> Bellar Direct Testimony, Exhibit LEB-1.

Division of Water to raise the embankment crest elevation to 785 feet, and has pending a modification authorizing the 800-foot level.<sup>14</sup>

In support of the 2003 Plan, KU presented testimony and a copy of an analysis performed by Fuller, Mossbarger, Scott & May Engineers ( FMSM Study ) that evaluated the options available at the Ghent site for the handling of fly and bottom ash. This evidence shows that the facility in the 2003 Plan is related to compliance with the Clean Air Act as amended and other governmental regulations pertaining to coal combustion wastes and by-products resulting from the production of electricity from coal. Furthermore, the FMSM Study shows that KU sufficiently analyzed the available options and selected the option that is most cost-effective. The AG and KIUC have not challenged the reasonableness or the cost-effectiveness of KU s proposed 2003 Plan.

Based on a review of the record, the Commission finds that KU s 2003 Plan is reasonable, cost-effective, and should be approved. In addition, KU should submit a copy of the approved modified permit authorizing the 800-foot level upon receipt from the Kentucky Division of Water.

#### SURCHARGE MECHANISM AND CALCULATION

KU has proposed to maintain the separation of the 1994 Plan and 2001 Plan ES revenue requirements as determined by the Commission in Case No. 2000-00439. KU proposed no changes in the surcharge mechanism or calculation of the ES revenue requirements and monthly surcharge factor for the 1994 Plan and the 2001 Plan.

For the 2003 Plan, KU proposes that the environmental surcharge mechanism be similar to that used for the 1994 and 2001 Plans. Under this approach, an ES revenue

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<sup>14</sup> Transcript of Evidence, December 20, 2002, at 92-93.

requirement is divided by the revenue for the current expense month,<sup>15</sup> resulting in a monthly surcharge factor. The ES revenue requirement is determined for the current expense month, and is comprised of a return on the 2003 Plan Environmental Compliance Rate Base ( Rate Base ) plus specified environmental compliance operating expenses.<sup>16</sup> KU further proposed that the calculation of the ES revenue requirement for the 2003 Plan be shown separately in the monthly surcharge report.

KU's proposed 2003 Plan Rate Base used in the environmental surcharge mechanism includes the following components: eligible pollution control ( PC ) plant in service, accumulated depreciation associated with the PC plant in service, eligible PC construction work in progress ( CWIP ), deferred income taxes, and deferred investment tax credits. The Rate Base would be adjusted for eligible PC plant in service, accumulated depreciation, and deferred taxes relating to replacements and retirements of PC plant in service that are already included in existing rates.

KU did not propose to include a cash working capital allowance in the 2003 Plan Rate Base determination, although it anticipates additional incremental operating and maintenance expenses in conjunction with the 2003 Plan. KU plans to identify and track these incremental expenses associated with the 2003 Plan by utilizing Account No. 512017, Ash Handling and Maintenance.<sup>17</sup> KU intends to track and report expenses in Account No. 512017 in the same manner as currently used, noting that it

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<sup>15</sup> The current expense month is defined as the second month preceding the month in which the environmental surcharge is billed.

<sup>16</sup> Bush Direct Testimony, Exhibit FHB-1.

<sup>17</sup> Rives Direct Testimony at 3.

did not foresee any meaningful method to separate the maintenance expenses as currently incurred from those that will be incurred following the completion of the ash pond expansion.<sup>18</sup>

In addition to the Account No. 512017 expense, KU proposed that the monthly environmental compliance operating expenses for the 2003 Plan should include: depreciation expense, property taxes, and insurance expense. The depreciation expense, property taxes, and insurance expense are functions of the value of the PC plant in service and the monthly expense amounts would reflect that calculation.

KIUC raised the concern that since KU had included removal costs in its internal economic analysis, KU would possibly include the removal costs in the final amounts capitalized for the ash pond dike project. KIUC stated this accounting treatment is not consistent with the Federal Energy Regulatory Commission's Uniform System of Accounts (FERC USoA), and recommended that the Commission direct KU to follow the FERC USoA.<sup>19</sup> KU responded to KIUC's concerns by stating it would follow the accounting requirements of the FERC USoA when it records the capital costs of the ash pond dike project.<sup>20</sup>

The Commission finds that the 2003 Plan Rate Base should be comprised of PC plant in service, accumulated depreciation associated with the PC plant in service, eligible PC CWIP, deferred income taxes, and deferred investment tax credits. As is

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<sup>18</sup> Response to the Commission Staff's First Data Request dated September 10, 2002, Item 7(a).

