

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. 95-060  
UTILITIES COMPANY AS BILLED FROM )  
AUGUST 1, 1994 TO JANUARY 31, 1995 )

O R D E R

On March 1, 1995, the Commission initiated its first six-month review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers from August 1, 1994 through January 31, 1995.<sup>1</sup> Pursuant to KRS 278.183(3) the Commission must review, at six-month intervals, the past operations of the surcharge and, after hearing, disallow any surcharge amounts that are not just and reasonable and reconcile past surcharge collections with actual costs recoverable.

Motions to intervene by the Kentucky Industrial Utility Customers ("KIUC"), the Lexington-Fayette Urban County Government ("LFUCG"), and the Attorney General of the Commonwealth of Kentucky ("AG") were granted. A public hearing was held on May 31, 1995. All information requested at the public hearing has been filed.

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<sup>1</sup> As KU's surcharge is billed on a two-month lag, the amounts billed from August 1994 through January 1995 are based on costs incurred from June 1994 through November 1994.

## ISSUES

### Revenues Included in Surcharge Factor Calculations

KIUC and the AG<sup>2</sup> charge that KU improperly calculated the monthly environmental surcharge factor by excluding off-system sales revenues from total company revenues. They argue that the Commission ordered KU to use total company revenues in the surcharge factor calculation, without qualification. Both cite the Commission's decision in Case No. 94-332,<sup>3</sup> where the Commission ordered the Louisville Gas and Electric Company ("LG&E") to include off-system sales in total revenues, consistent with its previous environmental surcharge decisions for KU and the Big Rivers Electric Corporation ("Big Rivers").<sup>4</sup> KIUC and the AG urge rejection of the alternative methods of assigning environmental costs to off-system sales proposed by KU.

KU argues that including total off-system sales revenues in the calculation of the environmental surcharge factor is not necessary to treat retail customers fairly. It states that the Commission's July 19, 1994 Order in Case No. 93-465<sup>5</sup> did not

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<sup>2</sup> LFUCG adopted the brief of the AG as its brief.

<sup>3</sup> Case No. 94-332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, Order dated April 6, 1995.

<sup>4</sup> Id., at 21 and 22.

<sup>5</sup> Case No. 93-465, 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.

prevent the Commission from clarifying the treatment of off-system sales revenues or improving upon its rate-making decision made in the Big Rivers and LG&E proceedings. KU further argues that its proposed treatment of off-system sales revenues would not discriminate between its customers and those of other utilities.<sup>6</sup>

KU proposes to credit revenues associated with emission allowances used to make off-system sales toward the monthly expenses through the BAS component of the surcharge formula. It argues that this method affords retail customers the benefits from off-system sales, and maintains a reasonable balance between recovering certain environmental compliance costs through the surcharge and the revenues from off-system sales. As an alternative, KU proposes to adjust off-system sales revenues to remove several components currently recognized by the Commission in separate rate-making applications.

KU opposed KIUC's proposal to include the revenues from emission allowances used in off-system sales in both the numerator and denominator of the surcharge formula. KU offered a modification to the KIUC approach, but stressed that its original proposal for treating revenues from emission allowances used to produce power sold off-system was the most reasonable.

The Commission has reviewed the record in Case No. 93-465 to determine the revenue levels KU proposed to incorporate into the surcharge formula. There is no reference in the application or its exhibits to support KU's claim that it intended to exclude off-

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<sup>6</sup> KU Brief, at 4.

system sales revenues from the surcharge formula. In KU's proposed reporting formats, revenues are identified as Total Jurisdictional, Total Non-Jurisdictional, and Total Company.' (Emphasis added.) The only identified adjustments to revenues are for the fuel adjustment clause and the environmental surcharge.<sup>8</sup>

