



Ernie Fletcher  
Governor

Teresa J. Hill, Secretary  
Environmental and Public  
Protection Cabinet

Timothy J. LeDonne  
Commissioner  
Department of Public Protection

Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

Mark David Goss  
Chairman

John W. Clay  
Vice Chairman

Caroline Pitt Clark  
Commissioner

October 29, 2007

**PARTIES OF RECORD:**

RE: Case No. 2007-00379

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH BILLING PERIOD ENDING OCTOBER 31, 2006 AND FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2007

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

Paul D. Adams  
Office of the Attorney General  
Utility & Rate Intervention Division  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204

Lonnie E. Bellar  
Vice President - State Regulation and  
Kentucky Utilities Company  
220 West Main Street  
P. O. Box 32010  
Louisville, KY 40202

Honorable Michael L. Kurtz  
Attorney at Law  
*Boehm, Kurtz & Lowry*  
36 East Seventh Street  
Suite 1510  
Cincinnati, OH 45202

**INTRA-AGENCY MEMORANDUM**  
**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Main Case File – Case No. 2007-00379  
**FROM:** Isaac Scott, Team Leader   
**DATE:** October 29, 2007  
**SUBJECT:** October 24, 2007 Informal Conference

Pursuant to the Commission's September 19, 2007 Order, an informal conference was held on October 24, 2007. Attached to this memorandum as Attachment 1 is a list of the participants. The purpose of the conference was to discuss Kentucky Utilities Company's ("KU") October 17, 2007 filing which consisted of testimony and responses to the Staff's First Data Request.

KU distributed a handout that provided an overview of its testimony and responses. A copy of the handout is attached to this memorandum as Attachment 2. KU briefly discussed the information contained in the handout, including the determination that there was an under-collection of the surcharge for the review periods. KU also discussed the proposed "roll-in" of surcharge amounts into its base rates.

Commission Staff asked a few clarifying questions related to information included in the handout. Commission Staff suggested to KU and the Attorney General that if the case could be submitted on the record without a hearing, the parties could submit a motion to that effect for the Commission's consideration.

There being nothing further to discuss, the conference was adjourned.

Attachments

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 )  
UTILITIES COMPANY FOR THE SIX-MONTH )  
BILLING PERIOD ENDING OCTOBER 31, 2006 )  
AND FOR THE TWO-YEAR BILLING PERIOD )  
ENDING APRIL 30, 2007 )

CASE NO. 2007-00379

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**October 24, 2007 Informal Conference**

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Please sign in:

**NAME**

**REPRESENTING**

RICHARD RAFF

PSC - LEGAL

Martin E. Hall

PSC

Dennis Howard

AG By Phone

Kendrick Riggs

SKO for LGPE KU

Allyson Sturgeon

Counsel for LGPE KU

MICHAEL HORNUNG

KU

Lonnie Bellar

KU

VALERIE SCOTT

KU

ROBERT CONROY

KU

Dawn McGee

PSC - Financial Analysis

Ron Handziak

PSC - " "

ISAAC SCOTT

PSC - " "

Dennis Howard

AG - by phone

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**ECR Review  
Case Nos. 2007-00379  
and 2007-00380**

**Kentucky Utilities Company  
Louisville Gas and Electric Company  
October 24, 2007**

# **Scope of Review Cases**

- Six-month Review Period
  - Expense months of March 2006 through October 2006
- Two-year Review Period
  - Six-month period for expense month of November 2006 through February 2007
  - Two-year period for expense months of March 2005 through February 2007
- Include a “roll-in” of ECR costs and revenues for the period ending February 2007

# Operation of the ECR -- KU

- Under-collection of \$1,699,755 determined by:
  - Updating overall rate of return for the Post-1994 Plan (overall rate of return including return on equity)
  - Incorporated revisions from monthly filings made after the corresponding expense month
  - One adjustment during review that was not incorporated into prior expense month filings related to the calculation of Cash Working Capital in the December 2006 through the February 2007 monthly filings discussed in Response to Questions No1 (b) and No. 8 in this review case

