

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) CASE NO.
KENTUCKY UTILITIES COMPANY AS BILLED FROM) 96-196
AUGUST 1, 1995 TO JANUARY 31, 1996)

ORDER

On May 13, 1996, the Commission initiated its third six-month review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers from August 1, 1995 through January 31, 1996.¹ 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.

In anticipation that those parties to KU's last six-month review would desire to participate in this proceeding, the Attorney General's Office, Lexington-Fayette Urban County Government, and the Kentucky Industrial Utility Customers ("KIUC") were deemed parties to this proceeding. A public hearing was held on July 30, 1996. All information requested at the public hearing has been filed.

¹ As 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.

GROSS-UP FACTOR MODIFICATION

KU initially determined that it had over-recovered \$185,718² during the current review period. KU later revised its calculations and reported an over-recovery of \$586,600.³ The reason for the difference in the amount of over-recovery was a proposal made by KU to revise the methodology used to calculate the gross-up factor.

The gross-up factor used in the prior 2 six-month reviews of KU's environmental surcharge is based on billing month amounts and calculated by dividing the 12-month moving average of Total Company Revenues ("12-month Total Revenues") by the corresponding monthly Kentucky Jurisdictional Revenues ("KY Revenues"). Until this review period, it has been KU's experience that the 12-month Total Revenues exceeded the monthly KY Revenues. However, in the billing month of August 1995, KY Revenues exceeded 12-month Total Revenues. Thus, the resulting gross-up factor for that billing month was less than 1.0. KU's proposal for modifying the gross-up factor is also based on billing month amounts, and divides the monthly Total Company Revenues by the corresponding monthly KY Revenues. KU contends that the monthly KY Revenues should always be less than the monthly Total Company Revenues, so the gross-up factor will always be greater than 1.0.

The Commission finds that KU's proposed revision to the gross-up factor calculation is not reasonable and should not be accepted. KU's proposal only addresses part of a problem which can occur in the present surcharge mechanism. The occurrence

² Response to the Commission's Order dated May 13, 1996, Item 1, page 1 of 20.

³ Response to the Commission's Order dated June 6, 1996, Item 2.

of KY Revenues exceeding 12-month Total Revenues also impacts the monthly allocation of the Gross Environmental Surcharge Revenue Requirement, E(m), to Kentucky jurisdictional customers. To cure this problem a more extensive modification of the surcharge mechanism is needed.

MODIFICATION OF SURCHARGE MECHANISM

Under the current methodology, E(m) is assigned to Kentucky jurisdictional customers by multiplying the KY Revenues for the billing month by the expense month billing factor. The billing factor is determined by dividing the expense month E(m) by the expense month 12-month Total Revenues. KU contends that under the current methodology, Kentucky jurisdictional customers are only paying 81.27 percent of Total Company E(m).⁴

A comparison of E(m) allocated to Kentucky jurisdictional customers under the current methodology to the corresponding total E(m) indicates a different result. For the August 1995 to January 1996 billing period, Kentucky jurisdictional customers were allocated approximately 85.66 percent of Total Company E(m).⁵ The calculations related to the August 1995 expense month resulted in a Kentucky jurisdictional allocation of 103.29 percent.⁶ The 81.27 percent cited by KU is achieved when monthly KY Revenues for the

⁴ KU Brief at 8.

⁵ Response to the Commission's Order dated June 6, 1996, Item 2, revised ES Form 4.0, page 1 of 2. Total for Column 7 divided by Total for Column 2 (\$9,709,764 ÷ \$11,335,497 = .85658).

⁶ Id. Column 7 divided by Column 2 for the August 1995 expense month (\$1,817,007 ÷ \$1,759,120 = 1.0329). The KY Revenues the billing factor was applied to exceeded the 12-month Total Revenues used in calculating the billing factor. This situation had prompted KU to propose the change to the gross-up factor.

review period are divided by the corresponding monthly Total Company Revenues for the review period. However, this calculation is not the same as that currently used to make the jurisdictional allocation.

