

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. 2010-00241  
UTILITIES COMPANY FOR THE SIX-MONTH )  
BILLING PERIOD ENDING APRIL 30, 2010 )

O R D E R

On July 13, 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 November 1, 2009 to April 30, 2010.<sup>1</sup> 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 September 1,

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<sup>1</sup> KU's surcharge is billed on a two-month lag. Thus, surcharge billings for November 2009 through April 2010 are based on costs incurred from September 2009 through February 2010.

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 September 7, 2010. In that same response, KU also 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 July 13, 2010 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred during the period under review, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. KU determined that it had a net under-recovery of environmental costs of \$577,091 for the billing period ending April 30, 2010.<sup>2</sup> It proposed that the net under-recovery be collected from customers for one month, beginning in the second full billing month following the Commission's Order in this proceeding.<sup>3</sup>

The Commission has reviewed and finds reasonable KU's calculation of a net under-recovery of \$577,091 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 \$577,091 for one month in the second

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<sup>2</sup> Revised Conroy Direct Testimony filed August 31, 2010 at 7.

<sup>3</sup> Id. at 11.

full 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 \$0.44 in the environmental surcharge to recover the net under-recovery for one month.

#### RATE OF RETURN

KU provided the outstanding balances for its long-term debt, short-term debt, and common equity as of February 28, 2010, 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 February 28, 2010.<sup>4</sup> Using this information, along with the currently approved 10.63 percent return on equity,<sup>5</sup> KU calculated an overall rate of return on capital, before income tax gross-up, of 7.74 percent.<sup>6</sup> KU also provided the overall rate of return on capital reflecting the tax gross-up approach approved in Case No. 2004-00426.<sup>7</sup>

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<sup>4</sup> Response to Commission Staff's Data Request dated August 4, 2010, Item 5b, page 2 of 2.

<sup>5</sup> Case No. 2009-00548, Application of Kentucky Utilities Company for an Adjustment of Base Rates (Ky. PSC July 30, 2010).

<sup>6</sup> Response to Commission Staff's Data Request dated August 4, 2010, Item 5c, page 1 of 2.


<sup>7</sup> 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 June 20, 2005); and Response to the Commission Staff's Data Request in this proceeding dated August 4 2010, Item 6. In the response, KU determined that the income tax gross-up factor was 0.550, which would produce a tax grossed-up weighted average cost of capital of 10.86 percent.

The Commission has reviewed KU's determination of the overall rate of return on capital and finds 7.74 percent to be reasonable. The Commission has also reviewed 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 7.74 percent and the income tax gross-up factor of 0.550 should be used in all KU monthly environmental surcharge filings beginning in the second full month following the date of this Order.

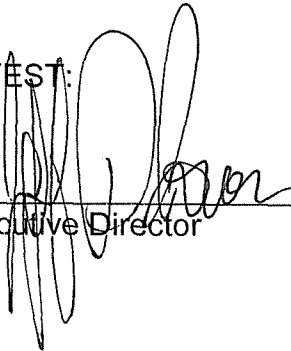
IT IS THEREFORE ORDERED that:

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 November 1, 2009 through April 30, 2010 are approved.
3. KU shall add \$577,091 to its jurisdictional environmental revenue requirement determined for one month 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 7.74 percent and a tax gross-up factor of 0.550 in all monthly environmental surcharge beginning in the second full month following the date of this Order.

By the Commission

ENTERED   
DEC 09 2010  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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Executive Director

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