

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 June 13, 2002, the Commission initiated four 6-month reviews and one 2-year review of Louisville Gas and Electric Company's (LG&E) environmental surcharge as billed to customers for the following periods: the 6-month periods November 1, 1999 to April 30, 2000; May 1, 2000 to October 31, 2000; May 1, 2001 to October 31, 2001; November 1, 2001 to April 30, 2002; and the 2-year period May 1, 1999 to April 30, 2001.<sup>1</sup> Pursuant to KRS 278.183(3), the Commission must review, at 6-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 2-year intervals, the Commission must

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<sup>1</sup> Since LG&E's surcharge is billed on a two-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.

review and evaluate the past operations of the environmental surcharge and, after hearing, disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

The Attorney General, by and through his Office of Rate Intervention ( AG ), and the Kentucky Industrial Utility Customers, Inc. ( KIUC ) sought and were granted intervention in this proceeding. The Commission issued a procedural schedule on June 13, 2002 that provided for a public hearing on October 29, 2002. Informal conferences were held on August 5 and 28, 2002. LG&E filed prepared direct testimony and responded to requests for information.

On September 6, 2002, LG&E, the AG, and KIUC filed a Stipulation, stating that the record in this case was complete and that there were no issues which merited the need for the scheduled hearing. The parties to the Stipulation requested that the Commission cancel the scheduled hearing and take the case under submission for consideration and decision and issue an Order on the merits by November 1, 2002.

#### SURCHARGE ROLL-IN

LG&E proposes to incorporate, or roll-in, into its electric base rates an environmental surcharge amount of \$4,077,800. This is the actual amount incurred during the last 12 months of the 2-year billing period ending April 30, 2001. LG&E determined the roll-in amount using a base-current methodology and also recommends adoption of this base-current methodology to calculate its monthly environmental surcharge factors on a going-forward basis.<sup>2</sup>

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<sup>2</sup> Foxworthy Direct Testimony at 7.

During LG&E's prior 2-year environmental surcharge review,<sup>3</sup> LG&E suggested and the Commission agreed that an informal technical conference be held among the parties and the Commission Staff to discuss issues associated with a future roll-in of LG&E's environmental surcharge into existing base rates. At that conference, held in August 2001, the Commission Staff proposed a methodology for the roll-in of LG&E's environmental surcharge that 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.<sup>4</sup>

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<sup>3</sup> 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.

<sup>4</sup> Commission Staff's First Data Request dated June 13, 2002, Item 27.

Other methodologies were discussed at the conference, with no consensus being reached by the parties.

In proposing the adoption of the base-current methodology, LG&E states that it continues to believe the incremental approach is conceptually sound.<sup>5</sup> However, LG&E believes that the base-current methodology as discussed at the August 2001 technical conference is a fair and reasonable approach to accomplish the roll-in. LG&E also agrees with the incorporation of a 2-month true-up adjustment in the monthly surcharge filings, but proposes to modify the true-up calculation to use the actual environmental surcharge revenues as collected to determine the over- or under-recovery due to timing differences.<sup>6</sup>

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that LG&E's proposed base-current methodology to determine both its environmental surcharge roll-in and its subsequent calculations of future environmental surcharges is reasonable and should be approved. The Commission further finds that LG&E's proposal to use actual environmental surcharge revenues as collected in the 2-month true-up adjustment is reasonable and should be approved.

LG&E has proposed that the amount to be rolled into existing base rates is \$4,077,800. Based on a review of LG&E's calculations, the Commission finds that this amount is just and reasonable and is appropriate for incorporation into LG&E's existing base rates.

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<sup>5</sup> Foxworthy Direct Testimony at 8.

<sup>6</sup> Response to the Commission Staff's First Data Request dated June 13, 2002, Item 27.

Adopting the base-current methodology for all future environmental surcharge filings requires modification of the existing monthly surcharge report formats. The modified reporting formats are contained in Appendix A to this Order.