In seeking approval for the surcharge, KU stated that the sale of emission allowances would be treated as an offset to costs, and that while no rate-making methodology had been developed, one would be proposed in the future.<sup>9</sup> In approving KU's surcharge, the Commission determined that gross revenues from emission allowance sales would be credits in the surcharge formula and that total revenues would be used to allocate the surcharge to customers.<sup>10</sup> KU now proposes to credit the environmental surcharge for revenues from the sale of emission allowances associated with off-system power sales but not for the revenues from these power sales.<sup>11</sup>

KU's proposal will not result in a proper allocation of the surcharge to KU's retail customers. The costs recovered through the environmental surcharge are not exclusively related to emission

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<sup>7</sup> Case No. 93-465 Application, Willhite Exhibit 4, page 5 of 5.

<sup>8</sup> Id., Willhite Exhibit 5, page 3 of 3. While KU references "Total Internal Revenues" in column 3 of the schedule, no explain was offered as to what "internal" meant.

<sup>9</sup> Case No. 93-465 Application, Willhite Testimony at 6 and Hewett Testimony at 13.

<sup>10</sup> Case No. 93-465 Order dated July 19, 1994, at 16, 20, 21, and Appendix B, ES Forms 3.0 and 4.0.

<sup>11</sup> Response to the Commission's Order dated March 31, 1995, Item 3, page 2 of 2.

allowances. Furthermore, the same emission allowances cannot be simultaneously used and sold. KU has attempted to justify its concept by reference to provisions in its interconnection agreements, which determine how a selling utility will be compensated for the emission allowances used to generate the electricity it sells. KU states that under Federal Energy Regulatory Commission ("FERC") policy, the purchasing utility may either pay the costs of the emission allowance or return the emission allowance in kind.<sup>12</sup> However, paying the costs of the allowance used does not constitute a sale nor does returning the allowance in kind constitute a purchase. The FERC policy deals with the compensation options available when an emission allowance is used. The compensation KU receives for allowances used is simply part of the revenue generated by wholesale electric sales and does not constitute a sale of an emission allowance.

The Commission's July 19, 1994 Order requires KU to use total revenues in the surcharge calculation. The decision to calculate the surcharge on total revenues comports with both the letter and the spirit of KRS 278.183 and is consistent with the Commission's prior decisions in the LG&E and Big Rivers environmental surcharge cases.

Therefore, KU should include off-system sales in total revenue in any environmental surcharge factor calculations filed after the date of this Order. In addition, the BAS component should exclude the revenues from emission allowances used in association with off-

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<sup>12</sup> Willhite Rebuttal Testimony, at 8.

system power sales. For surcharge filings made subsequent to this review period, but before the date of this Order, KU should include appropriate adjustments in subsequent six-month reviews.

Retired Environmental Compliance Plant Included in Existing Rates

KIUC asserts that KU's compliance plan included some projects to replace utility plant that was included in the rate base in KU's last rate case. Thus KU, like LG&E, had retired or replaced environmental compliance plant currently included in existing rates, but failed to include an adjustment to eliminate the "double recovery" in the surcharge calculations. KIUC urges the Commission to require KU to make the same adjustment in the surcharge calculation that was required of LG&E.<sup>13</sup>

KU initially indicated that no double recovery had occurred.<sup>14</sup> However, on May 23, 1995, KU filed workpapers showing that utility plant relating to environmental projects in existing rates had been retired. KU then revised its calculation of a proposed under-recovery factor to reflect the rate base and operating expense impacts of removing the retired plant.<sup>15</sup> KU noted that it had made

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<sup>13</sup> Falkenberg Direct Testimony, at 12.

<sup>14</sup> Response to KIUC's First Set of Data Requests, Items 6 through 20.

