



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

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

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

October 5, 2009

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2009-00310
Case No. 2009-00311

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. 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 Derouen".

Jeff Derouen
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2009-00310
Main Case File - Case No. 2009-00311

FROM: Ronald Handziak, Team Leader *RH*

DATE: October 1, 2009

RE: Informal Conference of September 29, 2009

Pursuant to the Commission's August 18, 2009 Order, on September 29, 2009, representatives of Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU") 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 LG&E and KU distributed a handout that provided an overview of their filing and their responses to information requested in Appendix B of the Commission's August 18, 2009 Order. LG&E and KU discussed the information contained in the handout, including the determination that there was an under-recovery of the surcharge for the billing period under review, and the proposed "roll-in" of surcharge amounts into its base rates. LG&E and KU also presented their proposal for changing the calculation of the monthly billing factor. The handout is attached to this memorandum as Attachment 2.

Commission Staff asked a few clarifying questions related to information included in the handout. LG&E and KU agreed to provide further information regarding the proposed methodology change and data on the impact on customer's bills resulting from collection of the under recovery and roll in of the surcharge. Because there are no intervenors in either case, LG&E and KU requested that the proceedings be submitted for decision based on the record, and that an order be issued by October 30, 2009 approving the companies' recommendations. There being no other questions, the meeting adjourned.

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
 BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2009-00310

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY UTILITIES COMPANY FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2009

AND

CASE NO. 2009-00311

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2009

SIGN IN

September 29, 2009

PERSON	REPRESENTING
<u>Rick Bertelson</u>	<u>PSC - Legal</u>
<u>Ron Handziak</u>	<u>PSC - FA</u>
<u>Lonnie Bellar</u>	<u>E.ON US</u>
<u>Shannon Charnas</u>	<u>E.ON U.S.</u>
<u>Allyson Sturgeon</u>	<u>E.ON U.S.</u>
<u>Dr. M. Cony</u>	<u>E.ON U.S.</u>
<u>Michael R. Rupp</u>	<u>SKD for LG&E/KU</u>
<u>Daryl Jewbery</u>	<u>PSC - F/A</u>
<u>Vicky Townes</u>	<u>PSC - F/A</u>

Case Nos. 2009-00310 & 2009-00311
September 29, 2009

PERSON

Andrea Schroeder

REPRESENTING

EON US

ECR Review
Case Nos. 2009-00310
and 2009-00311

Kentucky Utilities Company
Louisville Gas and Electric Company
September 29, 2009

Scope of Review Cases

- Review Period
 - Six-month period for expense months of November 2008 through February 2009
 - Two-year period for expense months of March 2007 through February 2009
- Include a “roll-in” of incremental ECR costs and revenues for the period ending February 2009
- Modify the Base-Current Methodology

Operation of the ECR -- KU

- Five Components that make up the net under-collection of \$3,821,966:
 - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
 - BESF calculation differences
 - Use of BESF percentage in determining amount collected in base rates
 - Use of 12-month average revenues to determine the billing factor
 - Ghent Gypsum Net Proceeds – including prior period adjustment

Over/(Under) Reconciliation -- KU

Combined Over/(Under) Recovery		(3,821,966)
Due to BESF Calculation Differences	(1,633,929)	
Due to Use of BESF %	(2,577,201)	
Due to Change in Rate of Return	1,365,289	
Use of 12-Month Average Revenues	(1,037,238)	
Ghent Gypsum Net Proceeds (including prior period adj.)	<u>61,113</u>	
	Subtotal	<u>(3,821,966)</u>
	Unreconciled Difference	(-)

Operation of the ECR -- LG&E

- Four Components that make up the net under-collection of \$1,636,189:
 - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
 - BESF calculation differences
 - Use of BESF percentage in determining amount collected in base rates
 - Use of 12-month average revenues to determine the billing factor

Over/(Under) Reconciliation -- LG&E

Combined Over/(Under) Recovery	(1,636,189)
Due to BESF Calculation Differences	(483,622)
Due to Use of BESF %	(178,791)
Due to Change in Rate of Return	322,350
Use of 12-Month Average Revenues	<u>(1,296,126)</u>
Subtotal	<u>(1,636,189)</u>
Unreconciled Difference	(-)

Over/(Under)-Collection Components – KU and LG&E

- Overall rate of return
 - Adjustments to the jurisdictional revenue requirement are required for compliance with previous Commission Orders to reflect the actual changes in the overall rate of return on capitalization that is used in the determination of the return on environmental rate base associated with the ECR Plans.

Over/(Under)-Collection Components – KU and LG&E

- BESF Calculation Differences
 - In the most recent 2-year review cases, KU and LG&E calculated the BESF factor using base rate revenues excluding the customer charge revenues, while the monthly filings use BESF times total base revenues to estimate the ECR revenues collected through base rates.
 - Because the monthly estimate of ECR revenues collected through base rates is determined by multiplying BESF times total base revenues, overstating BESF overstates the ECR revenues collected through base rates.
 - When ECR revenues collected through base rates are overstated, the monthly $E(m)$ is understated which contributes to the under-recovery position.

