

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	)	CASE NO.
AND ELECTRIC COMPANY FOR THE TWO-YEAR	)	2003-00236
BILLING PERIOD ENDING APRIL 30, 2003	)	

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.<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

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<sup>1</sup> 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.

base rates of the utility. Therefore, the Commission hereby initiates the 2-year review of the surcharge as billed from May 1, 2001 to April 30, 2003.<sup>2</sup>

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 May 1, 2001 through April 30, 2003. 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 four periods under review.

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

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.

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<sup>2</sup> Since LG&E's surcharge is billed on a 2-month lag, the amounts billed from May 2001 through April 2003 are based on costs incurred from March 2001 through February 2003.

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. 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.

9. The case records of Case Nos. 1994-00332, 2000-00386,<sup>3</sup> 2002-00147,<sup>4</sup> 2002-00193,<sup>5</sup> and 2003-00001<sup>6</sup> shall be incorporated by reference into the record of this case.

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<sup>3</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.

<sup>4</sup> Case No. 2002-00147, The Application of Louisville Gas and Electric Company for Approval of Its 2002 Compliance Plan for Recovery by Environmental Surcharge, final Order dated February 11, 2003.

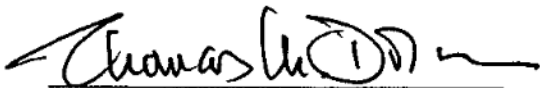
<sup>5</sup> Case No. 2002-00193, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001, final Order dated October 22, 2002.

<sup>6</sup> Case No. 2003-00001, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Period ending October 31, 2002, final Order dated April 22, 2003.

Done at Frankfort, Kentucky, this 31<sup>st</sup> day of July, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas H. Dixon", written over a horizontal line.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2003-00236 DATED July 31, 2003

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..... 08/26/03

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 ..... 09/10/03

All additional requests for information to LG&E shall be filed no later than..... 09/19/03

LG&E shall file responses to additional requests for information no later than..... 10/02/03

Intervenor testimony, if any, in verified prepared form shall be filed no later than ..... 10/16/03

All requests for information to Intervenors shall be filed no later than..... 10/30/03

Intervenors shall file responses to requests for information no later than..... 11/13/03

LG&E may file with the Commission the testimony of its rebuttal witnesses in written verified form no later than ..... 11/26/03

Last day for LG&E to publish notice of hearing date ..... To be scheduled

Public Hearing is to begin at 9:00 a.m., Eastern Standard 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..... 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. 2003-00236 DATED July 31, 2003

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

##### Billing Period May 1, 2001 through April 30, 2003

It will be necessary for LG&E to recognize in its responses to the questions for billing period May 1, 2001 through April 30, 2003 that the last 5 expense months were submitted using the base-current methodology instead of the incremental approach in accordance with the Commission's October 22, 2002 Order in Case No. 2002-00193.

1. Provide the following information concerning LG&E's rate of return on its 1995 Plan as of April 30, 2003:

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

2. Provide the following information concerning LG&E's rate of return on its 2001 Plan as of April 30, 2003:

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.

b. 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.

c. 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.

d. 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.

3. 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 2002 through April 2003. The expense months of March and April 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 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.

4. For each expense month from September 2002 through February 2003, provide the calculations, assumptions, workpapers, and other supporting documents

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

5. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of September 2002 through February 2003. During this period, LG&E has included \$408,366 in permitting fees in its surcharge calculation. Provide a schedule identifying the agencies paid the permitting fees. In addition, explain the fluctuations in monthly amounts.

6. Refer to ES Form 2.1, Determination of Operating Expenses, for the expense months of September 2002 through February 2003. During this period, LG&E has included \$41,013 in property and other applicable taxes in its surcharge calculation. Provide a schedule identifying the agencies paid the property and other applicable taxes. In addition, explain the fluctuations in monthly amounts.

7. Refer to ES Form 2.40, O&M Expenses and Determination of Cash Working Capital Allowance, for the expense months of September 2002 through February 2003.

a. Provide a breakdown by subaccount number of the \$87,050 in operation and maintenance expenses reported for September 2002.

b. Explain in detail why the expenses reported for September 2002 are significantly higher than any of the subsequent expense months.

8. Refer to ES Form 3.0, Monthly Average Revenue Computation R(m), for the expense months of September 2002 through February 2003. 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 were included in the determination of the monthly environmental surcharge revenue requirement, indicate for each expense month the account(s) and the amount of the expense associated with the 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. 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.

10. 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.