In Case No. 95-455,⁷ the Commission found that modifying the E(m) calculation, moving from total company to retail only, for Louisville Gas and Electric Company ("LG&E") should be investigated in its next six-month review. The surcharge mechanisms for KU and LG&E are very similar, and it is appropriate to consider such a modification for KU. The issue of modifying KU's surcharge mechanism to a jurisdictional only basis has been explored extensively in this proceeding.

KU favored retaining the current mechanism and allocation methodology, noting that it is the most reasonable of the alternatives considered and would avoid implementation issues which would arise if alternative approaches were used. When considering the need for a change in methodology, KU argued that cost causation is a very important consideration, along with the principles of simplicity of administration, customer understanding, and ease of monitoring by the Commission.⁸ KU stated that issues involving the application of the environmental surcharge for other utilities was not sufficient cause for changing its surcharge mechanism.

KU discussed three alternative allocation methodologies in its post-hearing brief. KU agreed that allocating E(m) between jurisdictions before calculating the billing factor

⁷ Case No. 95-455, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1995 to October 31, 1995, final Order dated April 10, 1996, at 7 and 8.

⁸ KU Brief at 7.

would eliminate the need for a gross-up calculation during the six-month reviews. However, KU noted that this alternative would be more complicated than the current methodology and would require monthly cost-of-service studies. KU stated that the use of an allocation ratio based on expense month KY Revenues and Total Company Revenues appeared to be reasonable, was simple to administer, and generally reflected cost causation. But KU noted that approving this alternative would likely create implementation issues that are not known or foreseeable at this time. KU opposed the use of an allocation ratio based on kilowatt-hour sales because the approach did not adequately reflect reasonable cost causation.⁹

The reasonable allocation of environmental compliance costs between jurisdictional and non-jurisdictional customers has always been a primary consideration in these reviews. The allocation of more than 100 percent of a monthly E(m) to Kentucky jurisdictional customers indicates that there is a problem in the current mechanism. The Commission believes that a correction is needed to assure that the Kentucky jurisdictional customers are paying only the Kentucky jurisdictional cost of environmental compliance. Modifying the surcharge mechanism to a jurisdictional only basis is the most reasonable option.

The environmental surcharge mechanism should be modified as follows. E(m) will continue to be calculated on a Total Company basis each expense month. E(m) will then be allocated to the Kentucky jurisdiction using an allocation ratio. After determining the Kentucky jurisdictional E(m) ("KY E(m)"), a monthly billing factor will be calculated by dividing the KY E(m) by the 12-month moving average of KY Revenues. The resulting

⁹ Id. at 9 through 13.

billing factor will be applied to the billing month KY Revenues, as is currently done. During six-month reviews, the surcharge revenues billed to Kentucky jurisdictional customers will be compared with the KY E(m) to determine the monthly over- or under-recovery amounts. A correction factor to refund or charge the net over- or under-recovery amounts will be determined for the six-month review period. This modification will eliminate the need to gross-up the monthly over- or under-recoveries during the six-month reviews.

The use of an allocation ratio is a reasonable alternative to performing monthly cost-of-service studies. Consistent with the Commission's decision in Case No. 93-465,¹⁰ the allocation ratio will be determined by dividing expense month KY Revenues by the expense month Total Company Revenues. Environmental surcharge revenues will be excluded from the numerator and the denominator of the calculation. Absent cost-of-service studies, the Commission believes that a revenues-based allocator reasonably maintains the existing allocation of costs.

The adoption of a jurisdictional only based surcharge mechanism will require several modifications to existing monthly reporting formats. The modified formats are attached to this Order in Appendix B, and should be used in the monthly surcharge reports filed subsequent to this Order.

OPERATION AND MAINTENANCE EXPENSES

In response to a KIUC data request, KU indicated that it had included operation and maintenance ("O&M") expenses in its surcharge for projects not included in the

¹⁰ 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, Order dated July 19, 1994, at 20-21.

Commission approved compliance plan.¹¹ During the hearing, KIUC questioned KU's recovery of these O&M expenses. In its brief, KU argued that KIUC's questioning was inconsistent with KRS 278.183 and the Commission's previous decisions. KU noted that the statute provides for the recovery of all O&M expenses for environmental facilities related to compliance with environmental requirements. KU stated that the Commission had extensively reviewed the recovery of O&M expenses in Case Nos. 93-465, 95-060,¹² and 95-445. KU argued that there was no question that the O&M expenses were not included in existing rates and therefore were recoverable under the statute. KU observed that KIUC did not take exception to the Commission's decisions concerning O&M expense recovery in previous cases and had offered no reason why the Commission should not follow the requirements of the statute.

