

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) CASE NO. 2008-00216
UTILITIES COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING OCTOBER 31, 2007)
AND APRIL 30, 2008)

O R D E R

On June 17, 2008, the Commission initiated a 6-month review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers for the following 6-month periods: May 1, 2007 to October 31, 2007 and November 1, 2007 to April 30, 2008.¹ Pursuant to KRS 278.183(3), the Commission must review, at 6-month intervals, the past operations of a utility's environmental surcharge; disallow any surcharge amounts that are not just and reasonable; and reconcile past surcharge collections with actual costs recoverable. There were no intervenors in this case.

The Commission issued a procedural schedule on June 17, 2008 that provided for discovery, the filing of prepared testimony, an informal conference, and a public hearing. KU filed prepared direct testimony and responded to requests for information. On July 21, 2008, KU and Commission Staff participated in an informal conference in order to discuss the issues in the case. During that conference, Staff requested further information from KU, which was submitted on August 11, 2008. KU requested, upon

¹ KU's surcharge is billed on a 2-month lag. Thus, surcharge billings for May 2007 through October 2007 are based on costs incurred from March 2007 through August 2007, and the amounts billed from November 2007 through April 2008 are based on costs incurred from September 2007 through February 2008.

filing its responses to the Staff's information request, that this case be submitted for a decision based on the existing record of evidence without a hearing. Based on the absence of intervenors in this case and finding good cause, the Commission will now adjudicate this case based on the evidence of record without a hearing.

SURCHARGE ADJUSTMENT

The June 17, 2008 Order initiating this case indicated that, since each of the periods under review in this proceeding 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. KU determined that it had a net under-recovery of its environmental costs for the billing periods ending October 31, 2007 and April 30, 2008 of \$22,563.² KU proposed that the net under-recovery be collected from customers in the month following the Commission's Order in this proceeding.³

The Commission has reviewed and finds reasonable KU's calculation of a net under-recovery of \$22,563 for the billing periods covered in this proceeding. The Commission also finds reasonable KU's proposal to increase the total jurisdictional environmental surcharge revenue requirement in the month following the date of this Order in the amount of \$22,563. The Commission has estimated a customer with a \$100-per-month electric bill would see an increase of approximately \$0.025 associated with the recovery of the net under-recovery during the one-month recovery period.

² Conroy Direct Testimony at 3.

³ Id. at 4.

RATE OF RETURN

KU provided the outstanding balances for its long-term debt, short-term debt, preferred stock, and common equity as of February 29, 2008, the last billing month of the review periods. It also provided the blended interest rates for the long-term debt and short-term debt and the cost rate for the preferred stock as of February 29, 2008.⁴ Using this information, along with the currently approved 10.5-percent return on equity, KU calculated an overall weighted average cost of capital, before income tax gross-up, of 7.94 percent.⁵ KU also calculated an adjusted, overall weighted average cost of capital of 11.3 percent, reflecting the tax gross-up approach approved in Case No. 2004-00426.⁶

The Commission has reviewed KU's determination of the overall rate of return on capital and finds 7.94 percent, before income tax gross-up, to be reasonable. The Commission has also reviewed the determination of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2004-00426. Therefore, the Commission finds that the weighted average cost of capital of 7.94 percent and the

⁴ Id. at Item 6.

⁵ Id.

⁶ 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, final Order dated June 20, 2005; and Response to the Commission Staff's First Data Request dated June 17, 2008, Item 6. In the response, KU determined that the income tax gross-up factor was 0.5797, which would produce a tax grossed-up weighted average cost of capital of 11.13 percent.

income tax gross-up factor of 0.5797 should be used in all KU monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. KU's motion to submit this case for a decision on the existing evidence of record without a hearing is granted.

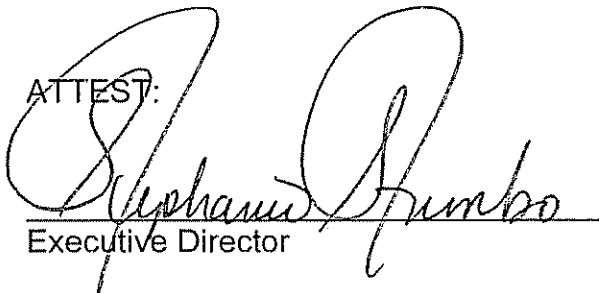
2. KU shall include a \$22,563 increase in its jurisdictional environmental revenue requirement in the first billing month only following the date of this Order, as discussed herein.

3. KU shall use an overall rate of return on capital of 7.94 percent and a tax gross-up factor of 0.5797 in all monthly environmental surcharge filings subsequent to the date of this Order.

Done at Frankfort, Kentucky, this 28th day of August, 2008.

By the Commission

Chairman Armstrong Abstains.

ATTEST:

Executive Director