<sup>15</sup> See response to the Commission's March 1, 1995 Order, Item 1. ES Forms 4.0, 4.1, and 4.2 were revised, showing a reduction of the under-recovery factor from .05 percent to .03 percent. The total under recovery for the review period was reduced from \$143,008 to \$85,802.

such an adjustment in its monthly surcharge report for each expense month since April 1995.<sup>16</sup>

To require ratepayers to pay a surcharge for the costs of compliance projects while the existing rates include the cost of related plant no longer in service would be unreasonable and would violate KRS 278.183(2).<sup>17</sup> Therefore, KU's adjustment for retired environmental compliance plant should be accepted. The Commission has also reviewed the modifications to the monthly surcharge report which reflect these retirements. The changes to ES Form 2.1 are reasonable, and the Commission adopts this revised format. (Appendix A of this Order includes an example of the revised format.) For surcharge filings after this review period, but before the April 1995 expense month filing, KU should determine the appropriate adjustments and include them in the next six-month review.

#### Surcharge Roll In at Two-Year Review

KIUC questions whether the surcharge should remain as a separate line item on customer bills or be incorporated into base rates after the two-year review. It is concerned that, if the surcharge is incorporated into rates, reductions to the surcharge rate base due to ongoing depreciation would stop.<sup>18</sup> The AG agrees.<sup>19</sup> KU maintains that the Orders in Case No. 93-465

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<sup>16</sup> KU Brief, at 13.

<sup>17</sup> Case No. 94-332 Order dated April 6, 1995, at 9.

<sup>18</sup> KIUC Main Brief, at 10.

<sup>19</sup> AG Brief, at 5.

adequately address this concern and notes that KRS 278.183(3) requires the Commission to incorporate surcharge amounts found just and reasonable into existing base rates at the time of the two-year review.<sup>20</sup>

KIUC acknowledges in its brief that KU had addressed its depreciation concern. While surcharge amounts eligible for incorporation will not be known until the two-year review, incorporation of expenses found proper is required by KRS 278.183(3).

#### Docket Status

KIUC and the AG argue that the Commission should keep this case open and make any surcharge allowed in this proceeding subject to refund, given that the appeal of the Commission's Orders in Case No. 93-465 is still pending. KU counters that no section of KRS 278 grants the Commission authority to make a rate subject to refund because an appeal is pending in the courts.

On July 20, 1995, the Franklin Circuit Court entered a judgment on the appeal of the Commission's Orders in Case No. 93-465. The Court vacated that portion of those Orders allowing KU to recover environmental expenditures incurred before January 1, 1993 and remanded the case to the Commission. That judgment has been the subject of post-judgment motions, and intervenors have advised the Court that they plan to appeal its decision. Therefore, it is appropriate that all surcharge revenues collected from the date of this Order be subject to refund. However, no reasonable basis has

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<sup>20</sup> KU Brief, at 14.



been offered to support keeping this proceeding open, and that request is denied.

#### Emission Allowance Inventory

One of KU's schedules contains information about its emission allowance inventory. It shows the total inventory balance, regardless of allowance vintage year. During the public hearing, questions arose concerning KU's calculation of the weighted average cost of its inventory and how a \$25,000 extension allowance pooling group ("pooling group") membership fee was included in the calculations. KU filed additional information concerning these issues after the public hearing.<sup>21</sup>

The FERC Uniform System of Accounts requires that the inventory cost of emission allowances be the weighted average cost by vintage year. KU's responses indicate that it is properly calculating the weighted average cost by vintage year. Further, it is appropriate to allocate the pooling group membership fee to each vintage year in proportion to the level of extension allowances granted in that year. KU has however been improperly classifying the pooling group membership fee as part of the cost of allowances purchased. As the fee is directly related to extension allowances, it should be classified as a cost of extension allowances. Therefore, in all monthly surcharge reports filed subsequent to this Order, KU should include the fee as a cost of extension allowances rather than as a cost of purchased allowances.

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<sup>21</sup> Post-Hearing Data Response, filed June 26, 1995, Item 2.

In addition, the current reporting format for the allowance inventory does not provide sufficient information. A revised inventory schedule, providing for both summary and vintage year reporting, is included in Appendix A. The revised formats should be used in the monthly surcharge reports filed subsequent to this Order.