The Commission is not persuaded by KU's arguments. KRS 278.183(1) states in part:

[A] utility shall be entitled to the current recovery of its costs of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal *in accordance with the utility's compliance plan as designated in subsection (2) of this section.* (emphasis added)

To be included in the surcharge calculations, O&M expenses must not already be included in existing rates and must be in accordance with the approved compliance plan. Rather than being an all-encompassing compliance plan, KU's approved compliance plan consists

¹¹ Response to KIUC's First Set of Data Requests, Item 2.

¹² Case No. 95-060, The Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1994 to January 31, 1995.

of 15 specific capital projects. Because the O&M expenses questioned by KIUC were not related to projects contained in the approved compliance plan, KU is not entitled to include these costs in the surcharge calculations. The Commission has removed the ineligible O&M expenses identified by KU and recalculated the monthly E(m) amounts used to determine KU's over-recovery for the review period.¹³

COLLECTIONS SUBJECT TO REFUND

On July 28, 1995, the Franklin Circuit Court entered a judgment on the appeal of the Commission's Orders in Case No. 93-465 establishing an environmental surcharge for KU. The Court vacated that portion of those Orders allowing KU to recover the current cost of environmental expenditures incurred before January 1, 1993, and remanded the case to the Commission. That judgment has been appealed to the Kentucky Court of Appeals by KU, the Commission, and others. In its August 22, 1995 Order in Case No. 95-060, the Commission made subject to refund all environmental surcharge revenues collected from that date pending the final determination in Case No. 93-465. In light of the continuing appeals process, the Commission believes it is appropriate to continue the subject to refund provision.

SURCHARGE ADJUSTMENT

KU determined that for the six-month review period, it over-recovered its environmental costs by \$586,600. KU calculated a negative monthly correction factor of

¹³ In its post-hearing data response filed August 2, 1996, KU indicated the questioned O&M expenses had a net impact on E(m) of \$28,811 for the review period. However, KU failed to reflect the impact a change in O&M expenses had on the working capital allowance component of the rate base. The corrected E(m) amounts shown on Appendix A, page 3 of 3, reflect this impact, resulting in a net reduction of E(m) of \$29,022.

.181 percent¹⁴ to be applied to the six billing months consistent with the next review period following the Commission's decision in this proceeding. However, KU indicated that it was not opposed to applying the correction factor to the remaining months in the current six-month billing period to avoid affecting two consecutive six-month review periods.¹⁵

The Commission has recalculated KU's over-recovery, reflecting the decisions to use a jurisdictional only basis and using the recalculated monthly E(m) amounts in the calculations. The Commission has determined that KU over-recovered \$958,759, as shown in Appendix A.

The Commission believes it is appropriate in this proceeding to apply the correction factor to the three months remaining in the current six-month billing period. Since the correction factor was calculated on the basis of six months, it will have to be restated to reflect three months. Using a mathematical ratio, KU's correction factor for the next three monthly surcharge billings is a negative .726 percent.¹⁶ KU should include this negative

¹⁴ Response to the Commission's June 6, 1996 Order, Item 2, Revised ES Form 4.0, page 1 of 2.

¹⁵ Willhite Direct Testimony at 2 and 8, and Response to the Commission's June 6, 1996 Order, Item 1. In Case No. 95-445, KU had suggested and the Commission accepted the application of the over-recovery factor to the months remaining in the six-month billing period ending July 31, 1996.

¹⁶ The calculation of the .726 percent factor is as follows:

Monthly Correction Factor	.363 percent
Multiplied by	<u>6</u> months
Cumulative Correction Factor	2.178 percent
Divided by Remaining Months in	
Six-Month Review Period	<u>3</u> months
Restated Monthly Correction Factor	.726 percent

correction factor on its next monthly surcharge report and continue to apply the factor through the January 1997 billing month.