Over/(Under)-Collection Components – KU and LG&E

- Use of the BESF percentage to estimate the amount collected through base rates.
 - In the monthly filings, the BESF percentage is used to determine the amount of ECR revenue collected through base rates by applying the percentage to total base rate revenues.
 - In the review proceedings, the billing determinants are used to determine the actual ECR revenues collected through base rates.
 - This methodology results in a perpetual mismatch between actual revenues collected and estimated revenues reported in the monthly filings.
- Use of 12-month average revenues to calculate MESF and then applying that same MESF to actual monthly revenues
 - The result is an over-collection during the summer months when actual revenues will generally be greater than the 12-month average and an under-collection during the shoulder months when actual revenues will generally be less than the 12-month average.

Ghent Gypsum Proceeds - KU

- A component of the 1994 ECR Plan was to identify and pass through the proceeds from the sale of gypsum resulting from the addition of the Ghent 1 FGD (Project 1).
- Effective with the July 2004 expense month, scrubber operations expense and gypsum proceeds for the Ghent 1 FGD were included in base rates and removed from the ECR monthly filings due to the elimination of the 1994 ECR Plan in Case No. 2003-00434.
- Beginning with the June 2007 expense month, the Ghent 3 FGD was placed in service and KU began reporting scrubber operations expense on ES Form 2.50.

Ghent Gypsum Proceeds - KU

- In Case No. 2009-00197, KU determined that the net proceeds from the sale of gypsum from the Ghent FGDs were inadvertently omitted from the monthly ECR Filings.
- KU is proposing to decrease jurisdictional E(m) by \$61,113 to reflect the difference between the actual gypsum proceeds and the amounts in base rates for the period of June 2007 through February 2009; going-forward, Ghent gypsum net proceeds will be reported on ES Form 2.00.
- For the months outside of this review period (March 2009 through July 2009), a one-time adjustment of \$55,896 to increase the jurisdictional E(m) was made to the August 2009 expense month filing.

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. 2008-00549 and 2008-00550 (issued July 17, 2009) and Case Nos. 2008-00251 and 2008-00252 (issued February 5, 2009)
- The overall rate of return established based on Capitalization for the month ending February 2009
 - 11.00% for KU
 - 11.18% for LG&E

ECR Incremental Roll-In

- Roll-in of incremental ECR costs and revenues into base rates based on February 2009 ECR rate base and 12-months operating expenses
 - KU proposes to roll-in \$86,667,849
 - LG&E proposes to roll-in \$5,289,981
- Roll-in is designed to be revenue-neutral on customer's bills

Roll-in Methods

- 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. 2008-00251 and 2008-00252
 - 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.

Base-Current Methodology

- LG&E implemented the base current methodology in Case No. 2002-00193; KU implemented it in Case No. 2003-00068.
- The base-current methodology consists of three factors – each based on a percentage of 12-month historical revenue.
 - Base Environmental Surcharge Factor (“BESF”)
 - Current Environmental Surcharge Factor (“CESF”)
 - Monthly Environmental Surcharge Factor (“MESF”)

Base-Current Methodology

- Base Environmental Surcharge Factor (“BESF”) is the ECR annual revenue requirement currently included in base rates divided by 12-month base rate revenues for the period immediately preceding the effective date of the roll-in adjustment. *(12-month period is fixed)*
- Current Environmental Surcharge Factor (“CESF”) is the net jurisdictional $E(m)$ divided by the 12-month average retail revenues. *(12-month period changes each month)*
- Monthly Environmental Surcharge Factor (“MESF”) is the arithmetic difference between CESF and BESF and is the billing factor applied to retail bills.

