

an e-on company

Jeff DeRouen  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
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**RECEIVED**

SEP 29 2009

**PUBLIC SERVICE  
COMMISSION**

**Kentucky Utilities Company**  
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September 29, 2009

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION  
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF  
KENTUCKY UTILITIES COMPANY FOR THE TWO-YEAR  
BILLING PERIOD ENDING APRIL 30, 2009  
CASE NO. 2009-00310***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Revised Direct Testimony of Robert M. Conroy and a Revised Response of Kentucky Utilities Company to Question No. 2 of the Information Requested in Appendix B of the Commission's Order dated August 18, 2009, in the above-referenced matter.

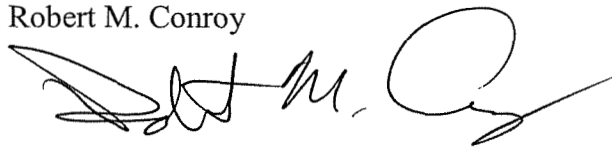
In preparation for the Technical Conference it was discovered that the Over/(Under) recovery position was overstated due to an error in data input. KU is providing a redline and clean version of the testimony to allow for the revisions to be easily reviewed. Revisions to the response to Question No. 2 are noted as highlighted text. In addition KU is revising Exhibit RMC-1 page 3 of 3. The original page inadvertently included Louisville Gas and Electric Company information for ES Form 2.00.

Mr. Jeff DeRouen  
September 29, 2009

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy

A handwritten signature in black ink, appearing to read "R. M. Conroy", with a large, stylized flourish at the end.

Enclosures

cc: Parties of Record

**Revised**  
**Direct Testimony of**  
**Robert M. Conroy**  
**Director – Rates**  
**E.ON U.S.**

**CLEAN VERSION**

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>AN EXAMINATION BY THE PUBLIC SERVICE</b>	)	
<b>COMMISSION OF THE ENVIRONMENTAL</b>	)	
<b>SURCHARGE MECHANISM OF KENTUCKY</b>	)	<b>CASE NO.</b>
<b>UTILITIES COMPANY FOR THE TWO-YEAR</b>	)	<b>2009-00310</b>
<b>BILLING PERIOD ENDING APRIL 30, 2009</b>	)	

**REVISED**

**DIRECT TESTIMONY OF**

**ROBERT M. CONROY**  
**DIRECTOR - RATES**  
**E.ON U.S. SERVICES INC.**

**Filed: September 29, 2009**

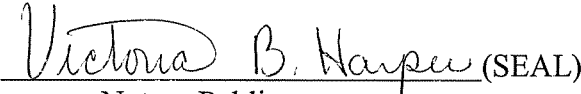
**VERIFICATION**

**COMMONWEALTH OF KENTUCKY** )  
 ) **SS:**  
**COUNTY OF JEFFERSON** )

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says he is the Director – Rates for E.ON U.S. Services Inc., and that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
**ROBERT M. CONROY**

Subscribed and sworn to before me, a Notary Public in and before said County and State,  
this 29<sup>th</sup> day of September, 2009.

  
Victoria B. Harper (SEAL)  
Notary Public

My Commission Expires:  
Sept 20, 2010

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

2 A. My name is Robert M. Conroy. I am the Director – Rates for E.ON U.S. Services  
3 Inc., which provides services to Louisville Gas and Electric Company (“LG&E”) and  
4 Kentucky Utilities Company (“KU”) (collectively “the Companies”). My business  
5 address is 220 West Main Street, Louisville, Kentucky, 40202. A complete statement  
6 of my education and work experience is attached to this testimony as Appendix A.

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

8 A. Yes. I have previously testified before this Commission in proceedings concerning  
9 the Companies’ most recent rate case, fuel adjustment clauses, and environmental  
10 surcharge mechanisms.

