



Ernie Fletcher
Governor

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Protection Cabinet

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Commonwealth of Kentucky
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Mark David Goss
Chairman

John W. Clay
Commissioner

October 24, 2006

PARTIES OF RECORD:

RE: Case No. 2006-00206
THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT A SELECTIVE CATALYTIC REDUCTION SYSTEM AND APPROVAL OF ITS 2006 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE

AND

Case No. 2006-00208
THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF ITS 2006 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum should be directed to Isaac Scott at (502) 564-3940, extension 444.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

Attachments

Honorable Elizabeth E. Blackford
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Kent W. Blake
Director State Regulations and Rates
Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

Honorable Elizabeth L. Cocanougher
Senior Corporate Attorney
Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010


Honorable Michael L. Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
2110 CBLD Building
Cincinnati, OH 45202

Honorable Kendrick R. Riggs
Attorney at Law
Stoll Keenon Ogden, PLLC
2000 PNC Plaza
500 W. Jefferson Street
Louisville, KY 40202-2828

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File – Case No. 2006-00206
Main Case File – Case No. 2006-00208

FROM: Isaac Scott, Team Leader 

DATE: October 24, 2006

SUBJECT: October 12, 2006 Informal Conference

Pursuant to the September 29, 2006 Orders in these cases, an informal conference was held on October 12, 2006. Attached to this memorandum as Attachment 1 is a list of the participants. The purpose of the conference was to discuss procedural matters and other issues in the cases.

Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) provided a handout that presented an overview of the applications and copies of the proposed tariff sheets and the monthly environmental surcharge filings. A copy of the handout is attached to this memorandum as Attachment 2, while a copy of the tariff sheets and monthly filings is attached as Attachment 3.

KU and LG&E went over the material outlined in the handout and offered to answer any questions the Intervenors or Commission Staff had. The Kentucky Industrial Utility Customers, Inc. asked several questions concerning the Trimble County Unit 2 construction and general operations. There also was a brief discussion concerning the need to control the emission of sulfur trioxides.

KU and LG&E indicated that one of their witnesses, Sharon L. Dodson, would not be available for the hearing and that Gary H. Revlett would be adopting her testimony. KU and LG&E asked if they could be notified prior to the November 8, 2006 hearing if any of their witnesses would not need to appear. Commission Staff indicated that it would try to accommodate this request. The conference was then adjourned.

Attachments

CASE NO. 2006-00206 and 2006-00208
 KENTUCKY UTILITIES COMPANY and
 LOUISVILLE GAS & ELECTRIC COMPANY
 INFORMAL CONFERENCE – October 12, 2006

NAME	WITH
<i>James Lewis</i>	<i>PSC - Financial Analysis</i>
<i>Kent Blake</i>	<i>LG:E / KU</i>
<i>Robert Corroy</i>	<i>LG+E / KU</i>
<i>Gary Revlett</i>	<i>LG+E / KU</i>
<i>Larry Cook</i>	<i>AG / ORI</i>
<i>Beih Coanougher</i>	<i>LG+E / KU</i>
<i>Bob Ehrler</i>	<i>LG+E / KU</i>
<i>Kenneth Riggs</i>	<i>SKO for LG+E / KU</i>
<i>Richard Ruff</i>	<i>PSC legal</i>
<i>Betsy Stamp</i>	<i>OAG</i>
<i>Mike Kurtz</i>	<i>KIUC</i>
<i>J. Vallin</i>	<i>PSC rates</i>

**ECR Amended Plans
Case Nos. 2006-00206 and
2006-00208**

**Kentucky Utilities Company
Louisville Gas and Electric Company
Informal Conference
October 12, 2006**

Scope of Plans

- Capital and Associated O&M Expense
- Kentucky Utilities Company
 - CCN for Ghent 2 Selective Catalytic Reduction System
 - ECR recovery for 5 additional capital projects (\$325.1 million)
- Louisville Gas & Electric Company
 - ECR recovery for 4 additional capital projects (\$65.8 million)

2006 Compliance Plans

- AQCS Portion of Trimble County 2
- Sorbent Injection (SO_3)
- Mercury Monitors
- Selective Catalytic Reduction
- Electrostatic Precipitators
- Particulate Monitors

AQCS Portion of Trimble County 2

- KU Capital Investment: \$ 185.3 million
- KU O&M Expense, variable: \$ 4.5 million
- LG&E Capital Investment: \$ 43.5 million
- LG&E Variable O&M Expense: \$ 1.1 million
- In-Service Date: 2010
- Environmental Regulations and Requirements:
 - Clean Air Act as amended (1990)
 - Clean Air Interstate Rule (2005)
 - Clean Air Mercury Rule (2005)
 - Clean Air Visibility Rule (2005)