#### BASE PERIOD SURCHARGE FACTOR AND ROLL-IN FACTOR

The base-current methodology as proposed by LG&E and adopted herein requires the calculation of a base period environmental surcharge factor ( BESF ). In addition, the amount to be rolled into existing base rates must be allocated to the appropriate rate classes.

LG&E calculated the BESF by dividing the 12-month roll-in amount by the total Kentucky jurisdictional revenues for the same 12 months. Using the proposed roll-in amount of \$4,077,800, LG&E determined that the BESF was 0.78 percent.<sup>7</sup> The Commission has reviewed this calculation and finds that 0.78 percent is accurate and reasonable and should be approved for the environmental surcharge.

LG&E has proposed to roll-in the \$4,077,800 into base rates by increasing every component of all tariffs subject to the environmental surcharge by a percentage factor. This factor would be determined by dividing the roll-in amount by the base rate revenue for the 12-month period ending February 28, 2001. The percentage factor would be applied to all customer charges, energy charges, and demand charges included in the tariffs subject to the environmental surcharge.<sup>8</sup> LG&E initially calculated this

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<sup>7</sup> Response to KIUC s First Set of Data Requests dated August 6, 2002, Item 2, page 2 of 3.

<sup>8</sup> Response to the Commission Staff s First Data Request dated June 13, 2002, Item 25(b).

percentage factor to be 0.7596 percent,<sup>9</sup> but corrected the calculation to 0.7391 percent.<sup>10</sup> Based on a review of LG&E's proposed rate design and the calculation of the percentage factor, the Commission finds that the rate design and the 0.7391 percent factor are reasonable and should be approved.

LG&E also filed a schedule showing the impact that the roll-in percentage factor of 0.7596 percent would have on the majority of LG&E's rate schedules.<sup>11</sup> The Commission finds that this schedule should be updated to reflect the approved roll-in percent factor of 0.7391 percent and to include all impacted rate schedules. LG&E should file this updated schedule at the same time it files its revised tariffs.

#### SURCHARGE ADJUSTMENT

The June 13, 2002 Order initiating this case indicated that since each of the five periods under review 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. LG&E determined that for the four 6-month review periods and the last quarter of the 2-year review period, it over-recovered its environmental costs by a

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<sup>9</sup> Foxworthy Direct Testimony at 8.

<sup>10</sup> Response to KIUC's First Set of Data Requests dated August 6, 2002, Item 2, page 2 of 3.

<sup>11</sup> Response to the Commission Staff's First Data Request dated June 13, 2002, Item 25(a), pages 3 and 4 of 4. LG&E noted that this schedule did not include Outdoor Lighting, Public Street Lights, and Traffic Lighting.

cumulative \$326,390.<sup>12</sup> LG&E proposed that this cumulative over-recovery be returned to customers by reducing the total jurisdictional environmental surcharge revenue requirement by \$81,598 a month for 4 months beginning in the first full billing month following the Commission's decision in this proceeding.<sup>13</sup>

The Commission has reviewed and finds reasonable LG&E's calculation of a cumulative over-recovery of \$326,390 for the four 6-month review periods and the last quarter of the 2-year review period. The Commission also finds reasonable LG&E's proposal to reduce by \$81,598 the total jurisdictional environmental surcharge revenue requirement in each of the first 4 full billing months following the date of this Order.

### RATE OF RETURN

#### 1995 Environmental Compliance Plan ( 1995 Plan )

In Case No. 2000-00386,<sup>14</sup> the Commission determined that LG&E's rate of return on its 1995 Plan would be based on the weighted average cost of its pollution control debt as of December 31, 2000. During subsequent 6-month surcharge reviews, the 1995 Plan would be trued-up to reflect changes during that period in the weighted average cost of pollution control debt, with the over- or under-recovery of the

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<sup>12</sup> Response to the Commission Staff's Second Data Request dated August 8, 2002, Item 2. LG&E had originally determined the cumulative over-recovery was \$329,659. See Foxworthy Direct Testimony at 4 and Exhibit CF-1. LG&E revised the amount to correct for an error in the reported environmental surcharge rate base for the expense month of July 2001.