KIUC RESERVATION OF RIGHTS

KIUC filed a letter on August 28, 1996 stating that it would not file a brief in this case but that it reserved its rights to address any relevant issue affecting the instant six-month review period in the comprehensive two-year review pursuant to KRS 278.183(3). On September 23, 1996, KU filed an objection to KIUC's claim of a "reservation of rights" and asked the Commission to deny KIUC's request. KIUC responded on September 24, 1996, stating that KU's argument ignored the plain words of the statute and that its reasoning was backwards. KIUC noted that the review mechanisms established in KRS 278.183(3) followed those for the Commission's fuel adjustment clause.

The Commission finds no basis to attach any legal effect to KIUC's "reservation of rights" letter. KRS 278.183(3) mandates six month and two year regulatory reviews. Any issue properly falling within the scope of such a review may be raised by any party regardless of a prior declaration to reserve its rights. To the extent that Commission decisions have precedential and preclusive effects, such effects cannot be negated by a reservation of rights declaration.

IT IS THEREFORE ORDERED that:

1. KU shall apply a negative correction factor of .726 percent to the environmental surcharge factors, beginning with its next monthly surcharge report and continuing through and including the January 1997 billing month.
2. KU's proposed correction factor is denied.

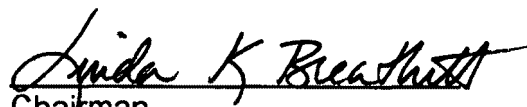
3. All surcharge revenues collected during the six-month period under review shall be subject to refund pending the final resolution of Case No. 93-465. KU shall maintain its records in a manner that will enable it, the Commission, or any of its customers to determine the amounts to be refunded and to whom due in the event a refund is ordered.

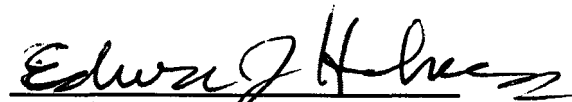
4. The modified reporting formats shown in Appendix B shall replace the corresponding formats authorized in Case Nos. 93-465 and 95-445. The modified formats shall be used in the monthly surcharge reports filed subsequent to this Order.

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

Done at Frankfort, Kentucky, this 17th day of October, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

Commissioner

ATTEST:


Executive Director

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO. 96-196 DATED OCTOBER 17, 1996

CALCULATION OF OVER/(UNDER) COLLECTION AND SURCHARGE CORRECTION FACTOR
JURISDICTIONAL ONLY BASIS

(1)	(2) E(m)	(3)	(4)	(5)	(6)	(7)
CURRENT EXPENSE MONTH	GROSS ENVIRONMENTAL SURCHARGE REVENUE REQUIREMENT	EXPENSE MONTH KENTUCKY JURISDICTIONAL ALLOCATION RATIO	KENTUCKY JURISDICTIONAL E(m)	12-MO MOV AV KENTUCKY JURISDICTIONAL REVENUE [Incl. FAC Excl. ES]	KENTUCKY JURISDICTIONAL ES REVENUE AS BILLED	KENTUCKY JURISDICTIONAL OVER/(UNDER) COLLECTION
	Note 1	Note 2	Note 3	Note 4	Note 4	Note 5
JUN 1995	1,830,292	0.808312	1,479,447	43,148,695		
JUL 1995	1,901,712	0.796539	1,514,788	43,192,366		
AUG 1995	1,754,041	0.791955	1,389,122	43,919,545	2,018,643	539,196
SEP 1995	1,937,376	0.846008	1,639,036	44,539,837	1,867,297	352,509
OCT 1995	1,920,902	0.819852	1,574,855	44,529,792	1,258,188	(130,934)
NOV 1995	1,962,152	0.821321	1,611,557	44,864,790	1,498,420	(140,616)
DEC 1995					1,671,445	96,590
JAN 1996					1,853,571	242,014
TOTALS	11,306,475		9,208,805	264,195,025	10,167,564	958,759

TOTAL OVER/(UNDER) COLLECTION FOR SIX MONTH PERIOD
TOTAL SIX MONTHS REVENUE (COL 5) EXPENSE MONTH JUNE 1995 THROUGH NOVEMBER 1995
CORRECTION FACTOR - REDUCTION/(INCREASE)

