

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	)	
UTILITIES COMPANY FOR THE SIX-MONTH	)	CASE NO.
BILLING PERIODS ENDING JANUARY 31, 1999,	)	2000-106
JULY 31, 1999, AND JANUARY 31, 2000, AND FOR	)	
THE TWO-YEAR BILLING PERIOD ENDING	)	
JULY 31, 1998	)	

O R D E R

IT IS ORDERED that Kentucky Utilities Company ("KU") shall file the original and 8 copies of the following information with the Commission no later than May 19, 2000, with a copy to all parties of record. Each copy of the information 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 its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. Refer to the Direct Testimony of William A. Bosta, pages 3 and 4. Explain how KU determined that four months was the appropriate period to use to return the over-recovery to ratepayers.

2. Refer to the Bosta Direct Testimony, page 4. KU has indicated that differences in the level of revenues used to calculate the environmental surcharge factors resulted in the majority of the over-recovery of \$1,391,566.

a. Would the size of this over-recovery have been reduced if KU's environmental surcharge mechanism included a monthly true-up factor in the calculations, similar to that incorporated in its fuel adjustment clause ("FAC")? Explain the response.

b. Would KU be agreeable to incorporating such a true-up factor in the environmental surcharge at this time? Explain the response.

3. Refer to the response to Items 5, 12, 20, and 30 of the Commission's March 14, 2000 Order. Provide copies of Federal Energy Regulatory Commission Order No. 522, in Docket No. RM92-1-000.

4. Refer to the response to Items 6, 13, and 31 of the Commission's March 14, 2000 Order. For each item listed below, explain why the charge was expensed rather than capitalized.

a. Item 6(j) - \$180,000 charge for work on the Ghent Unit 3 precipitator.

b. Item 13(i) - \$299,582 charge for the overhaul of the Ghent Units 1 and 2 ash handling pumps.

c. Item 31(h) - \$205,572 charge for purchase of ash line replacement pipe at Ghent.

5. Refer to the response to Items 7, 14, 22, and 32 of the Commission's March 14, 2000 Order. Explain in detail why the reconciling items identified in these responses are not included in the revenues reported on ES Form 3.0.

6. Refer to the response to Item 33 of the Commission's March 14, 2000 Order regarding KU's recommendation to not incorporate surcharge revenues into base rates in this proceeding. The response identifies two reasons why KU is not proposing to incorporate surcharge amounts into base rates.

a. Does KU believe that its recommendation is consistent with the requirements of KRS 278.183(3)? Explain the response.

b. Explain whether KU would make the same proposal absent the Settlement Agreement approved in Case No. 93-465.<sup>1</sup>

c. For illustrative purposes, provide an example calculation, along with a detailed narrative explanation, of the manner in which KU would suggest that surcharge amounts be incorporated into base rates as part of the current two-year review proceeding assuming that the Commission determines such an incorporation is appropriate.

7. The response to Item 33 of the Commission's March 14, 2000 Order indicates that KU will propose, in the next two-year review, to increase base rates by the surcharge factor percentage calculated and filed for the May 2000 expense month.

---

<sup>1</sup> 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; Settlement Agreement Order dated August 17, 1999.

a. Explain why KU believes it is appropriate to use the results of only one month to determine the appropriate surcharge amounts to be incorporated into base rates.

b. Explain whether, by this proposal, KU expects May 2000 to be a more appropriate month to use for such purpose as opposed to some other month included in that upcoming two-year review.

8. a. Explain how KU's FAC is periodically incorporated into its base rates.

b. Would KU expect that the incorporation of its environmental surcharge into base rates would be accomplished using an approach similar to that used for its FAC? Explain the response.

9. Refer to the response to Item 34 of the Commission's March 14, 2000 Order.

a. Would KU's response to Item 34(a) be the same if the environmental surcharge were incorporated into base rates in this proceeding? If not, provide the information originally requested.

b. If the response to Item 34(a) would be the same, explain in detail why KU believes no changes would be necessary.

c. Concerning the response to Item 34(b), describe what costs KU is referencing and explain why those costs would be taken into consideration in the calculation of environmental surcharge revenue requirements.

10. Refer to the response to Item 35 of the Commission's March 14, 2000 Order. Assume for purposes of this question that the surcharge is incorporated into

base rates at the end of this proceeding. KU's environmental surcharge mechanism reflects an incremental approach to determining the environmental surcharge revenue requirement. This calculation is then adjusted for retirements and other items, including those investments and costs associated with the Settlement Agreement in Case No. 93-465, that are considered to be included in base rates. In contrast, the base period/current period revenue requirement approach uses a base period that reflects all environmental costs that have been incorporated in base rates, including the impact of those costs associated with retirements and other costs. The base period is compared with a current period calculation, which reflects the current month's environmental costs, without incremental adjustments for retirements and other costs that are considered to be part of base rates. Explain why KU believes its incremental approach, with all the adjustments to recognize costs already included in base rates, is the better approach.

Done at Frankfort, Kentucky, this 5<sup>th</sup> day of May, 2000.

By the Commission

ATTEST:

  
Executive Director