<sup>13</sup> \$326,390 divided by 4 billing months equals \$81,598.

<sup>14</sup> 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.

environmental surcharge adjusted accordingly.<sup>15</sup> In addition, the Commission stated that a change in the rate of return on the 1995 Plan from the pollution control bond rate to an overall rate of return could be proposed in LG&E's next 2-year review.

LG&E included the true-up adjustment associated with its 1995 Plan as part of its determination of the cumulative over-recovery of the environmental surcharge.<sup>16</sup> LG&E proposed to continue using the weighted average cost of pollution control debt as the rate of return for its 1995 Plan. Further, LG&E proposed to continue to use this rate of return on additions to its 1995 Plan until its next rate case at which time the residual amounts could be included in base rates.<sup>17</sup>

As discussed earlier in this Order, the Commission has accepted LG&E's determination of the cumulative over-recovery of the environmental surcharge. This includes the acceptance of the true-up adjustments associated with the rate of return on the 1995 Plan. As established in Case No. 2000-00386, the rate of return on the 1995 Plan should remain at 5.28 percent.<sup>18</sup>

#### 2001 Amended Environmental Compliance Plan ( 2001 Plan )

Concerning the 2001 Plan, the Commission determined that the rate of return would be based on the overall rate of return on capital, grossed-up for taxes. During

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<sup>15</sup> Case No. 2000-00386, April 18, 2001 Order at 19-20.

<sup>16</sup> Response to the Commission Staff's First Data Request dated June 13, 2002, Items 11, 13, 16, and 18.

<sup>17</sup> Foxworthy Direct Testimony at 8-9.

<sup>18</sup> Case No. 2000-00386, April 18, 2001 Order at 31, Ordering Paragraph No. 4. The Commission's decision in that case did not provide for the rate of return to be reset during the 6-month reviews, only that the changes in the weighted average cost of the pollution control debt would be recognized in a true-up adjustment.



subsequent 6-month surcharge reviews, the overall rate of return on the 2001 Plan would be trued-up to reflect changes during that period in the cost of debt, accounts receivable financing, preferred stock, and changes in LG&E's electric capital structure, with the over- or under-recovery of the environmental surcharge adjusted accordingly. Also during subsequent 6-month surcharge reviews, the cost of debt, accounts receivable financing, and preferred stock would be reviewed and re-established.

LG&E included the true-up adjustment associated with its 2001 Plan as part of its determination of the cumulative over-recovery of the environmental surcharge.<sup>19</sup> LG&E calculated that as of April 30, 2002 its overall rate of return, grossed-up for taxes, was 11.86 percent.<sup>20</sup>

As discussed earlier in this Order, the Commission has accepted LG&E's determination of the cumulative over-recovery of the environmental surcharge. This includes the acceptance of the true-up adjustments associated with the rate of return on the 2001 Plan. The Commission has reviewed LG&E's calculations of its overall rate of return, grossed-up for taxes, as of April 30, 2002 and finds them to be reasonable and consistent with the Commission's decisions in Case No. 2000-00386. Therefore, for the 2001 Plan, LG&E should use the overall rate of return of 11.86 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

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<sup>19</sup> Response to the Commission Staff's First Data Request dated June 13, 2002, Items 12, 13, 17, and 18.

<sup>20</sup> Response to the Commission Staff's First Data Request dated June 13, 2002, Item 17(d). The overall rate of return before gross-up for taxes is 7.72 percent. This overall rate of return includes a 11.50 percent rate of return on common equity, consistent with the Commission's decision in Case No. 2000-00386.

IT IS THEREFORE ORDERED that:

1. LG&E's proposal to use the base-current methodology for the determination of an environmental surcharge roll-in to existing base rates and subsequent use of the base-current methodology for future environmental surcharge calculations is approved.

2. The jurisdictional environmental surcharge revenue requirement of \$4,077,800 for the last 12 months of the 2-year period as billed from May 1, 1999 to April 30, 2001 shall be incorporated into LG&E's existing base rates.