Base-Current Methodology - Issues

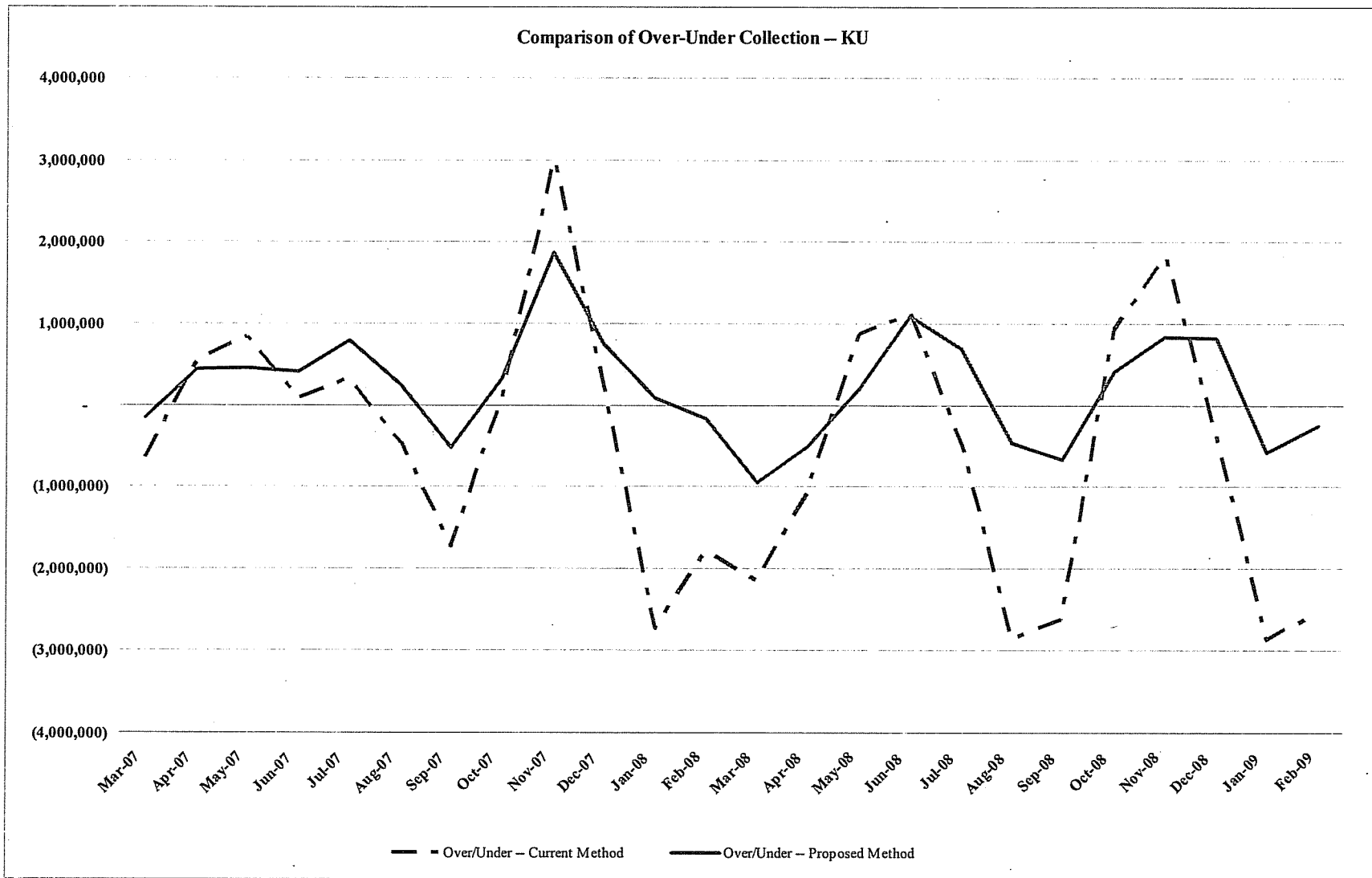
- The existing base-current method results in significant fluctuations in the cumulative over/under recovery of allowed ECR revenues.
- As a percentage method, base-current results in accurate revenue recovery *only* when the environmental surcharge revenue through base rates is mathematically equal to the revenue that would be collected by applying the BESF to monthly revenues.
- This approved method of calculating the current billing factor uses an estimate of ECR revenue collected through base rates.
 - Actual revenue collected through base rates is known.

Base-Current Methodology - Proposal

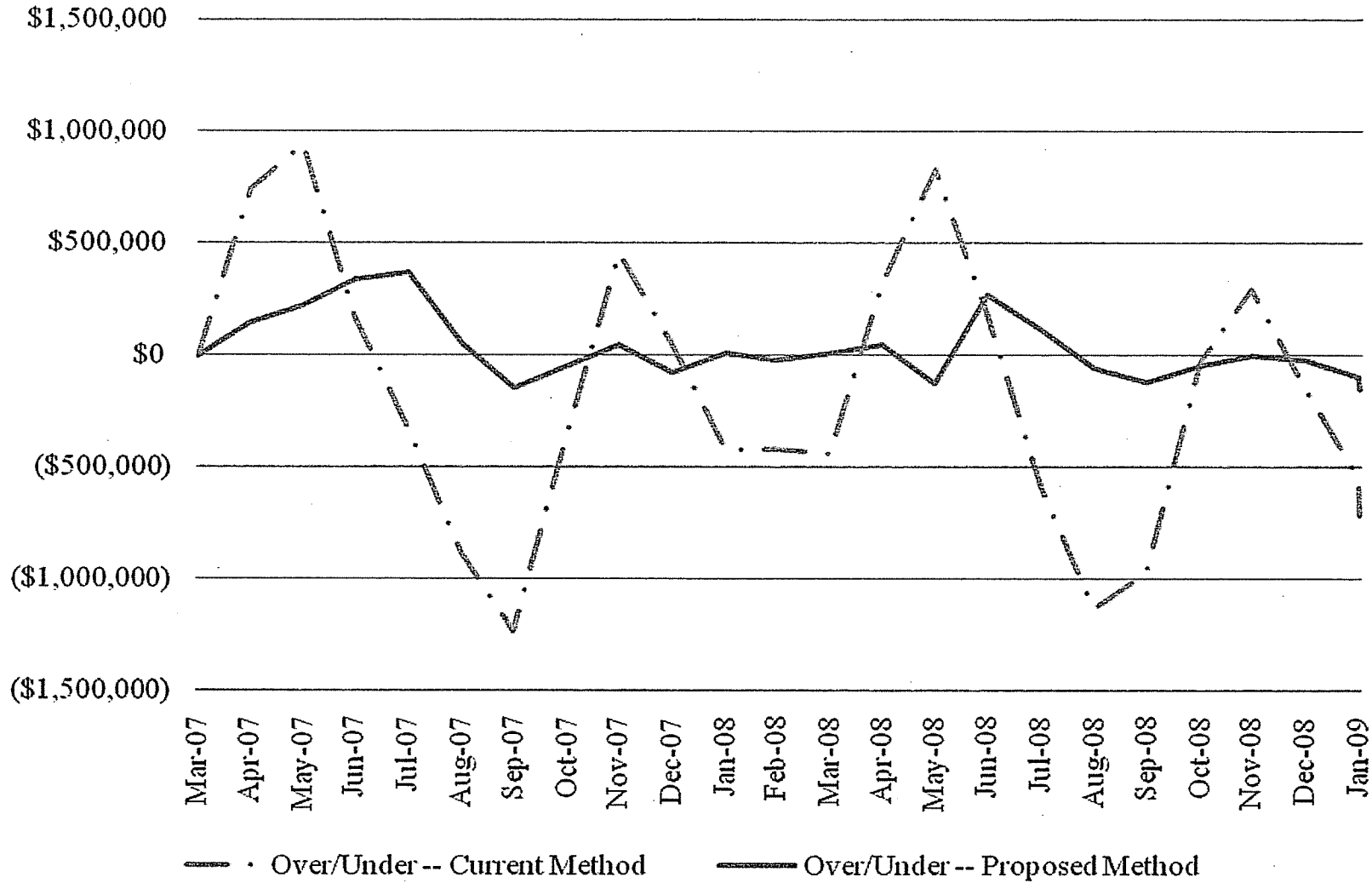
- Modify the calculation of the base-current factor from a percentage method to a revenue requirement method.
 - The billed revenue requirement will represent only the portion of the monthly revenue requirement above the cumulative ECR roll-in embedded in base rates.
 - Eliminates CESF and BESF
- Revise the monthly filings to include actual ECR revenue collected through base rates for the expense month.
 - Consistent with six-month and two-year review cases.
- Eliminate the true-up adjustment for the estimated over/under collection as shown on ES Forms 1.10 and 2.00.
 - Adjustment has not mitigated over/under collection position.
 - Unnecessarily complicates monthly filing.

