

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

On March 14, 2000, the Commission initiated three six-month reviews and one two-year review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers for the following periods: the six-month periods August 1, 1998 to January 31, 1999; February 1, 1999 to July 31, 1999; August 1, 1999 to January 31, 2000; and the two-year period August 1, 1996 to July 31, 1998.¹ Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the surcharge; after hearing, disallow any surcharge amounts that are not just and reasonable; and reconcile past surcharge collections with actual costs recoverable. At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge and, after hearing, disallow improper expenses and,

¹ Since KU's surcharge is billed on a two-month lag, the amounts billed from August 1998 through January 1999 are based on costs incurred from June 1998 through November 1998; amounts billed from February 1999 through July 1999 are based on costs incurred from December 1998 through May 1999; amounts billed from August 1999 through January 2000 are based on costs incurred from June 1999 through November 1999; and amounts billed from August 1996 through July 1998 are based on costs incurred from June 1996 through May 1998.

to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

Anticipating that those parties to KU's last six-month review would desire to participate in this proceeding, the Commission deemed the Attorney General's office, Lexington-Fayette Urban County Government, and the Kentucky Industrial Utility Customers, Inc. parties to this proceeding. A public hearing was held on July 20, 2000.

TOTAL REVENUES

In initially establishing an environmental surcharge for KU in Case No. 93-465,² the Commission's July 19, 1994 Order required KU to use total revenues to allocate the surcharge between jurisdictional and non-jurisdictional customers. The Commission affirmed that decision in its final Order in Case No. 95-060,³ stating:

The Commission's July 19, 1994 Order requires KU to use total revenues in the surcharge calculation. The decision to calculate the surcharge on total revenues comports with both the letter and the spirit of KRS 278.183 and is consistent with the Commission's prior decisions in the LG&E and Big Rivers environmental surcharge cases.⁴

In September 1998 KU began engaging in "brokered sales" transactions. Brokered sales transactions are not served by KU's generation, typically do not flow into its control area, and are matched with purchases. Brokered sales transactions can also

² 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.

³ Case No. 95-060, An 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, final Order dated August 22, 1995.

⁴ Id. at 5.

be considered as one half of a buy-resell transaction. Brokered sales are conducted under a Federal Energy Regulatory Commission approved tariff and no expenses associated with the transactions are included for recovery in the environmental surcharge. Thus, KU excluded brokered sales from its total company revenues in determining the jurisdictional allocation ratio for any expense month under review in this case.⁵

During the review, the Commission requested KU to reconcile the monthly total company revenues as reported on ES Form 3.0⁶ with the monthly operational revenues reported in its monthly financial reports.⁷ In the reconciliation, KU identified several types of revenues that it has excluded from the calculation of the environmental surcharge allocation ratio. In addition to brokered sales transactions, KU has been excluding the following: revenues from a curtailable service rider, unbilled revenues, revenues subject to refund, and miscellaneous revenues from items unrelated to KU sales.⁸ As these five types of revenues are neither associated with KU's generating units nor have environmental costs associated with them, KU contends it is appropriate to exclude these revenues from the environmental surcharge calculations.⁹

⁵ Response to the Commission's March 14, 2000 Order, Item 15.

⁶ ES Form 3.0, Average Monthly Jurisdictional Revenue Computation R(m), is one of several schedules filed by KU as part of its monthly environmental surcharge filing. The reconciliation focused on the revenues reported in column 8 of ES Form 3.0.

⁷ Response to the Commission's March 14, 2000 Order, Items 7, 14, 22, and 32.

⁸ KU Hearing Exhibit 2, at 1-2.

⁹ Transcript of Evidence ("T. E."), July 20, 2000, at 27.

The Commission finds that KU's arguments are persuasive and agrees that these types of revenues should not be considered part of KU's total company revenues when determining the environmental surcharge allocation ratio. The exclusion of KU's brokered sales is consistent with the exclusion of non-physical revenues in the environmental surcharge for Kentucky Power Company d/b/a American Electric Power. The other types of revenues identified in KU's reconciliation are not related to its generation of electricity or a source of environmental costs to KU. In order to maintain a link between the revenues reported on ES Form 3.0 and KU's monthly financial reports, the Commission also finds that KU should include a schedule with its monthly ES Form 3.0 that lists the types of revenue excluded in KU's surcharge calculations and the corresponding monthly amounts.