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

12 A. Yes. I am sponsoring Exhibit RMC-1 – Proposed KU Environmental Surcharge ES  
13 Forms 1.00, 1.10, and 2.00.

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

15 A. The purpose of this proceeding is to review the past operation of KU’s environmental  
16 surcharge during the six-month billing period ending April 30, 2009 that is part of the  
17 two-year billing period also ending April 30, 2009, determine whether the surcharge  
18 amounts collected during the period are just and reasonable, and then incorporate or  
19 “roll-in” such surcharge amounts into KU’s existing electric base rates.

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

21 A. The purpose of my testimony is to review the operation of KU’s environmental  
22 surcharge during the billing period under review, demonstrate the amounts collected  
23 during the period were just and reasonable, present and discuss KU’s proposed

1 adjustment to the Environmental Surcharge Revenue Requirement based on the  
2 operation of the surcharge during the review period and explain how the  
3 environmental surcharge factors were calculated during the period under review.  
4 Further, my testimony will recommend that the cumulative ECR revenue requirement  
5 for the twelve-months ending with the expense month of February 2009 be used for  
6 purposes of incorporating or “rolling-into” KU’s electric base rates the appropriate  
7 surcharge amounts using the methodology approved by this Commission in Case Nos.  
8 2006-00129 and 2007-00379. Finally, I will propose an improvement to the  
9 calculation of the ECR mechanism for consideration by the Commission to help  
10 reduce the fluctuation of the over- or under-recovery balance.

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

13 A. KU billed an environmental surcharge to its customers from November 1, 2008  
14 through April 30, 2009. For purposes of the Commission’s examination in this case,  
15 the monthly KU environmental surcharges are considered as the six-month billing  
16 period ending April 30, 2009; that same review period is part of the two-year billing  
17 period also ending April 30, 2009. In each month of the period, KU calculated the  
18 environmental surcharge factors by using the costs incurred as recorded on its books  
19 and records for the expense months of September 2008 through February 2009 and in  
20 accordance with the requirements of the Commission’s previous orders concerning  
21 KU’s environmental surcharge.

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

1 A. The capital and operating costs included in the calculation of the environmental  
2 surcharge factors for the billing period were the costs incurred each month by KU  
3 from September 2008 through February 2009. The details are shown in the  
4 attachment in response to Question No. 2 of the Commission Staff Request for  
5 Information, incorporating all required revisions.

6 The monthly environmental surcharge factors applied during the billing period  
7 under review were calculated consistent with the Commission's orders in KU's  
8 previous applications to assess or amend its environmental surcharge mechanism and  
9 plan, as well as orders issued in previous review cases, most recently Case No. 2008-  
10 00550. The monthly environmental surcharge reports filed with the Commission  
11 during this time reflect the various changes to the reporting forms ordered by the  
12 Commission from time to time.

13 **Q. Are there any changes or adjustments in Rate Base from the amounts originally**  
14 **filed as part of the expense month reports?**

15 A. During the period under review, there were no changes to Rate Base from the  
16 amounts originally filed during the billing period. This is shown in summary form in  
17 KU's response to the Commission Staff Request for Information, Question No. 1.

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

20 A. Yes. Effective with the July 2004 expense month, the scrubber operations expense  
21 and gypsum proceeds for the Ghent 1 FGD were included in base rates and removed  
22 from the ECR monthly filings due to the elimination of the 1994 ECR Plan in Case



1 No. 2003-00434. Consequently, beginning in July 2004, KU no longer included an  
2 adjustment in its ECR monthly filings for the proceeds from gypsum sales.

