

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) CASE NO. 2009-00501
UTILITIES COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING OCTOBER 31, 2009)

O R D E R

On January 8, 2010, the Commission initiated a six-month review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers for the six-month period May 1, 2009 through October 31, 2009.¹ Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of a utility's environmental surcharge. After hearing, the Commission may, by temporary adjustment of the surcharge, disallow any surcharge amounts that are not just and reasonable and reconcile past surcharge collections with actual costs recoverable pursuant to KRS 278.183(1). There are no intervenors in this case.

The Commission issued a procedural schedule that provided for discovery, the filing of prepared testimony, an informal conference, and a public hearing. KU filed prepared direct testimony and responded to requests for information. On February 17,

¹ KU's surcharge is billed on a two-month lag. Thus, surcharge billings for May 2009 through October 2009 are based on costs incurred from March 2009 through August 2009.

2010, KU and Commission Staff (“Staff”) participated in an informal conference to discuss the issues in the case. During the conference, Staff requested further information, which KU submitted on February 25, 2010. Also, in that same response, KU requested that this case be submitted for a decision based on the existing record without a public hearing. Based on the absence of intervenors and finding good cause, the Commission will grant KU’s request and decide this case based on the evidence of record without a hearing.

SURCHARGE ADJUSTMENT

The January 8, 2010 Order initiating this case indicated that the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries that may have occurred during the period under review in this proceeding. KU determined that it had a net under-recovery of environmental costs for the billing period ending October 31, 2009 of \$3,705,904.² It proposed that the net under-recovery be collected from customers in the six months following the Commission’s Order in this proceeding.³

The Commission has reviewed and finds reasonable KU’s calculation of a net under-recovery of \$3,705,904 for the billing period covered in this proceeding. The Commission also finds reasonable KU’s proposal to increase the total jurisdictional environmental surcharge revenue requirement by \$617,651 per month in the first four months and \$617,650 per month in the next two months beginning in the second full

² Conroy Direct Testimony at 4.

³ Id. at 7.

billing month following the date of this Order. KU calculates that a residential customer using 1,000 kWh per month will experience an increase of approximately \$0.45 per month in the environmental surcharge to recover the net under-recovery over the six-month period.

RATE OF RETURN

KU provided the outstanding balances for its long-term debt, short-term debt, and common equity as of August 31, 2009, the last expense month of the review period. It also provided the blended interest rates for its long-term and short-term debt as of August 31, 2009.⁴ Using this information, along with the currently approved 10.63 percent return on equity,⁵ KU calculated an overall rate of return on capital, before income tax gross-up, of 7.84 percent.⁶ KU also provided the overall rate of return on capital reflecting the tax gross-up approach approved in Case No. 2004-00426.⁷

The Commission has reviewed KU's determination of the overall rate of return on capital and finds 7.84 percent to be reasonable. The Commission has also reviewed

⁴ Response to Commission Staff's Data Request, Item 6.

⁵ Case No. 2008-00251, Application of Kentucky Utilities Company for an Adjustment of Electric Base Rates (Ky. PSC Feb. 5, 2009).

⁶ Response to Commission Staff's Data Request, Item 6.

⁷ Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan and Recovery by Environmental Surcharge (Ky. PSC Jun. 20, 2005); and Response to the Commission Staff's Data Request in this proceeding dated February 3, 2010, Item 6. In the response, KU determined that the income tax gross-up factor was 0.580, which would produce a tax grossed-up weighted average cost of capital of 11.12 percent.

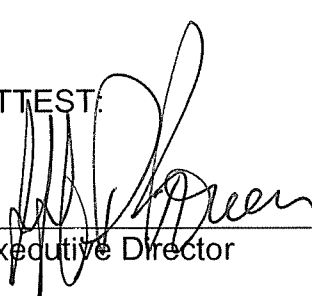
the determination of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2004-00426. Therefore, the Commission finds that the weighted average cost of capital of 7.84 percent and the income tax gross-up factor of 0.580 should be used in all KU monthly environmental surcharge filings beginning in the second full month following the date of this Order.

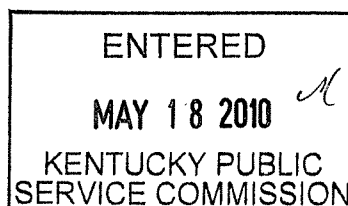
IT IS THEREFORE ORDERED that:

1. KU's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. The amounts billed by KU through its environmental surcharge for the period from May 1, 2009 through October 31, 2009 are approved.
3. KU shall add \$617,651 to its jurisdictional environmental revenue requirement determined in each of the first four billing months and \$617,650 in the next two months beginning in the second full month following the date of this Order, as discussed herein.
4. KU shall use an overall rate of return on capital of 7.84 percent and a tax gross-up factor of 0.580 in all monthly environmental surcharge beginning in the second full month following the date of this Order.

By the Commission

ATTEST:


Executive Director



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