

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**AN ELECTRONIC EXAMINATION BY THE PUBLIC)
SERVICE COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY)
UTILITIES COMPANY FOR THE TWO-YEAR)
BILLING PERIOD ENDING APRIL 30, 2017)**

**CASE NO.
2017-00266**

DIRECT TESTIMONY OF

**DEREK A. RAHN
MANAGER, REVENUE REQUIREMENT
LG&E AND KU SERVICES COMPANY**

Filed: August 21, 2017

1 **Q. Please state your name, title, and business address.**

2 A. My name is Derek A. Rahn. I am the Manager, Revenue Requirement for Kentucky
3 Utilities Company (“KU” or “Company”) and Louisville Gas and Electric Company
4 (“LG&E”) and an employee of LG&E and KU Services Company, which provides
5 services to LG&E and KU (collectively “Companies”). My business address is 220
6 West Main Street, Louisville, Kentucky, 40202. A complete statement of my education
7 and work experience is attached to this testimony as Appendix A.

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I have previously testified before this Commission in proceedings concerning the
10 Companies’ fuel adjustment clauses, environmental cost recovery (“ECR”) surcharge
11 mechanisms, and the most recent ECR compliance plan proceeding (Case No. 2016-
12 00026 (KU) and Case No. 2016-00027 (LG&E)).

13 **Q. Are you sponsoring any exhibits?**

14 A. Yes. I am sponsoring two exhibits identified as Exhibit DAR-1 and Exhibit DAR-2.

- 15 • Exhibit DAR-1: Current Monthly ES Forms 1.10, 2.00, and 2.40
- 16 • Exhibit DAR-2: Proposed Monthly ES Forms 1.10, 2.00, and 2.40

17 **Q. What is the purpose of this proceeding?**

18 A. The purpose of this proceeding is to review the past operation of KU’s environmental
19 surcharge, including the six-month billing period ending April 30, 2017 that is part of
20 the two-year billing period also ending April 30, 2017, determine whether the surcharge
21 amounts collected during the period are just and reasonable, and then incorporate or
22 “roll-in” such surcharge amounts into KU’s existing electric base rates.

23 **Q. What is the purpose of your testimony?**

1 A. The purpose of my testimony is to summarize the operation of KU's environmental
2 surcharge during the billing period under review, demonstrate that the amount collected
3 during the period was just and reasonable, present and discuss KU's proposed
4 adjustment to the Environmental Surcharge Revenue Requirement based on the
5 operation of the surcharge during the period and explain how the environmental
6 surcharge factors were calculated during the period under review. In addition, my
7 testimony will recommend that the cumulative ECR revenue requirement for the twelve
8 months ending with the expense month of February 2017 be used for purposes of
9 incorporating or "rolling-into" KU's electric base rates the appropriate surcharge
10 amounts using the methodology previously approved by the Commission, most
11 recently in Case No. 2015-00221.

12 **Q. Please summarize the operation of the environmental surcharge for the billing**
13 **period included in this review.**

14 A. KU billed an environmental surcharge to its customers from November 1, 2016 through
15 April 30, 2017. For purposes of the Commission's examination in this case, the
16 monthly KU environmental surcharges are considered as of the six-month billing
17 period ending April 30, 2017; that same review period is part of the two-year billing
18 period also ending April 30, 2017. (The three previous billing periods were reviewed
19 in Case Nos. 2015-00411, 2016-00214, and 2016-00437.) In each month of the six-
20 month period under review in this proceeding, KU calculated the environmental
21 surcharge factors in accordance with its ECR Tariff, and the requirements of the
22 Commission's previous orders concerning KU's environmental surcharge. The
23 calculations were made in accordance with the Commission-approved monthly forms

1 and filed with the Commission ten days before the new monthly charge was billed by
2 the Company.

3 **Q. What costs were included in the calculation of the environmental surcharge**
4 **factors for the billing period under review?**

5 A. The capital and operating costs included in the calculation of the environmental
6 surcharge factors for the six-month billing period under review were the costs incurred
7 each month by KU from September 2016 through February 2017, as detailed in the
8 attachment in response to Question No. 2 of the Commission Staff's Request for
9 Information, incorporating all required revisions.

10 The monthly environmental surcharge factors applied during the billing period
11 under review were calculated consistent with the Commission's Orders in KU's
12 previous applications to assess or amend its environmental surcharge mechanism and
13 plan, as well as Orders issued in previous review cases. The monthly environmental
14 surcharge reports filed with the Commission during this time reflect the various
15 changes to the reporting forms ordered by the Commission from time-to-time.