Sorbent Injection (SO₃)

- KU Capital investment: \$ 39.6 million
- KU Annual Variable O&M: \$ 3.8 million
- LG&E Capital investment: \$ 18.7 million
- LG&E Annual Variable O&M: \$ 2.2 million
- In-service dates: 2007-2008
- Environmental Regulations and Requirements:
 - Clean Air Interstate Rule (2005)
 - General Duty Provisions, Kentucky Revised Statutes Chapter 224
 - General Compliance Requirements, Kentucky Administrative Regulations Title 401 Chapter 61, Chapter 59

Mercury Monitors

- KU Capital investment: \$3.0 million
- KU Annual Variable O&M: \$0.8 million
- LG&E Capital investment: \$2.8 million
- LG&E Annual Variable O&M: \$0.6 million
- In-service date: 2007
- Environmental Regulations and Requirements:
 - Clean Air Mercury Rule (2005)

Selective Catalytic Reduction

Ghent Unit 2

- KU Capital investment: \$ 95.0 million
- KU Annual Variable O&M: \$ 2.9 million
- In-service date: 2009
- Environmental Regulations and Requirements:
 - Clean Air Act as amended (1990)
 - Clean Air Interstate Rule (2005)

Electrostatic Precipitators

- KU Capital investment: \$ 2.2 million
- In-service date: 2008
- Environmental Regulations and Requirements:
 - General Compliance Requirements, KAR Title 401, Chapter 50:055

Particulate Monitors

- LG&E Capital investment: \$ 0.8 million
- In-service date: 2006
- Environmental Regulations and Requirements:
 - Code of Federal Regulations Part 60
 - Louisville Metro Air Pollution Control District Regulations 6.02, 6.07, 7.01, 7.06

Revisions to Surcharge

- **Base revenues**
Calculation of base revenues to exclude impact of surcredit mechanism
- **Revised forms**
Revised forms to reflect new projects and achieve consistency
- **Revised tariffs**
Revised tariffs to provided clarification and reflect proposed change in calculation of base revenues

Base Revenues

- Base revenues as shown and used include:
 - Customer, Energy and Demand charge revenue
 - Merger surcredit revenue (reduction to revenue)
 - VDT surcredit revenue (reduction to revenue)
 - STOD program cost recovery revenue
 - DSM revenue
- Proposed change will identify all components of revenue and exclude Merger and VDT surcredits from jurisdictional revenue
- Determination of ECR factor will more accurately reflect revenues to which ECR billing factor is applied
- Slight increase in jurisdictional factor due to Merger and VDT surcredits exclusion from jurisdictional revenue

Revised Forms

- Forms revised to accommodate additional projects for 2006 ECR Plan
- Other revisions to make KU and LG&E forms consistent
 - Minor Company-specific differences
 - Most are minor formatting and/or language changes
 - Form numbering is consistent between Companies
- Capital project data is provided for all Plans on one form
- Emission allowance data is expanded to include required NO_x allowance reporting
- Revenue forms reflect proposed calculation of R(m)

Revised Tariffs

- Revised tariff clarifies how the ECR factor is applied to customer bills
- Proceeds from allowance and by-product sales (BAS) are specifically mentioned (previously included in OE-operating expense)
- Base revenue is specifically defined

Procedural Schedule

✓ Initial Requests for Information to Companies	July 24, 2006
✓ Responses to Initial Requests for Information Filed	August 7, 2006
✓ Supplemental Requests for Information to Companies	August 21, 2006
✓ Responses to Supplemental Requests for Information Filed	September 7, 2006
✓ Intervenor Testimony Filed (none filed)	September 19, 2006
✓ Requests for Information to Interveners (n/a)	October 3, 2006
<hr/>	
☐ Responses to Requests for Information to Interveners Filed (n/a)	October 17, 2006
☐ Rebuttal Testimony (n/a)	October 24, 2006
☐ Public Hearing Scheduled	November 8, 2006
☐ Briefs Filed	December 5, 2006

Proposed Tariff ECR – Kentucky Utilities Company

Kentucky Utilities Company

Second Revision to Original Sheet No. 72
P.S.C. No. 13

ECR

Environmental Cost Recovery Surcharge

APPLICABLE

In all territory served.

AVAILABILITY OF SERVICE

To all electric rate schedules.

RATE

The monthly billing amount under each of the schedules to which this mechanism is applicable, including the fuel adjustment clause, demand-side management cost recovery mechanism and STOD program cost recovery factor, shall be increased or decreased by a percentage factor calculated in accordance with the following formula.

CESF = E(m) / R(m) MESF = CESF - BESF

MESF = Monthly Environmental Surcharge Factor
CESF = Current Environmental Surcharge Factor
BESF = Base Environmental Surcharge Factor

Where E(m) is the jurisdictional total of each approved environmental compliance plan revenue requirement of environmental compliance costs for the current expense month and R(m) is the revenue for the current expense month as set forth below.