# Operation of the ECR -- LG&E

- Under-collection of \$839,948 determined by:
  - Updating overall rate of return for the Post-1995 Plan (overall rate of return including return on equity)
  - Incorporated revisions from monthly filings made after the corresponding expense month
  - Incorporates revisions to prior 6-month review periods, as noted in Response to Question Nos. 1(b) and 2 of this review case
    - Incorporated impact on accumulated deferred income taxes of the Company's election, under the provisions of the 2005 Energy Policy Act, to take rapid amortization on certain pollution control facilities reflected in the January 2007 expense monthly filing
    - Correction to the weighted cost of capital calculation for April 2006 presented in Case No. 2006-00130
  - Adjusted O&M expenses for expense months March 2006 through December 2006 to eliminate the monthly exclusion per the Commission's September 4, 2003 Order in Case No. 2002-00147 as approved in ordering paragraph 6 of the January 31, 2007 Order in Case No. 2006-00130



# Rate of Return Going Forward

- Propose continued use of a 10.50% return on equity
  - Consistent with the Commission’s recent orders in Case Nos. 2006-00129 and 2006-00130 (issue January 31, 2007) and Case Nos. 2006-00206 and 2006-00208 (issued December 21, 2006)
  - Consistent with recent authorized returns by commissions across the country from RRA publication through third quarter 2007
- The overall rate of return established based on Capitalization for the month ending February 2007
  - 11.14% for LG&E
  - 11.42% for KU

# ECR Roll-In

- Roll-in of ECR costs and revenues into base rates based on February 2007 ECR rate base and 12-months operating expenses
  - KU proposes to roll in \$23,680,507
  - LG&E proposes to roll in \$2,641,636
- Roll-in is designed to have no impact on customer's overall bills
- Base Environmental Surcharge Factor (BESF), representing the amount rolled into base rates, will be determined using the most recent 12-month revenues following the Commission's order in these proceedings
  - Based on 12-month revenue September 2007,
    - KU's BESF would be 5.98%
    - LG&E's BESF would be 3.77%

# Roll-in Methods

- The Companies intend to follow past practice and roll in based on base-rate revenues, as an equal percentage increase to all tariffs
- The roll-in will be applied to the base rate components as approved in Case Nos. 2006-00129 and 2006-00130
  - Energy portion for rate schedules with no separate demand charges
  - Demand portion for all rates including a separate metered and billed demand component
  - Lighting rates continue to be on a per-light basis.

# KU Propose ES Form 2.01

- Recovery of the cost of limestone through the ECR was established with the approval of ECR Project No. 21 in Case No. 2004-00421.
- Beginning in June 2007, KU began storing and using limestone with operation of the Ghent Unit 3 FGD.
- Currently no approved form to communicate supporting information for limestone recovery included on ES Form 2.00
- KU has been supplying an attachment to ES Form 2.00 in the monthly filings
- Requesting formal approval for ES Form 2.01 to be part of the monthly ECR filings.

# Monthly Filing Procedures

- Proactively reviewing monthly filings prior to 6-month and 2-year reviews to ensure filings are correct and to make corrections as close to detection as possible instead of waiting for review
- ECR Process Document updated as needed
- Internal Controls established to ensure accuracy and completeness of the monthly filings

# Recommendations

- Kentucky Utilities Company
  - Approve collection of \$1,699,755 over four month period following the Commission’s Order
  - Find environmental surcharge amount for the billing period ending April 2007 just and reasonable
  - Approve roll-in amount of \$23,680,507
  - Reset BESF using most recent 12-month period available following the Commission’s Order
  - Establish an overall rate of return of 11.42%, inclusive of the currently approved 10.50% return on equity
  - Approve KU’s proposed ES Form 2.01

# Recommendations

- Louisville Gas and Electric Company
  - Approve collection of \$839,948 over four month period following the Commission’s Order
  - Find environmental surcharge amount for the billing period ending April 2007 just and reasonable
  - Approve roll-in amount of \$2,641,636
  - Reset BESF using most recent 12-month period available following the Commission’s Order
  - Establish an overall rate of return of 11.14%, inclusive of the currently approved 10.50% return on equity