16 **Q. Please describe the most recently approved changes to KU's ECR Compliance**
17 **Plan.**

18 A. In Case No. 2016-00026, the Commission approved KU's 2016 ECR Compliance Plan
19 that included seven new projects and associated operation and maintenance costs.
20 Pursuant to the Commission's August 8, 2016 Order approving the Settlement
21 Agreement in Case No. 2016-00026, KU began including the approved projects in the
22 monthly filing for the August 2016 expense month that was billed in October 2016 with
23 separate authorized rates of return for the Pre-2016 and 2016 ECR Plans.

1 **Q. Please describe the most recently approved changes to the environmental**
2 **surcharge mechanism and the monthly ES Forms.**

3 A. In Case No. 2016-00437, KU's most recent ECR six-month review case, the
4 Commission reduced the return on equity to be used in the monthly environmental
5 surcharge filings to 9.70% for all ECR Plans. Pursuant to the Commission's June 23,
6 2017 Order, the changes were implemented with the June 2017 expense month that was
7 billed in August 2017. The lower return on equity, therefore, will not impact the
8 recovery of costs for this review period. However, the lower return on equity will be
9 used in this proceeding to establish the overall rate of return on capital to be used to
10 calculate the environmental surcharge in future filings as discussed later in this
11 testimony.

12 **Q. Is KU proposing any changes to the environmental surcharge mechanism and the**
13 **monthly ES Forms?**

14 A. Yes. As a result of the change to lower the return on equity for all ECR Plans discussed
15 above, the separate columns to reflect the two different rates of return are no longer
16 needed on the following ES Forms:

- 17 • ES Form 1.10 – Jurisdictional Surcharge Billing Factor;
- 18 • ES Form 2.00 – Revenue Requirement of Environmental Compliance Costs, and;
- 19 • ES Form 2.40 – O&M Expenses and Determination of Cash Working Capital
20 Allowances.

21 This change is shown in Exhibit DAR-1 and Exhibit DAR-2 reflecting the before and
22 after of the change to these ES Forms. No changes are proposed to the ES Forms not
23 specifically stated in my testimony.

1 **Q. Is KU proposing any changes to its Environmental Cost Recovery Surcharge**
2 **tariff?**

3 A. No. There are no needed changes to the Environmental Cost Recovery Surcharge tariff.

4 **Q. Are there any changes or adjustments in Rate Base from the originally filed**
5 **expense months?**

6 A. No. During the period under review, there were no changes to Rate Base from the
7 originally filed billing months as summarized in KU's response to the Commission
8 Staff's Request for Information, Question No. 1. In addition, there were no changes
9 identified as a result of preparing responses to the requests for information in this
10 review.

11 **Q. Are there any changes necessary to the jurisdictional revenue requirement**
12 **(E(m))?**

13 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's Order
14 in Case No. 2000-00439 to reflect the actual changes in the overall rate of return on
15 capitalization that is used in the determination of the return on environmental rate base.

16 Pursuant to the terms of the Settlement Agreement approving the 2011 ECR
17 Plan, KU calculated the short- and long-term debt rate using average daily balances
18 and daily interest rates in the calculation of the overall rate of return true-up adjustment
19 for the six-month period ending February 28, 2017.

20 The support for this calculation is shown in KU's response to Question No. 1
21 of the Commission Staff's Request for Information.

22 **Q. Are there corrections to information provided in the monthly filings during the**
23 **billing period under review?**

1 A. No. There are no corrections to information provided in the monthly filings during the
2 six-month billing period under review.

3 **Q. As a result of the operation of the environmental surcharge during the billing**
4 **period under review, is an adjustment to the revenue requirement necessary?**

5 A. Yes. KU experienced an under-recovery of \$723,722 for the billing period ending
6 April 30, 2017. KU's response to Question No. 2 of the Commission Staff's Request
7 for Information shows the calculation of the under-recovery. An adjustment to the
8 revenue requirement is necessary to reconcile the collection of past surcharge revenues
9 with actual costs for the billing period under review.

10 **Q. Has KU identified the causes of the under-recovery during the billing period**
11 **under review?**

12 A. Yes. KU has identified the primary components that make up the under-recovery
13 during the billing period under review. The components are: (1) changes in overall
14 rate-of-return as previously discussed, and (2) the use of 12-month average revenues to
15 determine the billing factor. The details and support of the components that make up
16 the under-recovery during the billing period under review are shown in KU's response
17 to Question No. 2 of the Commission Staff's Request for Information.