3. LG&E's proposal to roll-in \$4,077,800 into existing base rates using a percentage factor of 0.7391 percent, as described in this Order, is approved.

4. Within 20 days of the date of this Order, LG&E shall file its revised tariff sheets reflecting the application of the roll-in percentage factor to all rate schedules impacted by the environmental surcharge roll-in.

5. Within 20 days of the date of this Order, LG&E shall file a schedule showing the impact on each rate schedule of the application of the roll-in percentage factor, as discussed herein.

6. The revised tariff sheets reflecting the application of the roll-in percentage factor shall be effective for service rendered on and after the first billing cycle of the month following the date of this Order.

7. The formats attached as Appendix A to this Order shall be used for the monthly environmental surcharge filings as of the first billing cycle of the month following the date of this Order.

8. The BESF for the environmental surcharge shall be 0.78 percent.

9. LG&E shall deduct \$81,598 from the total jurisdictional environmental surcharge revenue requirement determined in each of the first 4 full billing months following the date of this Order.

10. For all monthly environmental surcharge filings subsequent to the date of this Order, LG&E shall use a rate of return of 5.28 percent for its 1995 Plan rate base and a rate of return of 11.86 percent for its 2001 Plan rate base.

Done at Frankfort, Kentucky, this 22<sup>nd</sup> day of October, 2002.

By the Commission

ATTEST:

  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00193 DATED OCTOBER 22, 2002

#### Environmental Surcharge Monthly Report Formats

These report formats shall be used by LG&E for all monthly surcharge filings as of the first billing cycle of the month following the date of this Order. These report formats will replace all previously approved report formats developed for LG&E's environmental surcharge filings. LG&E will not modify any format without the prior consent of the Commission Staff.

#### Index of Formats

- ES Form 1.0  
Calculation of Monthly Billed Environment Surcharge Factor    MESF
- ES Form 1.1  
Calculation of Current Period Jurisdictional Environmental Surcharge Factor  
CESF
- ES Form 2.00  
Current Period Revenue Requirements of Environmental Compliance Costs
- ES Form 2.10  
Plant Investment and Related Costs    1995 Plan
- ES Form 2.11  
Plant Investment and Related Costs    2001 Plan
- ES Form 2.30  
Inventory of Emission Allowances
- ES Form 2.40  
O & M Expenses and Determination of Working Capital Allowance
- ES Form 3.0  
Average Monthly Jurisdictional Revenue Computation of R(m)
- ES Form 3.1  
Reconciliation of Reported Revenues

[ES Form 2.20    Reserved for Future Use]

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Calculation of Monthly Billed Environmental Surcharge Factor    MESF**  
**For the Expense Month of {Month Year}**

$$\text{MESF} = \text{CESF} - \text{BESF}$$

Where:

CESF            Current Period Jurisdictional Environmental Surcharge Factor

BESF            Base Period Jurisdictional Environmental Surcharge Factor

Calculation of MESF:

CESF, from ES Form 1.1

BESF, from Case No. 2002-00193                      0.78%

MESF

Effective Date for Billing:

Submitted by: \_\_\_\_\_

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

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

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Calculation of Current Period Jurisdictional Environmental Surcharge Factor   CESF**  
**For the Expense Month of {Month Year}**

CESF                      Net Jurisdictional E(m) / Jurisdictional R(m)

Where:

Jurisdictional R(m)	Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month
Net Jurisdictional E(m)	(E(m) x Jurisdictional Allocation Ratio) +/- Adjustments for Over/(Under) Recoveries and Monthly True-Up

Calculation of Total E(m)

Total E(m) = 1995E(m) + 2001E(m)

1995E(m) = [(RB / 12) (ROR)] + OE   BAS, where

RB	Environmental Compliance Rate Base for the 1995 Plan
ROR	Rate of Return on the 1995 Plan Rate Base
OE	Pollution Control Operating Expenses for the 1995 Plan
BAS	Net Proceeds from By-Product and Allowance Sales

2001E(m)                      [(RB / 12) (ROR + (ROR   DR)(TR / (1   TR)))] + OE, where