<sup>19</sup> Kollen Direct Testimony at 26-27.

<sup>20</sup> Rives Rebuttal Testimony at 7-8.



done for the 1994 Plan and 2001 Plan Rate Bases, the 2003 Plan Rate Base should be adjusted for eligible PC plant in service, accumulated depreciation, and deferred taxes to reflect any retirement or replacement of PC plant in service that is already included in existing rates.

The Commission finds that KU's proposal to track the additional incremental ash handling expenses by utilizing Account No. 512017 and report those expenses in the same manner as currently used is reasonable and should be approved. The Commission further finds KU's proposal concerning the recovery of depreciation expense, property taxes, and insurance expense associated with the 2003 Plan to be reasonable and it should be approved. However, to the extent that retirements or replacements of PC plant in service already included in base rates impact the determination of these expenses, KU should include the necessary adjustment to the expense reported for the current expense month.

With regard to KIUC's concern that KU would not record the capital costs associated with the ash pond dike project in accordance with the FERC USoA, the Commission believes the concern is resolved based on KU's rebuttal testimony. However, KU is reminded that its accounting for PC capital costs will be subject to review during subsequent 6-month surcharge reviews.

The Commission anticipates that KU will not incur the discussed operating expenses until the 2003 Plan facilities have gone into service. If a monthly surcharge factor includes these expenses prior to the 2003 Plan facilities going into service, KU should submit as part of the monthly surcharge filing a written explanation documenting

why the expense has been incurred. The inclusion of that expense would be subject to review during the appropriate 6-month surcharge review.

### RATE OF RETURN

KU proposed no changes to the rate of return applied to the 1994 Plan and 2001 Plan Rate Bases. For the 2003 Plan Rate Base, KU proposed that it be allowed to earn the overall rate of return on capital, the same approach and rate of return authorized for the 2001 Plan.<sup>21</sup> Neither the AG nor KIUC expressed any opposition to KU's proposal.

The Commission finds that the reasonable rate of return to apply to the 2003 Plan Rate Base should be overall rate of return on capital, as was approved for the 2001 Plan Rate Base in Case No. 2000-00439. The application of the overall rate of return on capital to the 2003 Plan Rate Base will be consistent with the approach outlined for the 2001 Plan Rate Base in Case No. 2000-00439.<sup>22</sup> As noted previously in this Order, the current overall rate of return on capital used for the 2001 Plan is 9.65 percent.

However, the Commission notes that the proposed ES tariff does not include any references to the inclusion of accounts receivable financing in the overall rate of return on capital. The Commission included this financing in the overall rate of return on capital in the August 30, 2001 Order in Case No. 2000-00439. KU should modify its final ES tariff to reflect the inclusion of accounts receivable financing in the overall rate of return on capital determination.

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<sup>21</sup> Beer Direct Testimony at 4-5 and Bush Direct Testimony Exhibit FHB-1.

<sup>22</sup> Case No. 2000-00439, April 18, 2001 Order at 26.

## SURCHARGE FORMULAS

KU's current surcharge mechanism reflects the sum of two formulas. The addition of the 2003 Plan to the surcharge mechanism makes it necessary to retain two formulas, stated as follows.

### 1994 Plan

The monthly ES revenue requirement, 1994E(m), is as follows:

$$1994E(m) = [(RB/12) (ROR)] + PCOE \quad BAS$$

Where:

1994E(m)	1994 Plan ES Revenue Requirement
RB	Environmental Compliance Rate Base, adjusted for eligible Pollution Control Plant in Service and Accumulated Depreciation already included in existing rates
ROR	Rate of Return on Environmental Compliance Rate Base, designated as the Weighted Average Cost of Pollution Control Bond Debt
PCOE	Pollution Control Operating Expenses [Incremental O&M Expenses (+/-), <sup>23</sup> Depreciation and Amortization Expense, Property Taxes, Insurance Expense, Emission Allowance Expense, and Surcharge Consultant Fee]
BAS	Gross Proceeds from By-Product and Allowance Sales