18 **Q. Please explain how the function of the ECR mechanism contributes to the**
19 **recovery position in the billing period under review.**

20 A. The use of 12-month average revenues to calculate the monthly billing factors and then
21 applying those same billing factors to the actual monthly revenues will result in an
22 over- or under-collection of ECR revenues. The table below shows a comparison of
23 the 12-month average revenues used in the monthly filings to determine the ECR billing

1 factors and the actual revenues to which the ECR billing factors were applied in the
2 billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
September 2016	\$ 97,506,439	November 2016	\$ 81,538,405
October 2016	97,856,784	December 2016	101,737,315
November 2016	98,000,189	January 2017	114,101,775
December 2016	99,023,439	February 2017	99,897,848
January 2017	99,910,226	March 2017	98,700,748
February 2017	98,747,530	April 2017	84,922,139
*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Group 2.			

3

4 Generally, an under-recovery will occur when actual revenues for the billing
5 month are less than the 12-month average revenues used for the expense month.
6 Likewise, an over-recovery will usually occur when actual revenues for the billing
7 month are greater than the 12-month average revenues used for the expense month.

8 **Q. What kind of adjustment is KU proposing in this case as a result of the operation
9 of the environmental surcharge during the billing period?**

10 A. KU is proposing that the under-recovery be collected in one month following the
11 Commission's Order in this proceeding. Specifically, KU recommends that the
12 Commission approve an increase to the Environmental Surcharge Revenue
13 Requirement of \$723,722 for one month, beginning in the second full billing month
14 following the Commission's Order in this proceeding. This method is consistent with
15 the method of implementing previous over- or under- recovery positions in prior ECR
16 review cases.

1 **Q. What is the bill impact on a residential customer for the proposed collection of the**
2 **under-recovery?**

3 A. The inclusion of the collection reflecting the under-recovery position in the
4 determination of the ECR billing factor will increase the billing factor by
5 approximately 0.59%. For a residential customer using an average of 1,122 kWh per
6 month, the impact of the adjusted ECR billing factor would be an increase of
7 approximately \$0.67 for one month.

8 **Q. Should the Commission approve incorporating into KU's base rates the**
9 **environmental surcharge amounts found just and reasonable for the two-year**
10 **billing period ending April 2017?**

11 A. Yes. It is now appropriate to incorporate into electric base rates the surcharge amounts
12 the Commission finds just and reasonable for the two-year billing period ending April
13 2017. KU recommends that an incremental environmental surcharge amount of
14 \$33,091,208 be incorporated into base rates at the conclusion of this case. KU
15 determined the incremental roll-in amount of \$33,091,208 using environmental
16 surcharge rate base as of February 28, 2017 and environmental surcharge operating
17 expenses for the twelve-month period ending February 28, 2017. If approved, the total
18 amount of environmental surcharge that will be included in base rates will be
19 \$144,279,620. The implementation of the change in base rates reflecting the roll-in
20 amount should take effect with bills rendered beginning with the first billing cycle in
21 the second month following the month in which the Commission issues its Order in
22 this proceeding.

1 **Q. If the Commission accepts KU's recommendation to incorporate the proposed**
2 **amount into base rates, what will be the impact on KU's ECR revenue**
3 **requirement?**

4 A. The incorporation of the recommended surcharge amount into base rates will increase
5 base rates and, two months later, decrease ECR revenues by an equal amount. There
6 will be no impact on the environmental costs KU is allowed to recover from its
7 customers; only the method of collection will be impacted.

8 **Q. Please explain why ECR revenues will not decrease in the same month that base**
9 **rates will increase.**

10 A. The ECR is billed on a two-month lag, meaning that costs are incurred, for example, in
11 February 2017 (expense month) and ECR billing factor revenues are collected two
12 months later in April 2017 (billing month). KU's determination of costs recoverable
13 through the billing factor (E(m) for the expense month) are reduced by the ECR
14 revenue included in base rates. Therefore, total ECR costs for the month of February
15 are collected from customers through base rates in February and through the ECR
16 billing mechanism in April. If base rates increase due to a roll-in in February, the
17 portion of ECR costs incurred in February that is recovered through base rates will
18 increase and the resulting decrease in the ECR billing factor will be applied in April.
19 If the decrease in the ECR billing factor were applied in February, the same month that
20 base rates change, then KU would not be collecting the correct amount of ECR revenue
21 associated with costs incurred in December. This is because the February billing factor
22 is associated with the December expense month and must be calculated using base rates
23 in effect in December.