Base-Current Methodology - Proposal

- Benefits include:
 - Is consistent with the methodology accepted by the Commission in previous review cases;
 - Greater accuracy and timeliness of ECR revenue collection by using *actual* instead of *estimated* ECR revenue collected in base rates;
 - Reduce the potential for significant swings in over- or under-collection of ECR revenues;
 - Eliminate two of the significant components of the over/under collection.



Comparison of Over-Under Collection -- LG&E



Recommendations

- Kentucky Utilities Company
 - Approve collection of \$3,821,966 over a six month period following the Commission's Order
 - Find environmental surcharge amount for the billing period ending April 2009 just and reasonable
 - Approve incremental roll-in amount of \$86,667,849
 - Approve the proposed changes to the base-current methodology and the revised forms
 - Establish an overall rate of return of 11.00%, inclusive of the currently approved 10.63% return on equity

Recommendations

- Louisville Gas and Electric Company
 - Approve collection of \$1,636,189 over a three month period following the Commission's Order
 - Find environmental surcharge amount for the billing period ending April 2009 just and reasonable
 - Approve incremental roll-in amount of \$5,289,981
 - Approve the proposed changes to the base-current methodology and the revised forms
 - Establish an overall rate of return of 11.18%, inclusive of the currently approved 10.63% return on equity

KENTUCKY UTILITIES COMPANY
Ghent Gypsum Proceeds

Account 502001

Case No. 2009-00310 ECR 2-Year Review Question No. 2

ECR 6-month Review Period	Expense Month	Monthly Proceed Amount	Monthly Amount in Base Rate	Adjustment in Total	Jurisdictional Allocation	Adjustment for ECR	Sum of Adjustment in Total	Sum of Juris Adjustment in Total
Case No. 2008-00216	Jun-07	(42,366.01)	(49,688.64)	7,322.63	85.70%	6,275.50		
	Jul-07	(40,138.48)	(49,688.64)	9,550.16	84.72%	8,090.90		
	Aug-07	(17,147.18)	(49,688.64)	32,541.46	85.27%	27,748.11	49,414.26	42,114.50
Case No. 2008-00216	Sep-07	(37,211.18)	(49,688.64)	12,477.46	84.55%	10,549.69		
	Oct-07	(46,914.15)	(49,688.64)	2,774.49	85.32%	2,367.20		
	Nov-07	(63,204.26)	(49,688.64)	(13,515.62)	83.75%	(11,319.33)		
	Dec-07	(103,704.90)	(49,688.64)	(54,016.26)	82.92%	(44,790.28)		
	Jan-08	(42,947.07)	(49,688.64)	6,741.57	84.20%	5,676.40		
	Feb-08	(62,918.60)	(49,688.64)	(13,229.96)	85.76%	(11,346.01)	(58,768.31)	(48,862.33)
Case No. 2008-00550	Mar-08	(56,649.60)	(49,688.64)	(6,960.96)	81.31%	(5,659.95)		
	Apr-08	(63,630.26)	(49,688.64)	(13,941.62)	84.71%	(11,809.94)		
	May-08	(59,555.60)	(49,688.64)	(9,866.96)	81.63%	(8,054.40)		
	Jun-08	(67,436.54)	(49,688.64)	(17,747.90)	83.46%	(14,812.40)		
	Jul-08	(65,563.60)	(49,688.64)	(15,874.96)	81.02%	(12,861.89)		
	Aug-08	(66,954.20)	(49,688.64)	(17,265.56)	85.16%	(14,703.35)	(81,657.95)	(67,901.93)
Case No. 2009-00310	Sep-08	(69,457.80)	(49,688.64)	(19,769.16)	82.47%	(16,303.62)		
	Oct-08	(45,128.40)	(49,688.64)	4,560.24	77.38%	3,528.72		
	Nov-08	(65,753.40)	(49,688.64)	(16,064.76)	75.52%	(12,132.10)		
	Dec-08	(33,723.60)	(49,688.64)	15,965.04	79.97%	12,767.24		
	Jan-09	(35,980.40)	(49,688.64)	13,708.24	83.81%	11,488.88		
	Feb-09	(34,181.80)	(50,597.33)	16,415.53	86.43%	14,187.94	14,815.14	13,537.05
Subtotal - Adjustment in 2-year review case							(76,196.86)	(61,112.71)