### 2001 and 2003 Plans

Because the rate of return for both the 2001 and 2003 Plans is the overall rate of return on capital, one consolidated formula can be utilized to identify that portion of the

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<sup>23</sup> Because of the difficulty in separating the incremental ash handling expenses between the 1994 and 2003 Plans, this incremental expense will be reported in the 1994 Plan formula.

overall surcharge mechanism.<sup>24</sup> The monthly ES revenue requirement, Post-1994E(m) is as follows:

$$\text{Post-1994E(m)} = \left[ \left( \frac{\text{RB}}{12} \right) (\text{ROR} + (\text{ROR} - \text{DR}) \left( \frac{\text{TR}}{1 - \text{TR}} \right)) \right] + \text{OE}$$

Where:

Post-1994E(m)	2001 and 2003 Plan Revenue Requirements
RB	Environmental Compliance Rate Base, adjusted for eligible Pollution Control Plant in Service, Accumulated Depreciation, and Deferred Taxes already included in existing rates
ROR	Rate of Return on Environmental Compliance Rate Base, designated as the overall rate of return [cost of short-term debt, accounts receivable financing, long-term debt, preferred stock, and common equity]
DR	Debt Rate [cost of short-term debt, accounts receivable financing, and long-term debt]
TR	Composite Federal and State Income Tax Rate
OE	Operating Expenses: Depreciation and Amortization Expense, Property Taxes, Insurance Expense; adjusted for the Average Month Expense already included in existing rates. Includes the 2001 Plan operation and maintenance expense associated with NOx control projects, as recorded in Account Nos. 506105 and 512101

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<sup>24</sup> The consolidated formula will be referred to as Post-1994E(m) and the calculations shown on the monthly surcharge reports will be labeled as Post-1994 Plan.

The sum of the 1994E(m) and Post-1994E(m), Total E(m), is multiplied by the Jurisdictional Allocation Factor<sup>25</sup> to arrive at the Net Jurisdictional E(m). KU's environmental surcharge costs are allocated to all its sales, including those to jurisdictional retail customers and non-jurisdictional wholesale customers. By using sales revenue as the factor for the allocation, KU's jurisdictional customers pay for none of the environmental costs attributable to wholesale sales to other utilities. After recognizing any adjustments for over- or under-recoveries, the Net Jurisdictional E(m) is divided by Jurisdictional R(m),<sup>26</sup> resulting in the Jurisdictional Environmental Surcharge Billing Factor.

The addition of the 2003 Plan will require a revision to the monthly surcharge reporting formats. KU provided sample monthly reporting formats, but indicated that it was agreeable to some modification to its proposed formats.<sup>27</sup> Appendix A to this Order contains the monthly surcharge reporting formats that are to be submitted by KU for all environmental surcharge filings after the effective date of the amended ES tariff.

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<sup>25</sup> The Jurisdictional Allocation Factor is calculated by dividing the current expense month's Kentucky jurisdictional revenues by the current expense month's Total Company revenues. Environmental surcharge revenues are excluded from both components of the calculation. There will be no change in the calculation due to the addition of the 2003 Plan.

<sup>26</sup> Jurisdictional R(m) is the average monthly jurisdictional revenue for the 12 months ending with the current expense month. This average amount is exclusive of the environmental surcharge revenues, and is unchanged due to the addition of the 2003 Plan.

<sup>27</sup> Response to the Commission Staff's First Data Request dated September 10, 2002, Item 7(b). Specifically, KU had proposed to show the determination of each Plan's revenue requirement separately on ES Form 2.00. Since the components used to determine the revenue requirement for the 2001 and 2003 Plans were separately identified on the support pages of the formats, KU indicated it was agreeable to combining the components for the 2001 and 2003 Plans on ES Form 2.00.