3 Beginning with the June 2007 expense month, the Ghent 3 FGD was placed in  
4 service and KU began reporting scrubber operations expense on Form ES 2.50.  
5 Consistent with previous practice, proceeds from the sale of gypsum net of the  
6 amount included in base rates should be included as an adjustment to the monthly  
7 ECR filing. During the preparation of data responses in Case No. 2009-00197, KU's  
8 Amended ECR Compliance Plan filing, KU determined that the proceeds, net of the  
9 amount included in base rates, from sale of gypsum from the Ghent FGDs were  
10 inadvertently omitted from the monthly ECR filings. Therefore, KU is proposing an  
11 adjustment to operating expenses to reflect the difference between actual gypsum  
12 proceeds and the amounts included in base rates for the period of June 2007 through  
13 February 2009. The result of the adjustment is a decrease to cumulative Jurisdictional  
14 E(m) of \$61,113. For the months outside of this review period, a one-time  
15 adjustment will be made to the August 2009 expense month filing. Going-forward,  
16 the difference between actual monthly byproduct proceeds and the amount in base  
17 rates for Ghent will be reported on ES Form 2.00.

18 Furthermore, adjustments to E(m) are necessary for compliance with the  
19 Commission's Order in Case No. 2000-00439, to reflect the actual changes in the  
20 overall rate of return on capitalization that is used in the determination of the return  
21 on environmental rate base associated with KU's Compliance Plans. The changes in  
22 the actual cost of long term debt and capital structure result in a decrease to  
23 cumulative E(m) of \$1,365,289. The details of and support for this calculation are

1 shown in the attachment to KU's response to Question No. 1 of the Commission Staff  
2 Request for Information. Also shown are the revisions to the previous six-month  
3 periods included in this two-year review as calculated in Case No. 2008-00216 for  
4 billing periods ending October 31, 2007 and April 30, 2008; and Case No. 2008-  
5 00550 for billing period ending October 31, 2008. The true-up adjustments were  
6 included in the monthly filings consistent with the Commission's final Orders in each  
7 case.

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

10 A. Yes. KU experienced a cumulative under-recovery of \$3,821,966 for the six month  
11 billing period ending April 30, 2009. The attachment to KU's response to Question  
12 No. 2 of the Commission Staff Request for Information shows the calculation of the  
13 \$3,821,966 cumulative under-recovery. Therefore, an adjustment to the revenue  
14 requirement is necessary to reconcile the collection of past surcharge revenues with  
15 actual costs for the billing period under review.

16 **Q. Has KU identified the causes of the net under-recovery during the billing period**  
17 **under review?**

18 A. Yes. KU has identified five components that make up the net under-recovery during  
19 the billing period under review. The components are: (1) changes in overall rate of  
20 return, (2) the exclusion of gypsum proceeds net of the amount in base rates, (3) the  
21 difference between the calculation of BESF in the review case and application of  
22 BESF in the monthly filings beginning with the March 2008 expense month, (4) the  
23 use of the BESF percentage in determining the amount collected in base rates, and (5)

1 the use of 12 month average revenues to determine the billing factor. The details of  
 2 and support for the components that make up the net under-recovery during the  
 3 billing period under review are shown in the attachment to KU's response to Question  
 4 No. 2 of the Commission Staff Request for Information. The table below summarizes  
 5 the components of the under-recovery position.

<b>OVER/(UNDER) RECONCILIATION</b>		
Combined Over/(Under) Recovery		(3,821,966)
Due to BESF Calculation Differences	(1,633,929)	
Due to use of BESF %	(2,577,201)	
Due to Change in ROR	1,365,289	
Use of 12 Month Average Revenues	(1,037,238)	
Ghent Gypsum Net Proceeds (including prior period adj.)	61,113	
Subtotal		(3,821,966)
Unreconciled Difference		-

7

8

9 **Q. Please explain the change in rate of return.**

10 .A. As previous stated, the cumulative impact of the revised rate of return resulted in a  
 11 decrease to the jurisdictional revenue requirement and an over-recovery of  
 12 \$1,365,289.

13 **Q. Please explain the exclusion of the Ghent gypsum proceeds**

1 A. As previously stated, the impact of including the Ghent gypsum proceeds, net of the  
2 amounts included in base rates, resulted in a decrease to the jurisdictional revenue  
3 requirement and an over-recovery of \$61,113.