#### SURCHARGE ADJUSTMENT

KU determined that for the six-month review period, it failed to recover \$85,802 to which it was entitled.<sup>22</sup> KU calculated a monthly correction factor of .03 percent to be added to the monthly surcharge factor for the next six months.<sup>23</sup> KIUC determined that KU had recovered \$184,000 more than it was entitled to recover and proposed that a monthly correction factor of a negative .06 percent should be included in the monthly surcharge factor for the next six months.<sup>24</sup>

The Commission has determined that for the six-month period under review, KU recovered \$192,169 in excess of the amount to which it was entitled under its environmental surcharge. The calculations are shown in Appendix B to this Order. This amount reflects the effects of including off-system sales and removing retired compliance utility plant. The excessive recovery requires

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<sup>22</sup> See footnote 15.

<sup>23</sup> Revised ES Form 4.0, filed May 23, 1995.

<sup>24</sup> Transcript of Evidence, May 31, 1995, at 63. KIUC had originally calculated an over recovery of \$127,000 and a correction factor of a negative .04 percent prior to KU amending its calculations reflecting compliance plant retirements. See Falkenberg Direct Testimony, at 10.

a monthly correction factor of a negative .06 percent. Application of the correction factor will affect two subsequent six-month review periods. Given this fact, and the relatively small size of the adjustment, KU should reflect the entire excessive recovery of \$192,169 as an adjustment in the monthly surcharge report filed within 40 days of the date of this Order. By requiring the immediate implementation of this adjustment, the Commission is not abandoning the possible use of a six-month correction factor in future proceedings.

IT IS THEREFORE ORDERED that:

1. KU shall reduce by \$192,169, the environmental surcharge gross revenue requirement submitted in the monthly surcharge report filed within 40 days of the date of this Order.

2. KU's proposed correction factor is denied.

3. KU shall include off-system sales in any environmental surcharge factor calculations and shall exclude from the BAS component the revenue for emission allowances used in association with off-system power sales.

4. a. All environmental surcharge revenues collected from the date of this Order shall be subject to refund, pending the final determination of the Commission's Orders in Case No. 93-465.


b. KU shall maintain its records in such manner as will enable it, the Commission, or any of its customers, to determine the amounts to be refunded and to whom due in the event a refund is ordered by the Commission.


5. The modified reporting formats included in Appendix A shall replace the corresponding formats authorized in Case No. 93-465.

6. KU shall incorporate all revisions made in this Order in the appropriate future six-month review proceedings.

Done at Frankfort, Kentucky, this 22nd day of August, 1995.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION  
IN CASE NO. 95-060 DATED AUGUST 22, 1995.

REVISED REPORTING FORMATS FOR THE KENTUCKY UTILITIES COMPANY  
ENVIRONMENTAL SURCHARGE  
[Monthly Reports]

- ES Form 2.1 Plant, CWIP & Depreciation Expense,  
Pages 1 and 2 of 2  
[Modified to reflect Compliance Plant  
Retirements already included in existing  
rates. Adoption of KU format]
- ES Form 2.3 Inventory of Emission Allowances,  
Summary and Vintage Year Pages  
[Inventory pages for each vintage year must be  
included with the first monthly surcharge  
report filed after this Order. In subsequent  
months, provide inventory pages for those  
vintage years which had activity for the  
expense month.]

