

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR APPROVAL OF)	CASE NO. 98-474
AN ALTERNATIVE METHOD OF)	
REGULATION OF ITS RATES AND SERVICE)	

O R D E R

On January 20, 2000, Kentucky Utilities Company ("KU") filed a motion requesting the Commission to correct certain calculations in the January 7, 2000 Order relating to KU's environmental surcharge. The calculations were made by the Commission to exclude the environmental surcharge-related assets, revenues, and expenses from the determination of KU's base revenue requirement. KU contends that the following are errors, which should be corrected:

- Accumulated deferred income taxes and deferred investment tax credits were not deducted from the environmental surcharge rate base, resulting in an overstatement of the capitalization adjustment;
- The calculation of the cost of long-term debt omitted the adjustment necessary to remove the environmental surcharge rate base from the debt component of capitalization at the applicable pollution control bond rate;
- The debt component and overall rate of return on capitalization were misstated as a result of the identified errors;
- The environmental surcharge revenues, which are solely derived from Kentucky jurisdictional customers, were incorrectly jurisdictionalized;
- The adjustment for the environmental surcharge failed to allocate to the off-system sales revenues a portion of the environmental costs; and
- KU's revenue sufficiency was overstated by \$7,706,765 as a result of the combined impact of the identified errors.

In addition, KU requested an extension of time, from January 27, 2000 until February 21, 2000, to file new tariffs reflecting the rate reduction mandated by the Commission's January 7, 2000 Order. This extension, KU explains, will allow the Commission sufficient time to consider and correct the calculation errors before the new tariffs take effect on March 1, 2000.

On February 3, 2000, the Kentucky Industrial Utility Customers ("KIUC") filed a response in opposition to KU's motion, contending that it is procedurally defective. However, KIUC also has responded on the merits to the issues raised by KU. KIUC agrees with KU that the surcharge revenues were improperly allocated to both jurisdictional and non-jurisdictional operations. KIUC contends that the Commission did not err in the selection of the jurisdictional allocation factors for the environmental surcharge capitalization and operating expense components of the environmental surcharge revenue requirement. KIUC argues that the removal of the environmental surcharge components using the jurisdictional allocation factors is necessary because those components were initially included in capitalization and operating expenses on that basis. In addition, KIUC claims that KU's position would nullify the Commission's decision when it authorized the environmental surcharge to allocate the surcharge revenue requirement on the basis of total revenues. KIUC also states that KU incorrectly computed the income tax effects of the alleged calculation errors.

While KIUC did not respond to any of the other issues raised by KU, KIUC did discuss an unrelated environmental surcharge issue, which it also raised in its January 28, 2000 application for rehearing. The Commission will address that unrelated issue when it rules on KIUC's application for rehearing.

Based on a review of KU's motion and except for the jurisdictional allocation of surcharge revenues, the Commission finds that the record is insufficient to conclusively determine whether the issues raised constitute errors that need to be corrected. Procedurally, KU's motion will be treated as a request for rehearing under KRS 278.400. The Commission notes that KU previously opposed removing the effects of the environmental surcharge when determining its Kentucky operation earnings.¹ Considering that this was the first base rate case that included an environmental surcharge, many of the issues decided were ones of first impression. Consequently, rehearing should be granted to afford all parties a further opportunity to investigate and evaluate these issues.

The following issues related to the environmental surcharge adjustment will be reheard: the determination of the amount to be excluded from KU's capitalization, whether the cost of KU's debt should be adjusted to reflect the exclusion of the environmental surcharge, and whether environmental surcharge expenses should be allocated to off-system sales. A procedural schedule for these issues and any others subsequently granted rehearing is attached hereto as Appendix A.

Concerning the jurisdictional allocation of environmental surcharge revenues, the Commission agrees with KU and KIUC that the allocation should have been at 100 percent Kentucky jurisdictional since these revenues were collected solely from Kentucky jurisdictional ratepayers. The Commission has revised its calculations by deducting \$19,041,935 in environmental surcharge revenues, rather than \$16,469,179, from test-period revenues. After recalculating the income tax effect, KU's net operating

¹ Response to the Commission's July 16, 1999 Order, Item 7(a).

income sufficiency, prior to the application of the gross up revenue factor, is reduced from \$21,701,865 to \$20,167,538. Applying the gross up revenue factor of 59.5381 percent results in a revised overall revenue sufficiency of \$33,873,343.² Due to the nature of this calculation error and the fact that no additional information is needed to make the correction, the new tariffs to be filed by KU should reflect this correction.

The Commission further finds that KU's motion for an extension of time until February 21, 2000 to file revised tariffs should be granted. The tariffs to be filed by that date must reflect the rate reduction mandated by the January 7, 2000 Order, as modified by the correction of the allocation error discussed herein.

IT IS THEREFORE ORDERED that:

1. Rehearing shall be granted on the amount of environmental surcharge to be excluded from KU's capitalization, whether KU's cost of debt should be adjusted to reflect the exclusion of the environmental surcharge, and whether environmental surcharge expenses should be allocated to off-system sales.

2. The procedural schedule set forth in Appendix A shall be followed for the issues granted rehearing herein and any other issue subsequently granted rehearing. At the public hearing there shall be no opening statements or summaries of testimony.

3. Any party filing testimony shall file an original and 12 copies. The original and at least three copies of the testimony shall be filed as follows:

a. Together with cover letter listing each person presenting testimony.

² This revised overall revenue sufficiency is \$2,577,051 lower than the overall revenue sufficiency of \$36,450,394 calculated in the January 7, 2000 Order.

b. Bound in 3-ring binders or with any other fastener which readily opens and closes to facilitate easy copying.

c. Each witness's testimony should be tabbed.

d. Every exhibit to each witness's testimony should be appropriately marked.

4. Rehearing on the issue of the jurisdictional allocation of environmental surcharge revenues is granted. KU's overall revenue sufficiency as modified by correcting the allocation error is \$33,873,343, rather than the amount determined in the January 7, 2000 Order.

5. KU's motion for an extension of time, until February 21, 2000, is granted and KU shall file by that date revised tariffs as directed by the January 7, 2000 Order, as modified by Ordering Paragraph No. 4, above.

Done at Frankfort, Kentucky, this 9th day of February, 2000.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 98-474 DATED FEBRUARY 9, 2000

Verified, prepared direct testimony in support of
any issue granted rehearing shall be filed by March 2, 2000

Any request for information related to a rehearing
issue shall be filed by March 9, 2000

All responses to information requests shall
be filed by March 16, 2000

Verified, prepared response testimony on any
issue granted rehearing shall be filed by March 23, 2000

Last date for KU to publish notice of rehearing March 23, 2000

Public hearing on the issues granted rehearing shall
commence at 9:00 a.m., Eastern Standard Time, in
Hearing Room 1 of the Commission's offices at 211
Sower Boulevard, Frankfort, Kentucky, on March 30, 2000