

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 OCTOBER 31, 2003,	)	2006-00130
APRIL 30, 2004, OCTOBER 31, 2004,	)	
OCTOBER 31, 2005, AND APRIL 30, 2006, AND	)	
FOR THE TWO-YEAR BILLING PERIOD ENDING	)	
APRIL 30, 2005	)	

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 6 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before August 18, 2006. 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 witness 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 requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Direct Testimony of Stephen J. Baron ("Baron Testimony"), page 9. The current rate design for Louisville Gas and Electric Company's ("LG&E")

base rates was established in the Commission's June 30, 2004 Order in Case No. 2003-00433.<sup>1</sup> In his testimony, Mr. Baron advocates that the environmental surcharge roll-in for LG&E follow an "alternative" proposal offered by LG&E that would address rate class subsidies still reflected in the existing base rates.

a. Assume for purposes of this question that there is a roll-in of the environmental surcharge into existing base rates and that LG&E's alternative proposal has been adopted. Would Mr. Baron agree that after the roll-in LG&E's base rates would reflect two rate design approaches: the approach approved in Case No. 2003-00433 and the approach utilized for the roll-in in the current proceeding?

b. Explain why it is reasonable that base rates after the roll-in should reflect two different rate design approaches.

2. Refer to the Baron Testimony, page 10. Mr. Baron states, "Like a general rate case, an ECR roll-in case is a base rate proceeding and therefore a reasonable venue to address the subsidies in the Companies rate schedules." The 6-month and 2-year environmental surcharge reviews are established in KRS 278.183(3), which states in part:

At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section. Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate,

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<sup>1</sup> Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company, final Order dated June 30, 2004.

incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

a. When Mr. Baron was preparing his testimony, was he aware that the main purpose of the current proceeding was the 6-month and 2-year reviews of the operation of LG&E's environmental surcharge? Explain the response.

b. When Mr. Baron was preparing his testimony, was it his understanding that a roll-in of the environmental surcharge into existing base rates would only occur "to the extent appropriate" as determined by the Commission? Explain the response.

c. Explain in detail how Mr. Baron reached the conclusion that the current environmental surcharge review proceeding was a base rate proceeding. Include citations to KRS 278.183 that support Mr. Baron's conclusion.

3. Refer to the Baron Testimony, page 12. Mr. Baron includes the following quote from the Commission's June 20, 2005 Order in Case No. 2004-00426:<sup>2</sup>

While the Commission appreciates KIUC's concerns as to the discrepancies between KU's cost of service and the recovery of costs through its base rates, we are not persuaded that an environmental surcharge proceeding is an appropriate venue to address those discrepancies.

Mr. Baron notes that the Commission adopted the finding from the Kentucky Utilities Company ("KU") decision in the June 20, 2005 Order in Case No. 2004-00421.<sup>3</sup> If the

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<sup>2</sup> Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge.

<sup>3</sup> Case No. 2004-00421, The Application of Louisville Gas and Electric Company for Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge.

Commission in June 2005 found that proceedings considering the amendment of LG&E's and KU's environmental compliance plan and surcharge mechanism were not the appropriate venue to address rate design subsidies, explain in detail why Mr. Baron believes the 6-month and 2-year surcharge review cases are an appropriate venue. Include in this response a discussion of the differences between the two proceedings that would make the surcharge review the appropriate forum to consider rate design issues.

4. Refer to LG&E's response to the Commission Staff's Second Data Request dated June 29, 2006, Item 1(a). In this response LG&E states, "Based on past practice of implementing a roll-in of the environmental surcharge or the fuel adjustment clause the total bill for a customer has been essentially the same before and after the roll-in."

a. Does Mr. Baron agree with this statement by LG&E? Explain the response.

b. Describe in detail the change in circumstances that has occurred since LG&E's last base rate case that requires the Commission to address the inter-class rate subsidy issue in the current environmental surcharge proceeding.



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Public Service Commission  
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DATED August 3, 2006

cc: All Parties