Aug-09 Expense Mo. Filing

Prior Period	Mar-09	(35,655.00)	(50,597.33)	14,942.33	85.16%	12,724.88		
Adjustment	Apr-09	(52,267.60)	(50,597.33)	(1,670.28)	87.67%	(1,464.33)		
in August 09	May-09	(35,849.60)	(50,597.33)	14,747.73	84.60%	12,476.58		
expense mo.	Jun-09	(32,461.20)	(50,597.33)	18,136.13	87.48%	15,865.48		
	Jul-09	(31,478.00)	(50,597.33)	19,119.33	85.22%	16,293.49	65,275.23	55,896.10

Total Cumulative Adjustment (10,921.63) (5,216.61)

KENTUCKY UTILITIES COMPANY
Ghent Gypsum Proceeds

Included in Sept 2003 test year: (596,263.71)
 Monthly amount (49,688.64)

Included in April 2008 test year: (607,167.90)
 Monthly amount (50,597.33)

Included in 9/30/03 test year:	Per ECR Monthly Forms
Oct-02	-
Nov-02	(97,808.71)
Dec-02	(37,021.00)
Jan-03	(35,255.00)
Feb-03	(55,512.00)
Mar-03	(39,150.00)
Apr-03	(58,592.00)
May-03	(63,072.00)
Jun-03	(52,876.00)
Jul-03	-
Aug-03	(107,031.00)
Sep-03	(49,946.00)
Total	(596,263.71)

Included in 4/30/08 test year:	Per GL Account 502001
May-07	(30,336.21)
Jun-07	-
Jul-07	(82,504.49)
Aug-07	(17,147.18)
Sep-07	(37,211.18)
Oct-07	(46,914.15)
Nov-07	(63,204.26)
Dec-07	(103,704.90)
Jan-08	(42,947.07)
Feb-08	(62,918.60)
Mar-08	(56,649.60)
Apr-08	(63,630.26)
Total	(607,167.90)

Case Nos. 2009-00310 and 2009-00311
Technical Conference – September 29, 2009
Handout No. 2 – Page 1 of 2

KU – RMC testimony page 13

(1)	Jurisdictional E(m) (actual Feb, before monthly true-up adjustment)		\$ 11,869,041
(2)	ECR Revenue Collected Through Base Rates (Actual Feb)		\$ 3,779,846
(3)	Retail Base, FAC and DSM Revenue (Actual, Feb)		\$103,026,104
(4)	BESF (Actual)		5.51%
(5)	BESF times Revenue (Assumed revenue through base rates)	(3) x (4)	\$ 5,676,738
(6)	Assumed Revenue less Actual Revenue	(5) - (2)	\$ 1,896,892

KU – RMC testimony page 15 – comparison of existing method to proposed method

			Current		Proposed
(1)	Jurisdictional E(m)(actual Feb)*		\$ 11,869,041		\$ 11,869,041
(2)	Jurisdictional R(m)		\$ 92,077,262		\$ 92,077,262
(3)	Revenue Collected Through Base Rates (actual Feb)		\$ 3,779,846		\$ 3,779,846
(4)	Revenue Requirement to Collect Through Billing Factor (in April)			(1) - (3)	\$ 8,089,195
(5)	CESF*	(1) / (2)	12.89%	(4) / (2)	8.79%
(6)	BESF		5.51%		0.00%
(7)	MESF*	(5) - (6)	7.38%	(5) - (6)	8.79%
(8)	Revenue Subject to ECR (April)		\$ 88,769,817		\$88,769,817
(9)	Revenue Collected Through Billing Factor (April)*	(7) x (8)	\$ 6,551,212	(7) x (8)	\$ 7,798,629
(10)	Total Revenue Collected*	(3) + (9)	\$ 10,331,058	(3) + (9)	\$11,578,475
(11)	Revenue Under-collection*	(1) - (10)	\$ 1,537,983	(1) - (10)	\$ 290,566
* Amounts are exclusive of the adjustment for monthly true-up. Actual as-filed E(m) was \$11,070,129; actual CESF was 6.51% and actual revenue collected through billing factor was \$5,801,057					

