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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
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Frankfort, KY 40602

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AUG 31 2010

PUBLIC SERVICE
COMMISSION

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August 31, 2010

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH
BILLING PERIOD ENDING APRIL 30, 2010
CASE NO. 2010-00241***

Dear Mr. DeRouen:

In preparation for the technical conference scheduled in this proceeding, Kentucky Utilities Company discovered an error in the Direct Testimony and Data Responses. Please find enclosed and accept for filing the original and ten (10) copies of the affected pages with revisions shown in highlight.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy

Enclosures

cc: Parties of Record

1 **Q. Has the Commission recently approved changes to KU's ECR Compliance Plan?**

2 A. Yes. In Case No. 2009-00197, the Commission approved KU's 2009 ECR
3 Compliance Plan that included six new projects and associated operation and
4 maintenance costs and amended the 2006 Plan to include operation and maintenance
5 costs associated with the Air Quality Control System equipment for Trimble County
6 Unit 2 (Project 23). Pursuant to the Commission's December 23, 2009 Order, KU
7 began including the approved projects in the monthly filing for the December 2009
8 expense month that was billed in February 2010.

9 **Q. Are there any changes or adjustments in Rate Base from the originally filed
10 expense months?**

11 A. During the period under review, there were no changes to Rate Base from the
12 originally filed billing period as summarized in KU's response to the Commission
13 Staff's Request for Information, Question No. 1. In addition, there were no changes
14 identified as a result of preparing responses to the requests for information in this
15 review.

16 **Q. Are there any changes necessary to the jurisdictional revenue requirement
17 (E(m))?**

18 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
19 Order in Case No. 2000-00439 to reflect the actual changes in the overall rate of
20 return on capitalization that is used in the determination of the return on
21 environmental rate base. The changes in the actual cost of long term debt and capital
22 structure resulted in a decrease to cumulative E(m) of \$728,316. The details of and

1 already included as revenue in Column 12 of the October 2009 and November 2009
2 expense months.

3 **Q. As a result of the operation of the environmental surcharge during the billing**
4 **period under review, is an adjustment to the revenue requirement necessary?**

5 A. Yes. KU experienced a cumulative under-recovery of \$4,490,571 for the billing
6 period ending April 30, 2010. KU's response to Question No. 2 of the Commission
7 Staff's Request for Information shows the calculation of the \$4,490,571 cumulative
8 under-recovery. However, KU is adjusting this under-recovery position for a
9 correction made outside of the review period in this proceeding that affected the
10 February 2010 expense month. A \$3,931,660 prior period adjustment was included
11 in the April 2010 expense month filing submitted to the Commission on May 17,
12 2010. The net under-recovery position which KU is requesting in this proceeding is
13 \$577,091. Therefore, an adjustment to the revenue requirement is necessary to
14 reconcile the collection of past surcharge revenues with the actual cost for the billing
15 period under review.

16 **Q. Why is KU making the adjustment discussed above to the recovery position**
17 **contained in this review period?**

18 A. In the April 2010 expense month filing submitted to the Commission on May 17,
19 2010, KU identified an error in the amount of ECR revenue collected through base
20 rates for the February 2010 expense month filing that resulted in an under-collection
21 for February 2010 expenses. The February 2010 expense month filing included
22 \$16,950,373 as the amount collected through base rates; however, the correct amount
23 is \$13,036,713 as shown in Column 10, page 2 of 3, of KU's response to Question

1

| OVER/UNDER RECONCILIATION | | |
|-------------------------------------|--------------------|--------------------|
| Combined Over/Under Recovery | | (4,490,751) |
| Due to BESF Calculation Differences | (840,943) | |
| Due to use of BESF % | (1,460,847) | |
| Due to Change in ROR | 728,316 | |
| Use of 12-Month Average Revenues | 10,290,045 | |
| Due to Feb10 Expense Mo. Correction | (3,913,660) | |
| Transition Months | <u>(9,293,661)</u> | |
| Subtotal | | <u>(4,490,751)</u> |
| Unreconciled Difference | | - |

2

3 **Q. Please explain the change in rate of return.**

4 A. As previously stated, the cumulative impact of the revised rate of return resulted in a
5 decrease to the jurisdictional revenue requirement and an over-recovery of \$728,316.

6 **Q. Please explain the components related to the BESF.**

7 A. The use of the BESF only affects the first three months of the review period. As
8 discussed in prior review proceedings, one component is the result of a difference
9 between the calculation of the BESF in the previous 2-year review case and the
10 application of the BESF in the monthly filings. This component contributed to the
11 under-recovery in the amount of \$840,943. In addition use of the BESF percentage to
12 estimate the amount collected through base rates resulted in an under-recovery of
13 \$1,460,847.

