

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 COMPANY FOR THE SIX-MONTH)	CASE NO.
BILLING PERIODS ENDING APRIL 30, 2000,)	2002-00193
OCTOBER 31, 2000, OCTOBER 31, 2001, AND)	
APRIL 30, 2002 AND FOR THE TWO-YEAR)	
BILLING PERIOD ENDING APRIL 30, 2001)	

O R D E R

On April 6, 1995, the Commission approved Louisville Gas and Electric Company's (LG&E) environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at 6-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At 2-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. The Commission has determined that it will be administratively

¹ Case No. 1994-00332, 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.

efficient and reasonable to review the pending 6-month periods and the third 2-year period in the same case. Therefore, the Commission hereby initiates the 6-month reviews of the surcharge as billed from November 1, 1999 to April 30, 2000, from May 1, 2000 to October 31, 2000, from May 1, 2001 to October 31, 2001, and from November 1, 2001 to April 30, 2002 and the 2-year review of the surcharge as billed from May 1, 1999 to April 30, 2001.² Since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since its last surcharge review, LG&E sought and was granted an amendment to its approved environmental compliance plan and surcharge mechanism. In Case No. 2000-00386,³ LG&E proposed that after the surcharge associated with its original compliance plan (1995 Plan) was rolled into existing base rates, the rate bases associated with the additions from the amended compliance plan (2001 Plan) and the 1995 Plan would earn the same overall rate of return. However, the Commission determined that the issues relating to the future roll-in of the existing surcharge into

² Since LG&E s surcharge is billed on a 2-month lag, the amounts billed from November 1999 through April 2000 are based on costs incurred from September 1999 through February 2000; amounts billed from May 2000 through October 2000 are based on costs incurred from March 2000 through August 2000; amounts billed from May 2001 through October 2001 are based on costs incurred from March 2001 through August 2001; amounts billed from November 2001 through April 2002 are based on costs incurred from September 2001 through February 2002; and amounts billed from May 1999 through April 2001 are based on costs incurred from March 1999 through February 2001.

³ Case No. 2000-00386, The Application of Louisville Gas and Electric Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff; final Order dated April 18, 2001; rehearing Orders dated May 14, 2001 and August 30, 2001.

base rates was beyond the scope of Case No. 2000-00386 and that such issues would be addressed during the 2-year review of LG&E's environmental surcharge. LG&E was advised that if it wished to propose changing the rate of return on the 1995 Plan rate base from the pollution control bond rate to an overall rate of return during a subsequent 2-year review, it should submit prepared testimony at that time discussing how this could be accomplished with the results being reasonable for both LG&E and its ratepayers.⁴ If LG&E wishes to pursue this approach in this proceeding, it should provide its testimony in accordance with the procedural schedule contained in Appendix A of this Order.

During the public hearing in Case No. 2000-00105,⁵ LG&E suggested and the Commission agreed that LG&E, the parties in that case, and the Commission Staff should participate in an informal technical conference to discuss issues associated with a future roll-in of LG&E's environmental surcharge into existing base rates. That conference was held in August 2001. Alternative methodologies were discussed, but no consensus was reached by the parties. As this proceeding includes a 2-year review of the environmental surcharge and the issue of a roll-in is relevant, LG&E should file testimony pertaining to its proposals concerning such a roll-in in accordance with the procedural schedule contained in Appendix A of this Order.

⁴ Case No. 2000-00386, April 18, 2001 Order at 16-17.

⁵ Case No. 2000-00105, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 1998, October 31, 1998, and October 31, 1999, and for the Two-Year Billing Period Ending April 30, 1999.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. LG&E shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from (a) November 1, 1999 through April 30, 2000; (b) May 1, 2000 through October 31, 2000; (c) May 1, 2001 through October 31, 2002; (d) November 1, 2001 through April 20, 2002; and (e) May 1, 1999 through April 30, 2001. At the public hearing there shall be no opening statements or summaries of testimony.

3. LG&E shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, LG&E shall forward a duplicate of the notice and request to the Commission.

4. LG&E shall, by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the five periods under review, and the issue of a roll-in of the existing surcharge into base rates.

5. Any party filing testimony shall file an original and 11 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.
- 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.

6. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions related to the information, with copies to all parties of record and an original and 8 copies to the Commission.