DEFINITIONS

- 1) For all Plans, E(m) = [(RB/12) (ROR + (ROR - DR) (TR / (1 - TR)))] + OE - BAS
Where:
a) RB is the Total Environmental Compliance Rate Base.
b) ROR is the Rate of Return in Environmental Compliance Rate Base, designated as the overall all rate of return [cost of short term debt, long term debt, preferred stock, and common equity]
c) DR is the Debt Rate [cost of short term debt, and long term debt]
d) TR is the Composite Federal and State Income Tax Rate.
e) OE is the Operating Expenses [Depreciation and Amortization Expense, Property Taxes, Emission Allowance Expense and O&M expense adjusted for the Average Month Expense already included in existing rates]. Includes operation and maintenance expense recovery authorized by the K.P.S.C. in Case Nos. 2000-439, 2002-146, 2004-00426 and 2006-00206.
f) BAS is the total proceeds from by-product and allowance sales.
2) Total E(m) (sum of each approved environmental compliance plan revenue requirement) is multiplied by the Jurisdictional Allocation Factor to arrive at Net Jurisdictional E(m)
3) The revenue R(m) is the average monthly base revenue for the Company for the 12 months ending with the current expense month. Base revenue includes the customer, energy and demand charge for each rate schedule to which this mechanism is applicable and automatic adjustment clause revenues for the Fuel Adjustment Clause, the Demand-Side Management Cost Recovery Mechanism and STOD Program Cost Recovery Factor as applicable for each rate schedule.
4) Current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.

Date of Issue: June 23, 2006 Date Effective: With Bills Rendered
Canceling First Revision to Original Sheet No. 72 On and After February 1, 2007
Issued June 28, 2005 Issued By
John R. McCall, General Counsel and Secretary
Louisville, Kentucky
Issued by Authority of an Order of the KPSC in Case No. 2006-00206 dated

**Proposed ECR Monthly Filing Forms – Kentucky Utilities
Company**

ES FORM 1.00

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**Calculation of Monthly Billed Environmental Surcharge Factor - MESF
For the Expense Month of**

$$\text{MESF} = \text{CESF} - \text{BESF}$$

Where:

CESF = Current Period Jurisdictional Environmental Surcharge Factor

BESF = Base Period Jurisdictional Environmental Surcharge Factor

Calculation of MESF:

CESF, from ES Form 1.10	=	
BESF, from Case No.	=	
MESF	=	

Effective Date for Billing:

Submitted by: _____

Title: Manager, Rates

Date Submitted: _____

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**Calculation of Total E(m) and
Jurisdictional Surcharge Billing Factor**

For the Expense Month of

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR + (ROR - DR)(TR / (1 - TR)))] + OE - BAS$, where
 RB = Environmental Compliance Rate Base
 ROR = Rate of Return on the Environmental Compliance Rate Base
 DR = Debt Rate (both short-term and long-term debt)
 TR = Composite Federal & State Income Tax Rate
 OE = Pollution Control Operating Expenses
 BAS = Total Proceeds from By-Product and Allowance Sales

	Environmental Compliance Plans
RB	=
RB / 12	=
$(ROR + (ROR - DR) (TR / (1 - TR)))$	=
OE	=
BAS	=
E(m)	=

Calculation of Jurisdictional Environmental Surcharge Billing Factor

Jurisdictional Allocation Ratio for Expense Month	=	
Jurisdictional E(m) = E(m) x Jurisdictional Allocation Ratio	=	
Adjustment for Monthly True-up (from Form 2.00)	=	
Recovery of OMU NOx Expenditures (Case No. 2003-00434-Settlement Agreement, Section 3.19, pg. 13)	=	83,333
Prior Period Adjustment (if necessary)	=	
Net Jurisdictional E(m) = Jurisdictional E(m) minus Adjustment for Monthly True-up plus/minus Prior Period Adjustment	=	
Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month	=	
Jurisdictional Environmental Surcharge Billing Factor:		
Net Jurisdictional E(m) / Jurisdictional R(m) ; as a % of Revenue	=	

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Revenue Requirements of Environmental Compliance Costs
For the Expense Month of

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant		
Eligible Pollution CWIP Excluding AFUDC		
Subtotal		
Additions:		
Inventory - Limestone		
Less: Limestone Inventory in base rates		
Inventory - Emission Allowances per ES Form 2.31, 2.32 and 2.33		
Less: Allowance Inventory Baseline	69,415	
Net Emission Allowance Inventory		
Cash Working Capital Allowance		
Subtotal		
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant		
Pollution Control Deferred Income Taxes		
Subtotal		
Environmental Compliance Rate Base		