1 A. As shown in the summary table above and on page 3 of KU's response to Question
2 No. 2 of the Commission Staff's Request for Information, the under-recovery from
3 the transition period was \$9,293,661 and as previously discussed, the error in the
4 February 2010 expense month resulted in an under-recovery of \$3,913,000.

5 **Q. What kind of adjustment is KU proposing in this case as a result of the operation**
6 **of the environmental surcharge during the billing period?**

7 A. KU is proposing that the net under-recovery position of \$577,091 be recovered in one
8 month following the Commission's Order in this proceeding. Specifically, KU
9 recommends that the Commission approve an increase to the Environmental
10 Surcharge Revenue Requirement of \$577,091 for one month, beginning in the second
11 full billing month following the Commission's Order in this proceeding. This method
12 is consistent with the method of implementing previous over- or under- recovery
13 positions in prior ECR review cases.

14 **Q. What is the bill impact on a residential customer for the proposed collection of**
15 **the under-recovery?**

16 A. KU is proposing to collect the under-recovery of \$577,091 in a one month period.
17 The inclusion of \$577,091 in the determination of the ECR billing factor will increase
18 the billing factor by approximately 0.62%. For a residential customer using 1,000
19 kWh the ECR billing factor will increase by approximately \$0.44 per month for one
20 month (using rates and adjustment clause factors in effect for the August 2010 billing
21 month).

22 **Q. What rate of return is KU proposing to use for all ECR Plans upon the**
23 **Commission's Order in this proceeding?**

1 A. KU is recommending an overall rate of return on capital of 10.86%, including the
2 currently approved 10.63% return on equity and adjusted capitalization, to be used to
3 calculate the environmental surcharge. This is based on capitalization as of February
4 28, 2010 and the Commission's Order of July 30, 2010 in Case No. 2009-00548.

5 **Q. What is your recommendation to the Commission in this case?**

6 A. KU makes the following recommendations to the Commission in this case:

7 a) The Commission should approve the proposed increase to the Environmental
8 Surcharge Revenue Requirement of \$577,091 for one month beginning in the
9 second full billing month following the Commission's Order in this
10 proceeding;

11 b) The Commission should determine environmental surcharge amount for the
12 six-month billing period ending April 30, 2010 to be just and reasonable;

13 c) The Commission should approve the use of an overall rate of return on capital
14 of 10.86% using a return on equity of 10.63% beginning in the second full
15 billing month following the Commission's Order in this proceeding.

16 **Q. Does this conclude your testimony?**

17 A. Yes.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

REVISED Response filed August 31, 2010

Case No. 2010-00241

Question No. 1

Witness: Robert M. Conroy / Shannon L. Charnas

- Q-1. Concerning the rate of return on the five amendments to the environmental compliance plan, for the period 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 corresponding billing period under review.
- A-1. Please see the REVISED Page 2 of the original attachment. Page 2 of the original attachment contained an error in the Rate of Return as Revised that resulted in an error in the calculation of the Jurisdictional True-up Adjustment.

Kentucky Utilities Company
Overall Rate of Return True-up Adjustment - Revised Rate of Return
Impact on Calculated E(m)

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|--|---------------|-------------------------|---------------------------|--------------------------|----------------------|--------------------|---|-----------------------------------|
| Billing Month | Expense Month | Rate of Return as Filed | Rate of Return as Revised | Change in Rate of Return | Rate Base as Revised | True-up Adjustment | Jurisdictional Allocation, ES Form 1.10 | Jursidictional True up Adjustment |
| | | | | (4) - (3) | | (5) * (6) / 12 | | (7) * (8) |
| Nov-09 | Sep-09 | 11.12% | 10.93% | -0.19% | \$ 1,286,590,705 | (203,710) | 87.86% | (178,980) |
| Dec-09 | Oct-09 | 11.12% | 10.93% | -0.19% | 1,297,196,155 | (205,389) | 87.44% | (179,592) |
| Jan-10 | Nov-09 | 11.12% | 10.93% | -0.19% | 1,305,616,597 | (206,723) | 85.53% | (176,810) |
| Feb-10 | Dec-09 | 11.00% | 10.93% | -0.07% | 1,317,124,291 | (76,832) | 83.85% | (64,424) |
| Mar-10 | Jan-10 | 11.00% | 10.93% | -0.07% | 1,322,992,882 | (77,175) | 84.36% | (65,104) |
| Apr-10 | Feb-10 | 11.00% | 10.93% | -0.07% | 1,330,252,270 | (77,598) | 81.71% | (63,405) |
| | | | | | | (847,427) | | (728,316) |
| Cumulative Impact of Changes in Rate of Return | | | | | | \$ (847,427) | | \$ (728,316) |

