

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, 2001,	)	2003-00068
JULY 31, 2001, JANUARY 31, 2002, AND	)	
JANUARY 31, 2003 AND FOR THE TWO-YEAR	)	
BILLING PERIODS ENDING JULY 31, 2000 AND	)	
JULY 31, 2002	)	

O R D E R

On July 19, 1994, the Commission approved the environmental surcharge application of Kentucky Utilities Company ( KU ) and established a surcharge mechanism.<sup>1</sup> 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.

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<sup>1</sup> Case No. 1993-00465, 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.

The Commission has determined that it will be administratively efficient and reasonable to review the pending 6-month periods and the third and fourth 2-year periods in the same case. Therefore, the Commission hereby initiates the 6-month reviews of KUS surcharge as billed from August 1, 2000 to January 31, 2001, from February 1, 2001 to July 31, 2001, from August 1, 2001 to January 31, 2002, and from August 1, 2002 to January 31, 2003 and the 2-year reviews of the surcharge as billed from August 1, 1998 to July 31, 2000 and from August 1, 2000 to July 31, 2002.<sup>2</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, KU should file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time periods under review; and (b) on a proposal to roll-in its environmental surcharge into existing base rates. In addition, KU should file its response to the information requested in Appendix B, attached hereto and incorporated herein. 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.

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<sup>2</sup> Since KUS surcharge is billed on a 2-month lag, the amounts billed from August 2000 through January 2001 are based on costs incurred from June 2000 through November 2000; amounts billed from February 2001 through July 2001 are based on costs incurred from December 2000 through May 2001; amounts billed from August 2001 through January 2002 are based on costs incurred from June 2001 through November 2001; amounts billed from August 2002 through January 2003 are based on costs incurred from June 2002 through November 2002; amounts billed from August 1998 through July 2000 are based on costs incurred from June 1998 through May 2000; and amounts billed from August 2000 through July 2002 are based on costs incurred from June 2000 through May 2002.

Since its last surcharge review, KU sought and was granted an amendment to its approved environmental compliance plan and surcharge mechanism. In Case No. 2000-00439,<sup>3</sup> KU proposed that after the surcharge associated with its original compliance plan ( 1994 Plan ) was rolled into existing base rates, the rate bases associated with the additions from the amended compliance plan ( 2001 Plan ) and the 1994 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 base rates was beyond the scope of Case No. 2000-00439 and that such issues would be addressed during the 2-year review of KU s environmental surcharge. KU was advised that if it wished to propose changing the rate of return on the 1994 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 KU and its ratepayers.<sup>4</sup> If KU wishes to pursue this approach in this proceeding, it should file prepared direct testimony in accordance with the procedural schedule contained in Appendix A of this Order.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A shall be followed in this proceeding.

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<sup>3</sup> Case No. 2000-00439, The Application of Kentucky Utilities 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 Surcharge Tariff; final Order dated April 18, 2001; rehearing Orders dated May 14, 2001 and August 30, 2001.

<sup>4</sup> Case No. 2000-00439, April 18, 2001 Order at 16-17.

2. KU 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) August 1, 2000 through January 31, 2001; (b) February 1, 2001 through July 31, 2001; (c) August 1, 2001 through January 31, 2002; (d) August 1, 2002 through January 31, 2003; (e) August 1, 1998 through July 31, 2000; and (f) August 1, 2000 through July 31, 2002. At the public hearing there shall be no opening statements or summaries of testimony.

3. KU 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, KU shall forward a duplicate of the notice and request to the Commission.

4. KU shall, by the date set forth in Appendix A, file the information requested in Appendix B and its prepared direct testimony. KU's prepared direct testimony shall include, at a minimum, support of the reasonableness of the application of its environmental surcharge mechanism during the six periods under review, and a proposal to roll-in its environmental surcharge into existing 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, KU shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for each review period.

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

9. The case records of Case Nos. 1993-00465, 2000-00106,<sup>5</sup> and 2000-00439 shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 17<sup>th</sup> day of March, 2003.

By the Commission

ATTEST:

  
Executive Director

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<sup>5</sup> Case No. 2000-00106, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending January 31, 1999, July 31, 1999, and January 31, 2000, and for the Two-Year Billing Period Ending July 31, 1998.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2003-00068 DATED March 17, 2003

- KU 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..... 05/02/03
- 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 ..... 05/15/03
- All additional requests for information to KU shall be filed no later than..... 05/23/03
- KU shall file responses to additional requests for information no later than..... 06/06/03
- Intervenor testimony, if any, in verified prepared form shall be filed no later than ..... 06/20/03
- All requests for information to Intervenors shall be filed no later than..... 07/08/03
- Intervenors shall file responses to requests for information no later than..... 07/22/03
- KU may file with the Commission the testimony of its rebuttal witnesses in written verified form no later than ..... 08/05/03
- Last day for KU to publish notice of hearing date ..... To be scheduled
- 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 KU and Intervenors ..... To be scheduled
- Briefs, if any, shall be filed by ..... To be scheduled

