

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.  
LOUISVILLE GAS AND ELECTRIC COMPANY AS BILLED ) 96-290  
FROM NOVEMBER 1, 1995 TO APRIL 30, 1996 )

ORDER

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein is due no later than August 6, 1996.

1. The testimony of Larry Feltner, pages 4 through 6, discusses LG&E's proposed methodology to calculate the Environmental Surcharge Gross Revenue Requirement, E(m), on a retail only basis, and to correct perceived problems with the current surcharge methodology. A component of the proposed methodology requires the calculation of a wholesale environmental surcharge revenue amount. In Case No. 95-455,<sup>1</sup>

---

<sup>1</sup> 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 5.

the Commission rejected LG&E's proposal for a similar calculation of wholesale environmental surcharge revenues. Explain why LG&E is again proposing to impute wholesale environmental surcharge revenues, in light of the Commission's previous rejection of that approach.

2. Refer to the Feltner Testimony, pages 3 and 4. LG&E contends that retail and wholesale customers are not treated equally when allocating the current surcharge calculations, since environmental surcharge revenues are only deducted from retail revenues. The proposal to impute wholesale environmental surcharge revenues is LG&E's solution to this problem.

a. Would the fairness LG&E seeks be accomplished if, when determining the allocation factor, neither retail nor wholesale revenues had environmental surcharge revenues deducted?

b. Calculate the retail allocation percentage for each month shown on Feltner Exhibit A, page 2 of 16, dividing column 5 by column 10. Compare the monthly percentage with the value shown in column 12 of Feltner Exhibit A, page 2 of 16.

c. When determining an appropriate allocation factor, would LG&E agree that it would be reasonable to calculate the factor based on actual operating results rather than incorporating imputed amounts.

3. Does LG&E believe it is reasonable to calculate  $E(m)$  on a retail only basis? Does LG&E support such a change in its environmental surcharge?

4. Refer to Feltner Exhibit B. Would LG&E agree that the environmental surcharge factors shown in columns 5 and 7 were the factors actually billed during the

review period, and are not the revised factors calculated in Feltner Exhibit A? If so, provide a corrected Feltner Exhibit B.

5. Refer to the response to Item 1 of the Commission's June 27, 1996 Order, page 2 of 5. The amounts in column 3 for the expense months of November 1995 through February 1996 appear to reflect the exclusion of imputed wholesale environmental surcharge revenues. Prepare a corrected page 2 of 5 which removes this exclusion.

6. Refer to the response to Item 3 of the Commission's June 27, 1996 Order, page 2 of 2, Nitrogen Oxide Emission Controls. LG&E has indicated that the extension of the schedule is the result of further modifications to the over-fired air system on Mill Creek Unit 2 beyond the original planned scope of work.

a. What was the completion status of the original scope work for the Nitrogen Oxide Emission Controls project as of February 29, 1996?

b. Provide the original estimated cost of this project and the revised total reflecting the additional modifications.

c. For each expense month covered by this review, indicate the amount of costs and expenses associated with the modifications reported as:

(1) Pollution control plant and pollution construction work in progress,

(2) Pollution control accumulated depreciation and deferred taxes,

(3) Depreciation expenses,

(4) Property and other taxes, and

(5) Insurance expense.

d. Provide a detailed description of the additional modifications at Mill Creek Unit 2.

e. Since the additional modifications went beyond the original planned scope of work, explain why LG&E did not request Commission approval to modify the compliance plan approved in Case No. 94-332.<sup>2</sup>

f. Explain why LG&E should be allowed to recover through its environmental surcharge costs associated with project modifications that are beyond the original planned scope of work in its approved compliance plan.

7. Refer to the response to Item 8(a) of the Commission's June 27, 1996 Order. LG&E was asked if it agreed that the existence of market-based rates for some of its Federal Energy Regulatory Commission ("FERC") jurisdictional sales impacts the assumption that revenues can be used as a basis to allocate costs between retail and wholesale customers. LG&E's response addresses whether the FERC market-based rates affect actual recovery of costs. Cost allocation and cost recovery are two completely different issues. Provide the originally requested information.

8. In Case No. 94-332, the Commission addressed LG&E's arguments concerning the treatment of off-system sales in environmental surcharge calculations:

[H]owever, nothing in the statute indicates an intent to require retail ratepayers to shoulder the environmental costs attributable to wholesale, off-system sales which are not subject to regulation by this Commission. . . . Contrary to LG&E's claim, this decision does not deny it an opportunity to

---

<sup>2</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, final Order dated April 6, 1995, at 3.

recover the environmental costs attributable to off-system sales. Those costs may be recovered either in the wholesale price for such sales or by filing a general rate application. In any event, LG&E has failed to demonstrate that its rates for off-system sales are insufficient to recover the eligible environmental costs attributable to such sales.<sup>3</sup>

In the response to Item 8(b) of the Commission's June 27, 1996 Order, LG&E states that any environmental surcharge costs allocated to its wholesale customers will not be recovered. LG&E argues that the amount of cost allocated to off-system sales should be less per unit than the amount allocated to customers for whom the assets were built and for whom it has an obligation to serve.

a. Given that LG&E does not bill the environmental surcharge to wholesale customers, upon what evidence does LG&E base its claim that surcharge costs allocated to wholesale customers will not be recovered? Provide LG&E's supporting documentation.

b. Would LG&E agree that for each unit of non-hydro electricity it generates, there is a corresponding amount of environmental compliance costs incurred with that generation?

c. When allocating generation costs other than environmental compliance to wholesale customers, do the allocation factors utilized by LG&E reflect the fact that wholesale customers do not have contractual rights to LG&E's generation? If yes, explain how that fact is recognized. If no, explain why that fact should be a consideration when allocating environmental compliance costs.

---

<sup>3</sup> May 12, 1995 Order on Rehearing, at 2.

Done at Frankfort, Kentucky, this 25th day of July, 1996.

PUBLIC SERVICE COMMISSION

  
Robert M. Davis  
For the Commission

ATTEST:

  
Don Mills  
Executive Director