KENTUCKY UTILITIES COMPANY

ENVIRONMENTAL SURCHARGE - PLANT, CWIP & DEPRECIATION EXPENSE

For the Month Ended: June 1995

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	PLANT IN SERVICE BALANCE	EXCLUDE CHARGES PRIOR TO 6/30/92	ELIGIBLE PLANT AMOUNTS	ELIGIBLE ACCUM. DEPREC.	ELIGIBLE NET PLANT IN SERVICE	CWIP AMOUNT EXCLUDING AFUDC	ELIGIBLE NET BOOK VALUE	NET BOOK VALUE DEDUCTION TO RECOGNIZE RETIREMENT OF CERTAIN ENV. PROJ. (*)	RESULTING ELIGIBLE NET BOOK VALUE	MONTHLY DEPREC. EXPENSE	DEPREC. EXPENSE DEDUCTION TO RECOG. RETIREMENT OF CERTAIN ENV. PROJ. (*)	RESULTING ELIGIBLE DEPREC. EXPENSE
SCRUBBER	88,718,103	0	88,718,103	2,407,701	88,308,402	8,440,962	91,789,364	1,333	91,788,031	378,718	3	378,715
GYPHUM STACKER	14,025,428	0	14,025,428	383,407	13,642,021	1,313,813	14,955,834	0	14,955,834	59,959	0	59,959
FLUE GAS DISPERSION	7,319,037	0	7,319,037	370,100	6,948,937	9,151	6,958,088	201,255	6,756,833	21,734	861	20,873
EMISSION MONITORING	4,530,533	111,480	4,419,053	136,481	4,282,572	3,125,652	7,418,424	1,080,254	6,338,170	12,401	0	12,401
NOX REDUCTION BR1, BR3	9,160,475	0	9,160,475	676,384	8,474,091	32,252	8,506,342	150,451	8,355,891	28,907	1,150	27,757
NOX RED. BR2, GH1, GF4	6,807,799	0	6,807,799	8,793,186	8,793,186	2,171,588	8,964,774	78,900	8,885,874	19,102	509	18,593
ASH POND ELEVATION	19,648,416	0	19,648,416	2,270,001	17,378,415	(4,419)	17,373,997	245,860	17,128,137	73,677	907	72,770
NEW ASH STORAGE	19,702,561	0	19,702,561	263,284	19,439,277	6,528,890	24,968,167	30,522	24,947,645	43,881	58	43,823
PRECIP AND ASH HANDLING	39,312,135	15,219,101	24,093,034	8,485,711	15,607,322	(372)	15,606,951	14,629	15,592,322	64,248	0	64,248
ASH POND FILTRATION SYS.	5,308,403	4,969,662	338,741	139,679	199,062	0	199,062	0	199,062	900	0	900
PRECIPITATOR: ALL PLANTS	792,327	0	792,327	66,429	725,898	345,783	1,071,681	122,665	939,016	1,875	525	1,350
PRECIPITATOR: GHENT 1	4,281,192	0	4,281,192	64,860	4,216,332	122,480	4,338,793	198,643	4,140,150	10,810	1,049	9,761
PRECIPITATOR: BROWN 1	145,738	0	145,738	3,330	142,408	1,051,105	1,193,514	1,312	1,192,202	555	0	555
DRY FLY ASH HANDLING	567,614	0	567,614	165,248	402,366	0	402,366	0	402,366	1,675	0	1,675
DUST ELIMINATION SYSTEM	522,523	18,190	506,333	163,454	342,879	63,210	406,089	0	406,089	1,398	0	1,398
<b>TOTAL</b>	<b>220,930,282</b>	<b>20,316,433</b>	<b>200,613,849</b>	<b>15,710,682</b>	<b>184,903,166</b>	<b>19,290,279</b>	<b>204,163,446</b>	<b>2,125,653</b>	<b>202,027,793</b>	<b>717,540</b>	<b>5,062</b>	<b>712,478</b>

Elimination of Original Investment and Acc. Depreciation.....

(2,853,345) (527,692)

(\*) Based on Original

Investment..... 2,853,345

Eligible Pollution Control Plant and Depreciation.....

197,960,504 15,182,990

Accumulated Depr..... (527,692)

Net Book Value..... 2,125,653

(\*) Note: The adjustments to reflect the retirement of certain environmental projects for all previous months will be handled in the applicable six-month review cases through a recalculation of the ES factor and a corresponding adjustment to the over/under recovery amount.