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	
Monthly Depreciation & Amortization Expense	
Monthly Taxes Other Than Income Taxes	
Monthly Insurance Expense	
Monthly Emission Allowance Expense from ES Form 2.31, 2.32 and 2.33	
Less Monthly Emission Allowance Expense in base rates (1/12 of \$58,345.76)	4,862
Net Recoverable Emission Allowance Expense	
Monthly Surcharge Consultant Fee	
Total Pollution Control Operations Expense	

Proceeds From By-Product and Allowance Sales

	Total Proceeds
Allowance Sales	
Scrubber By-Products Sales	
Total Proceeds from Sales	

True-up Adjustment: Over/Under Recovery of Monthly Surcharge Due to Timing Differences

A. MESF for two months prior to Expense Month	
B. Net Jurisdictional E(m) for two months prior to Expense Month	
C. Environmental Surcharge Revenue, current month (from ES Form 3.00)	
D. Retail E(m) recovered through base rates (Base Revenues, ES Form 3.00 times xx%)	
E. Over/(Under) Recovery due to Timing Differences ((D + C) - B)	
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m)	

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Plant, CWIP & Depreciation Expense

For the Month Ended:

(1) Description	(2) Eligible Plant In Service	(3) Eligible Accumulated Depreciation	(4) CWIP Amount Excluding AFUDC	(5) Eligible Net Plant In Service $(2)-(3)-(4)$	(6) Deferred Tax Balance as of xx/dd/yyyy	(7) Monthly Depreciation Expense	(8) Monthly Property Tax Expense
2001 Plan:							
Project 16 - KU Nox modifications							
Project 17 - KU Nox SCR's							
Subtotal							
Less Retirements and Replacement resulting from implementation of 2001 Plan							
Net Total - 2001 Plan:							
2003 Plan:							
Project 18 - Ghent Ash Pond Dike Elevation							
Subtotal							
Less Retirements and Replacement resulting from implementation of 2003 Plan							
Net Total - 2003 Plan:							
2005 Plan:							
Project 19 - Ash Handling at Ghent 1 and Ghent Station							
Project 20 - Ash Treatment Basin Expansion at E.W. Brown Station							
Project 21 - FGD's at all E.W. Brown Units and at Ghent 2, 3, and 4							
Subtotal							
Less Retirements and Replacement resulting from implementation of 2005 Plan							
Net Total - 2005 Plan:							

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT

Plant, CWIP & Depreciation Expense

For the Month Ended:

(1) Description	(2) Eligible Plant In Service	(3) Eligible Accumulated Depreciation	(4) CWIP Amount Excluding AFUDC	(5) Eligible Net Plant In Service	(6) Deferred Tax Balance as of xx/dd/yyyy	(7) Monthly Depreciation Expense	(8) Monthly Property Tax Expense
2006 Plan:				(2)-(3)-(4)			
Project 23 - TC2 AQCS Equipment							
Project 24 - Sorbent Injection							
Project 25 - Mercury Monitors							
Project 26 - Ghent 2 SCR							
Project 27 - E.W. Brown Electrostatic Precipitators							
Subtotal							
Less Retirements and Replacement resulting from implementation of 2006 Plan							
Net Total - 2006 Plan:							
Net Total - All Plans:							

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances

For the Month Ended:

Vintage Year	Number of Allowances			Total Dollar Value Of Vintage Year			Comments and Explanations
	SO ₂	NOx Annual	NOx Ozone Season	SO ₂	NOx Annual	NOx Ozone Season	
Current Year							
2007							
2008							
2009							
2010							
2011							
2012							
2013							
2014							
2015							
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026 - 2034							

In the "Comments and Explanation" Column, describe any allowance inventory adjustment other than the assignment of allowances by EPA. Inventory adjustments include, but are not limited to, purchases, allowances acquired as part of other purchases, and the sale of allowances.

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances (SO₂) - Current Vintage Year

For the Expense Month of

	Beginning Inventory	Allocations/Purchases	Utilized (Coal Fuel)	Utilized (Other Fuels)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS							
Quantity							
Dollars							
\$/Allowance							
ALLOCATED ALLOWANCES FROM EPA: COAL FUEL							
Quantity							
Dollars							
ALLOCATED ALLOWANCES FROM EPA: OTHER FUELS							
Quantity							
Dollars							
ALLOWANCES FROM PURCHASES:							
From Market:							
Quantity							
Dollars							
\$/Allowance							
From LG&E							
Quantity							
Dollars							
\$/Allowance							

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances (NOx) - Ozone Season Allowance Allocation

For the Expense Month of

	Beginning Inventory	Allocations/ Purchases	Utilized (Coal Fuel)	Utilized (Other Fuels)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS							
Quantity							
Dollars							
\$/Allowance							
ALLOCATED ALLOWANCES FROM EPA: COAL FUEL							
Quantity							
Dollars							
ALLOCATED ALLOWANCES FROM EPA: OTHER FUELS							
Quantity							
Dollars							
ALLOWANCES FROM PURCHASES:							
From Market:							
Quantity							
Dollars							
\$/Allowance							
From LG&E:							
Quantity							
Dollars							
\$/Allowance							

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor.