## EFFECTIVE DATE OF AMENDED ES TARIFF

KU had requested that its proposed ES tariff become effective for bills rendered on and after March 1, 2003. In Case Nos. 1993-00465 and 2000-00439, the surcharge mechanism and ES tariff were approved for service rendered on and after the date of the approving Order. KU indicated that if the proposed amended ES tariff became effective for service rendered on and after March 1, 2003, it would be required to calculate the surcharge factor prior to and subsequent to the implementation of the new ES tariff and prorate each bill for the number of days in the billing cycle prior to the implementation.<sup>28</sup> As an alternative, KU indicated that it was agreeable to the effective date being the first day of the second billing month following the approval of the amended ES tariff.<sup>29</sup>

The Commission finds that the amended ES tariff should not become effective for bills rendered on and after March 1, 2003 because that would require customers to pay for increases in environmental costs prior to the approval of those increases. A reasonable alternative to the bills rendered proposal is for the effective date of the amended ES tariff to be the first day of the second billing month following the approval of the amended ES tariff.

IT IS THEREFORE ORDERED that:

1. KU's 2003 Plan consisting of one additional capital project to meet federal, state, and local environmental regulations is approved.

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<sup>28</sup> Response to the Commission Staff's First Data Request dated September 10, 2002, Item 1.

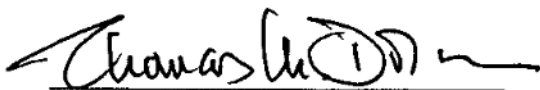
<sup>29</sup> Response to the Commission Staff's Second Data Request dated October 10, 2002, Item 1.

2. KU's proposed ES tariff is denied.
3. KU's ES tariff, as modified as discussed herein to include accounts receivable financing in the overall rate of return on capital determination, is approved and shall be effective the first day of the second billing month following the ES tariff approval.
4. KU's rate of return on the 1994 and 2001 Plans shall remain unchanged from that authorized in Case No. 2000-00439.
5. KU's rate of return on the 2003 Plan shall be determined in the same manner as that authorized for the 2001 Plan in Case No. 2000-00439. The current rate of return is 9.65 percent. The rate of return true-up process for the 2003 Plan shall be the same as the process established for the 2001 Plan rate of return.
6. The reporting formats included in Appendix A shall be used for each KU monthly surcharge filing. Previous reporting formats shall no longer be submitted.
7. Within 10 days of the date of this Order, KU shall file with the Commission revised tariff sheets setting out the ES tariff as modified and approved herein.
8. Within 5 days of its receipt, KU shall file with the Commission copies of the approved modified permit from the Kentucky Division of Water for the Ghent ash pond dike project.

Done at Frankfort, Kentucky, this 11<sup>th</sup> day of February, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Charles W. [unclear]", written over a horizontal line.

Executive Director



## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00146 DATED February 11, 2003

#### Environmental Surcharge Monthly Report Formats

These report formats will be used by KU for all monthly surcharge filings submitted after the effective date of the amended ES tariff. These report formats will replace all previously approved report formats developed for KU's environmental surcharge filings. KU will not modify any format without the prior consent of the Commission Staff.

#### Index of Formats

- ES Form 1.0  
Calculation of Total E(m) and Jurisdictional Environmental Surcharge Billing Factor
- ES Form 2.00  
Revenue Requirements of Environmental Compliance Costs
- ES Form 2.10  
Plant, CWIP, Depreciation Expense, and Deferred Taxes 1994 Plan  
(Requires additional supporting information, as noted on format)
- ES Form 2.11  
Plant, CWIP, Depreciation Expense, and Deferred Taxes Post-1994 Plan
- ES Form 2.20  
Inventories of Spare Parts & Limestone
- ES Form 2.30  
Inventory of Emission Allowances All Vintage Years
- ES Form 2.31  
Inventory of Emission Allowances Current Vintage Year
- ES Form 2.40  
O&M Expenses and Determination of Cash Working Capital Allowance
- ES Form 2.50  
Pollution Control Operation & Maintenance Expenses 1994 and 2001 Plans
- ES Form 3.0  
Monthly Average Revenue Computation R(m)
- ES Form 3.1  
Reconciliation of Reported Revenues

**KENTUCKY UTILITIES COMPANY  
 ENVIRONMENTAL SURCHARGE REPORT  
 Calculation of Total E(m) and  
 Jurisdictional Environmental Surcharge Billing Factor**

**For the Expense Month of**

Calculation of Total E(m)

Total E(m) = 1994E(m) + Post-1994E(m)