KENTUCKY UTILITIES COMPANY

CATE- GORY	DESCRIPTION	UNAMORTIZED INVESTMENT TAX CREDIT			DEFERRED TAX BALANCE			Property Tax Activity
		Unamortized ITC @ 6/30/95	Deductions to recognize retirement of certain Envir. Projects	Resulting Unamortized ITC @ 6/30/95	Deferred Tax Balance @ 6/30/95	Deductions to recognize retirement of certain Envir. Projects	Resulting Deferred Tax Balance @ 6/30/95	
1	SCRUBBER		26	(28)	(2,009,044)	298	(2,009,340)	10,763
2	GYPSUM STACKER			0	(220,102)		(220,102)	1,697
3	FLUE GAS DISPERSION	7,504	18,790	(11,288)	196,873	47,171	149,702	883
4	EMISSION MONITORING		108,089	(108,089)	(108,671)	17,707	(128,378)	698
5	NOX REDUCTION EWB1, EWB3		4,077	(4,077)	1,025,458	43,025	982,433	1,103
6	NOX RED. EWB2, GH1, GR4		2,453	(2,453)	(39,004)	16,311	(55,315)	850
7	ASH POND ELEVATION		19,482	(19,482)	3,694,802	30,213	3,664,589	2,499
8	NEW ASH STORAGE		1,076	(1,076)	(202,614)	3,944	(208,558)	3,967
9	PRECIP AND ASH HANDLING	978,085	1,170	976,915	4,451,155	407	4,450,748	3,118
10	ASH POND FILTRATION SYSTEM	15,679		15,679	74,320		74,320	41
11	PRECIPITATOR - ALL PLANTS		7,701	(7,701)	25,547	27,881	(2,334)	115
12	PRECIPITATOR - GHENT 1		7,973	(7,973)	11,709	47,847	(35,938)	514
13	PRECIPITATOR - BROWN 1		34	(34)	(4,799)	404	(5,203)	26
14	DRY FLY ASH HANDLING	24,578		24,578	109,543		109,543	68
15	DUST ELIMINATION SYSTEM	21,446		21,446	94,894		94,894	66
	TOTAL	1,047,292	168,851	878,441	7,100,067	235,006	6,865,061	26,404

Deductions to recognize  
retirement of certain  
Environmental Projects..... 256  
26,148

**KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE - INVENTORY OF EMISSION ALLOWANCES**  
**SUMMARY OF ALL VINTAGE YEARS**  
 For the Month Ended \_\_\_\_\_

	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory	Allocation, Purchase or Sale Date & Vintage Years
<b>TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS:</b>						
Quantity						
Dollars						
\$/Allowance						
<b>ALLOCATED ALLOWANCES FROM EPA:</b>						
Quantity						
Dollars						
<b>EXTENSION ALLOWANCES FROM EPA:</b>						
Quantity						
Dollars						
<b>ALLOWANCES FROM OVER-CONTROL (OVER-SCRUBBING):</b>						
Quantity						
Dollars						
<b>ALLOWANCES FROM PURCHASES:</b>						
Quantity						
Dollars						
\$/Allowance						
KU is required to maintain adequate allowance records which will allow ready identification of the number of each classification of allowances included in Ending Inventory.						



**KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL BURCHARGE - INVENTORY OF EMISSION ALLOWANCES**  
**INVENTORY FOR VINTAGE YEAR \_\_\_\_\_**  
**For the Month Ended \_\_\_\_\_**

	Beginning Inventory	Allocations/ Purchases	Utilized	Sold	Ending Inventory	Allocation, Purchase or Sale Date & Vintage Years
<b>TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS:</b>						
Quantity						
Dollars						
Weighted Aver.						
<b>ALLOCATED ALLOWANCES FROM EPA:</b>						
Quantity						
Dollars						
<b>EXTENSION ALLOWANCES FROM EPA:</b>						
Quantity						
Dollars						
<b>ALLOWANCES FROM OVER-CONTROL (OVER-SCRUBBING):</b>						
Quantity						
Dollars						
<b>ALLOWANCES FROM PURCHASES:</b>						
Quantity						
Dollars						
Weighted Aver.						
KU is required to maintain adequate allowance records which will allow ready identification of the number of each classification of allowances included in Ending Inventory.						