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances (NOx) - Annual Allowance Allocation

For the Expense Month of

	Beginning Inventory	Allocations/Purchases	Utilized (Coal Fuel)	Utilized (Other Fuels)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS							
Quantity							
Dollars							
\$/Allowance							
ALLOCATED ALLOWANCES FROM EPA: COAL FUEL							
Quantity							
Dollars							
ALLOCATED ALLOWANCES FROM EPA: OTHER FUELS							
Quantity							
Dollars							
ALLOWANCES FROM PURCHASES:							
From Market:							
Quantity							
Dollars							
\$/Allowance							
From LG&E:							
Quantity							
Dollars							
\$/Allowance							

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor.

ES FORM 2.40

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

For the Month Ended:

Environmental Compliance Plan	
O&M Expenses	Amount
11th Previous Month	
10th Previous Month	
9th Previous Month	
8th Previous Month	
7th Previous Month	
6th Previous Month	
5th Previous Month	
4th Previous Month	
3rd Previous Month	
2nd Previous Month	
Previous Month	
Current Month	
Total 12 Month O&M	

Determination of Working Capital Allowance	
12 Months O&M Expenses	
One Eighth (1/8) of 12 Month O&M Expenses	1/8
Pollution Control Cash Working Capital Allowance	

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT

Pollution Control - Operations & Maintenance Expenses
For the Month Ended:

O&M Expense Account	E. W. Brown	Ghent	Green River	Trimble County Unit 2	Tyrone	Total
2001 Plan						
506104 - NOx Operation -- Consumables						
506105 - NOx Operation -- Labor and Other						
512101 - NOx Maintenance						
Total 2001 Plan O&M Expenses						
2005 Plan						
502006 - Scrubber Operations						
512005 - Scrubber Maintenance						
Total 2005 Plan O&M Expenses						
2006 Plan						
502006 - Scrubber Operations						
512005 - Scrubber Maintenance						
506001 - Precipitator Operation						
512011 - Precipitator Maintenance						
501251 - Ash Handling Operation						
512017 - Ash Handling Maintenance						
506104 - NOx Operation -- Consumables						
506105 - NOx Operation -- Labor and Other						
512101 - NOx Maintenance						
506109 - Sorbent Injection Operation						
512102 - Sorbent Injection Maintenance						
506110 - Mercury Monitors Operation						
512103 - Mercury Monitors Maintenance						
Total 2006 Plan O&M Expenses						
Current Month O&M Expense for All Plans						

ES FORM 3.10

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Reconciliation of Reported Revenues

For the Month Ended:

	Revenues per ES Form 3.00	Revenues per Income Statement
Kentucky Retail Revenues		
Base Rates (Customer Charge, Energy Charge, Demand Charge)		
Fuel Adjustment Clause		
DSM		
STOD Program Cost Recovery Factor		
Environmental Surcharge		
CSR Credits		
Total Kentucky Jurisdictional Revenues for Environmental Surcharge Purposes =		
Non -Jurisdictional Revenues		
Tennessee Retail		
Virginia Retail		
Wholesale		
InterSystem (Total Less Transmission Portion Booked in Account 447)		
Total Non-Jurisdictional Revenues for Environmental Surcharge Purposes =		
Total Company Revenues for Environmental Surcharge Purposes =		
Reconciling Revenues		
Brokered		
InterSystem (Transmission Portion Booked in Account 447)		
Unbilled		
Provision for Refund		
Merger Surcredit		
Merger Surcredit - Non Jurisdictional		
Value Delivery Surcredit		
Miscellaneous		
Total Company Revenues per Income Statement =		