1 **Q. What rate of return is KU proposing to use for all ECR Plans upon the**
2 **Commission’s Order in this proceeding?**

3 A. KU is recommending an overall rate of return on capital of 10.33%, including the
4 currently approved 9.70% return on equity and adjusted capitalization, to be used to
5 calculate the environmental surcharge. This is based on capitalization as of February
6 28, 2017, the Commission’s Order of June 23, 2017 in Case No. 2016-00437 and use
7 of the 2017 gross-up revenue factor that excludes the §199 manufacturing tax
8 deduction.

9 See the response and attachment to Commission Staff’s Request for
10 Information Question No. 7 following this testimony.

11 **Q. What is your recommendation to the Commission in this case?**

12 A. KU makes the following recommendations to the Commission in this case:

13 a) The Commission should approve the proposed increase to the Environmental
14 Surcharge Revenue Requirement of \$723,722 for one month beginning in the
15 second full billing month following the Commission’s Order in this proceeding;

16 b) The Commission should determine the environmental surcharge amount for the
17 six-month billing period ending April 30, 2017 to be just and reasonable;

18 c) The Commission should approve the use of an overall rate of return on capital
19 of 10.33% using a return on equity of 9.70% beginning in the second full billing
20 month following the Commission’s Order in this proceeding;

21 d) The Commission should approve a “roll-in” of \$33,091,208 in incremental
22 environmental costs into KU’s base rates, for a total base rate ECR component
23 of \$144,279,620, to be included in base rates following the methodology

1 previously approved by the Commission and implemented by KU. The
2 implementation of the change in base rates reflecting the roll-in amount should
3 take effect with bills rendered beginning with the first billing cycle in the second
4 month following the month in which the Commission issues its Order in this
5 proceeding; and

6 e) The Commission should approve the proposed ES Forms as reflected in Exhibit
7 DAR-2.

8 **Q. Does this conclude your testimony?**

9 A. Yes.

APPENDIX A

Derek A. Rahn

Manager, Revenue Requirement
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-4127

Education

Masters of Business Administration,
Bellarmine University, July 2010.
Bachelor of Science in Electrical Engineering,
University of Kentucky, December 2003.

Training: Managing People & Processes (2014), IUS Leadership Program (2007-2008), Professional Development Program (2007-2008), Global Leadership Summit (2013, 2015, 2017), Mentoring Program (2008, 2014 – 2017), Project Management (2006), Microsoft Project (2005), Advanced Operator (2008), Basic Shaft Alignment (2006).

Previous Positions

Manager, Transmission Policy & Tariffs	Sep 2010 – Oct 2015
Group Leader, Transmission Operations Engineering	Dec 2008 – Sep 2010
Supervisor, Operations (Ghent Power Station)	Dec 2007 – Dec 2008
Electrical Engineer II (Ghent Power Station)	Jul 2005 – Dec 2007
Project Engineer (TubeMaster, Inc.)	Dec 2003 – Jul 2005

ES FORM 1.10

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Calculation of Total E(m) and
Jurisdictional Surcharge Billing Factor

For the Expense Month of

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR + (ROR - DR)(TR / (1 - TR)))] + OE - BAS + BR$, where

RB = Environmental Compliance Rate Base
ROR = Rate of Return on the Environmental Compliance Rate Base
DR = Debt Rate (both short-term and long-term debt)
TR = Composite Federal & State Income Tax Rate
OE = Pollution Control Operating Expenses
BAS = Total Proceeds from By-Product and Allowance Sales
BR = Beneficial Reuse Operating Expenses

	Pre-2016 Environmental Compliance Plans	2016 Environmental Compliance Plans
(1) RB	=	
(2) RB / 12	=	
(3) (ROR + (ROR - DR) (TR / (1 - TR)))	=	
(4) OE	=	
(5) BAS	=	
(6) BR	=	
(7) E(m) (2) x (3) + (4) - (5) + (6)	=	
(8) Total E(m) = sum of Pre-2016 E(m) + 2016 E(m)	=	

Calculation of Adjusted Net Jurisdictional E(m)

(9) Jurisdictional Allocation Ratio for Expense Month -- ES Form 3.10	=
(10) Jurisdictional E(m) = Total E(m) x Jurisdictional Allocation Ratio [(8) x (9)]	=
(11) Adjustment for (Over)/Under-collection pursuant to Case No. 2016-00437	=
(12) Prior Period Adjustment (if necessary)	=
(13) Revenue Collected through Base Rates	=
(14) Adjusted Net Jurisdictional E(m) [(10) + (11) + (12) - (13)]	=