1994E(m) = [(RB/12) (ROR)] + OE / BAS, where

- RB Environmental Compliance Rate Base for the 1994 Plan
- ROR Rate of Return on the 1994 Plan Rate Base
- OE Pollution Control Operating Expenses for the 1994 Plan
- BAS Gross Proceeds from By-Product and Allowance Sales

Post-1994E(m) = [(RB/12) (ROR + (ROR - DR) (TR/(1 - TR)))] + OE, where

- RB Environmental Compliance Rate Base for the 2001 and 2003 Plans
- ROR Rate of Return on the 2001 and 2003 Plan Rate Bases
- DR Debt Rate (short-term debt, accounts receivable financing, and long-term debt)
- TR Composite Federal and State Income Tax Rate
- OE Pollution Control Operating Expenses for the 2001 and 2003 Plans

	<u>1994 Plan</u>	<u>Post-1994 Plan</u>
RB	0	0
RB/12	0	0
ROR [1994 Plan]	6.27%	---
(ROR + (ROR - DR) (TR/(1 - TR))) [Post-1994 Plan]	---	14.41%
OE	0	0
BAS	<u>0</u>	<u>---</u>
1994E(m)	0	
Post-1994E(m)		0
Total E(m) [1994E(m) + Post-1994E(m)]		0

Calculation of Retail Environmental Surcharge Billing Factor

Jurisdictional Allocation Ratio for Expense Month	0.00%
Juris. E(m) = Total E(m) x Juris. Allocation Ratio	0
Adjustment for Over/(Under) Recovery	0
Net Juris. E(m) = Juris. E(m) +/- Adjust. for Over/(Under) Recovery	0
Jurisdictional R(m):	
Average Monthly Retail Revenue for the 12 Months	
Ending with the Current Expense Month	0
Jurisdictional Environmental Surcharge Billing Factor:	
Net Juris. E(m) / Juris. R(m) (% of Revenue)	0.00%

Effective Date for Billing: {Date}

Submitted by: \_\_\_\_\_  
 {Title}

Date Submitted: {Date}

**KENTUCKY UTILITIES COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Revenue Requirements of Environmental Compliance Costs**  
**For the Expense Month of**

Determination of Environmental Compliance Rate Base

	1994 Plan		Post-1994 Plan	
Eligible Pollution Control Plant	0		0	
Eligible Pollution Control CWIP excluding AFUDC	0		0	
Subtotal		0		0
Additions:				
Inventory Spare Parts	0		0	
Inventory Limestone	0		0	
Inventory Emission Allowances	0		0	
Cash Working Capital Allowance	0		0	
Subtotal		0		0
Deductions:				
Accumulated Depreciation on Eligible Pollution Control Plant	0		0	
Pollution Control Deferred Income Taxes	0		0	
Pollution Control Deferred Investment Tax Credit	0		0	
Subtotal		0		0
Environmental Compliance Rate Base		0		0

Determination of Pollution Control Operating Expenses

	1994 Plan	Post-1994 Plan
Monthly Operations & Maintenance Expense (Incremental for 1994)	0	0
Monthly Depreciation & Amortization Expense	0	0
Monthly Taxes Other Than Income Taxes	0	0
Monthly Insurance Expense	0	0
Monthly Emission Allowance Expense	0	
Monthly Surcharge Consultant Fee	0	
Total Pollution Control Operating Expenses	0	0

Gross Proceeds from By-Product and Allowance Sales (1994 Plan Only)

Allocated Allowances from EPA	Allowances from Over-Control	Allowances from Purchases	Total Proceeds from Allowance Sales	Proceeds from By-Product Sales
0	0	0	0	0



**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT**  
**Plant, CWIP, Depreciation Expense, and Deferred Taxes 1994 Plan**  
**For the Month Ended**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Description	Eligible Plant in Service	Eligible Accum. Deprec.	CWIP Amount Excluding AFUDC	Eligible Net Plant in Service (2)+(3)+(4)	Unamort. ITC as of --/--/--	Deferred Tax Balance as of --/--/--	Mon Dep Expe
Scrubber							
Gypsum Stacker							
Flue Gas Dispersion							
Emission Monitoring							
NOx Reduction EWB1, EWB3							
NOx Reduction EWB2, GH1, GR4							
Ash Pond Elevation							
New Ash Storage							
Precipitation & Ash Handling							
Ash Pond Filtration System							
Precipitator All Plants							
Precipitator Ghent 1							
Precipitator Brown 1							
Dry Fly Ash Handling							
Dust Elimination System							
Subtotal							
Less Charges Prior to 06/30/82							
Less Retirement Eliminations							
Less Eliminations Final Settlement 93-465							
Totals							