- Note 1: Recalculated to reflect -
- a) Commission decisions in Case Nos. 95-060 and 95-445.
 - b) A correction to Deferred Tax Balances for June through October 1995 expense months.
 - c) Removal of O&M expenses related to projects not included in the Commission approved compliance plan.
- Note 2: Allocation Ratio based on Expense Month KY Jurisdictional Revenues divided by Expense Month Total Company Revenues. See page 2 of 3.
- Note 3: Total Company E(m) multiplied by KY Jurisdictional Allocation Ratio, Column (2) times Column (3).
- Note 4: Surcharge Revenue As Billed from Monthly ES Form 3.0.
- Note 5: Billing Month Jurisdictional Revenue as billed (Column 6) minus corresponding Expense Month Jurisdictional E(m) (Column 4).

958,759
264,195,025
0.363%

CALCULATION OF OVER/(UNDER) COLLECTION AND SURCHARGE CORRECTION FACTOR
SUPPORTING CALCULATIONS

KENTUCKY JURISDICTIONAL ALLOCATION RATIO -				12-MONTH MOV. AV. JURISDICTIONAL REVENUES -			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
EXPENSE MONTH	KENTUCKY JURISDICTIONAL REVENUE [Incl. FAC Excl. ES]	TOTAL COMPANY REVENUES [Incl. FAC Excl. ES]	KENTUCKY JURISDICTIONAL ALLOCATION RATIO (2) / (3)	MONTH	KENTUCKY JURISDICTIONAL REVENUE [Incl. FAC Excl. ES]	12-MO MOV AV KENTUCKY JURISDICTIONAL REVENUES	
JUN 1995	42,199,876	52,207,422	0.808312	JUL 94	48,021,788		
JUL 1995	48,545,843	60,945,966	0.796539	AUG 94	47,354,315		
AUG 1995	56,080,458	70,812,725	0.791955	SEP 94	44,600,550		
SEP 1995	52,044,057	61,517,230	0.846008	OCT 94	38,614,437		
OCT 1995	38,493,899	46,952,253	0.819852	NOV 94	37,836,165		
NOV 1995	41,856,133	50,961,978	0.821321	DEC 94	42,586,364		
				JAN 95	47,047,883		
OVERALL	279,220,266	343,397,574	0.813111	FEB 95	48,202,244		
				MAR 95	43,455,165		
				APR 95	38,880,405		
				MAY 95	38,985,150		43,148,695
				JUN 95	42,199,876		43,192,366
				JUL 95	48,545,843		43,919,545
				AUG 95	56,080,458		44,539,837
				SEP 95	52,044,057		44,529,792
				OCT 95	38,493,899		44,864,790
				NOV 95	41,856,133		

NOTES: Expense Month Revenues from Monthly ES Form 3.0.
Ratio in Column (4) shown on ES Form 4.0, page 1 of 2, Column (3).
Moving Average Revenues in Column (7) shown on ES Form 4.0, page 1 of 2, Column (5).

CALCULATION OF OVER/(UNDER) COLLECTION AND SURCHARGE CORRECTION FACTOR
RECALCULATION OF E(m)

