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David L. Armstrong
Chairman

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Vice Chairman

Charles R. Borders
Commissioner

September 8, 2010

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2010-00241
Case No. 2010-00242

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 Derouen".

Jeff Derouen
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2010-00241
Main Case File - Case No. 2010-00242

FROM: Ronald Handziak, Team Leader *RH*

DATE: September 8, 2010

RE: Informal Conference of September 1, 2010

Pursuant to the Commission's July 13, 2010 Order, on September 1, 2010, 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 Attachments 1 and 2

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 July 13, 2010 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 for both LG&E and KU. The handout is attached to this memorandum as Attachment 3.

Commission Staff asked a few clarifying questions related to information included in the handout and the response to the data request. LG&E and KU agreed to provide, within ten business days, further information regarding the tax rate used in a response to the data request. Because there are no intervenors in either case, LG&E and KU requested that the proceedings be submitted for decision based on the record. 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. 2010-00241

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

SIGN IN

September 1, 2010

PERSON

REPRESENTING

~~Justin~~ P. Powell

PSC - Legal

Vicky Townes

PSC - FA

Ron Havelzak

PSC - FA

Shannon Charles

E.ON U.S.

Duncan Crosby

"

Robert Conroy

LG&F / KU

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2010-00242

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-MONTH BILLING PERIOD ENDING APRIL 30, 2010

SIGN IN

September 1, 2010

PERSON

REPRESENTING

Vicky S. Townes

PSC - FA

~~Justin~~ B. Powell

PSC - Legal

Ron Handzjak

PSC - FA

Shannon Charles

E.ON U.S.

Duncan Crosby

"

Robert Conroy

LG&E / KU

ECCR Review
Case Nos. 2010-00241
and 2010-00242

Kentucky Utilities Company
Louisville Gas and Electric Company
September 1, 2010

Review Cases

- Review Period
 - Six-month period for expense months of September 2009 through February 2010
- Modification of ECR Mechanism
 - Revenue Requirement method implemented in the December 2009 expense month
 - Transition Period
- 2009 ECR Compliance Plan
 - Plans approved in December 2009
- Out-of-Period Correction
 - February 2010 expense month corrected in April 2010

Operation of the ECR

- Components that make up the under-collections:
 - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
 - BESF-related issues
 - Use of 12-month average revenues to determine the billing factor
 - Transition months to implement revenue requirement method
 - Out-of-period correction for the February 2010 expense month corrected in April 2010

Over/(Under) Reconciliation

| | KU | LG&E |
|-------------------------------------|----------------------|----------------------|
| Combined Over/(Under) Recovery | (\$4,490,751) | (\$5,714,763) |
| Due to BESF Calculation Differences | (840,943) | (262,553) |
| Due to Use of BESF % | (1,460,847) | (344,185) |
| Due to Change in Rate of Return | 728,316 | (146,360) |
| Use of 12-Month Average Revenues | 10,290,045 | 62,884 |
| Feb-10 Expense Month Correction | (3,913,660) | (941,134) |
| Transition Months | (9,293,661) | (4,083,414) |
| Subtotal | <u>(\$4,490,751)</u> | <u>(\$5,714,763)</u> |
| Unreconciled Difference | (-) | (-) |

Modification of ECR Mechanism

- Commission approved modifications to the ECR Mechanism in its December 2, 2009 Orders, including:
 - Use of a revenue requirement method to calculate monthly billing factor in place of the percentage method (BESF method)
 - Elimination of two-month true-up
 - Revised ES Forms
- December 2009 Expense Month filing made on January 15, 2010 incorporated new forms and methodology
- Transition period includes December 2009 and January 2010 expense months

Transition Period

6-Month Review Period

| Monthly Filing Method | Expense Month | Percentage Method in Use | | | Revenue Requirement Method in Use | | |
|-----------------------------------|--------------------------------------|--------------------------|--------|--------|-----------------------------------|--------|--------|
| | | Sep-09 | Oct-09 | Nov-09 | Dec-09 | Jan-10 | Feb-10 |
| PERCENTAGE METHOD (BESF) | | | | | | | |
| | Collected thru Base Rates (Estimate) | Nov-09 | Dec-09 | Jan-10 | | | |
| | Collected thru Billing Factor | Nov-09 | Dec-09 | Jan-10 | | | |
| REVENUE REQUIREMENT METHOD | | | | | | | |
| | Collected thru Base Rates (Actual) | | | | Dec-09 | Jan-10 | Feb-10 |
| | Collected thru Billing Factor | | | | Feb-10 | Mar-10 | Apr-10 |
| | Transition Period | | | | | | |

2009 ECR Compliance Plans

- On December 23, 2009, the Commission approved the 2009 ECR Compliance Plans for KU and LG&E
 - KU 2009 Plan includes 6 projects
 - LG&E 2009 Plan includes 4 projects
 - Revised ES Forms
- Began including approved projects in the monthly filing for the December 2009 expense month billed in February 2010

Out-of-Period Correction

- February 2010 expense month included an overstatement of ECR revenue collected through base rates
- Correction filed with April 2010 expense month as prior period adjustment and recovered through June 2010 billing factor
- Crosses two six-month review periods
- Adjustment in this proceeding to avoid compounding the over/under recovery for customers
 - Adjustment to KU is \$3,913,660
 - Adjustment to LG&E is \$941,134

Out-of-Period Correction – Net Recovery Position

- Net under-recovery position – KU
 - Cumulative under-recovery for the 6-month period is \$4,490,751
 - Adjustment for out-of-period correction is \$3,913,660
 - Net under-recovery position is \$577,091
- Net under-recovery position – LG&E
 - Cumulative under-recovery for the 6-month period is \$5,714,763
 - Adjustment for out-of-period correction is \$941,134
 - Net under-recovery position is \$4,773,629

Recommendations – KU and LG&E

- Approve collection of net under-collections:
 - KU under-collection of \$577,091 over a one month period
 - LG&E under-collection of \$4,773,629 over a six month period
- Find environmental surcharge amounts for the billing period ending April 2010 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
 - 10.86% for KU
 - 11.18% for LG&E