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Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

October 3, 2011

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2011-00231
Case No. 2011-00232

Enclosed please find a memorandum that has been filed in the record of the above-referenced cases. Any comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Any questions regarding this memorandum should be directed to Ron Handziak of the Commission Staff at 502-564-3940, extension 230.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Detouen".

Jeff Detouen
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2011-00231
Main Case File - Case No. 2011-00232

FROM: Ronald Handziak, Team Leader *RH*

DATE: October 3, 2011

RE: Informal Conference of September 28, 2011

Pursuant to the Commission's August 9, 2011 Order, on September 28, 2011, representatives of Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU") (collectively the "Companies") and Commission Staff ("Staff") met at the Commission's offices to discuss LG&E and KU's testimony and responses to the first round of data requests in the current examination of the companies' environmental surcharge mechanism. A list of attendees is attached to this memorandum as Attachment 1.

Representatives of the Companies distributed a handout that provided an overview of their filing and their responses to information requested in Appendix B of the Commission's, August 9, 2011 Order. The handout is attached to this memorandum as Attachment 2. The Companies discussed the information contained in the handout, including the determination that there was an over-recovery of the environmental surcharge for the billing period under review for KU, while LG&E experienced an under-recovery, and the proposed "roll-in" of environmental surcharge amounts into base rates

Commission Staff asked a few clarifying questions related to information included in the handout and the responses to the data request. The Companies agreed to provide various schedules and work papers in response to Staff questions about information contained in their testimony and responses to the data requests. The information is to be provided by October 7, 2011.

There being no other questions, the meeting adjourned.

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL) CASE NO.
SURCHARGE MECHANISM OF KENTUCKY) 2011-00231
UTILITIES COMPANY FOR THE TWO-YEAR)
BILLING PERIOD ENDING APRIL 30, 2011)

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL) CASE NO.
SURCHARGE MECHANISM OF LOUISVILLE) 2011-00232
GAS & ELECTRIC COMPANY FOR THE TWO-
YEAR BILLING PERIOD ENDING APRIL 30,
2011

September 28, 2011

Please sign in:

NAME

REPRESENTING

Allyson Sturgeon

LG+E/KU

Pat M. Coz

LG+E/KU

Shannon Charnas

UG+E/KU

Errol K. Wogren

STAFF

Ron Narebyak

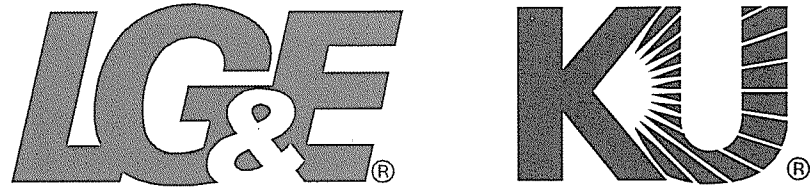
PSC-FA

Janet P. Powell

PSC-legal

Steven Bailey

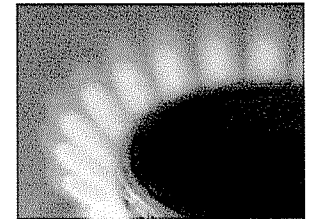
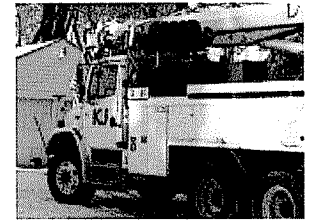
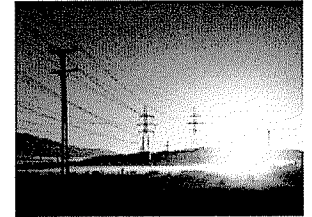
PSC-legal



PPL companies

ECR Review Case Nos. 2011-00231 and 2011-00232

September 28, 2011



Overview

—*Review Period*

- *Two year period beginning March 2009 and concluding with the six-month period for expense months of September 2010 through February 2011*

—*Out-of-Period Correction*

- *February 2010 expense month corrected in April 2010 (addressed in previous six month review)*