Proposed Tariff ECR – Louisville Gas and Electric Company

Louisville Gas and Electric Company

Second Revision to Original Sheet No. 72
P.S.C. of Ky. Electric No. 6

ECR	
Environmental Cost Recovery Surcharge	
APPLICABLE	
In all territory served.	
AVAILABILITY OF SERVICE	
To all electric rate schedules	
RATE	
The monthly billing amount under each of the schedules to which this mechanism is applicable, including the fuel adjustment clause, demand-side management cost recovery mechanism and STOD program cost recovery factor, shall be increased or decreased by a percentage factor calculated in accordance with the following formula.	T T
$CESF = E(m) / R(m)$	$MESF = CESF - BESF$
MESF = Monthly Environmental Surcharge Factor CESF = Current Environmental Surcharge Factor BESF = Base Environmental Surcharge Factor	
Where E(m) is the jurisdictional total of each approved environmental compliance plan revenue requirement of environmental compliance costs for the current expense month and R(m) is the revenue for the current expense month as set forth below.	
DEFINITIONS	
1) For all Plans, $E(m) = [(RB/12) (ROR + (ROR - DR) (TR / (1 - TR)))] + OE - BAS$	T
Where:	T
a) RB is the Total Environmental Compliance Rate Base.	T
b) ROR is the Rate of Return on Environmental Compliance Rate Base, designated as the overall all rate of return [cost of short-term debt, long-term debt, preferred stock, and common equity].	T
c) DR is the Debt Rate [cost of short-term debt, and long-term debt].	T
d) TR is the Composite Federal and State Income Tax Rate.	T
e) OE is the Operating Expenses [Depreciation and Amortization Expense, Property Taxes, Insurance Expense; adjusted for the Average Month Expense already included in existing rates]. Includes operation and maintenance expense recovery authorized by the K.P.S.C. in Case Nos. 2000-386, 2002-147, 2004-00421 and 2006-00208.	T
f) BAS is the total proceeds from by-product and allowance sales	T
2) Total E(m) (sum of each approved environmental compliance plan revenue requirement) is multiplied by the Jurisdictional Allocation Factor to arrive at the Net Jurisdictional E(m).	
3) The revenue R(m) is the average monthly base revenue for the Company for the 12 months ending with the current expense month. Base revenue includes the customer, energy and demand charge for each schedule to which this mechanism is applicable and automatic adjustment clause revenues for the Fuel Adjustment Clause, the Demand-Side Management Cost Recovery Mechanism and STOD Program Cost Recovery Factor as applicable for each rate schedule.	T T T T T T
4) Current expense month (m) shall be the second month preceding the month in which the Environmental Surcharge is billed.	

Date of Issue: June 23, 2006
Canceling First Revision to
Original Sheet No. 72
Issued June 28, 2005

Issued By

Effective: With Bills Rendered
On and After
February 1, 2007

John R. McCall, Executive Vice President
General Counsel and Secretary
Louisville, Kentucky

Issued by Authority of an Order of the KPSC in Case No. 2006-00208 dated

**Proposed Monthly ECR Filing Forms – Louisville Gas and
Electric Company**

ES FORM 1.00

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Calculation of Monthly Billed Environmental Surcharge Factor - MESF

For the Expense Month of

$$\text{MESF} = \text{CESF} - \text{BESF}$$

Where:

- CESF = Current Period Jurisdictional Environmental Surcharge Factor
- BESF = Base Period Jurisdictional Environmental Surcharge Factor

Calculation of MESF:

- CESF, from ES Form 1.10 =
- BESF, from Case No. =

- MESF =

Effective Date for Billing:

Submitted by: _____

Title: Manager, Rates

Date Submitted: _____

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**Calculation of Total E(m) and
Jurisdictional Surcharge Billing Factor**

For the Expense Month of

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR + (ROR - DR)(TR / (1 - TR)))] + OE - BAS$, where
 RB = Environmental Compliance Rate Base
 ROR = Rate of Return on the Environmental Compliance Rate Base
 DR = Debt Rate (both short-term and long-term debt)
 TR = Composite Federal & State Income Tax Rate
 OE = Pollution Control Operating Expenses
 BAS = Total Proceeds from By-Product and Allowance Sales

	Environmental Compliance Plans
RB	=
RB / 12	=
$(ROR + (ROR - DR) (TR / (1 - TR)))$	=
OE	=
BAS	=
E(m)	=

Calculation of Jurisdictional Environmental Surcharge Billing Factor

Jurisdictional Allocation Ratio for Expense Month	=
Jurisdictional E(m) = E(m) x Jurisdictional Allocation Ratio	=
Adjustment for Monthly True-up (from Form 2.00)	=
Prior Period Adjustment (if necessary)	=
Net Jurisdictional E(m) = Jurisdictional E(m) minus Adjustment for Monthly True-up plus/minus Prior Period Adjustment	=
Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month	=
Jurisdictional Environmental Surcharge Billing Factor: Net Jurisdictional E(m) / Jurisdictional R(m) ; as a % of Revenue	=

ES FORM 2.00

LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Revenue Requirements of Environmental Compliance Costs
For the Expense Month of