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

REVISED Response filed August 31, 2010

Case No. 2010-00241

Question No. 2

Witness: Robert M. Conroy

- Q-2. 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 applicable billing period. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in 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 period under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.
- A-2. Please see the REVISED attachment to this response for the summary schedule and cumulative components which make up the net under-recovery. The original attachment contained an error in the Rate of Return as Revised that resulted in an error in the calculation of the Combined Total Over/(Under) Recovery.

For the period under review, KU experienced a cumulative under-recovery of \$4,490,751. However, KU is adjusting this under-recovery position for a correction made outside of the review period that affected the February 2010 expense month as shown on page 2 of 3 on the attached schedule. The original February 2010 expense month filing included an overstatement of the ECR revenue collected through base rates, resulting in an under-recovery of \$3,913,660. The adjustment to correct the overstatement was shown as a prior period adjustment in the April 2010 expense month filing and was recovered through the June 2010 billing factor. Since the two months at issue are in different six-month periods, KU included the adjustment in this review period to avoid compounding the over/under recovery for its customers. The result is a net under-recovery of \$577,091 for the 6-month billing period under review.

Kentucky Utilities Company
 Calculation of E(m) and Jurisdictional Surcharge Billing Factor
 Summary Schedule for Expense Months September 2009 through February 2010

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---------------|----------------------|------------------------------|---------------------------|--|-----------------|-------------------------|---|
| Expense Month | Rate Base as Revised | Monthly Rate Base as Revised | Rate of Return as Revised | Operating Expenses (net of allowance proceeds) | Total E(m) | Retail Allocation Ratio | Retail E(m) Comments: As Revised in This Review |
| | ES Form 2.00 | (2) / 12 | | ES Form 2.00 | (3) * (4) + (5) | ES Form 1.10 | (6) * (7) |
| Sep-09 | 1,286,590,705 | 107,215,892 | 10.93% | 4,072,334 | 15,791,031 | 87.86% | 13,874,000 |
| Oct-09 | 1,297,196,155 | 108,099,680 | 10.93% | 4,116,193 | 15,931,488 | 87.44% | 13,930,493 |
| Nov-09 | 1,305,616,597 | 108,801,383 | 10.93% | 4,071,680 | 15,963,671 | 85.53% | 13,653,728 |
| Dec-09 | 1,317,124,291 | 109,760,358 | 10.93% | 4,300,116 | 16,296,923 | 83.85% | 13,664,970 |
| Jan-10 | 1,322,992,882 | 110,249,407 | 10.93% | 4,263,933 | 16,314,193 | 84.36% | 13,762,653 |
| Feb-10 | 1,330,252,270 | 110,854,356 | 10.93% | 4,226,741 | 16,343,122 | 81.71% | 13,353,965 |
| | 7,859,772,900 | 654,981,075 | | | | | |

Kentucky Utilities Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months September 2009 through February 2010

| (1) Billing Month | (2) Expense Month | (3) Rate of Return as Filed | (4) Rate of Return as Revised | (5) Change in Rate of Return (4) - (3) | (6) Rate Base as Revised | (7) Impact of change in Rate of Return (5) * (6) / 12 | (8) Jurisdictional Allocation, ES Form 1 10 | (9) Jurisdictional Impact (7) * (8) |
|--|----------------------|--------------------------------|----------------------------------|---|-----------------------------|--|--|--|
| Nov-09 | Sep-09 | 11 12% | 10.93% | -0.19% | \$1,286,590,705 | 203,710 | 87.86% | 178,980 |
| Dec-09 | Oct-09 | 11 12% | 10.93% | -0.19% | 1,297,196,155 | 205,389 | 87.44% | 179,592 |
| Jan-10 | Nov-09 | 11 12% | 10.93% | -0.19% | 1,305,616,597 | 206,723 | 85.53% | 176,810 |
| Feb-10 | Dec-09 | 11 00% | 10.93% | -0.07% | 1,317,124,291 | 76,832 | 83.85% | 64,424 |
| Mar-10 | Jan-10 | 11 00% | 10.93% | -0.07% | 1,322,992,882 | 77,175 | 84.36% | 65,104 |
| Apr-10 | Feb-10 | 11 00% | 10.93% | -0.07% | 1,330,252,270 | 77,598 | 81.71% | 63,405 |
| Cumulative Impact of Changes in Rate of Return | | | | | | \$ 847,427 | | \$ 728,316 |