RB	Environmental Compliance Rate Base for the 2001 Plan
ROR	Rate of Return on the 2001 Plan Rate Base
DR	Debt Rate (both short-term and long-term debt)
TR	Composite Federal & State Income Tax Rate
OE	Pollution Control Operating Expenses for the 2001 Plan

1995 Plan                      2001 Plan

RB		
RB / 12		
ROR [1995 Plan]		---
[ROR + (ROR   DR)(TR / (1   TR))] [2001 Plan]	---	
OE		
BAS		
1995E(m)		
2001E(m)		

Total E(m) = 1995E(m) + 2001E(m)

Calculation of Jurisdictional Environmental Surcharge Billing Factor

Jurisdictional Allocation Ratio for Current Expense Month

Jurisdictional E(m) = Total E(m) x Jurisdictional Allocation Ratio

Adjustment for Over/(Under) Recovery, Case No.

Adjustment for True-Up

Net Jurisdictional E(m) = Jurisdictional E(m) minus Adjustment for Over/(Under) Recovery plus/minus Adjustment for Monthly True-Up

Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month

Jurisdictional Environmental Surcharge Billing Factor:

CESF = Net Jurisdictional E(m) / Jurisdictional R(m) [%of Revenue]

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Current Period Revenue Requirements of Environmental Compliance Costs**  
**For the Expense Month of {Month Year}**

Determination of Environmental Compliance Rate Base (RB)

	1995 Plan		2001 Plan	
Eligible Pollution Control Plant				
Eligible Pollution CWIP Excluding AFUDC				
Cash Working Capital Allowance				
Subtotal				
Deductions:				
Accumulated Depreciation on Eligible Pollution Control Plant				
Pollution Control Deferred Income Taxes				
Pollution Control Deferred Investment Tax Credit				
Subtotal				
Environmental Compliance Rate Base				

Determination of Pollution Control Operating Expenses (OE)

	1995 Plan	2001 Plan
Monthly Operations & Maintenance Expense		
Monthly Depreciation & Amortization Expense		
Monthly Property & Other Applicable Taxes (Net of pre-1993 amounts)		
Monthly Insurance Expense (Net of pre-1993 amounts)		
Monthly Emission Allowance Expense		
Monthly Surcharge Consultant Fee		
Monthly Permitting Fees		
Less: Operating Expenses Associated with Retirements or Replacements Occurring Since Last Roll-in of Surcharge into Existing Rates		
Total Pollution Control Operating Expenses		

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Current Period Revenue Requirements of Environmental Compliance Costs**  
**For the Expense Month of {Month Year}**

Determination of Proceeds from Allowance and By-Product Sales (BAS)  
[1995 Plan Only]

	Gross Proceeds	Sales Expenses	Net Proceeds
Allowance Sales			
Scrubber By-Product Sales			
Total Proceeds from Sales			

True-Up Adjustment  
Over/(Under) Recovery of Monthly Surcharge Due to Timing Differences

A	MESF for {Two Months Previous Expense Month}	
B	Jurisdictional Revenues for {Current Expense Month}, excluding Environmental Surcharge	
C	Surcharge Amount from {Current Month} Billing (A x B)	
D	Current Expense Month Actual Surcharge Revenues Collected	
E	Over/(Under) Recovery due to Timing Differences (C - D)	
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m).		



**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Plant Investment and Related Costs 1995 Plan**  
**For the Expense Month of {Month Year}**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Project	Plant in Service Balance	Accum. Depreciation	CWIP Excluding AFUDC	Eligible Net Book Value (2)-(3)+(4)	Deferred Tax Balance as of {Date}	Unamort. Investment Tax Credit
Mill Creek Air Quality Systems Improvements						
Mill Creek Reactive Particle Emission Project						
Continuous Emission Monitoring Systems						
Cane Run Unit 4 Precipitator						
Nitrogen Oxide Emission Controls						
Totals						
Less Balances for Retirements or Replacements Since Surcharge Roll-In						
Net Totals						

Retirements and replacements occurring since the last surcharge roll-in are to be shown in total, for all columns impacted. The utility will keep the detailed information supporting this item.