LG&E – RMC testimony page 12

(1)	Jurisdictional E(m) (actual Feb, before monthly true-up adjustment)		\$ 2,844,421
(2)	ECR Revenue Collected Through Base Rates (Actual Feb)		\$ 1,599,026
(3)	Retail Base, FAC and DSM Revenue (Actual, Feb)		\$56,125,434
(4)	BESF (Actual)		3.62%
(5)	BESF times Revenue (Assumed revenue through base rates)	(3) x (4)	\$ 2,031,741
(6)	Assumed Revenue less Actual Revenue	(5) - (2)	\$ 432,715

LG&E – RMC testimony page 14 – comparison of existing method to proposed method

			Current		Proposed
(1)	Jurisdictional E(m)(actual Feb)*		\$ 2,844,421		\$2,844,421
(2)	Jurisdictional R(m)		\$64,867,798		\$64,867,798
(3)	Revenue Collected Through Base Rates (actual Feb)		\$ 1,599,026		\$1,599,026
(4)	Revenue Requirement to Collect Through Billing Factor (in April)			(1) - (3)	\$ 1,245,395
(5)	CESF*	(1) / (2)	4.38%	(4) / (2)	1.92%
(6)	BESF		3.62%		0.00%
(7)	MESF*	(5) - (6)	0.76%	(5) - (6)	1.92%
(8)	Revenue Subject to ECR (April)		\$53,620,406		\$53,620,406
(9)	Revenue Collected Through Billing Factor (April)*	(7) x (8)	\$ 407,515	(7) x (8)	\$ 1,029,512
(10)	Total Revenue Collected*	(3) + (9)	\$ 2,009,196	(3) + (9)	\$ 2,628,538
(11)	Revenue Under-collection*	(1) - (10)	\$ 835,225	(1) - (10)	\$ 215,883
* Amounts are exclusive of the adjustment for monthly true-up. Actual as-filed E(m) was \$3,205,970; actual CESF was 4.94% and actual revenue collected through billing factor was \$698,050					

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

Calculation of Monthly Billed Environmental Surcharge Factor - MESF
For the Expense Month of February 2009

MESF = CESF - 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 = 4.94%
BESF, from Case No. 2007-00380 = 3.62%
MESF = 1.32%

Effective Date for Billing: April billing cycle beginning March 30, 2009

Submitted by: _____

Title: Director, Rates

Date Submitted: March 20, 2009

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

Net Jurisdictional E(m) and
Jurisdictional Environmental Surcharge Billing Factor
For the Expense Month of

Net Jurisdictional E(m) = Jurisdictional E(m) less Expense Month Revenue
Collected Through Base Rates – ES Form 1.10, line 13 = \$ 1,245,769

Jurisdictional Environmental Surcharge Billing Factor – ES Form 1.10, line 15 = 1.92%

Effective Date for Billing: billing cycle beginning

Submitted by: _____

Title: Director, 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 February 2009

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	= \$	241,886,176
RB / 12	=	20,157,181
$(ROR + (ROR - DR) (TR / (1 - TR)))$	=	10.98%
OE	=	1,228,684
BAS	=	-
E(m)	= \$	3,441,942

Calculation of Jurisdictional Environmental Surcharge Billing Factor

Jurisdictional Allocation Ratio for Expense Month	=	82.64%
Jurisdictional E(m) = E(m) x Jurisdictional Allocation Ratio	= \$	2,844,421
Adjustment for Monthly True-up (from Form 2.00)	=	361,549
Adjustment for Under-collection pursuant to Case No. 2008-00217	=	-
Prior Period Adjustment (if necessary)	=	-
Net Jurisdictional E(m) = Jurisdictional E(m) minus Adjustment for Monthly True-up plus/minus Prior Period Adjustment	= \$	3,205,970
Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month	= \$	64,867,798
Jurisdictional Environmental Surcharge Billing Factor: Net Jurisdictional E(m) / Jurisdictional R(m); as a % of Revenue	=	4.94%

PROPOSED
**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		
(1) RB	= \$	241,886,176
(2) RB / 12	=	20,157,181
(3) $(ROR + (ROR - DR) (TR / (1 - TR)))$	=	10.98%
(4) OE	=	1,228,684
(5) BAS	=	-
(6) E(m)	= \$	3,441,942

Calculation of Jurisdictional Environmental Surcharge Billing Factor

(7) Jurisdictional Allocation Ratio for Expense Month -- ES Form 3.00	=	82.64%
(8) Jurisdictional E(m) = E(m) x Jurisdictional Allocation Ratio [(6) x (7)]	= \$	2,844,421
(9) Adjustment for (Over)/Under-collection pursuant to Case No. xxxx-xxxxx	=	-
(10) Prior Period Adjustment (if necessary)	=	-
(11) Adjusted Jurisdictional E(m) [(8) + (9) + (10)]	=	2,844,421
(12) Revenue Collected through Base Rates	= \$	1,599,026
(13) Net Jurisdictional E(m) = Jurisdictional E(m) less Expense Month Revenue Collected Through Base Rates [(11) - (12)]	= \$	1,245,395
(14) Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month -- ES Form 3.00	= \$	64,867,798
(15) Jurisdictional Environmental Surcharge Billing Factor [(13) + (14)]	=	1.92%