SURCHARGE ROLL-IN

KU did not propose to incorporate the environmental surcharge into its base rates because it believes it is inappropriate to do so at this time. KU cites the fact that the last expense month in the two-year review period is May 1998, which is over two years ago. KU also notes that the current two-year review period does not recognize any impacts of the Settlement Agreement approved by the Commission in August 1999 that excluded certain costs from recovery through the environmental surcharge mechanism.¹⁰ The intervenors have expressed no position on a surcharge roll-in during this review.

¹⁰ Bosta Direct Testimony at 6. The incorporation of the surcharge into existing base rates has commonly been referred to as a "roll-in" of the surcharge.

KU answered several questions during discovery and at the public hearing concerning the approach to be used to roll-in the surcharge and the need for other modifications to the surcharge mechanism.¹¹ During the public hearing, KU suggested that an informal technical conference be scheduled to discuss the mechanics of these issues with the parties and Commission Staff.¹²

The Commission finds that KU's arguments in opposition to a surcharge roll-in now are reasonable and that any roll-in should be deferred to a subsequent review. The Commission also believes that, due to the technical nature of the issues associated with a future roll-in, KU's suggestion of an informal technical conference is appropriate. The Commission will schedule such a conference among the parties and Commission Staff in the near future.

SURCHARGE ADJUSTMENT

In its March 14, 2000 Order, the Commission indicated that since each of the four periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. KU determined that for the three six-month review periods and the last quarter of the two-year review period, it over-recovered its environmental

¹¹ See Response to the Commission's March 14, 2000 Order, Items 33 through 35; Response to the Commission's May 5, 2000 Order, Items 2 and 6 through 10; T. E., July 20, 2000, at 13-24 and 29-43. The other modifications discussed were the implementation of a true-up component for the surcharge mechanism and the use of a base period versus current period methodology to calculate the surcharge.

¹² T. E., July 20, 2000, at 44.

costs by a cumulative \$1,397,802.¹³ KU proposed that the cumulative over-recovery be returned to customers by reducing the environmental surcharge revenue requirement by \$349,451 in each of the first four billing months following the Commission's decision in this proceeding.¹⁴

The Commission has reviewed and finds reasonable KU's calculation of a cumulative over-recovery of \$1,397,802 for the three six-month review periods and the last quarter of the two-year review period. The Commission also finds reasonable KU's proposal to reduce the environmental surcharge revenue requirement calculated in each of the first four billing months following the date of this Order by \$349,451.

IT IS THEREFORE ORDERED that:

1. KU shall deduct \$349,451 from the environmental surcharge revenue requirement determined in its next four monthly surcharge reports.
2. For purposes of calculating KU's environmental surcharge, total company revenues shall exclude revenues from brokered sales transactions and other revenue sources not associated with the generation of electricity or resulting in environmental costs, as described in this Order. Beginning with the first monthly surcharge report submitted after the date of this Order, KU shall include a schedule with ES Form 3.0 which lists each type of revenue excluded from the environmental surcharge calculations and the corresponding amount of revenues.

¹³ KU had originally determined that it had a net over-recovery of \$1,391,566. See Bosta Direct Testimony at 3. At the public hearing, KU stated that it had found an error in its original calculations, which resulted in the revised net over-recovery of \$1,397,802. See KU Hearing Exhibit 2, at 3.

¹⁴ KU Hearing Exhibit 2, at 5.

3. The environmental surcharge for the two-year period as billed from August 1, 1996 to July 31, 1998 shall not be incorporated into KU's existing base rates.

4. An informal technical conference with the parties and Commission Staff shall be scheduled to discuss issues associated with a future incorporation of the environmental surcharge into KU's existing base rates, as discussed in this Order.

Done at Frankfort, Kentucky, this 17th day of October, 2000.

By the Commission

ATTEST:

Deputy Wm H. Fowler
Executive Director