

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 LOUISVILLE GAS AND ELECTRIC	)	CASE NO. 97-010
COMPANY AS BILLED FROM MAY 1, 1996 TO	)	
OCTOBER 31, 1996	)	

O R D E R

On January 16, 1997, the Commission initiated this proceeding to review Louisville Gas and Electric Company's ("LG&E") environmental surcharge as billed to customers for the six months May 1, 1996 through October 31, 1996.<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.

In anticipation that those parties to LG&E's last six-month review would desire to participate in this proceeding, the Attorney General's Office and the Kentucky Industrial Utility Customers were deemed parties to this proceeding. A public hearing was held on April 11, 1997.

RECONCILIATION OF OVER- AND UNDER-RECOVERIES

The surcharge factor currently used is the result of dividing the monthly Kentucky retail surcharge revenue requirement by the average monthly Kentucky retail revenues.

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<sup>1</sup> As LG&E's surcharge is billed on a two-month lag, the amounts billed from May 1996 through October 1996 are based on costs incurred from March 1996 through August 1996.

During the first and second six-month review cases, over- and under-recoveries have been reflected as billing correction factors, which were combined with the surcharge factor for a given month. The net factor was then applied to customer billings. The application of the net surcharge factor during any six month period can cause an over- or under-recovery depending upon the difference between the level of revenues in the expense months and the billing months used to assess the surcharge. This can also result in differences between the over- or under-recoveries ordered to be refunded or collected and the amounts actually realized.

In this review period, LG&E completed the refunding of the over-recovery ordered in Case No. 95-455.<sup>2</sup> In comparing the over-recovery actually refunded with the amount established by the Commission to be refunded, LG&E determined that it had over-refunded \$17,108 during the period.<sup>3</sup> LG&E proposed to net this amount with the over-recovery determined for the review period, which would ensure that the surcharge mechanism provided for "dollar for dollar" recovery of costs. The resulting net over-recovery amount would be expressed as a billing correction factor, as is the current practice in the surcharge mechanism.

The record also supports the use of an alternative methodology which would eliminate the need to determine a billing correction factor. The dollar amount of over- or under-recoveries would be added to or subtracted from the monthly retail surcharge

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<sup>2</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.

<sup>3</sup> Response to the Commission's January 16, 1997 Order, Item 1, page 4 of 7.

revenue requirement, prior to the calculation of the surcharge factor for the month. This "direct" methodology would provide for the "dollar for dollar" recovery of costs and eliminate the current mismatch inherent in the surcharge mechanism.

LG&E acknowledged that the "direct" methodology seemed to accomplish the same objective in a simpler fashion, and indicated that it would fully support the "direct" methodology.<sup>4</sup> LG&E stated that by treating the over- or under-recovery amount in this way, the surcharge factor would be automatically adjusted for any mismatches and the number of billing factors to be tracked would be reduced.

The Commission finds that this "direct" methodology is the most reasonable approach for modifying the surcharge mechanism to recognize over- and under-recoveries as dollar adjustments to the monthly Kentucky retail revenue requirements. The adoption of this modification will require minor adjustments to reporting formats ES Forms 1.0 and 4.0. 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. As noted previously, the second six-month review<sup>5</sup> reflected the determined under-recovery as a billing correction factor. Any mismatches associated with the collection of this under-recovery will take place in the next six-month review. LG&E should prepare a

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<sup>4</sup> Response to the Commission's February 12, 1997 Order, Item 2 and Transcript of Evidence, April 11, 1997, at 7.

<sup>5</sup> Case No. 96-290, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from November 1, 1995 to April 30, 1996.

schedule similar to the one submitted in this proceeding to compare the under-recovery actually collected with the amount established by the Commission.

#### COLLECTIONS SUBJECT TO REFUND

The Commission's Order in Case No. 94-332<sup>6</sup> establishing a surcharge for LG&E has been appealed to the Franklin Circuit Court. In Case No. 95-455, the Commission made all environmental surcharge revenues collected from that date subject to refund pending the final determination in Case No. 94-332. In light of the continuing appeals process, the Commission believes it is appropriate to continue the subject to refund provision.

#### SURCHARGE ADJUSTMENT

LG&E determined that for the review period it over-recovered its environmental costs by \$146,375.<sup>7</sup> After recognizing the \$17,108 over-refunded associated with Case No. 95-455, LG&E stated that its net over-recovery was \$129,267.<sup>8</sup> LG&E originally proposed that a negative monthly correction factor of .049 percent be applied to the six billing months following the Commission's decision in this case. LG&E stated that if the Commission adopted the "direct" methodology, the \$129,267 over-recovery should be

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<sup>6</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.

<sup>7</sup> Response to the Commission's January 16, 1997 Order, Item 1.

<sup>8</sup> Id.

divided by 6 and the resulting \$21,545 be netted against the monthly Kentucky retail revenue requirement in each month of the subsequent six-month review period.<sup>9</sup>

The Commission has reviewed and finds reasonable LG&E's calculation of a \$129,267 over-recovery for the review period. The monthly Kentucky retail revenue requirement should be reduced by \$21,545 in each of the six billing months subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. LG&E's proposed monthly over-recovery adjustment of \$21,545 is approved.
2. All surcharge revenues collected during the six-month period under review shall be subject to refund pending the final resolution of Case No. 94-332. LG&E 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.
3. The modified reporting formats shown in Appendix B shall replace the corresponding formats authorized in Case No. 96-290. The modified formats shall be used in the monthly surcharge reports filed subsequent to the date of this Order.