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant		
Eligible Pollution CWIP Excluding AFUDC		
Inventory-Emission Allowances per ES Form 2.31, 2.32 and 2.33		
Cash Working Capital Allowance		
Deferred Debit Balance-Mill Creek Ash Dredging		
Subtotal		
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant		
Pollution Control Deferred Income Taxes		
Subtotal		
Environmental Compliance Rate Base		

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	
Monthly Depreciation & Amortization Expense	
Monthly Property & Other Applicable Taxes	
Monthly Insurance Expense	
Monthly Emission Allowance Expense from ES Form 2.31, 2.32 and 2.33	
Monthly Permitting Fees	
Amortization of Mill Creek Ash Dredging	
Less : Operating Expenses Associated with Retirements or Replacements Occuring Since Last Roll-In of Surcharge into Existing Rates	
Total Pollution Control Operations Expense	

Proceeds From By-Product and Allowance Sales

	Total Proceeds
Allowance Sales	
Scrubber By-Products Sales	
Total Proceeds from Sales	

True-up Adjustment: Over/Under Recovery of Monthly Surcharge Due to Timing Differences

A. MESF for two months prior to Expense Month	
B. Net Jurisdictional E(m) for two months prior to Expense Month	
C. Environmental Surcharge Revenue, current month (from ES Form 3.00)	
D. Retail E(m) recovered through base rates (Base Revenues, ES Form 3.00 times xx %)	
E. Over/(Under) Recovery due to Timing Differences ((D +C) - B)	
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m)	

LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Plant, CWIP & Depreciation Expense

For the Month Ended:

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Eligible Plant In Service	Eligible Accumulated Depreciation	CWIP Amount Excluding AFUDC	Eligible Net Plant In Service (2)-(3)+(4)	Deferred Tax Balance as of xx/xx/yyyy	Monthly Depreciation Expense	Monthly Property Tax Expense
2001 Plan:							
Project 6 - LGE NOx							
Subtotal							
Less Retirements and Replacement resulting from implementation of 2001 Plan							
Net Total - 2001 Plan:							
2003 Plan:							
Project 7 - Mill Creek FGD Scrubber Conversion							
Project 8 - Precipitator Upgrades - All Plants							
Project 9 - Cleanwell Water System - Mill Creek							
Project 10 - SO ₂ Absorber Trays - Mill Creek 3 & 4							
Subtotal							
Less Retirements and Replacement resulting from implementation of 2003 Plan							
Net Total - 2003 Plan:							

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**
Plant, CWIP & Depreciation Expense

For the Month Ended:

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Eligible Plant In Service	Eligible Accumulated Depreciation	CWIP Amount Excluding AFUDC	Eligible Net Plant In Service $(2)-(3)-(4)$	Deferred Tax Balance as of xx/xx/xxxx	Monthly Depreciation Expense	Monthly Property Tax Expense
2005 Plan: Project 11 - Special Waste Landfill Expansion at Mill Creek Project 12 - Special Waste Landfill Expansion at Cane Run Station Project 13 - Scrubber Refurbishment at Trimble County Unit 1 Project 14 - Scrubber Refurbishment at Cane Run Unit 6 Project 15 - Scrubber Refurbishment at Cane Run Unit 5 Project 16 - Scrubber Improvements at Trimble County Unit 1 Subtotal Less Retirements and Replacement resulting from implementation of 2005 Plan Net Total - 2005 Plan:							
2006 Plan: Project 18 - TC2 AQCS Equipment Project 19 - Sorbent Injection Project 20 - Mercury Monitors Project 21 - Mill Creek Opacity and Particulate Monitors Subtotal Less Retirements and Replacement resulting from implementation of 2006 Plan Net Total - 2006 Plan:							
Net Total - All Plans:							

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances

For the Month Ended:

Vintage Year	Number of Allowances			Total Dollar Value Of Vintage Year			Comments and Explanations
	SO ₂	NOx Annual	NOx Ozone Season	SO ₂	NOx Annual	NOx Ozone Season	
Current Year							
2007							
2008							
2009							
2010							
2011							
2012							
2013							
2014							
2015							
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026 - 2034							

In the "Comments and Explanation" Column, describe any allowance inventory adjustment other than the assignment of allowances by EPA. Inventory adjustments include, but are not limited to, purchases, allowances acquired as part of other purchases, and the sale of allowances.

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
 Inventory of Emission Allowances (SO₂) - Current Vintage Year

For the Expense Month of

	Beginning Inventory	Allocations/ Purchases	Utilized (Coal Fuel)	Utilized (Other Fuels)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS							
Quantity							
Dollars							
\$/Allowance							
ALLOCATED ALLOWANCES FROM EPA: COAL FUEL							
Quantity							
Dollars							
ALLOCATED ALLOWANCES FROM EPA: OTHER FUELS							
Quantity							
Dollars							
ALLOWANCES FROM PURCHASES:							
From Market:							
Quantity							
Dollars							
\$/Allowance							
From KU:							
Quantity							
Dollars							
\$/Allowance							

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor.