KU shall continue to file the schedule labeled ES Form 2.1 Support for the Eliminations Final Settlement 93-465 balances.

**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT**  
**Plant, CWIP, Depreciation Expense, and Deferred Taxes Post-1994 Plan**  
**For the Month Ended**

(1)	(2)	(3)	(4)	(5)	(6)	
Description	Eligible Plant in Service	Eligible Accumulated Depreciation	CWIP Amount Excluding AFUDC	Eligible Net Plant in Service (2)+(3)=(4)	Deferred Tax Balance as of --/--/--	De E
<b>2001 Plan:</b>						
Project 16 KU NOx Modifications						
Project 17 KU NOx SCRs						
Subtotal						
Less: Retirements and Replacement resulting from implementation of 2001 Plan						
Total 2001 Plan						
<b>2003 Plan:</b>						
Project 18 Ghent Ash Pond Dike						
Less: Retirements and Replacement resulting from implementation of 2003 Plan						
Total 2003 Plan						
Post-1994 Plan Totals (2001 and 2003 Plans Combined)						

When applicable, KU shall reflect a Retirement and Replacement adjustment in the month facilities associated with the 2001 or 2003 Plan are placed in service.

**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT  
Inventories of Spare Parts & Limestone**

**For the Month Ended**

	Beginning Inventory	Purchases	Utilized	Other Adjustments	Ending Inventory	Reason(s)
SPARE PARTS						
Green River						
E. W. Brown						
Ghent						
Tyrone						
Pineville						
LIMESTONE						
At Ghent:						
Tons						
Dollars						
\$/Ton						
At Green River:						
Tons						
Dollars						
\$/Ton						

**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT**  
**Inventory of Emission Allowances All Vintage Years**  
**For the Month Ended**

	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory	Allocation, Purchase, or Sale Date
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS:						
Quantity						
Dollars						
\$/Allowance						
ALLOCATED ALLOWANCES FROM EPA:						
Quantity						
Dollars						
EXTENSION ALLOWANCES FROM EPA:						
Quantity						
Dollars						
ALLOWANCES FROM OVER-CONTROL (OVER-SCRUBBING):						
Quantity						
Dollars						
ALLOWANCES FROM PURCHASES:						
Quantity						
Dollars						

KU shall maintain adequate allowance records which will allow ready identification by classification of the allowances included in ending inventory.



**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT**  
**Inventory of Emission Allowances Current Vintage Year**  
**For the Month Ended**

	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory	Allocation, Purchase, or Sale Date
<b>TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS:</b>						
Quantity						
Dollars						
\$/Allowance						
<b>ALLOCATED ALLOWANCES FROM EPA:</b>						
Quantity						
Dollars						
<b>EXTENSION ALLOWANCES FROM EPA:</b>						
Quantity						
Dollars						
<b>ALLOWANCES FROM OVER-CONTROL (OVER-SCRUBBING):</b>						
Quantity						
Dollars						
<b>ALLOWANCES FROM PURCHASES:</b>						
Quantity						
Dollars						

KU shall maintain adequate allowance records which will allow ready identification by classification of the allowances included in ending inventory.