	12-MONTHS ENDING JUNE 1995	12-MONTHS ENDING JULY 1995	12-MONTHS ENDING AUGUST 1995	12-MONTHS ENDING SEPTEMBER 1995	12-MONTHS ENDING OCTOBER 1995	12-MONTHS ENDING NOVEMBER 1995
ADJUSTMENT TO O&M EXPENSES:						
Reported Totals (Note 1)	3,108,288	3,354,026	3,713,974	4,058,585	4,420,459	4,598,082
Less: Ineligible O&M (Note 2)	288,316	316,667	375,558	408,546	420,763	426,155
Adjusted O&M Expenses	2,819,972	3,037,359	3,338,416	3,650,039	3,999,696	4,169,927
Less: Adjusted Baseline O&M (\$1,955,806 - \$315,048) (Note 2)	1,640,758	1,640,758	1,640,758	1,640,758	1,640,758	1,640,758
12-Month Incremental O&M	1,179,214	1,396,601	1,697,658	2,009,281	2,358,938	2,529,169
Monthly Incremental (1/12th)	98,268	116,383	141,472	167,440	196,578	210,764
Working Capital Allowance (1/8th)	147,402	174,575	212,207	251,160	294,867	316,146
ADJUSTMENTS TO RATE BASE (Note 3):						
Eligible Pollution Control Plant	197,960,504	197,857,145	202,229,179	215,384,609	215,948,460	216,025,306
Eligible Pollution CWIP	19,250,279	24,400,106	20,792,450	8,034,318	8,409,446	9,261,559
Subtotal	217,210,783	222,257,251	223,021,629	223,418,927	224,357,906	225,286,865
Additions -						
Spare Parts	810,896	829,642	865,593	973,739	971,795	985,929
Limestone	165,907	152,479	149,623	161,240	145,034	152,274
Emission Allowances	1,820,433	1,747,277	1,652,276	1,588,236	1,556,579	1,495,855
Working Capital Allowance	147,402	174,575	212,207	251,160	294,867	316,146
Subtotal	2,944,638	2,903,973	2,879,699	2,974,375	2,968,275	2,950,204
Deductions -						
Accumulated Depreciation	15,182,990	15,822,842	16,540,379	17,257,920	17,975,460	18,693,001
Deferred Income Taxes	8,600,360	9,113,684	9,643,622	10,213,845	11,897,461	12,509,472
Deferred Investment Tax Credit	878,441	870,478	862,701	854,924	847,147	839,370
Subtotal	24,661,791	25,807,004	27,046,702	28,326,689	30,720,068	32,041,843
ADJUSTED RATE BASE	195,493,630	199,354,220	198,854,626	198,066,613	196,606,113	196,195,226
ADJUSTMENTS TO POLLUTION CONTROL OPERATING EXPENSES (Note 3):						
Monthly Incremental O&M Expenses	98,268	116,383	141,472	167,440	196,578	210,764
Depreciation & Amortization	712,478	712,478	712,478	712,478	712,478	712,478
Taxes Other Than Income	26,148	26,145	26,145	26,145	20,036	20,036
Insurance Expense	1,701	1,698	1,698	1,698	1,698	1,698
Emission Allowance Expense	38,666	73,156	95,001	64,040	31,657	60,724
Consultant Fee	0	0	0	0	0	0
ADJUSTED OPERATING EXPENSES	877,261	929,860	976,794	971,801	962,447	1,005,700
ADJUSTED E(m):						
RB	195,493,630	199,354,220	198,854,626	198,066,613	196,606,113	196,195,226
RB/12	16,291,136	16,612,852	16,571,219	16,505,551	16,383,843	16,349,602
RATE OF RETURN	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%
RB/12 X RATE OF RETURN	953,031	971,852	969,416	965,575	958,455	956,452
PCOE	877,261	929,860	976,794	971,801	962,447	1,005,700
BAS	0	0	0	0	0	0
DECISION IN CN 95-060	0	0	(192,169)	0	0	0
ADJUSTED E(m)	1,830,292	1,901,712	1,754,041	1,937,376	1,920,902	1,962,152

Note 1: Reported O&M Expense Totals for May 1994 Baseline and Review Period Months from Monthly ES Form 2.4.

Note 2: Ineligible O&M Expenses for May 1994 Baseline and Review Period months provided in KU Post-Hearing Data Response, filed August 2, 1996.

Note 3: Except for Working Capital Allowance and Monthly Incremental O&M Expenses, all Rate Base and Operating Expense information taken from Response to the Commission's May 13, 1996 Order, Item 1.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO. 96-196 DATED OCTOBER 17, 1996

INDEX OF MODIFIED REPORTING FORMATS FOR THE
KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE
[Monthly, 6-Month Review, and 2-Year Review]

Monthly Reporting Formats:

- | | |
|-------------|---|
| ES Form 1.0 | Calculation of E(m) and Jurisdictional Environmental Surcharge Billing Factor |
| ES Form 3.0 | Average Monthly Jurisdictional Revenue Computation R(m) |

Six-Month and 2-Year Review Formats:

- | | |
|-------------|---|
| ES Form 4.0 | Environmental Surcharge Recap
Page 1 of 2 - Calculation of Over/(Under) Collection
Page 2 of 2 - Calculation of Allocation Ratio and
12-Month Moving Average Jurisdictional Revenues |
|-------------|---|

Note: While not requiring modification, all other Monthly and Review Formats are required to be filed as currently done.

**KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE REPORT
CALCULATION OF E(m) AND
JURISDICTIONAL ENVIRONMENTAL SURCHARGE BILLING FACTOR
For the Expense Month of _____**

CALCULATION OF E(m)

E(m) = (RB/12)[ROR + (ROR - DR)(TR/(1 - TR))] + PCOE - BAS

Where:

- E(m) = Total Company Environmental Surcharge Gross Revenue Requirement
- RB = Environmental Compliance Rate Base
- ROR = Rate of Return on Environmental Compliance Rate Base
- DR = Pollution Control Bond Rate
- TR = Composite Federal & State Income Tax Rate
- PCOE = Pollution Control Operating Expenses
- BAS = Gross Proceeds from By-Product and Allowance Sales

RB	=	\$	
RB/12	=	\$	
[ROR + (ROR - DR)(TR/(1 - TR))]	=	5.85%	
RB/12 x 5.85%	=	\$	
PCOE	=	\$	
BAS	=	\$	
E(m)	=	\$	

CALCULATION OF JURISDICTIONAL ENVIRONMENTAL SURCHARGE
BILLING FACTOR

- Jurisdictional Allocation Ratio for Expense Month =
- Jurisdictional E(m): E(m) x Jurisdictional Allocation Ratio = \$
- Jurisdictional R(m): Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month = \$
- Jurisdictional Environmental Surcharge Billing Factor:
 - Jurisdictional E(m) + Jurisdictional R(m) (% of Revenue) =
 - Adjusted for Over- or Under-Recovery Correction Factor =
 - Adjusted Juris. Environmental Surcharge Billing Factor =

Effective Date for Billing: _____

Submitted By: _____

Title: _____

Date Submitted: _____

**KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE
AVERAGE MONTHLY JURISDICTIONAL REVENUE COMPUTATION R(m)**

For the Month Ended _____

		Kentucky Jurisdictional Revenue					Non Jurisdictional	Total Company	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Month	Base Revenues	Fuel Clause Revenues	Environmental Surcharge	Total (2)+(3)+(4)	Total Excluding Environ. Surcharge (5)-(4)	Total	Total (5)+(7)	Total Excluding Environ. Surcharge (8)-(4)	
(Month 1)									
(Month 2)									
(Month 3)									
(Month 4)									
(Month 5)									
(Month 6)									
(Month 7)									
(Month 8)									
(Month 9)									
(Month 10)									
(Month 11)									
(Month 12)									
Average Monthly Jurisdictional Revenues, Excluding Environmental Surcharge, for 12 Months Ending _____									
Jurisdictional Allocation Ratio for Current Expense Month (Environmental Surcharge excluded from calculation): Expense Month Kentucky Jurisdictional Revenues divided by Expense Month Total Company Revenues.		Column (6) ÷ Column (9) =							

**KENTUCKY UTILITIES COMPANY - ENVIRONMENTAL SURCHARGE
SIX-MONTH AND TWO-YEAR REVIEW
ENVIRONMENTAL SURCHARGE RECAP**
For the Period _____ through _____

CALCULATION OF ALLOCATION RATIO

(1)	(2)	(3)	(4)
Current Expense Month	Expense Month KY Juris. Revenues [Incl. FAC Excl. ES]	Expense Month Total Company Revenues [Incl. FAC Excl. ES]	KY Juris. Allocation Ratio (2) + (3)

Note: Revenue amounts from Monthly ES Form 3.0. Record Ratios in Column 4 on ES Form 4.0, page 1 of 2, Column 3.

CALCULATION OF 12-MONTH MOVING AVERAGE
JURISDICTIONAL REVENUES

(1)	(2)	(3)
Month	Monthly KY Juris. Revenues [Incl. FAC; Excl. ES]	12-Mon. Mov. Av. KY Jurisdictional Revenues

Attach a schedule showing the calculation of the 12-month moving average Kentucky jurisdictional revenues for the applicable months of the review period. The schedule should be organized as shown above. Record moving average revenues in Column 3 on ES Form 4.0, page 1 of 2, Column 5.