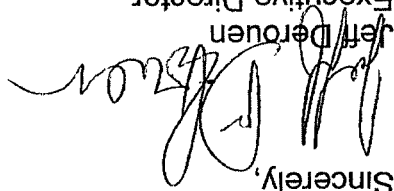




Attachment

Sincerely,

 Jeff Derouen
 Executive Director

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Any questions regarding this memorandum should be directed to Ron Handziak of the Commission Staff at 502-564-3940, extension 230.

RE: Informal Conference for
 Case No. 2008-00549
 Case No. 2008-00550

PARTIES OF RECORD

March 13, 2009

David L. Armstrong
 Chairman
 James Gardner
 Vice-Chairman
 John W. Clay
 Commissioner

Commonwealth of Kentucky
 Public Service Commission
 211 Sower Blvd.
 P.O. Box 615
 Frankfort, Kentucky 40602-0615
 Telephone: (502) 564-3940
 Fax: (502) 564-3460
 psc.ky.gov



Steven L. Beshear
 Governor
 Leonard K. Peters
 Secretary
 Energy and Environment Cabinet

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2008-00549
Main Case File - Case No. 2008-00550

FROM: Ronald Handziak, Team Leader

DATE: March 13, 2009

RE: Informal Conference of March 6, 2009

Pursuant to the Commission's January 28, 2009 Order, on March 6, 2009, representatives of Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU") and Commission Staff ("Staff") met at the Commission's offices to discuss LG&E and KU's testimony and responses to the first round of data requests in the current examination of the companies' environmental surcharge mechanism. A list of attendees is attached to this memorandum as Attachment 1.

Representatives of LG&E and KU distributed a handout that provided an overview of their filing and responses. LG&E and KU discussed the information contained in the handout, including the determination that there was an under-recovery of the surcharge for the billing period under review. The handout is attached to this memorandum as Attachment 2.

Commission Staff asked a few clarifying questions related to information included in the handout. In response to Staff's question regarding the calculation of the weighted average cost of capital, LG&E and KU agreed to provide an electronic version of the spreadsheet supporting their calculation. Because there are no intervenors in either case, LG&E and KU requested that the proceedings be submitted for decision based on the record. There being no other questions, the meeting adjourned.

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2008-00549

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, 2008

And

CASE NO. 2008-00550

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE
ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY UTILITIES
COMPANY FOR THE SIX-MONTH BILLING PERIOD ENDING OCTOBER 31,
2008

SIGN IN

March 6, 2009

PERSON	REPRESENTING
Rick Bellin	PSC-1000
Vicky Townes	PSC - PA
Ron Handzack	PSC - FA
Robert Conroy	LG+E / KU
Allyson Sturgeon	LG+E / KU
Shannon Charnas	LG+E / KU
Audrea Scudder	LG / KU
Lorrie Bellin	LG+E / KU

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PSC - F/A

REPRESENTING

[Handwritten Signature]

PERSON

ECCR Review

**Case Nos. 2008-00549
and 2008-00550**

**Louisville Gas and Electric Company
Kentucky Utilities Company
March 6, 2009**

Scope of Review Cases

- Six-month Review Period
 - Billing months of May 2008 through October 2008

Operation of the ECR -- LG&E

- Four Components that make up the net under-collection of \$608,538:
 - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
 - Inconsistency in calculation of BESF
 - Use of BESF percentage in determining amount collected in base rates
 - Use of 12-month average revenues to determine the billing factor

Over/Under Reconciliation -- LG&E

Combined Over/Under Recovery		(608,538)
Due to Change in Rate of Return	222,254	
Due to BESF Inconsistency	(597,821)	
Due to Use of BESF %	(939,572)	
Use of 12-Month Average Revenues	<u>706,601</u>	
Subtotal		<u>(608,538)</u>
Unreconciled Difference		(-)

Operation of the ECR -- KU

- Four Components that make up the net under-collection of \$3,949,299:
 - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
 - Inconsistency in calculation of BESF
 - Use of BESF percentage in determining amount collected in base rates
 - Use of 12-month average revenues to determine the billing factor

Over/Under Reconciliation -- KU

Combined Over/Under Recovery		(3,949,299)
Due to Change in Rate of Return	715,967	
Due to BESF Inconsistency	(1,565,892)	
Due to Use of BESF %	(2,883,254)	
Use of 12-Month Average Revenues	<u>(216,120)</u>	
Subtotal		<u>(3,949,299)</u>
Unreconciled Difference	(-)	

Over/Under-Collection Components

- Overall rate of return
 - Adjustments to the jurisdictional revenue requirement are required for compliance with previous Commission Orders to reflect the actual changes in the overall rate of return on capitalization that is used in the determination of the return on environmental rate base associated with the ECR Plans.
- Overall changes to Rate Base
 - During the period under review, there were no changes to Rate Base from the originally filed billing period.

Over/Under-Collection Components

- Inconsistency in BESF calculation
 - In the most recent 2-year review cases, KU and LG&E calculated the BESF factor using base rate revenues excluding the customer charge revenues, while the monthly filings use BESF times total base revenues to estimate the ECR revenues collected through base rates.
 - Because the monthly estimate of ECR revenues collected through base rates is determined by multiplying BESF times total base revenues, overstating BESF overstates the ECR revenues collected through base rates.
 - When ECR revenues collected through base rates are overstated, the monthly $E(m)$ is understated which contributes to the under-recovery position.

Over/Under-Collection Components

- Use of the BESF percentage to estimate the amount collected through base rates.
 - In the monthly filings, the BESF percentage is used to determine the amount of ECR revenue collected through base rates by applying the percentage to total base rate revenues.
 - In the review proceedings, the billing determinants are used to determine the actual ECR revenues collected through base rates.
 - This methodology results in a perpetual mismatch between actual revenues collected and estimated revenues reported in the monthly filings.
- Use of 12-month average revenues to calculate MESF and then applying that same MESF to actual monthly revenues
 - The result is an over-collection during the summer months when actual revenues will generally be greater than the 12-month average and an under-collection during the shoulder months when actual revenues will generally be less than the 12-month average.

Recommendations

- Louisville Gas and Electric Company
 - Approve collection of \$608,538 over a three month period following the Commission’s Order
 - Find environmental surcharge amount for the billing period ending October 2008 just and reasonable
 - Approve the use of an overall rate of return on capital of 10.82% using a return on equity of 10.63% beginning in the first billing month following the Commission’s Order

Recommendations

- Kentucky Utilities Company
 - Approve collection of \$3,949,299 over a six month period following the Commission’s Order
 - Find environmental surcharge amount for the billing period ending October 2008 just and reasonable
 - Approve the use of an overall rate of return on capital of 11.12% using a return on equity of 10.63% beginning in the first billing month following the Commission’s Order