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**
Revenue Requirements of Environmental Compliance Costs
For the Expense Month of February 2009

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant	\$ 242,856,023	
Eligible Pollution CWIP Excluding AFUDC	40,997,828	
Subtotal		\$ 283,853,851
Additions:		
Inventory - Emission Allowances per ES Form 2.31, 2.32 and 2.33	-	
Cash Working Capital Allowance	773,476	
Deferred Debit Balance -- Mill Creek Ash Dredging	2,400,596	
Subtotal		3,174,072
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	31,176,384	
Pollution Control Deferred Income Taxes	13,965,363	
Subtotal		45,141,747
Environmental Compliance Rate Base	\$	241,886,176

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	\$ 236,898
Monthly Depreciation & Amortization Expense	788,980
less investment tax credit amortization	-
Monthly Property and Other Applicable Taxes	31,335
Monthly Insurance Expense	-
Monthly Emission Allowance Expense from ES Form 2.31, 2.32 and 2.33	-
Monthly Permitting Fees	-
Amortization of Monthly Mill Creek Ash Dredging	171,471
Less : Operating Expenses Associated with Retirements or Replacements Occuring Since Last Roll-In of Surcharge into Existing Rates	-
Total Pollution Control Operations Expense	\$ 1,228,684

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	0.67%
B. Net Jurisdictional E(m) for two months prior to Expense Month	2,806,774
C. Environmental Surcharge Revenue, current month (from ES Form 3.00)	413,484
D. Retail E(m) recovered through base rates (Base Revenues, ES Form 3.00 times 3.62%)	2,031,741
E. Over/(Under) Recovery due to Timing Differences ((D + C) - B)	(361,549)
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m)	

PROPOSED
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	\$ 242,856,023	
Eligible Pollution CWIP Excluding AFUDC	40,997,828	
Subtotal		\$ 283,853,851
Additions:		
Inventory - Emission Allowances per ES Form 2.31, 2.32 and 2.33	-	
Cash Working Capital Allowance	773,476	
Deferred Debit Balance -- Mill Creek Ash Dredging	2,400,596	
Subtotal		3,174,072
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	31,176,384	
Pollution Control Deferred Income Taxes	13,965,363	
Subtotal		45,141,747
Environmental Compliance Rate Base	\$	241,886,176

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	\$ 236,898
Monthly Depreciation & Amortization Expense	788,980
less investment tax credit amortization	-
Monthly Property and Other Applicable Taxes	31,335
Monthly Insurance Expense	-
Monthly Emission Allowance Expense from ES Form 2.31, 2.32 and 2.33	-
Monthly Permitting Fees	-
Amortization of Monthly Mill Creek Ash Dredging	171,471
Less : Operating Expenses Associated with Retirements or Replacements Occuring Since Last Roll-In of Surcharge into Existing Rates	-
Total Pollution Control Operations Expense	\$ 1,228,684

Proceeds From By-Product and Allowance Sales

	Total Proceeds	Amount in Base Rates	Net Proceeds
	(1)	(2)	(1) - (2)
Allowance Sales			\$ -
Scrubber By-Products Sales			\$ -
Total Proceeds from Sales			\$ -

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**PROPOSED
KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**Calculation of Monthly Billed Environmental Surcharge Factor - MESF
For the Expense Month of February 2009**

**Net Jurisdictional E(m) and
Jurisdictional Environmental Surcharge Billing Factor
For the Expense Month of February 2009**

MESF = CESF - BESF

Net Jurisdictional E(m) = Jurisdictional E(m) less Expense Month Revenue
Collected Through Base Rates -- ES Form 1.10, line 13 = \$ 8,089,195

Where:

CESF = Current Period Jurisdictional Environmental Surcharge Factor

Jurisdictional Environmental Surcharge Billing Factor -- ES Form 1.10, line 15 = 8.79%

BESF = Base Period Jurisdictional Environmental Surcharge Factor

Effective Date for Billing: billing cycle beginning

Calculation of MESF:

CESF, from ES Form 1.10	=	12.02%
BESF, from Case No. 2007-00379	=	5.51%
MESF	=	6.51%

Submitted by: _____

Title: Director, Rates

Date Submitted:

Effective Date for Billing: April billing cycle beginning March 30, 2009

Submitted by: _____

Title: Director, Rates

Date Submitted: March 20, 2009

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

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

For the Expense Month of February 2009

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	= \$	1,182,049,149
RB / 12	=	98,504,096
$(ROR + (ROR - DR) (TR / (1 - TR)))$	=	11.12%
OE	=	2,778,893
BAS	=	-
E(m)	= \$	13,732,548