Emission allowance inventory balance is due to the return of emission allowances from IMPA, received at current market value. Per the Commission's Order in Case No. 95-060, "An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company As Billed from August 1, 1994 to January 31, 1995," "...nor does returning the allowance in kind constitute a purchase." (Order at 5.) The Company concluded from this Order that allowance inventory and expense resulting from the return of allowances in kind is not recoverable through the ECR.

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
 Inventory of Emission Allowances (NOx) - Ozone Season Allowance Allocation

For the Expense Month of

	Beginning Inventory	Allocations/Purchases	Utilized (Coal Fuel)	Utilized (Other Fuels)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS							
Quantity							
Dollars							
\$/Allowance							
ALLOCATED ALLOWANCES FROM EPA: COAL FUEL							
Quantity							
Dollars							
ALLOCATED ALLOWANCES FROM EPA: OTHER FUELS							
Quantity							
Dollars							
ALLOWANCES FROM PURCHASES:							
From Market:							
Quantity							
Dollars							
\$/Allowance							
From KU:							
Quantity							
Dollars							
\$/Allowance							

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor.

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
 Inventory of Emission Allowances (NOx) - Annual Allowance Allocation

For the Expense Month of

	Beginning Inventory	Allocations/Purchases	Utilized (Coal Fuel)	Utilized (Other Fuels)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS							
Quantity							
Dollars							
\$/Allowance							
ALLOCATED ALLOWANCES FROM EPA: COAL FUEL							
Quantity							
Dollars							
ALLOCATED ALLOWANCES FROM EPA: OTHER FUELS							
Quantity							
Dollars							
ALLOWANCES FROM PURCHASES:							
From Market:							
Quantity							
Dollars							
\$/Allowance							
From KU:							
Quantity							
Dollars							
\$/Allowance							

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor.

ES FORM 2.40

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
O&M Expenses and Determination of Cash Working Capital Allowance

For the Month Ended:

Environmental Compliance Plan	
O&M Expenses	Amount
11th Previous Month	
10th Previous Month	
9th Previous Month	
8th Previous Month	
7th Previous Month	
6th Previous Month	
5th Previous Month	
4th Previous Month	
3rd Previous Month	
2nd Previous Month	
Previous Month	
Current Month	
Total 12 Month O&M	

Determination of Working Capital Allowance	
12 Months O&M Expenses	
One Eighth (1/8) of 12 Month O&M Expenses	1/8
Pollution Control Cash Working Capital Allowance	

**LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses
For the Month Ended:

O&M Expense Account	Cane Run	Mill Creek	Trimble County	Total
2001 Plan				
506104 - NOx Operation -- Consumables				
506105 - NOx Operation -- Labor and Other				
512101 - NOx Maintenance				
Total 2001 Plan O&M Expenses				
2005 Plan				
502006 - Scrubber Operations				
512005 - Scrubber Maintenance				
Ashpond Dredging Expense				
Total 2005 Plan O&M Expenses				
2006 Plan				
502006 - Scrubber Operations				
512005 - Scrubber Maintenance				
506104 - NOx Operation -- Consumables				
506105 - NOx Operation -- Labor and Other				
512101 - NOx Maintenance				
506001 - Precipitator Operation				
512011 - Precipitator Maintenance				
501251 - Ash Handling Operation				
512017 - Ash Handling Maintenance				
506109 - Sorbent Injection Operation				
512102 - Sorbent Injection Maintenance				
506110 - Mercury Monitors Operation				
512103 - Mercury Monitors Maintenance				
Total 2006 Plan O&M Expenses				
Current Month O&M Expense for All Plans				

ES FORM 3.10

**LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Reconciliation of Reported Revenues

For the Month Ended:

	Revenues per ES Form 3.00	Revenues per Income Statement
Kentucky Retail Revenues		
Base Rates (Customer Charge, Energy Charge, Demand Charge)		
Fuel Adjustment Clause		
DSM		
STOD Program Cost Recovery Factor		
Environmental Surcharge		
Total Kentucky Retail Revenues for Environmental Surcharge Purposes =		
Non -Jurisdictional Revenues		
InterSystem (Total Less Transmission Portion Booked in Account 447)		
Total Non-Jurisdictional Revenues for Environmental Surcharge Purposes =		
Total Company Revenues for Environmental Surcharge Purposes =		
Reconciling Revenues		
Brokered		
InterSystem (Transmission Portion Booked in Account 447)		
Unbilled		
Rate Refunds		
Merger Surcredit		
Value Delivery Surcredit		
Miscellaneous		
Total Company Revenues per Income Statement =		