

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 LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2003-00001
BILLING PERIOD ENDING OCTOBER 31, 2002)	

O R D E R

On January 16, 2003, the Commission initiated a 6-month review of Louisville Gas and Electric Company's (LG&E) environmental surcharge as billed to customers for the period of May 1, 2002 to October 31, 2002.¹ Pursuant to KRS 278.183(3), the Commission must review, at 6-month intervals, the past operations of the surcharge; after hearing, disallow any surcharge amounts that are not just and reasonable; and reconcile past surcharge collections with actual costs recoverable.

The Commission issued a procedural schedule on January 16, 2003 that provided for an informal conference and a public hearing on May 14, 2003. The informal conference was held on February 25, 2003. LG&E filed prepared direct testimony and responded to requests for information. No parties filed for intervention in this proceeding.

On March 14, 2003, LG&E filed a motion, stating that there are no intervenors and no issues that merit a hearing. The motion requests that the hearing be cancelled

¹ Since LG&E's surcharge is billed on a two-month lag, the amounts billed from May 2002 through October 2002 are based on costs incurred from March 2002 through August 2002.

and this case be submitted based on the existing record. Based on a review of the motion and finding good cause, the Commission cancels the hearing and adjudicates the merits of this case in this Order.

SURCHARGE ADJUSTMENT

The January 16, 2003 Order initiating this case indicated that the period under review might have resulted in over- or under-recovery. LG&E determined that it over-recovered its environmental costs by \$2,870,503.² LG&E proposed that the over-recovery be returned to customers by reducing the total jurisdictional environmental surcharge revenue requirement by \$717,626 a month for 4 months beginning in the first full billing month following the Commission's decision in this proceeding.³

LG&E observed that the application of the surcharge during any 6-month period can cause an over- or under-recovery depending upon the difference between the level of revenues in the expense months and the billing months used to assess the surcharge. LG&E noted the difference between the levels of revenue is typically caused by the impact of weather on the volume of sales. LG&E stated that for the billing period under review, the normal fluctuation due to these timing differences was magnified by

² Foxworthy Direct Testimony at 3 and Exhibit CAF-1. LG&E indicated that the total net over-recovery of \$2,870,503 reflected three items: (a) an over-recovery of \$815,752 reflecting the true-up adjustment for changes in debt and accounts receivable interest rates; (b) an under-recovery of \$204,685 reflecting the correction of errors discovered in the monthly surcharge filings; and (c) an over-recovery of \$2,259,436 reflecting timing differences between the levels of revenues used to calculate the surcharge factor and the level of revenues assessed the surcharge. See Response to the Commission Staff's First Data Request dated January 16, 2003, Items 1 and 2 and Foxworthy Direct Testimony at 3, 5, and 6.

³ \$2,870,503 divided by 4 billing months equals \$717,626.

the unusual weather experienced in the months of June, July, August, and September 2002.⁴

The Commission has reviewed and finds reasonable LG&E s calculation of an over-recovery of \$2,870,503 for the 6-month review period. The Commission also finds reasonable LG&E s proposal to reduce by \$717,626 the total jurisdictional environmental surcharge revenue requirement in each of the first 4 full billing months following the date of this Order.

The Commission notes that, in Case No. 2002-00193,⁵ LG&E s environmental surcharge was changed from the incremental methodology to the base/current methodology. Included in that change was the provision of a 2-month true-up adjustment that is designed to resolve timing differences such as the one experienced by LG&E during this billing period. In future surcharge reviews, the true-up adjustment should eliminate over- or under-recoveries related to revenue timing differences.

RATE OF RETURN

LG&E s environmental surcharge in effect during the review period reflected the 1995 Environmental Compliance Plan (1995 Plan) and the 2001 Amended Environmental Compliance Plan (2001 Plan). The rate of return applied to the 1995 Plan is not the same as the rate of return applied to the 2001 Plan.

⁴ Foxworthy Direct Testimony at 4.

⁵ Case No. 2002-00193, 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, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001, final Order dated October 22, 2002.

In Case No. 2000-00386,⁶ the Commission determined that LG&E's rate of return on its 1995 Plan would be based on the weighted average cost of its pollution control debt as of December 31, 2000. During subsequent 6-month surcharge reviews, the 1995 Plan would be trued-up to reflect changes during that period in the weighted average cost of pollution control debt, with the over- or under-recovery of the environmental surcharge adjusted accordingly.⁷

The Commission also determined that LG&E's rate of return on its 2001 Plan would be based on the overall rate of return on capital, grossed-up for taxes. During subsequent 6-month surcharge reviews, the overall rate of return on the 2001 Plan would be trued-up to reflect changes during that period in the cost of debt, accounts receivable financing, preferred stock, and changes in LG&E's electric capital structure, with the over- or under-recovery of the environmental surcharge adjusted accordingly. Also during subsequent 6-month surcharge reviews, the cost of debt, accounts receivable financing, and preferred stock would be reviewed and re-established.

LG&E included the true-up adjustments associated with its 1995 Plan and 2001 Plan as part of its determination of the over-recovery of the environmental surcharge.⁸

⁶ Case No. 2000-00386, The Application of Louisville Gas and Electric 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 Cost Recovery Surcharge Tariff; final Order dated April 18, 2001; rehearing Orders dated May 14, 2001 and August 30, 2001.

⁷ Case No. 2000-00386, April 18, 2001 Order at 19-20.

⁸ Response to the Commission Staff's First Data Request dated January 16, 2003, Items 1 and 2.

LG&E also calculated that as of October 31, 2002 its overall rate of return was 7.39 percent.⁹

As discussed earlier in this Order, the Commission has accepted LG&E's determination of the over-recovery of the environmental surcharge. This includes the acceptance of the true-up adjustments associated with the rate of return on the 1995 Plan and the 2001 Plan. As established in Case No. 2000-00386, the rate of return on the 1995 Plan should remain at 5.28 percent.¹⁰ The Commission has reviewed LG&E's calculations of its overall rate of return as of October 31, 2002 and finds them to be reasonable and consistent with the Commission's decisions in Case No. 2000-00386. Therefore, for the 2001 Plan, LG&E should use the overall rate of return of 7.39 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. The May 14, 2003 hearing is cancelled.
2. LG&E shall deduct \$717,626 from the total jurisdictional environmental surcharge revenue requirement determined in each of the first 4 full billing months following the date of this Order.

⁹ Response to the Commission Staff's First Data Request dated January 16, 2003, Item 2(d). The overall rate of return, grossed-up for taxes, is 11.42 percent. This overall rate of return includes an 11.50 percent rate of return on common equity, consistent with the Commission's decision in Case No. 2000-00386.

¹⁰ Case No. 2000-00386, April 18, 2001 Order at 31, Ordering Paragraph 4. The Commission's decision in that case did not provide for the rate of return to be reset during the 6-month reviews. Instead, it provided that the changes in the weighted average cost of the pollution control debt would be recognized in a true-up adjustment.

3. For all monthly environmental surcharge filings subsequent to the date of this Order, LG&E shall use a rate of return of 5.28 percent for its 1995 Plan rate base and a rate of return of 7.39 percent for its 2001 Plan rate base.

Done at Frankfort, Kentucky, this 22nd day of April, 2003.

By the Commission

ATTEST:


Executive Director