4 **Q. Please explain the calculation differences that occurred in determining BESF.**

5 A. In the course of preparing the responses in Case No. 2008-00550, KU's most recent  
6 six-month review proceeding, KU determined that a difference existed between the  
7 calculation of the BESF in the previous 2-year review case and the application of the  
8 BESF in the monthly filings beginning with the March 2008 expense month.  
9 Specifically, in Case No. 2007-00379, KU calculated the BESF factor using base rate  
10 revenues excluding the customer charge revenues, while the monthly filings use  
11 BESF times total base revenues to estimate the ECR revenues collected through base  
12 rates. BESF was calculated using a lower revenue total than is used in its application  
13 in the monthly filings, thereby overstating the BESF percentage. Because the  
14 monthly estimate of ECR revenues collected through base rates is made by  
15 multiplying BESF times total base revenues, overstating BESF results in a  
16 corresponding overstatement of the estimated ECR revenues collected through base  
17 rates. When estimated ECR revenues collected through base rates are overstated, the  
18 monthly E(m) is correspondingly understated. As a result, KU's net recovery  
19 position is understated. If the BESF had been calculated using total revenues, the  
20 BESF would be 5.20% instead of 5.51% as filed. Applying the recalculated BESF to  
21 the base rate revenues results in an under-recovery of \$1,633,929. As discussed later  
22 in my testimony, KU is proposing a change in the use of BESF that will eliminate the  
23 impacts from using the BESF percentage as discussed.

1 **Q. For the other two components, please explain how the function of the ECR**  
2 **mechanism contributes to the net under-recovery in the billing period under**  
3 **review?**

4 A. The first component is the use of the BESF percentage to estimate the amount  
5 collected through base rates. In the monthly filings, the BESF percentage is used to  
6 determine the amount of ECR revenue collected through base rates by applying the  
7 percentage to total base rate revenues. In the review proceedings, however, the  
8 billing determinants are used to determine the actual ECR revenues collected through  
9 base rates. The difference between these two methodologies results in a continuous  
10 mismatch between actual revenues collected and estimated revenues as reported in  
11 the monthly filings. In the billing period under review, the mismatch resulted in an  
12 under-recovery of \$2,577,201. As discussed later in my testimony, KU is proposing a  
13 change in the use of BESF that will eliminate the impacts of using the BESF  
14 percentage as discussed.

15 The second component is the use of 12-month average revenues to calculate  
16 the MESF and then applying that same MESF to the actual monthly revenues. The  
17 result is an over-collection during the summer months when actual revenues will  
18 generally be greater than the 12-month average and an under-collection during the  
19 shoulder months when actual revenues will generally be less than the 12-month  
20 average. In the billing period under review, the use of 12-month average revenues  
21 resulted in an under-recovery of \$1,037,238.

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

1 A. KU is proposing that the cumulative under-recovery of \$3,821,966 be recovered over  
2 the six months following the Commission’s Order in this proceeding. Specifically,  
3 KU recommends that the Commission approve an increase to the Environmental  
4 Surcharge Revenue Requirement of \$636,994 per month for the first four months and  
5 \$636,995 for the last two months, beginning in the second full billing month  
6 following the Commission’s Final Order in this proceeding. This method is  
7 consistent with the method of implementing previous over- or under-recovery  
8 positions in prior ECR review cases.

9 **Q. Should the Commission in the case approve the incorporation into KU’s base**  
10 **electric rates the environmental surcharge amounts found just and reasonable**  
11 **for the two-year billing period ending April 2009?**

12 A. Yes. It is appropriate, at this time, to incorporate surcharge amounts found just and  
13 reasonable for the two-year billing period ending April 2009 into electric base rates.  
14 KU recommends that an incremental environmental surcharge amount of \$86,667,849  
15 be incorporated into base rates at the conclusion of this case. KU determined the  
16 incremental roll-in amount of \$86,667,849 using the base-current methodology,  
17 consistent with current practice and as previously approved by the Commission. If  
18 approved, the total amount of environmental surcharge that will be included in base  
19 rates will be \$136,185,631 upon conclusion of this proceeding.