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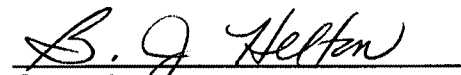
<sup>9</sup> Response to the Commission's February 12, 1997 Order, Item 2.

Done at Frankfort, Kentucky, this 16th day of May, 1997.

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. 97-010 DATED MAY 16, 1997

CALCULATION OF OVER/(UNDER) COLLECTION - RETAIL ONLY BASIS

(1)	(2) E(m) GROSS ENVIRONMENTAL SURCHARGE REVENUE REQUIREMENT	(3) EXPENSE MONTH KENTUCKY RETAIL ALLOCATION PERCENTAGE	(4) KENTUCKY RETAIL E(m) [(2) X (3)]	(5) 12-MO MOV AV KENTUCKY RETAIL REVENUE [Incl. FAC Excl. ES]	(6) KENTUCKY RETAIL ES REVENUE AS BILLED	(7) KENTUCKY RETAIL OVER/(UNDER) COLLECTION
	Note 1	Note 2			Note 3	Note 4
MAR 1996	534,888	0.866067	463,249	44,184,945		
APR 1996	560,086	0.855971	479,417	44,284,645		
MAY 1996	566,006	0.877977	496,940	44,339,322	365,825	(97,424)
JUN 1996	511,376	0.895311	457,841	44,328,124	511,969	32,552
JUL 1996	566,482	0.895863	507,490	44,310,172	649,023	152,083
AUG 1996	550,915	0.903986	498,020	43,592,154	534,065	76,224
SEP 1996					591,930	84,440
OCT 1996					396,520	(101,500)
REVIEW PERIOD TOTALS	3,289,753		2,902,957	265,039,362	3,049,332	146,375
LESS AMOUNT OVER-REFUNDED TO RATEPAYERS, CASE NO. 95-455						(17,108)
TOTAL OVER/(UNDER) COLLECTION FOR REVIEW PERIOD, NET OF OVER-REFUND AMOUNT						129,267

Note 1:  $E(m) = [(RB/12)(ROR)] + OE - BAS$

Note 2: ES Form 4.0, page 2 of 3. See Response to Commission's 01/16/97 Order, Item 1.

Note 3: Surcharge Revenue As Billed from Monthly ES Form 3.0.

Note 4: Billing Monthly Retail Revenue As Billed (Column 6) minus corresponding Expense Month Retail E(m) (Column 4).

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-010 DATED MAY 16, 1997

#### INDEX OF MODIFIED REPORTING FORMATS FOR THE LOUISVILLE GAS AND ELECTRIC COMPANY ENVIRONMENTAL SURCHARGE [Monthly, 6-Month Review, and 2-Year Review]

##### Monthly Reporting Formats:

ES Form 1.0	Calculation of E(m) and Retail Environmental Surcharge Billing Factor
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##### Six-Month and 2-Year Review Formats:

ES Form 4.0	Environmental Surcharge Recap Page 1 of 2 - Calculation of Over/(Under) Collection
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Note: While not requiring modification, all other Monthly and Review Formats are required to be filed as currently done.



**LOUISVILLE GAS AND ELECTRIC COMPANY  
ENVIRONMENTAL SURCHARGE REPORT  
CALCULATION OF E(m) AND  
RETAIL ENVIRONMENTAL SURCHARGE BILLING FACTOR  
For the Expense Month of \_\_\_\_\_**

CALCULATION OF E(m)

$$E(m) = [(RB/12)(ROR)] + OE - BAS$$

Where:

E(m)	=	Total Company Environmental Surcharge Gross Revenue Requirement
RB	=	Environmental Compliance Rate Base
ROR	=	Rate of Return on Environmental Compliance Rate Base, adjusted ("grossed up") for Income Taxes
OE	=	Pollution Control Operating Expenses
BAS	=	Gross Proceeds from By-Product and Allowance Sales

RB	= \$
RB/12	= \$
ROR	=
OE	= \$
BAS	= \$
E(m)	= \$

CALCULATION OF RETAIL ENVIRONMENTAL SURCHARGE  
BILLING FACTOR

Retail Allocation Ratio for Expense Month	=
Retail E(m):	E(m) x Retail Allocation Percentage = \$
Adjustment for Over/(Under) Recovery	= \$
Net Retail E(m):	Retail E(m) plus/minus Adjustment for Over/(Under) Recovery = \$
Retail R(m):	Average Monthly Retail Revenue for the 12 Months Ending with the Current Expense Month = \$
Retail Environmental Surcharge Billing Factor:	
Net Retail E(m) ÷ Retail R(m) (% of Revenue)	=

Effective Date for Billing: \_\_\_\_\_

Submitted By: \_\_\_\_\_

Title: \_\_\_\_\_

Date Submitted: \_\_\_\_\_