7. Within 7 days of the Commission granting intervention to a party, LG&E shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for each review period.

8. Within 21 days of the Commission granting intervention to a party, that party shall issue its initial data request to LG&E, with responses becoming due as provided by the date set forth in Appendix A.

9. LG&E's monthly environmental surcharge reports and supporting data for the review periods shall be incorporated by reference into the record of this case.

10. The case records of Case Nos. 1994-00332, 1998-00057,⁶ 2000-00105, and 2000-00386 shall be incorporated by reference into the record of this case.

⁶ Case No. 1998-00057, 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 April 30, 1997 and May 1, 1997 to October 31, 1997.

Done at Frankfort, Kentucky, this 13th day of June, 2002.

By the Commission

ATTEST:

Deputy Wm H. Fowler
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00193 DATED JUNE 13, 2002

LG&E shall file its prepared direct testimony, responses to the information requested in Appendix B, and responses to any Intervenor requests for information no later than..... 07/19/02

An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues 07/29/02

All additional requests for information to LG&E shall be filed no later than..... 08/08/02

LG&E shall file responses to additional requests for information no later than..... 08/22/02

Intervenor testimony, if any, in verified prepared form shall be filed no later than 09/06/02

All requests for information to Intervenors shall be filed no later than..... 09/20/02

Intervenors shall file responses to requests for information no later than..... 10/04/02

LG&E may file with the Commission the testimony of its rebuttal witnesses in written verified form no later than 10/16/02

Last day for LG&E to publish notice of hearing date 10/22/02

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of LG&E and Intervenors..... 10/29/02

Briefs, if any, shall be filed by..... 11/22/02

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00193 DATED JUNE 13, 2002

FIRST DATA REQUEST OF COMMISSION STAFF TO LOUISVILLE GAS AND ELECTRIC COMPANY

Billing Period November 1, 1999 through April 30, 2000

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 1994-00332, reflecting the format modifications ordered in Case Nos. 1996-00290¹ and 1997-00010,² for the billing period November 1999 through April 2000. The amounts reported using these formats should reflect the Commission's decisions announced in prior 6-month and 2-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

2. For each month in the billing period November 1999 through April 2000, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

3. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of September 1999 through February 2000. During this period, LG&E has included \$380,445 in permitting fees in its surcharge calculations. Provide a

¹ Case No. 1996-00290, 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.

² Case No. 1997-00010, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company as Billed from May 1, 1996 to October 31, 1996.

schedule identifying the agencies paid the permitting fees. In addition, explain why the permitting fees reported for the expense months of November and December 1999 and January 2000 were different each month.

4. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For each expense month covered by this review period (September 1999 through February 2000), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly electric operational revenues reported to the Commission in LG&E's monthly financial reports. Identify all reconciling items and describe each reconciling item.

5. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m), for the expense months of September 1999 through February 2000. Concerning the transactions classified as brokered sales :

a. Describe the extent to which LG&E generating, transmission, or distribution assets were involved in these transactions.

b. Identify any expenses incurred by LG&E in association with these transactions. If any of these expenses are included in the determination of the monthly environmental surcharge revenue requirement, indicate for each expense month the account(s) and the amount of expenses associated with brokered sales.

c. Provide the following for each expense month in question:

1) A listing of the sellers and corresponding buyers involved with these brokered sales.

2) The total MWH sold in each expense month associated with brokered sales transactions.

3) Indicate whether the brokered sales revenues for each expense month reflect the total revenues or revenues net of all expenses.

Billing Period May 1, 2000 through October 31, 2000

6. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 1994-00332, reflecting the format modifications ordered in Case Nos. 1996-00290 and 1997-00010, for the billing period May 2000 through October 2000. The amounts reported using these formats should reflect the Commission's decisions announced in prior 6-month and 2-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

7. For each month in the billing period May 2000 through October 2000, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

8. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of March 2000 through August 2000. During this period, LG&E has included \$381,816 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees. Also explain the reason the permitting fees increased in the expense month of July 2000.

9. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For each expense month covered by this review period (March 2000 through August 2000), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly electric operational revenues

reported to the Commission in LG&E s monthly financial reports. Identify all reconciling items and describe each reconciling item.

10. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m), for the expense months of March 2000 through August 2000. Concerning the transactions classified as brokered sales :

a. Describe the extent to which LG&E generating, transmission, or distribution assets were involved in these transactions.

b. Identify any expenses incurred by LG&E in association with these transactions. If any of these expenses are included in the determination of the monthly environmental surcharge revenue requirement, indicate for each expense month the account(s) and the amount of expenses associated with brokered sales.

c. Provide the following for each expense month in question:

1) A listing of the sellers and corresponding buyers involved with these brokered sales.

2) The total MWH sold in each expense month associated with brokered sales transactions.

3) Indicate whether the brokered sales revenues for each expense month reflect the total revenues or revenues net of all expenses.

Billing Period May 1, 2001 through October 31, 2001

11. Provide the following information concerning LG&E s rate of return on its 1995 Plan as of October 31, 2001:

a. Calculate any true-up adjustment needed to recognize changes in the weighted average cost of LG&E s pollution control debt during this review period.

Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment determined is to be included in the determination of the over- or under-recovery of the surcharge for this review period.

b. LG&E's weighted average cost of its pollution control debt.

12. Provide the following information concerning LG&E's rate of return on its 2001 Plan as of October 31, 2001:

a. Calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, or changes in LG&E's electric capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment determined is to be included in the determination of the over- or under-recovery of the surcharge for this review period.

b. The outstanding balances for long-term debt, short-term debt, preferred stock, accounts receivable financing, and common equity. This information is to be provided on a total company and electric operations only bases.

c. The blended interest rates for long-term debt, short-term debt, preferred stock, and accounts receivable financing. Include all supporting calculations showing how these interest rates were determined. If applicable, provide the blended interest rate on a total company and electric operations only bases.

13. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months of May 2001 through December 2001. The expense months of November and December 2001 have been included in order to show the over- and under-recovery adjustments for the months included for the billing period under review. Include a calculation of any additional over-

or under-recovery amount LG&E believes needs to be recognized for this 6-month review. Because this review period includes the 1995 Plan and 2001 Plan, LG&E may find it beneficial to determine any over- or under-recovery separately for the respective plans and net the results as a single over- or under-recovery amount. Include any supporting calculations, assumptions, and documentation for such an additional over- or under-recovery.

14. Refer to ES Form 2.00, Determination of Pollution Control Operating Expenses, for the expense months of March 2001 through August 2001. During this period, LG&E has included \$383,196 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees.

15. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m), for the expense months of March 2001 through August 2001. Concerning the transactions classified as brokered sales :

a. Describe the extent to which LG&E generating, transmission, or distribution assets were involved in these transactions.

b. Identify any expenses incurred by LG&E in association with these transactions. If any of these expenses are included in the determination of the monthly environmental surcharge revenue requirement, indicate for each expense month the account(s) and the amount of expenses associated with brokered sales.

c. Provide the following for each expense month in question:

1) A listing of the sellers and corresponding buyers involved with these brokered sales.

2) The total MWH sold in each expense month associated with brokered sales transactions.

3) Indicate whether the brokered sales revenues for each expense month reflect the total revenues or revenues net of all expenses.

Billing Period November 1, 2001 through April 30, 2002

16. Provide the following information concerning LG&E's rate of return on its 1995 Plan as of April 30, 2002:

a. Calculate any true-up adjustment needed to recognize changes in the weighted average cost of LG&E's pollution control debt during this review period. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment determined is to be included in the determination of the over- or under-recovery of the surcharge for this review period.

b. LG&E's weighted average cost of its pollution control debt.

17. Provide the following information concerning LG&E's rate of return on its 2001 Plan as of April 30, 2002:

a. Calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, or changes in LG&E's electric capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment determined is to be included in the determination of the over- or under-recovery of the surcharge for this review period.

b. The outstanding balances for long-term debt, short-term debt, preferred stock, accounts receivable financing, and common equity. This information is to be provided on a total company and electric operations only bases.

c. The blended interest rates for long-term debt, short-term debt, preferred stock, and accounts receivable financing. Include all supporting calculations showing how these interest rates were determined. If applicable, provide the blended interest rate on a total company and electric operations only bases.

d. LG&E's calculation of its overall rate of return for the 2001 Plan.

18. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months of September 2001 through May 2002. The expense months of March and April 2002 have been included in order to show the over- and under-recovery adjustments for the months included for the billing period under review. Include a calculation of any additional over- or under-recovery amount LG&E believes needs to be recognized for this 6-month review. Because this review period includes the 1995 Plan and 2001 Plan, LG&E may find it beneficial to determine any over- or under-recovery separately for the respective plans and net the results as a single over- or under-recovery amount. Include any supporting calculations, assumptions, and documentation for such an additional over- or under-recovery.

19. Refer to ES Form 2.00, Determination of Pollution Control Operating Expenses, for the expense months of September 2001 through February 2002. During this period, LG&E has included \$422,203 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees. In addition, explain why the permitting fees for the expense months of October and November 2001 were significantly higher than the previous months.

20. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m), for the expense months of September 2001 through February 2002. Concerning the transactions classified as brokered sales :

a. Describe the extent to which LG&E generating, transmission, or distribution assets were involved in these transactions.

b. Identify any expenses incurred by LG&E in association with these transactions. If any of these expenses are included in the determination of the monthly environmental surcharge revenue requirement, indicate for each expense month the account(s) and the amount of expenses associated with brokered sales.

c. Provide the following for each expense month in question:

1) A listing of the sellers and corresponding buyers involved with these brokered sales.

2) The total MWH sold in each expense month associated with brokered sales transactions.

3) Indicate whether the brokered sales revenues for each expense month reflect the total revenues or revenues net of all expenses.

Billing Period May 1, 1999 through April 30, 2001

21. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the April 6, 1995 Order in Case No. 1994-00332, reflecting the format modifications ordered in Case Nos. 1996-00290 and 1997-00010, for the billing period May 1997 through April 1999. The amounts reported on these forms should reflect the Commission's decision announced in prior 6-month and 2-year environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

22. For each month in the billing period May 1999 through April 2001, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported for Pollution Control Deferred Income Taxes.

23. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of September 2000 through February 2001. During this period, LG&E has included \$382,667 in permitting fees in its surcharge calculations. Provide a schedule identifying the agencies paid the permitting fees. In addition, explain the reduction in permitting fees in the expense month of December 2000.

24. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For the last 6 expense months covered by this review period (September 2000 through February 2001), prepare a reconciliation between the expense month total company revenues as reported on ES Form 3.0, column 8, with the monthly electric operational revenues reported to the Commission in LG&E's monthly financial reports. Identify all reconciling items and describe each reconciling item.

25. KRS 278.183(3) provides that during the 2-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that LG&E believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per KWH approach. Taking this into consideration, explain how the

surcharge amount should be incorporated into LG&E's base rates. Include any analysis that LG&E believes supports its position.

26. The incorporation of the surcharge into LG&E's base rates will necessitate changes in the surcharge mechanism, as costs previously recovered through the surcharge mechanism would now be recovered through base rates.

a. Describe in detail any changes LG&E believes would be necessary to the surcharge mechanism in order to recognize that costs previously recovered through the surcharge would now be recovered through base rates.

b. Describe in detail any changes to the monthly surcharge reports that are needed due to the incorporation of the surcharge into base rates.

27. At the informal technical conference held in August 2001, the Commission Staff proposed a methodology relating to the roll-in of LG&E's environmental surcharge and other modifications to the surcharge mechanism. The Commission Staff's proposal included the following components:

- The surcharge mechanism would reflect the base current approach, rather than continuing the incremental approach.
- Similar to the fuel adjustment clause, the base and current period surcharges would be expressed as factors, with the difference being applied to customer bills.
- The base period would reflect the 12-month period ending with the last month of the 2-year surcharge review.
- The base period would be composed of the revenue requirement associated with the retirements and replacements currently reflected in the surcharge mechanism as an adjustment to the current balances, and the revenue requirement associated with the actual amount to be rolled-in to base rates.
- The current period would reflect the environmental surcharge activity for the expense month, adjusted only for retirements and replacements that had occurred since the roll-in.

- The surcharge mechanism would incorporate a 2-month true-up adjustment to resolve timing differences inherent in the surcharge mechanism. This would be similar to a provision in the surcharge mechanism authorized for American Electric Power.

Would the approach that was outlined by Commission Staff constitute a reasonable approach to deal with the roll-in and the operation of the surcharge after a roll-in?

Explain the response.