

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	)	

FIRST DATA REQUEST OF COMMISSION STAFF  
TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. ( KIUC ), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before July 22, 2003. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Concerning the operation and maintenance expense baseline ( O&M expense baseline ) reflecting the 12 months ending May 31, 1994,

a. Based on his understanding of Case No. 1993-00465,<sup>1</sup> was Mr. Kollen aware that Kentucky Utilities Company ( KU ) originally proposed the O&M expense baseline as part of its incremental approach for the 1994 environmental compliance plan and surcharge mechanism?

b. Was Mr. Kollen aware that the O&M expense subaccounts making up the O&M expense baseline were to match the five specific O&M subaccounts that were to be recovered in the surcharge mechanism under the incremental approach?

c. Based on his understanding of the Commission's decisions in Case No. 1993-00465, would Mr. Kollen agree that the O&M expense baseline, as utilized in the environmental surcharge mechanism, reflects O&M already included in existing base rates for the five specific O&M subaccounts?

2. Concerning the environmental surcharge-related adjustments made in Case No. 1998-00474,<sup>2</sup>

a. Based on his understanding of the Commission's January 7, 2000 Order in Case No. 1998-00474, Appendix B, would Mr. Kollen agree that the Commission removed \$5,776,127 in Kentucky jurisdictional O&M related to the five specific subaccounts included in the surcharge mechanism?

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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.

<sup>2</sup> Case No. 1998-00474, The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

b. Would Mr. Kollen agree that the \$5,776,127 in Kentucky jurisdictional O&M reflected the balances for the 12 months ending December 31, 1998?

c. Would Mr. Kollen agree that by removing this level of O&M, it was assumed that the \$5,776,127 in Kentucky jurisdictional O&M would be recovered through KU's surcharge mechanism? Explain the response.

d. Would Mr. Kollen agree that by removing this level of O&M, \$5,776,127 in Kentucky jurisdictional O&M was not included in the resulting base rates established in Case No. 1998-00474? Explain the response.

3. Does Mr. Kollen agree or disagree with the following statement from the Commission's January 7, 2000 Order in Case No. 1998-00474, "Because of the focus on plant and expenses not already included in existing rates, the environmental surcharge is a stand-alone cost recovery mechanism?"

4. Does Mr. Kollen agree that the January 7, 2000 Order in Case No. 1998-00474 was issued during the period covered by the first 2-year surcharge review period that is part of this proceeding?

5. Refer to the Direct Testimony of Lane Kollen ( Kollen Testimony ), page 6, lines 13 through 16.

a. Would Mr. Kollen agree that the error that occurred in Case No. 1998-00474 was that the treatment of Kentucky jurisdictional O&M excluded from base rates did not correspond with the utilization of an O&M expense baseline in the surcharge mechanism? Explain the response.

b. Explain in detail Mr. Kollen's contention that the error can only be corrected in a base rate-making proceeding.

c. Since the Kentucky jurisdictional O&M excluded from base rates impacts the level of environmental O&M included in base rates, explain in detail why an adjustment to the O&M expense baseline is not appropriate.

6. Refer to the Kollen Testimony, page 7, lines 1 through 4. Explain in detail the basis for Mr. Kollen's statements concerning the establishment of the O&M expense baseline.

7. Refer to the Kollen Testimony, page 7, lines 8 through 10. Explain in detail how an adjustment to the O&M expense baseline would violate the Kentucky Supreme Court's ruling on eligible environmental surcharge recovery when the O&M expense baseline reflects the 12-month period ending May 31, 1994.

8. Refer to the Kollen Testimony, page 7, line 12 through page 8, line 2.

a. Was Mr. Kollen aware that the O&M expense baseline is not applied to O&M associated with the 2001 Compliance Plan?

b. Explain why when discussing the potential mismatch within the environmental surcharge that is envisioned by Mr. Kollen he did not recognize the mismatch created between base rates and the environmental surcharge as a result of the January 7, 2000 decision in Case No. 1998-00474.

9. Refer to the Kollen Testimony, page 8, lines 4 through 9. The first 2-year surcharge review period covers the billing periods from August 1, 1998 through July 31, 2000. The second 2-year review period covers the billing periods from August 1, 2000 through July 31, 2002. Given the billing periods covered in this proceeding, explain in

detail why the adjustment proposed by KU results in improper retroactive rate-making for the environmental surcharge.

10. Refer to the Kollen Testimony, page 9, lines 15 through 20. Explain in detail how Mr. Kollen concluded that the Commission included the O&M expense baseline in the surcharge mechanism to avoid recovery of pre-1993 environmental O&M. Include citations to the Commission's Orders in Case No. 1993-00465 that support this conclusion.

11. Refer to the Kollen Testimony, page 13, lines 12 through 14.

a. Explain in detail how KU's proposed adjustment to the O&M expense baseline constitutes a modification to the base rate Order in Case No. 1998-00474.

b. Does Mr. Kollen agree that KU's base rates were adjusted in Case No. 1998-00474?

c. Included in the provisions of KRS 278.183 is the requirement that the environmental compliance costs recovered through the surcharge cannot already be included in existing rates. Since KU's base rates were adjusted in Case No. 1998-00474, explain in detail why some adjustment to the O&M expense baseline is not appropriate, given the requirements of KRS 278.183.

12. Mr. Kollen's direct testimony appears to interchange the provision in the surcharge statute prohibiting the recovery of environmental compliance costs through the surcharge that are already included in existing base rates with the Kentucky Supreme Court decision that no environmental costs incurred prior to January 1, 1993 can be included for surcharge purposes. Would Mr. Kollen agree that the two concepts

are distinct and separate parameters that are to be considered in the development of the surcharge rather than different expressions of the same parameter? Explain the response.

13. The O&M expense baseline adjustment is one of several issues to be addressed in this case. KU has proposed to adopt the base-current methodology for the calculation of the surcharge and to incorporate a portion of the environmental surcharge into existing base rates. Does Mr. Kollen or KIUC have a position on the other issues to be addressed in this case? If yes, describe Mr. Kollen's or KIUC's position on the other issues.



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DATED: July 8, 2003

cc: All Parties