| (1) | (2) | (3) Base Rate Revenues (from ES Form 3 00) | (4) As filed BESF * Base Rates (from ES Form 2 00) | (5) Actual ECR Base Rates (Q2, pg 2, Col 12) | (6) As Filed BESF (from ES Form 1 00) | (7) Recalculated BESF | (8) Recalc BESF * Base Rates (3) * (7) | (9) Recalculation Difference (8) - (4) | (10) BESF % Difference (5) - (8) |
|--------|--------|---|---|---|--|--------------------------|---|---|-------------------------------------|
| Nov-09 | Sep-09 | 71,835,175 | 3,958,118 | 3,351,618 | 5.51% | 5.20% | 3,735,429 | (222,689) | (383,811) |
| Dec-09 | Oct-09 | 91,427,506 | 5,037,656 | 4,235,223 | 5.51% | 5.20% | 4,754,230 | (283,426) | (519,007) |
| Jan-10 | Nov-09 | 108,908,979 | 5,951,295 | 5,058,438 | 5.51% | 5.20% | 5,616,467 | (334,828) | (558,029) |
| Feb-10 | Dec-09 | - | - | - | - | - | - | - | - |
| Mar-10 | Jan-10 | - | - | - | - | - | - | - | - |
| Apr-10 | Feb-10 | - | - | - | - | - | - | - | - |
| | | 271,271,660 | 14,947,069 | 12,645,279 | | | 14,106,126 | (840,943) | (1,460,847) |
| | | Actual Base Rate Collections | 12,645,279 | | | | Actual Base Rate Collections | 12,645,279 | (1,460,847) |
| | | | (2,301,790) | | | | | | |

| (1) Billing Month | (2) Expense Month | (3) Combined Total Over/(Under) Recovery (Q2, pg 2, Col 14) | (4) ROR True-up | (5) BESF Calculation Differences | (6) Use of BESF % | (7) Use of 12 Month Average Revenues | (8) Correction to Feb10 Expense Month Filing | (9) Transition Months - ECR Rev collected through Base Rates |
|-----------------------------|----------------------|--|--------------------|-------------------------------------|----------------------|---|---|---|
| Nov-09 | Sep-09 | (2,959,472) | 178,980 | (222,689) | (383,811) | (2,531,952) | | |
| Dec-09 | Oct-09 | 773,324 | 179,592 | (283,426) | (519,007) | 1,396,165 | | |
| Jan-10 | Nov-09 | 5,698,406 | 176,810 | (334,828) | (558,029) | 6,414,453 | | |
| Feb-10 | Dec-09 | (1,543,120) | 64,424 | - | - | 2,627,679 | | (4,235,223) |
| Mar-10 | Jan-10 | (3,141,670) | 65,104 | - | - | 1,851,663 | | (5,058,438) |
| Apr-10 | Feb-10 | (3,318,219) | 63,405 | - | - | 532,036 | (3,913,660) | |
| | | (4,490,751) | 728,316 | (840,943) | (1,460,847) | 10,290,045 | (3,913,660) | (9,293,661) |
| Feb10 Expense Mo Correction | | 3,913,660 | | | | | | |
| Net Over/(Under) Recovery | | (577,091) | | | | | | |

| OVER/UNDER RECONCILIATION | |
|---|-------------|
| Combined Over/(Under) Recovery | (4,490,751) |
| Due to BESF Calculation Differences | (840,943) |
| Due to use of BESF % | (1,460,847) |
| Due to Change in ROR | 728,316 |
| Use of 12 Month Average Revenues | 10,290,045 |
| Due to Feb10 Expense Mo Correction | (3,913,660) |
| Transition Months - ECR Revenue in Base Rates | (9,293,661) |
| Subtotal | (4,490,751) |
| Unreconciled Difference | - |

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

REVISED Response filed August 31, 2010

Case No. 2010-00241

Question No. 6

Witness: Robert M. Conroy

- Q-6. Provide the dollar impact the over-/under-recovery will have on the average residential customer's bill for the requested recovery period.
- A-6. Based upon recovering the net under-recovered position of \$577,091 over one month, the ECR billing factor for a residential customer using 1,000 kWh will increase by approximately \$0.44 per month, using rates and adjustment clause factors in effect for the August 2010 billing month.