

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.
UTILITIES COMPANY FOR THE SIX-MONTH)	2008-00216
BILLING PERIODS ENDING OCTOBER 31, 2007)	
AND APRIL 30, 2008)	

O R D E R

On July 19, 1994, the Commission approved Kentucky Utilities Company's ("KU") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at 6-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). Therefore, the Commission hereby initiates the 6-month reviews of the surcharge as billed from May 1, 2007 to October 31, 2007 and November 1, 2007 to April 30, 2008.²

¹ Case No. 1993-00465, The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order dated July 19, 1994.

² Since KU's surcharge is billed on a two-month lag, the amounts billed from May 2007 through October 2007 are based on costs incurred from March 2007 through August 2007 and the amounts billed from November 2007 through April 2008 are based on costs incurred from September 2007 through February 2008.

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, KU is to file prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the time periods under review. In addition, KU is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. Since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, KU has sought and been granted four amendments to its original environmental compliance plan and surcharge mechanism. As a result of previous 6-month and 2-year surcharge reviews, the environmental surcharge provides recovery of the costs associated with the four amended environmental compliance plans. When determining its over- or under-recovery of the surcharge in this proceeding, KU should reflect the impacts of these prior cases, as applicable.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.
2. KU shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from (a) May 1, 2007 through October 31, 2007 and (b) November 1, 2007 through April 30, 2008. At the public hearing there shall be no opening statements or summaries of testimony.

3. KU shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

4. Any party filing testimony shall file an original and 10 copies.

5. a. The information requested herein is due on or before July 14, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and 7 copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any requests to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Within 7 days of the Commission granting intervention to a party, KU shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

7. KU's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

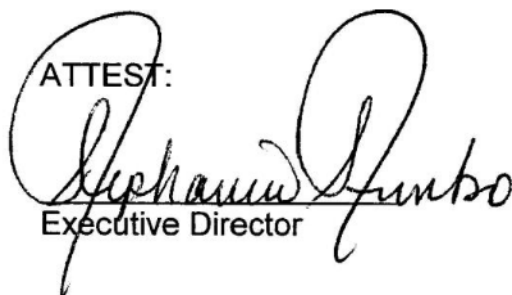
8. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

9. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 17th day of June, 2008.

By the Commission

Chairman Armstrong Abstains.

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00216 DATED JUNE 17, 2008

KU shall file its prepared direct testimony and responses to the information requested in Appendix B no later than 07/14/08

An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room No. 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues 07/21/08

All additional requests for information to KU shall be filed no later than..... 07/28/08

KU shall file responses to additional requests for information no later than..... 08/11/08

Intervenor testimony, if any, in verified prepared form shall be filed no later than 08/25/08

All requests for information to Intervenors shall be filed no later than..... 09/08/08

Intervenors shall file responses to requests for information no later than..... 09/22/08

Last day for KU to publish notice of hearing date To be scheduled

Public Hearing is to begin at 9:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of KU and Intervenors To be scheduled

Briefs, if any, shall be filed by To be scheduled

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00216 DATED JUNE 17, 2008

DATA REQUEST TO KENTUCKY UTILITIES COMPANY

1. Concerning the rate of return on the four amendments to the environmental compliance plan, for each of the periods under review, calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the billing period under review.

2. For each of the periods under review, prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the billing period under review. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing periods under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the 6-month reviews. Include all supporting calculations and documentation for any such additional over- or under-recovery.

3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported during the billing period under review for Pollution Control Deferred Income Taxes.

4. Provide the percentage of KU's long-term debt that has a variable interest rate as of the last expense month in the billing period under review.

5. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the March 2007 through February 2008 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

6. The Commission previously ordered that KU's cost of debt and preferred stock would be reviewed and re-established during the 6-month review case. Provide the following information as of February 29, 2008:

a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.

b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases.

c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.