Calculation of Group Environmental Surcharge Billing Factors

	<u>GROUP 1 (Total Revenue)</u>	<u>GROUP 2 (Net Revenue)</u>
(15) Revenue as a Percentage of 12-month Total Revenue ending with the Current Month -- ES Form 3.00	=	
(16) Group E(m) [(14) x (15)]	=	
(17) Group R(m) = Average Monthly Group Revenue for the 12 Months Ending with the Current Expense Month -- ES Form 3.00	=	
(18) Group Environmental Surcharge Billing Factors [(16) ÷ (17)]	=	

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Revenue Requirements of Environmental Compliance Costs
For the Expense Month of

Determination of Environmental Compliance Rate Base

	Pre-2016 Environmental Compliance Plan		2016 Environmental Compliance Plan	
Eligible Pollution Control Plant				
Eligible Pollution CWIP Excluding AFUDC				
Subtotal				
Additions:				
Inventory - Emission Allowances per ES Form 2.31, 2.32, 2.33 and 2.34				
Less: Allowance Inventory Baseline				
Net Emission Allowance Inventory				
Cash Working Capital Allowance				
Net Unamortized Closure Cost Balance - Active Stations ¹				
Net Unamortized Closure Cost Balance - Retired Stations ¹				
Subtotal				
Deductions:				
Accumulated Depreciation on Eligible Pollution Control Plant				
Pollution Control Deferred Income Taxes				
Pollution Control Deferred Investment Tax Credit				
Subtotal				
Environmental Compliance Rate Base				

Determination of Pollution Control Operating Expenses

	Pre-2016 Environmental Compliance Plan		2016 Environmental Compliance Plan	
Monthly Operations & Maintenance Expense				
Monthly Depreciation & Amortization Expense				
Monthly Taxes Other Than Income Taxes - Eligible Plant				
Monthly Taxes Other Than Income Taxes - Closure Costs				
Amortization of Monthly Closure Costs - Active Stations				
Amortization of Monthly Closure Costs - Retired Stations				
Monthly Emission Allowance Expense from ES Form 2.31, 2.32, 2.33 and 2.34				
Add KU Current Month TC2 Emission Allowance Expense reported on ES Form 2.31, 2.32, 2.33 and 2.34				
Less Monthly Emission Allowance Expense in base rates				
Net Recoverable Emission Allowance Expense				
Monthly Surcharge Consultant Fee				
Construction Monitoring Consultant Fee				
Total Pollution Control Operations Expense				

Determination of Beneficial Reuse Operating Expenses

	Environmental Compliance Plan
Total Monthly Beneficial Reuse Expense	
Adjustment for Beneficial Reuse in Base Rates (from ES Form 2.61)	
Net Beneficial Reuse Operations Expense	

Proceeds From By-Product and Allowance Sales

	Total Proceeds	Amount in Base Rates	Net Proceeds
	(1)	(2)	(1) - (2)
Allowance Sales			
Scrubber By-Products Sales			
Total Proceeds from Sales			

Note 1: The net unamortized closure cost balance is comprised of CCR closure cost expenditures less accumulated amortization, accumulated deferred income taxes and amount in base rates.

ES FORM 2.40

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
O&M Expenses and Determination of Cash Working Capital Allowance

For the Month Ended:

Environmental Compliance Plan		
O&M Expenses	Pre-2016 Environmental Compliance Plans	2016 Environmental Compliance Plan
11th Previous Month		
10th Previous Month		
9th Previous Month		
8th Previous Month		
7th Previous Month		
6th Previous Month		
5th Previous Month		
4th Previous Month		
3rd Previous Month		
2nd Previous Month		
Previous Month		
Current Month		
Total 12 Month O&M		

Determination of Working Capital Allowance		
12 Months O&M Expenses		
One Eighth (1/8) of 12 Month O&M Expenses	1/8	1/8
Pollution Control Cash Working Capital Allowance		

ES FORM 1.10

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**Calculation of Total E(m) and
Jurisdictional Surcharge Billing Factor**

For the Expense Month of

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR + (ROR - DR)(TR / (1 - TR)))] + OE - BAS + BR$, where
 RB = Environmental Compliance Rate Base
 ROR = Rate of Return on the Environmental Compliance Rate Base
 DR = Debt Rate (both short-term and long-term debt)
 TR = Composite Federal & State Income Tax Rate
 OE = Pollution Control Operating Expenses
 BAS = Total Proceeds from By-Product and Allowance Sales
 BR = Beneficial Reuse Operating Expenses