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00068 DATED March 17, 2003

#### FIRST DATA REQUEST OF COMMISSION STAFF TO KENTUCKY UTILITIES COMPANY

##### Billing Period August 1, 2000 through January 31, 2001

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the July 19, 1994 Order in Case No. 1993-00465, reflecting the format modifications ordered in Case Nos. 1996-00196<sup>1</sup> and 1996-00605,<sup>2</sup> for the billing period August 2000 through January 2001. 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 August 2000 through January 2001, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

3. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Determination of Operating Expenses, for the expense months of June through

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<sup>1</sup> Case No. 1996-00196, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1995 to January 31, 1996.

<sup>2</sup> Case No. 1996-00605, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1994 to July 31, 1996.

November 2000. During this period, KU reported \$30,000 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

4. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of June through November 2000. During this period, KU has reported Construction Work in Progress ( CWIP ) balances for 3 of the 15 projects. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

5. Provide the calculations used to determine the weighted average cost for the 2000 vintage year of KU s emission allowance inventory as of November 30, 2000. Include all supporting schedules, workpapers, and assumptions.

6. Explain the changes in the following expense levels:

a. Tyrone Subaccount No. 50605, CEMS & Precipitator Operation, for the expense month of October 2000.

b. Tyrone Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of August 2000.

c. Green River Subaccount No. 50605, CEMS & Precipitator Operation, for the expense month of October 2000.

d. E. W. Brown Subaccount No. 50605, CEMS & Precipitator Operation, for the expense month of October 2000.

e. E. W. Brown Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of July and November 2000.



f. E. W. Brown Subaccount No. 51209, Scrubber Maintenance, for the expense months of October and November 2000.

g. Pineville Subaccount No. 50605, CEMS & Precipitator Operation, for the expense month of October 2000.

h. Ghent Subaccount No. 50205, Scrubber Operation, for the expense months of September through November 2000.

i. Ghent Subaccount No. 50605, CEMS & Precipitator Operation, for the expense month of September 2000.

j. Ghent Subaccount No. 51207, Ash Handling Maintenance, for the expense months of June and November 2000.

k. Ghent Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of November 2000.

l. Ghent Subaccount No. 51209, Scrubber Maintenance, for the expense months of June and October 2000.

7. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For each expense month covered by this review period (June through November 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 KU's monthly financial reports. Identify all reconciling items and describe each reconciling item.

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

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

b. Identify any expenses incurred by KU 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.

9. Refer to ES Form 2.3, Inventory of Emission Allowances for Vintage Year 2000, for the expense month of November 2000. KU has indicated that it received 45 1997 vintage year emission allowances from the Owensboro Municipal Utilities ( OMU ) for back-up power delivered in 1999.

a. Has KU utilized any of the 45 allowances received from OMU since November 2000?

b. If yes to part (a) above, indicate by expense month the portion of the 45 OMU allowances that have been utilized by KU.

Billing Period February 1, 2001 through July 31, 2001

It will be necessary for KU to recognize in its responses to the questions for the billing period February 1, 2001 through July 31, 2001 that the last three expense months were submitted in accordance with the Commission's April 18, 2001 Order in Case No. 2000-00439.

10. Provide the following information concerning KU's rate of return on its 1994 Plan as of July 31, 2001:

a. Calculate any true-up adjustment needed to recognize changes in the weighted average cost of KU's pollution control debt during the applicable months of 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. KU's weighted average cost of its pollution control debt.

11. Provide the following information concerning KU's rate of return on its 2001 Plan as of July 31, 2001:

a. Calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, or changes in KU'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.

12. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months of December 2000 through July 2001. The expense months of June and July 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 KU believes needs to be recognized for this 6-month review. Because this review period includes the 1994 Plan and 2001 Plan, KU 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.

13. For each month in the billing period February through July 2001, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

14. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Determination of Operating Expenses, for the expense months of December 2000 through May 2001. During this period, KU reported \$160,803 as Proceeds from By-

Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

15. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of December 2000 through May 2001. During this period, KU has reported CWIP balances for 4 of the 15 projects included in the 1994 Plan. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

16. Provide the calculations used to determine the weighted average cost for the 2001 vintage year of KU's emission allowance inventory as of May 31, 2001. Include all supporting schedules, workpapers, and assumptions.