—*In-Period Correction*

- *August 2010 expense month corrected in September 2010 monthly filing*

Operation of the ECR

- *Components that make up the Recovery Positions:*
 - *Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)*
 - *Similar differences in ROR for LG&E and KU*
 - *More significant for KU due to larger Rate Base*
 - *Use of 12-month average revenues to determine the billing factor*
 - *Greater impact on KU due to winter season*
 - *LG&E had one month with actual revenue greater than average*

Over/(Under) Reconciliation

	<i>KU</i>	<i>LG&E</i>
<i>Combined Over/(Under) Recovery</i>	<i>\$3,580,868</i>	<i>(\$241,530)</i>
<i>Due to Change in Rate of Return</i>	<i>2,145,379</i>	<i>55,715</i>
<i>Use of 12-Month Average Revenues</i>	<i><u>1,435,489</u></i>	<i><u>(297,245)</u></i>
<i>Subtotal</i>	<i><u>\$3,580,868</u></i>	<i><u>(\$241,530)</u></i>
<i>Unreconciled Difference</i>	<i>(-)</i>	<i>(-)</i>

Net Over/(Under) Recovery Position

- *Net over-recovery position – KU*
 - *Cumulative over-recovery for the 6-month period is \$3,580,868*
- *Net under-recovery position – LG&E*
 - *Cumulative under-recovery for the 6-month period is (\$241,530)*

2001 and 2003 ECR Compliance Plans

- *On July 30, 2010, the Commission approved the elimination of the 2001 and 2003 ECR Compliance Plans from the monthly filings for KU and LG&E*
 - *Plan eliminations were an approved provision in the most recent rate case settlement*
 - *Effective with August 2010 expense month filing, all associated costs are now recovered through base rates*
 - *ES Forms reflect zero-balances for 2001 and 2003 Plans*
 - *Proposed revisions to ES Forms will remove all references to the 2001 and 2003 Plans upon receipt of a Commission Order*

Rate of Return Going Forward

- *Propose continued use of a 10.63% return on equity*
 - *Consistent with the Commission's recent orders in Case Nos. 2009-00548 and 2009-00549 (most recent base rate cases reaffirming the ROE for ECR purposes; orders issued July 30, 2010)*
 - *The overall rate of return established based on Capitalization for the month ending February 2011*
 - *10.56% for KU*
 - *10.82% for LG&E*

Incremental ECR Roll-in

- *Roll-in of incremental ECR costs and revenues into base rates based on February 2011 ECR rate base and 12-months operating expenses*
 - *KU proposes to roll-in \$49,410,769*
 - *LG&E proposes to roll-in \$2,352,193*
- *No impact on allowed recovery*
- *ECR recovery through base rates increases in the expense month corresponding with the effective date of new base rates*
- *Corresponding decrease in ECR billing factor occurs on a two month lag*

Roll In Methodology

- *The Companies intend to follow past practice and roll in based on base-rate revenues.*
- *The roll-in will be applied to the base rate components as approved in Case Nos. 2009-00310 and 2009-00311*
 - *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.*

Recommendations - LG&E

- *Approve collection of net under-collection of \$241,530 in one month*
- *Find environmental surcharge amounts for the billing period ending April 2011 just and reasonable*
- *Approve the use of an overall rate of return on capital using a return on equity of 10.63% beginning in the second billing month following the Commission's Order*
— *Rate of return 10.82% for LG&E*
- *Approve the roll-in to base rates of \$2,352,193 in incremental ECR charges*

Recommendations - KU

- *Approve refund of net over-collection of \$3,580,868 over a six-month period*
- *Find environmental surcharge amounts for the billing period ending April 2011 just and reasonable*
- *Approve the use of an overall rate of return on capital using a return on equity of 10.63% beginning in the second billing month following the Commission's Order*
— *Proposed rate of return: 10.56%*
- *Approve the roll-in to base rates of \$49,410,769 in incremental ECR charges*