Calculation of Jurisdictional Environmental Surcharge Billing Factor

Jurisdictional Allocation Ratio for Expense Month	=	86.43%
Jurisdictional E(m) = E(m) x Jurisdictional Allocation Ratio	= \$	11,869,041
Adjustment for Monthly True-up (from Form 2.00)	=	(798,912)
Adjustment for Under-collection pursuant to Case No. 2008-00216	=	
Prior Period Adjustment (if necessary)	=	
Net Jurisdictional E(m) = Jurisdictional E(m) minus Adjustment for Monthly True-up plus/minus Prior Period Adjustment	= \$	11,070,129
Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month	= \$	92,077,262
Jurisdictional Environmental Surcharge Billing Factor: Net Jurisdictional E(m) / Jurisdictional R(m) ; as a % of Revenue	=	12.02%

**PROPOSED
KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

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

For the Expense Month of February 2009

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		
(1) RB	= \$	1,182,049,149
(2) RB / 12	=	98,504,096
(3) $(ROR + (ROR - DR) (TR / (1 - TR)))$	=	11.12%
(4) OE	=	2,778,893
(5) BAS	=	-
(6) E(m)	= \$	13,732,548
		(2) x (3) + (4) - (5)

Calculation of Jurisdictional Environmental Surcharge Billing Factor

(7) Jurisdictional Allocation Ratio for Expense Month -- ES Form 3.00	=	86.43%
(8) Jurisdictional E(m) = E(m) x Jurisdictional Allocation Ratio [(6) x (7)]	= \$	11,869,041
(9) Adjustment for (Over)/Under-collection pursuant to Case No. xxxx-xxxxx	=	-
(10) Prior Period Adjustment (if necessary)	=	-
(11) Adjusted Jurisdictional E(m) [(8) + (9) + (10)]	=	11,869,041
(12) Revenue Collected through Base Rates	= \$	3,779,846
(13) Net Jurisdictional E(m) = Jurisdictional E(m) less Expense Month Revenue Collected Through Base Rates [(11) - (12)]	= \$	8,089,195
(14) Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month -- ES Form 3.00	= \$	92,077,262
(15) Jurisdictional Environmental Surcharge Billing Factor [(13) ÷ (14)]	=	8.79%

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
 Revenue Requirements of Environmental Compliance Costs
 For the Expense Month of February 2009

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant	\$ 688,693,392	
Eligible Pollution CWIP Excluding AFUDC	609,548,490	
Subtotal		\$ 1,298,241,882
Additions:		
Inventory - Limestone	\$ 765,478	
Less: Limestone Inventory in base rates	76,473	
Inventory - Emission Allowances per ES Form 2.31, 2.32 and 2.33	73,617	
Less: Allowance Inventory Baseline	69,415	
Net Emission Allowance Inventory	4,202	
Cash Working Capital Allowance	1,014,107	
Subtotal		1,707,313
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	50,725,432	
Pollution Control Deferred Income Taxes	43,419,014	
Pollution Control Deferred Investment Tax Credit	23,755,600	
Subtotal		117,900,046
Environmental Compliance Rate Base		\$ 1,182,049,149

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	\$ 632,411
Monthly Depreciation & Amortization Expense	2,000,060
Monthly Taxes Other Than Income Taxes	151,261
Monthly Insurance Expense	-
Monthly Emission Allowance Expense from ES Form 2.31, 2.32 and 2.33	23
Less Monthly Emission Allowance Expense in base rates (1/12 of \$58,345.76)	4,862
Net Recoverable Emission Allowance Expense	(4,839)
Monthly Surcharge Consultant Fee	-
Total Pollution Control Operations Expense	\$ 2,778,893

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	6.50%
B. Net Jurisdictional E(m) for two months prior to Expense Month	11,108,995
C. Environmental Surcharge Revenue, current month (from ES Form 3.00)	6,688,271
D. Retail E(m) recovered through base rates (Base Revenues, ES Form 3.00 times 5.51%)	5,219,636
E. Over/(Under) Recovery due to Timing Differences ((D + C) - B)	798,912
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m)	

PROPOSED
KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
 Revenue Requirements of Environmental Compliance Costs
 0

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant	\$ 688,693,392	
Eligible Pollution CWIP Excluding AFUDC	-	
Subtotal		\$ 688,693,392
Additions:		
Inventory - Limestone	\$ -	
Less: Limestone Inventory in base rates	76,473	
Inventory - Emission Allowances per ES Form 2.31, 2.32 and 2.33	-	
Less: Allowance Inventory Baseline	69,415	
Net Emission Allowance Inventory	(69,415)	
Cash Working Capital Allowance	-	
Subtotal		(145,888)
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	151,261	
Pollution Control Deferred Income Taxes	-	
Pollution Control Deferred Investment Tax Credit	-	
Subtotal		151,261
Environmental Compliance Rate Base		\$ 688,396,243

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	(4,862)
Monthly Surcharge Consultant Fee	-
Total Pollution Control Operations Expense	\$ (4,862)

Proceeds From By-Product and Allowance Sales

	Total Proceeds	Amount in Base Rates	Net Proceeds
	(1)	(2)	(1) - (2)
Allowance Sales	\$ -	\$ -	\$ -
Scrubber By-Products Sales	-	-	-
Total Proceeds from Sales	\$ -	\$ -	\$ -