**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT  
O&M Expenses and Determination of Cash Working Capital Allowance**

**For the Month Ended**

1994 PLAN		2001 PLAN	
Incremental O&M Expenses	Amount	NOx O&M Expenses	Amount
11 <sup>th</sup> Previous Month		11 <sup>th</sup> Previous Month	
10 <sup>th</sup> Previous Month		10 <sup>th</sup> Previous Month	
9 <sup>th</sup> Previous Month		9 <sup>th</sup> Previous Month	
8 <sup>th</sup> Previous Month		8 <sup>th</sup> Previous Month	
7 <sup>th</sup> Previous Month		7 <sup>th</sup> Previous Month	
6 <sup>th</sup> Previous Month		6 <sup>th</sup> Previous Month	
5 <sup>th</sup> Previous Month		5 <sup>th</sup> Previous Month	
4 <sup>th</sup> Previous Month		4 <sup>th</sup> Previous Month	
3 <sup>rd</sup> Previous Month		3 <sup>rd</sup> Previous Month	
2 <sup>nd</sup> Previous Month		2 <sup>nd</sup> Previous Month	
Previous Month		Previous Month	
Current Month		Current Month	
Total 12 Month O&M		Total 12 Month O&M	
Less Baseline (12 Months Ended 05/31/94)			
12 Months Incremental O&M			
Monthly Incremental O&M			
Monthly Incremental O&M is obtained by dividing the 12 Month Incremental O&M by 12. The resulting amount is to be recorded as (+) or (-) on ES Form 2.00 under Monthly Operations & Maintenance Expense for the 1994 Plan.		The Total 12 Month O&M shall reflect the cumulative total of O&M expenses incurred by KU during the first 12 months under the 2001 Plan. Once 12 months of O&M has been incurred, the Total 12 Month O&M shall reflect the most recent 12 months of activity.	
Determination of Cash Working Capital Allowance 1994 and 2001 Plans			
12 Month Incremental O&M Expenses		Total 12 Month O&M	
One Eighth (1/8) of 12 Month Incremental O&M Expenses		One Eighth (1/8) of Total 12 Month O&M	
Pollution Control Cash Working Capital Allowance 1994 Plan		Pollution Control Cash Working Capital Allowance 2001 Plan	

**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT**  
**Pollution Control Operations & Maintenance Expenses**  
**1994 and 2001 Plans**

**For the Month Ended**

O&M Expense Account	Tyrone	Green River	E. W. Brown	Pineville	Ghe
1994 Plan:					
502006 Scrubber Operation					
506001 CEMS & Precipitators Operation					
512005 Scrubber Maintenance					
512011 CEMS & Precipitators Maintenance					
512017 Ash Handling Maintenance (*)					
Total 1994 Plan O&M Expenses					
2001 Plan:					
506105 NOx Operation					
512101 NOx Maintenance					
Total 2001 Plan O&M Expenses					

(\*) Account No. 512017, Ash Handling Maintenance, includes the incremental ash handling expenses associated with the 1994 Plan and the 2003 Plan. The 2003 Plan relates only to the Ghent station.

**KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT**  
**Monthly Average Revenue Computation R(m)**  
**For the Month Ended**

	Kentucky Jurisdictional Revenues					Non-Jurisdictional Revenues	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Month	Base Rate Revenues	Fuel Clause Revenues	Environmental Surcharge Revenues	Total (2)+(3)+(4)	Total Excluding Environmental Surcharge (5)-(4)	Total Including Off-System Sales (See Note 1)	
Average Monthly Jurisdictional Revenues, Excluding Environmental Surcharge, for the 12 Months ending (Current Expense Month)							
Jurisdictional Allocation Percentage for Current Expense Month (Environmental Surcharge excluded from calculations): Expense Month Kentucky Jurisdictional Revenues divided by Expense Month Total Company Revenues[Column (6) / Co							
						Note 1 Excludes Sales, Total for Curre	

**KENTUCKY UTILITIES COMPANY  
ENVIRONMENTAL SURCHARGE REPORT  
Reconciliation of Reported Revenues**

**For the Expense Month of**

Description	Revenues per ES Form 3.0	Revenues per Income Statement
Kentucky Jurisdictional Revenues:		
Base Rates		
Fuel Adjustment Clause		
Environmental Surcharge		
(Identify)		
(Identify)		
Total Kentucky Jurisdictional Revenues for Environmental Surcharge Purposes		
Non-Jurisdictional Revenues:		
(Identify)		
(Identify)		
(Identify)		
Total Non-Jurisdictional Revenues for Environmental Surcharge Purposes		
Total Company Revenues for Environmental Surcharge Purposes		
Reconciling Revenues:		
(Identify)		
(Identify)		
(Identify)		
Total Company Revenues per Income Statement		