**NOTE:** File vintage year inventory sheets for all years with first filing after Order in Case No. 95-060. In subsequent filings, include vintage year inventory sheets only if there was inventory changes during the expense month.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION  
IN CASE NO. 93-060 DATED AUGUST 22, 1995.

KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE - ES FORM 4.0  
SIX MONTH REVIEW  
RECAP OF BILLING FACTORS AND REVENUE  
For the Period August 1994 through January 1995

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
CURRENT EXPENSE MONTH	E(m) GROSS ENVIRON SURCHARGE REVENUE REQUIREMENT	ADJUSTED TOTAL COMPANY REVENUE [INCL FAC, EXCL ES]	EXP MONTH KY RETAIL JURIS REV [INCL FAC, EXCL ES]	BILLING MONTH	ENVIRON SURCHARGE MONTHLY BILLING FACTOR	ADJ	BILL MONTH KY RETAIL JURIS REV [INCL FAC, EXCL ES]	ENVIRON SURCHARGE REVENUE	KY JURIS OVER/ (UNDER) COLLECTION	TOTAL COMPANY OVER/ (UNDER) COLLECTION
JUN 1994	507,472	52,660,059	42,241,455	AUG 1994	1.00%	0.36%	47,354,315	177,328	23,979	27,066
JUL 1994	981,190	52,949,057	46,021,768	SEP 1994	1.93%	1.75%	44,600,550	819,593	(19,354)	(23,198)
AUG 1994	1,010,279	53,450,088	47,354,315	OCT 1994	1.98%	1.87%	38,614,437	765,166	(121,331)	(168,835)
SEP 1994	1,035,195	53,459,985	44,600,550	NOV 1994	2.04%	1.92%	37,836,165	772,671	(82,905)	(117,960)
OCT 1994	1,090,033	53,732,958	38,614,437	DEC 1994	2.15%	2.01%	42,586,364	915,939	139,548	177,427
NOV 1994	1,121,979	53,834,333	37,836,165	JAN 1995	2.21%	2.07%	47,047,883	1,041,455	259,694	297,669
DEC 1994		54,146,155	42,586,364							
JAN 1995		53,927,737	47,047,883							
TOTAL OVER/(UNDER) COLLECTION FOR SIX MONTH PERIOD										192,169
TOTAL SIX MONTHS REVENUE, EXPENSE MONTHS JUN THRU NOV 1994, COL 3										320,086,480
CORRECTION FACTOR - REDUCTION/(INCREASE)										0.060%

COLUMN 3 ADJUSTED TOTAL COMPANY REVENUES INCLUDE OFF-SYSTEM SALES AS PROVIDED BY KU IN THE RESPONSE TO ITEM 8 OF THE MARCH 1, 1995 ORDER AND THE RESPONSE TO ITEM 2 OF KIUC'S FIRST SET OF DATA REQUESTS.

CALCULATION OF JUNE AND JULY ADJUSTED ES MONTHLY BILLING FACTOR:

	JUNE	JULY
FILED ES FACTOR FOR MONTH	1.00%	1.93%
KENTUCKY JURISDICTIONAL REVENUE (AUGUST AND SEPTEMBER)	47,354,315	44,600,550
ES REVENUE COLLECTED (AS REPORTED)	177,328	819,593
EFFECTIVE ES FACTOR BILLED	0.374%	1.838%
DETERMINATION OF PRO-RATA REVENUES -		
RATIO OF EFFECTIVE ES FACTOR TO FILED ES FACTOR	0.37447	0.95214
RECALCULATED ES FACTOR	0.969%	1.835%
APPLICATION OF RATIO TO RECALCULATED ES FACTOR	0.36%	1.75%