		Environmental Compliance Plans
(1) RB	=	
(2) RB / 12	=	
(3) (ROR + (ROR - DR) (TR / (1 - TR)))	=	
(4) OE	=	
(5) BAS	=	
(6) BR	=	
(7) E(m)	(2) x (3) + (4) - (5) + (6)	=

Calculation of Adjusted Net Jurisdictional E(m)

(8)	Jurisdictional Allocation Ratio for Expense Month -- ES Form 3.10	=
(9)	Jurisdictional E(m) = Total E(m) x Jurisdictional Allocation Ratio [(7) x (8)]	=
(10)	Adjustment for (Over)/Under-collection pursuant to Case No.	=
(11)	Prior Period Adjustment (if necessary)	=
(12)	Revenue Collected through Base Rates	=
(13)	Adjusted Net Jurisdictional E(m) [(9) + (10) + (11) - (12)]	=

Calculation of Group Environmental Surcharge Billing Factors

		<u>GROUP 1 (Total Revenue)</u>
(14)	Revenue as a Percentage of 12-month Total Revenue ending with the Current Month -- ES Form 3.00	=
(15)	Group E(m) [(13) x (14)]	=
(16)	Group R(m) = Average Monthly Group Revenue for the 12 Months Ending with the Current Expense Month -- ES Form 3.00	=
(17)	Group Environmental Surcharge Billing Factors [(15) ÷ (16)]	=

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT

Revenue Requirements of Environmental Compliance Costs
For the Expense Month of

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant		
Eligible Pollution CWIP Excluding AFUDC		
Subtotal		
Additions:		
Inventory - Emission Allowances per ES Form 2.31, 2.32, 2.33 and 2.34		
Less: Allowance Inventory Baseline		
Net Emission Allowance Inventory		
Cash Working Capital Allowance		
Net Unamortized Closure Cost Balance - Active Stations ¹		
Net Unamortized Closure Cost Balance - Retired Stations ¹		
Subtotal		
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant		
Pollution Control Deferred Income Taxes		
Pollution Control Deferred Investment Tax Credit		
Subtotal		
Environmental Compliance Rate Base		

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan	
Monthly Operations & Maintenance Expense		
Monthly Depreciation & Amortization Expense		
Monthly Taxes Other Than Income Taxes - Eligible Plant		
Monthly Taxes Other Than Income Taxes - Closure Costs		
Amortization of Monthly Closure Costs - Active Stations		
Amortization of Monthly Closure Costs - Retired Stations		
Monthly Emission Allowance Expense from ES Form 2.31, 2.32, 2.33 and 2.34		
Add KU Current Month TC2 Emission Allowance Expense reported on ES Form 2.31, 2.32, 2.33 and 2.34		
Less Monthly Emission Allowance Expense in base rates		
Net Recoverable Emission Allowance Expense		
Monthly Surcharge Consultant Fee		
Construction Monitoring Consultant Fee		
Total Pollution Control Operations Expense		

Determination of Beneficial Reuse Operating Expenses

	Environmental Compliance Plan
Total Monthly Beneficial Reuse Expense	
Adjustment for Beneficial Reuse in Base Rates (from ES Form 2.61)	
Net Beneficial Reuse Operations Expense	

Proceeds From By-Product and Allowance Sales

	Total Proceeds	Amount in Base Rates	Net Proceeds
	(1)	(2)	(1) - (2)
Allowance Sales			
Scrubber By-Products Sales			
Total Proceeds from Sales			

Note 1: The net unamortized closure cost balance is comprised of CCR closure cost expenditures less accumulated amortization, accumulated deferred income taxes and amount in base rates.

ES FORM 2.40

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
O&M Expenses and Determination of Cash Working Capital Allowance

For the Month Ended:

Environmental Compliance Plan	
O&M Expenses	Environmental Compliance Plans
11th Previous Month	
10th Previous Month	
9th Previous Month	
8th Previous Month	
7th Previous Month	
6th Previous Month	
5th Previous Month	
4th Previous Month	
3rd Previous Month	
2nd Previous Month	
Previous Month	
Current Month	
Total 12 Month O&M	

Determination of Working Capital Allowance	
12 Months O&M Expenses	
One Eighth (1/8) of 12 Month O&M Expenses	1/8
Pollution Control Cash Working Capital Allowance	