

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. 96-196
UTILITIES COMPANY AS BILLED FROM)
AUGUST 1, 1995 TO JANUARY 31, 1996)

O R D E R

On July 19, 1994, the Commission approved Kentucky Utilities Company's ("KU") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). The Commission hereby initiates the six-month review of KU's environmental surcharge as billed from August 1, 1995 to January 31, 1996.²

In anticipation that those parties to KU's last six-month review will desire to participate in this proceeding, the Attorney

¹ 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, final Order dated July 19, 1994.

² Since KU's surcharge is billed on a two-month lag, the amounts billed from August 1995 through January 1996 are based on costs incurred from June 1995 through November 1995.

General's Office ("AG"), Lexington-Fayette Urban County Government ("LFUCG"), and the Kentucky Industrial Utility Customers ("KIUC") will be deemed parties to this proceeding.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. KU shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from August 1, 1995 through January 31, 1996.

3. KU shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, KU shall forward a duplicate of the notice and request to the Commission.

4. KU shall, within 14 days from the date of this Order, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the review period.

5. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions


related to the information, with copies to all parties of record and an original and 10 copies to the Commission.

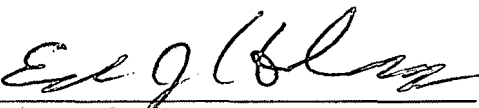
6. The AG, LFUCG, and KIUC are granted full intervention in this proceeding.

7. KU's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 13th day of May, 1996.

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. 96-196 DATED MAY 13, 1996

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| KU shall serve responses to the information request in Appendix B no later than | 05/28/96 |
| All additional requests for information to KU shall be served no later than | 06/06/96 |
| KU shall serve responses to additional requests for information no later than | 06/14/96 |
| Intervenor testimony, if any, in verified prepared form shall be served no later than | 06/24/96 |
| All requests for information to Intervenors shall be served no later than | 07/03/96 |
| Intervenors shall serve responses to requests for information no later than | 07/17/96 |
| Last day for KU to publish notice of hearing date . | 07/23/96 |
| Public Hearing is to begin at 10:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of KU and Intervenors | 07/30/96 |
| Briefs shall be filed by | 08/27/96 |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 96-196 DATED MAY 13, 1996

INITIAL INFORMATION REQUEST

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the July 19, 1994 Order in Case No. 93-465, reflecting the format modifications ordered in Case No. 95-445, for the billing period August 1995 through January 1996. The amounts reported on these forms should reflect the Commission's decisions announced in prior six-month environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

2. For each month in the billing period August 1995 through January 1996, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

3. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense, for November 1995.

a. For each project listed, indicate the percentage of completion as of November 30, 1995.

b. For each project still in progress as of November 30, 1995, indicate whether the project was on schedule, behind schedule, or ahead of schedule. Provide the expected completion date if different from information filed in the Case No. 93-465 application, Lucas Exhibit 1.

4. Explain why the ending inventory of spare parts for the Ghent station has increased from \$810,896 in June 1995 to \$985,929 in November 1995, a net increase of approximately 21.6 percent.

5. Explain the changes in the following expense levels:

a. Tyrone - Subaccount No. 51207, Ash Handling - Maintenance, reported for August 1995.

b. Tyrone - Subaccount No. 51208, CEMS and Precipitator Maintenance, reported for August, September, and October 1995.

c. Green River - Subaccount No. 50205, Scrubber Operation, reported for September and October 1995.

d. Green River - Subaccount No. 51209, Scrubber Maintenance, reported for November 1995.

e. E. W. Brown - Subaccount No. 51207, Ash Handling - Maintenance, reported for August and September 1995.

f. Pineville - Subaccount No. 51208, CEMS and Precipitator Maintenance, reported for November 1995.

g. Ghent - Subaccount No. 51207, Ash Handling - Maintenance, reported for September and October 1995.

h. Ghent - Subaccount No. 51209, Scrubber Maintenance, reported for August and September 1995.

6. Provide the calculations used to determine the weighted average cost of KU's emission allowance inventory as of November 30, 1995. Provide this calculation for both the 1995 vintage year

and total all vintage years. Include all supporting schedules, workpapers, and assumptions.

7. During the first six-month environmental surcharge review for the Louisville Gas and Electric Company ("LG&E"), the issue of modifying the E(m) calculation, moving from a total company to retail only, was raised. E(m) is the Gross Environmental Surcharge Revenue Requirement. The Commission found that this issue should be investigated in detail in LG&E's next six-month review. Given the similarities between LG&E's and KU's surcharge calculations, it is appropriate to also consider this issue for KU. In addition to responding to the following questions, KU should address this subject in its testimony.

a. Should the monthly calculation of E(m) for KU be modified to only reflect a retail amount, rather than total company? Explain.

b. Describe the revisions KU believes would be necessary to accomplish such a modification. Explain how the suggested revisions would result in a reasonable allocation to retail customers of the monthly total company environmental surcharge revenue requirement.

c. Describe how the revisions discussed in part (b) would impact the determination of the over- and under-recovery amount and correction factor. Explain any changes which would be needed in calculating the amount or correction factor.