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Plant Investment and Related Costs 2001 Plan**  
**For the Expense Month of {Month Year}**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Project	Plant in Service Balance	Accum. Depreciation	CWIP Excluding AFUDC	Eligible Net Book Value (2)-(3)+(4)	Deferred Tax Balance As of {Date}	Unamort. Investment Tax Credit
LG&E NOx						
Totals						
Less Balances for Retirements or Replacements Since Surcharge Roll-In						
Net Totals						

Retirements and replacements occurring since the last surcharge roll-in are to be shown in total, for all columns impacted. The utility will keep the detailed information supporting this item.

When applicable, LG&E shall reflect a Retirement and Replacement adjustment in the month facilities associated with the 2001 Plan are placed in service.

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Inventory of Emission Allowances**  
**For the Expense Month of {Month Year}**

Vintage Year	Number of Allowances	Total Dollar Value of Vintage Year	Comments and Explanations
Current Year			
2002			
2003			
2004			
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020 2029			

In the Comments and Explanation column, describe any allowance inventory adjustment other than the assignment of allowances by EPA. Inventory adjustments include, but are not limited to, purchases, allowances acquired as part of other purchases, and the sale of allowances.

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**O & M Expenses and Determination of Working Capital Allowance**  
**For the Expense Month of {Month Year}**

2001 Plan Only

Eligible O & M Expenses 12 Month Period Account Nos. 506105 & 512101	
11 <sup>th</sup> Previous Month	
10 <sup>th</sup> Previous Month	
9 <sup>th</sup> Previous Month	
8 <sup>th</sup> Previous Month	
7 <sup>th</sup> Previous Month	
6 <sup>th</sup> Previous Month	
5 <sup>th</sup> Previous Month	
4 <sup>th</sup> Previous Month	
3 <sup>rd</sup> Previous Month	
2 <sup>nd</sup> Previous Month	
Previous Month	
Current Month	
Total O & M Expenses 12 Months Ending with Current Month	
Pollution Control Working Capital Allowance One Eighth (1/8 <sup>th</sup> ) of 12 Months O & M Expenses	

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**ENVIRONMENTAL SURCHARGE REPORT**  
**Average Monthly Jurisdictional Revenue Computation of R(m)**  
**For the Expense Month of {Month Year}**

	Kentucky Jurisdictional Revenues					Non-Jurisdictional Revenues	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Month	Base Rate Revenues	Fuel Clause Revenues	Environmental Surcharge Revenues	Total (2)+(3)+(4)	Total Excluding Environmental Surcharge (5)-(4)	Total Including Off-System Sales (See Note 1)	Total (5)+(7)
Average Monthly Jurisdictional Revenues, Excluding Environmental Surcharge, for 12 Months Ending Current Expense Month							
Jurisdictional Allocation Ratio for Current Month (Environmental Surcharge Excluded from Calculations):					Expense Month Kentucky Jurisdictional Revenues divided by Expense Month Total Company Revenues [Column (6) / Column (5)]		
						Note 1 Excludes Brokered Sales; Total for Current Month	

**LOUISVILLE GAS AND ELECTRIC COMPANY  
ENVIRONMENTAL SURCHARGE REPORT**

**Reconciliation of Reported Revenues  
For the Expense Month of {Month Year}**

Description	Revenues per ES Form 3.0	Revenues per Income Statement
Kentucky Jurisdictional Revenues:		
Base Rates		
Fuel Adjustment Clause		
Environmental Surcharge		
(Identify)		
(Identify)		
Total Kentucky Jurisdictional Revenues for Environmental Surcharge Purposes		
Non-Jurisdictional Revenues:		
(Identify)		
(Identify)		
(Identify)		
Total Non-Jurisdictional Revenues for Environmental Surcharge Purposes		
Total Company Revenues for Environmental Surcharge Purposes		
Reconciling Revenues:		
(Identify)		
(Identify)		
(Identify)		
Total Company Revenues per Income Statement		