17. Explain the changes in the following expense levels:

a. Tyrone Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of February 2001.

b. Green River Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of April 2001.

c. E. W. Brown Subaccount No. 50605, CEMS & Precipitator Operation, for the expense month of December 2000.

d. E. W. Brown Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of February 2001.

e. E. W. Brown Subaccount No. 51209, Scrubber Maintenance, for the expense month of April 2001.

f. Pineville Subaccount No. 50605, CEMS & Precipitator Operation, for the expense month of December 2000.

g. Pineville Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of February 2001.

h. Ghent Subaccount No. 50205, Scrubber Operation, for the expense months of December 2000 and April 2001.

i. Ghent Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of December 2000 and March 2001.

j. Ghent Subaccount No. 51207, Ash Handling Maintenance, for the expense month of April 2001.

k. Ghent Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of April 2001.

l. Ghent Subaccount No. 51209, Scrubber Maintenance, for the expense month of April 2001.

18. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m), for the expense months of December 2000 through May 2001. Concerning the transactions classified as brokered sales :

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

b. Identify any expenses incurred by KU 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.

19. Refer to ES Form 2.2, Inventories of Spare Parts & Limestone, for the expense months of December 2000 through February 2001. Explain the reason(s) for the Ghent limestone inventory adjustments reported in these expense months.

Billing Period August 1, 2001 through January 31, 2002

20. Provide the following information concerning KU's rate of return on its 1994 Plan as of January 31, 2002:

a. Calculate any true-up adjustment needed to recognize changes in the weighted average cost of KU'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. KU's weighted average cost of its pollution control debt.

21. Provide the following information concerning KU's rate of return on its 2001 Plan as of January 31, 2002:

a. Calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, or changes in KU'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.

22. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months of June 2001 through January 2002. The expense months of December 2001 and January 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 KU believes needs to be recognized for this 6-month review. Because this review period includes the 1994 Plan and 2001 Plan, KU 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.

23. For each month in the billing period August 2001 through January 2002, provide the calculations, assumptions, workpapers, and other supporting documents



used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

24. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Determination of Operating Expenses, for the expense months of June through November 2001. During this period, KU reported \$97,569 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

25. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of June through November 2001. During this period, KU has reported CWIP balances for 7 of the 15 projects included in the 1994 Plan. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

26. Provide the calculations used to determine the weighted average cost for the 2001 vintage year of KU's emission allowance inventory as of November 30, 2001. Include all supporting schedules, workpapers, and assumptions.

27. Explain the changes in the following expense levels:

a. Green River Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of June 2001.

b. E. W. Brown Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of September 2001.

c. E. W. Brown Subaccount No. 51209, Scrubber Maintenance, for the expense months of June and October 2001.

d. Pineville Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of August 2001.

e. Ghent Subaccount No. 50205, Scrubber Operation, for the expense month of November 2001.

f. Ghent Subaccount No. 50605, CEMS & Precipitator Operation, for the expense months of July through September 2001.

g. Ghent Subaccount No. 51207, Ash Handling Maintenance, for the expense month of June 2001.

h. Ghent Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of July 2001.

i. Ghent Subaccount No. 51209, Scrubber Maintenance, for the expense month of August 2001.

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

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

b. Identify any expenses incurred by KU 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 August 1, 2002 through January 31, 2003

29. Provide the following information concerning KU's rate of return on its 1994 Plan as of January 31, 2003:

a. Calculate any true-up adjustment needed to recognize changes in the weighted average cost of KU'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. KU's weighted average cost of its pollution control debt.

30. Provide the following information concerning KU's rate of return on its 2001 Plan as of January 31, 2003:

a. Calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, or changes in KU'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.

31. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months of June 2002 through January 2003. The expense months of December 2002 and January 2003 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 KU believes needs to be recognized for this 6-month review. Because this review period includes the 1994 Plan and 2001 Plan, KU 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.

32. For each month in the billing period August 2002 through January 2003, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

33. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Determination of Operating Expenses, for the expense months of June through November 2002. During this period, KU reported \$263,938 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

34. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of June through November 2002. During this period, KU has reported CWIP balances for as many as 7 of the 15 projects included in the 1994 Plan. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

35. Provide the calculations used to determine the weighted average cost for the 2002 vintage year of KU's emission allowance inventory as of November 30, 2002. Include all supporting schedules, workpapers, and assumptions.

36. Explain the changes in the following expense levels:

a. Green River Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of June and November 2002.

b. E. W. Brown Subaccount No. 51209, Scrubber Maintenance, for the expense month of September 2002.

c. Ghent Subaccount No. 51209, Scrubber Maintenance, for the expense months of October and November 2002.

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

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

b. Identify any expenses incurred by KU 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 August 1, 1998 through July 31, 2000

38. 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 August 1998 through July 2000. 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.

39. For each month in the billing period August 1998 through July 2000, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes.

40. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Determination of Operating Expenses, for the expense months of December 1999 through May 2000. During this period, KU reported \$105,000 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

41. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m). For the last 6 expense months covered by this review period (December 1999 through May 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 KU's monthly financial reports. Identify all reconciling items and describe each reconciling item.

42. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of December 1999 through May 2000. During this period, KU has reported CWIP balances for 3 of the 15 projects. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

43. Provide the calculations used to determine the weighted average cost for the 2000 vintage year of KU's emission allowance inventory as of May 31, 2000. Include all supporting schedules, workpapers, and assumptions.

44. Explain the changes in the following expense levels:

a. Tyrone Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of February and May 2000.

b. Green River Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of April 2000.

c. E. W. Brown Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of February and May 2000.

d. E. W. Brown Subaccount No. 51209, Scrubber Maintenance, for the expense months of December 1999 and March 2000.

e. Pineville Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 1999 and February 2000.

f. Ghent Subaccount No. 50205, Scrubber Operation, for the expense month of May 2000.

g. Ghent Subaccount No. 50605, CEMS and Precipitator Operation, for the expense months of December 1999 and April 2000.

h. Ghent Subaccount No. 51207, Ash Handling Maintenance, for the expense months of March through May 2000.

i. Ghent Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of December 1999.



j. Ghent Subaccount No. 51209, Scrubber Maintenance, for the expense months of March and May 2000.

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

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

b. Identify any expenses incurred by KU 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.

46. 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 KU 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 KU's base rates. Include any analysis that KU believes supports its position.

Billing Period August 1, 2000 through July 31, 2002

It will be necessary for KU to recognize in its responses to the questions for the billing period August 1, 2000 through July 31, 2002 that the last 15 expense months were submitted in accordance with the Commission's April 18, 2001 Order in Case No. 2000-00439.

47. Provide the following information concerning KU's rate of return on its 1994 Plan as of July 31, 2002:

a. Calculate any true-up adjustment needed to recognize changes in the weighted average cost of KU's pollution control debt during the applicable months of 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. KU's weighted average cost of its pollution control debt.

48. Provide the following information concerning KU's rate of return on its 2001 Plan as of July 31, 2002:

a. Calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, or changes in KU'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.

49. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months of December 2001 through July 2002. The expense months of June and July 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 KU believes needs to be recognized for this 6-month review. Because this review period includes the 1994 Plan and 2001 Plan, KU 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.

50. For each month in the billing period February 2002 through July 2002, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

51. Refer to ES Form 2.0, Proceeds from Allowance and By-Product Determination of Operating Expenses, for the expense months of December 2001 through May 2002. During this period, KU reported \$292,044 as Proceeds from By-Product Sales. Describe the nature of the transactions that made up the amounts reported as By-Product Sales.

52. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense for the expense months of December 2001 through May 2002. During this period, KU has reported CWIP balances for 7 of the 15 projects included in the 1994 Plan. For each project showing a CWIP balance during this period, prepare a schedule listing the work order reference, the amount of the work order, and a description of the activity associated with that work order.

53. Provide the calculations used to determine the weighted average cost for the 2002 vintage year of KU's emission allowance inventory as of May 31, 2002. Include all supporting schedules, workpapers, and assumptions.

54. Explain the changes in the following expense levels:

a. Tyrone Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of May 2002.

b. Green River Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of May 2002.

c. E. W. Brown Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense month of December 2001.

d. E. W. Brown Subaccount No. 51209, Scrubber Maintenance, for the expense months of December 2001 and January 2002.

e. Ghent Subaccount No. 50205, Scrubber Operation, for the expense months of December 2001 and May 2002.

f. Ghent Subaccount No. 51207, Ash Handling Maintenance, for the expense month of February 2002.

g. Ghent Subaccount No. 51208, CEMS & Precipitator Maintenance, for the expense months of December 2001 and March 2002.

h. Ghent Subaccount No. 51209, Scrubber Maintenance, for the expense month of May 2002.

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

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

b. Identify any expenses incurred by KU 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.

56. 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 KU 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 KU's base rates. Include any analysis that KU believes supports its position.

57. The incorporation of the surcharge into KU'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 KU believes would be necessary to the surcharge mechanism in order to recognize that cost 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.

58. At the informal technical conference held in August 2001, the Commission Staff offered its suggestions to KU, the AG, and KIUC relating to the roll-in of KU'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 replaces that had occurred since the roll-in.
- KU would recognize the net proceeds, rather than gross proceeds, from by-product and allowances sales as a reduction of the surcharge revenue requirement.
- 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.

a. 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.

b. In Case No. 2002-00193<sup>3</sup> the Commission approved the use of the base-current methodology for the Louisville Gas and Electric Company's ( LG&E ) environmental surcharge mechanism. Due to the timing of LG&E's billing cycles, the Commission's October 22, 2002 Order had to be clarified concerning when the base-current methodology became effective. Assume that a similar base-current methodology is adopted for KU. Given KU's billing cycles, indicate when KU would propose the new methodology should become effective.

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<sup>3</sup> Case No. 2002-00193, 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, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001, final Order dated October 22, 2002.