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August 28, 2008

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Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
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CERTIFICATE OF SERVICE

RE: Case No. 2008-00217
Louisville Gas and Electric Company

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on August 28, 2008.

Executive Director

SS/rs
Enclosure

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 LOUISVILLE GAS) CASE NO. 2008-00217
AND ELECTRIC COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING OCTOBER 31, 2007)
AND APRIL 30, 2008)

O R D E R

On June 17, 2008, the Commission initiated a 6-month review of Louisville Gas and Electric Company's ("LG&E") environmental surcharge as billed to customers for the following 6-month periods: May 1, 2007 to October 31, 2007 and November 1, 2007 to April 30, 2008.¹ Pursuant to KRS 278.183(3), the Commission must review, at 6-month intervals, the past operations of a utility's environmental surcharge; disallow any surcharge amounts that are not just and reasonable; and reconcile past surcharge collections with actual costs recoverable. There were no intervenors in this case.

The Commission issued a procedural schedule on June 17, 2008 that provided for discovery, the filing of prepared testimony, an informal conference, and a public hearing. LG&E filed prepared direct testimony and responded to requests for information. On July 21, 2008, LG&E and Commission Staff participated in an informal conference in order to discuss the issues in the case. During that conference, Staff requested further information from LG&E, which was submitted on August 11, 2008.

¹ LG&E's surcharge is billed on a 2-month lag. Thus, surcharge billings for 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.

LG&E requested, upon filing its responses to the Staff's information request, that this case be submitted for a decision based on the existing record of evidence without a hearing. Based on the absence of intervenors in this case and finding good cause, the Commission will now adjudicate this case based on the evidence of record without a hearing.

SURCHARGE ADJUSTMENT

The June 17, 2008 Order initiating this case indicated that, since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. LG&E determined that it had a net under-recovery of its environmental costs for the billing periods ending October 31, 2007 and April 30, 2008 of \$912,324.² LG&E proposed that the net under-recovery be collected from customers in the four months following the Commission's Order in this proceeding.³

The Commission has reviewed and finds reasonable LG&E's calculation of a net under-recovery of \$912,324 for the billing periods covered in this proceeding. The Commission also finds reasonable LG&E's proposal to increase the total jurisdictional environmental surcharge revenue requirement in each of the four months following the date of this Order in the amount of \$228,081. The Commission has estimated a customer with a \$100-per-month electric bill would see an increase of approximately \$0.35 per month associated with the recovery of the net under-recovery during the four - month period.

² Conroy Direct Testimony at 4.

³ Id. at 4.

RATE OF RETURN

LG&E provided the outstanding balances for its long-term debt, short-term debt, preferred stock, and common equity as of February 29, 2008, the last billing month of the review periods. It also provided the blended interest rates for the long-term debt and short-term debt and the cost rate for the preferred stock as of February 29, 2008.⁴ Using this information, along with the currently approved 10.5-percent return on equity, LG&E calculated an overall weighted average cost of capital, before income tax gross-up, of 8.25 percent.⁵ LG&E also calculated an adjusted, overall weighted average cost of capital of 11.49 percent, reflecting the tax gross-up approach approved in Case No. 2004-00421.⁶

The Commission has reviewed LG&E's determination of the overall rate of return on capital and finds 8.25 percent, before income tax gross-up, 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. 2004-00421. Therefore, the Commission finds that the weighted average cost of capital of 8.25 percent and the income tax gross-up factor of 0.580 should be used in all LG&E monthly environmental surcharge filings subsequent to the date of this Order.

⁴ Id. at Item 6.

⁵ Id.

⁶ Case No. 2004-00421, The Application of Louisville Gas and Electric Company for Approval of its 2004 Compliance Plan for Recovery by Environmental Surcharge, final Order dated June 20, 2005; and Response to the Commission Staff's First Data Request dated June 17, 2008, Item 6. In the response, LG&E determined that the income tax gross-up factor was 0.580, which would produce a tax grossed-up weighted average cost of capital of 11.49 percent.

IT IS THEREFORE ORDERED that:

1. LG&E's motion to submit this case for a decision on the existing evidence of record without a hearing is granted.

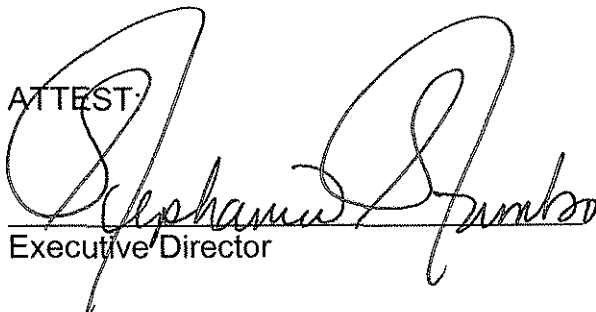
2. LG&E shall include a \$228,081 monthly increase in its jurisdictional environmental revenue requirement in the first four billing months only, following the date of this Order, as discussed herein.

3. LG&E shall use an overall rate of return on capital of 8.25 percent and a tax gross-up factor of 0.580 in all monthly environmental surcharge filings subsequent to the date of this Order.

Done at Frankfort, Kentucky, this 28th day of August, 2008.

By the Commission

Chairman Armstrong Abstains.

ATTEST:

Executive Director