20 **Q. If the Commission accepts KU’s recommendation to incorporate the proposed**  
21 **amount into base rates, what will be the impact on KU’s revenue requirement?**

22 A. The incorporation of the recommended surcharge amounts into base rates will  
23 increase base rates and simultaneously reduce ECR revenues by an equal amount.

1           Therefore, there will be no impact on KU's revenue requirement or on KU's total  
2           ECR revenue. In other words, the roll-in will be revenue neutral to KU.

3   **Q.   Can improvements be made to the operation of the Environmental Cost**  
4   **Recovery mechanism?**

5   A.   Yes. KU reviews the operation of the ECR, during review cases and as a matter of  
6           policy, in its ongoing efforts for continuous improvement. As a result of these  
7           ongoing efforts, KU has identified a modification to the calculation of the ECR that it  
8           is proposing for implementation following the Commission's final Order in this  
9           proceeding. Specifically, KU is proposing to revise the calculation of the base-  
10          current bill factor from a percentage method to a revenue requirement method.

11 **Q.   Why is KU proposing a revision to the calculation of the base-current billing**  
12 **factor?**

13 A.   A frequently recurring issue with the ECR review cases is the significant fluctuation  
14          in the cumulative over- or under-recovered balance of allowed ECR revenue  
15          requirement, which typically results in true-up adjustments to the monthly  
16          calculations. KU believes that a simple modification to the determination of the  
17          monthly billing factor has the potential to significantly reduce these periodic  
18          fluctuations, and further believes the modification can be implemented without  
19          changing the basic structure of the monthly filing calculations in general or the base-  
20          current practice in particular. Further, the modification KU is proposing is  
21          completely consistent with the methodologies that have been followed in the periodic  
22          ECR review cases beginning with Case No. 2006-00129, when KU began presenting

1 its cumulative over- or under-recovered position as a component of both ECR billing  
2 factor revenues and ECR revenues collected through base rates.

3 With recent enhancements in reporting capabilities, KU can now determine in  
4 a timely manner the ECR component collected through base rates. This can be  
5 accomplished on a monthly basis and incorporated into the monthly filings instead of  
6 waiting for a review proceeding. This change will result in more timely and accurate  
7 collection of allowed ECR revenues while avoiding the potential for significant  
8 swings in over- or under-collection of ECR revenues.

9 Importantly, there will be no change to the total revenues KU is allowed to  
10 collect through the ECR as a result of this revision; only the timing and accuracy of  
11 revenue collection will be impacted.

12 **Q. Please describe the Base-Current method of billing the ECR subsequent to a**  
13 **base rate roll-in.**

14 **A.** KU implemented the Base-Current method of billing current ECR expenses in Case  
15 No. 2003-00068, a two-year review of the ECR. In that proceeding, the calculation to  
16 determine the Monthly Environmental Surcharge Factor (“MESF”) was established  
17 by subtracting the Base Environmental Surcharge Factor (“BESF”) from the Current  
18 Environmental Surcharge Factor (“CESF”). This is known as the “Base-Current”  
19 methodology. All three environmental surcharge factors are based on a percentage of  
20 a 12- month historical revenue calculation. Since that time, both KU and LG&E have  
21 consistently used the Base-Current method, using percentage of revenues as the basis  
22 for all calculations, with only minor adjustments.



1           The CESF, BESF and MESF as currently defined are based on a percentage of  
2 revenue for each component of the Base-Current methodology. The CESF is the net  
3 jurisdictional E(m) divided by the 12-month average retail revenues (excluding ECR  
4 revenues). The BESF is the ECR annual revenue requirement currently included in  
5 base rates divided by 12-month base rate revenues (customer charges, energy charges  
6 and demand charges) for the period immediately preceding the effective date of the  
7 roll-in adjustment to base rates. The MESF is the arithmetic difference between  
8 CESF and BESF and is the billing factor applied to retail bills. However, the CESF  
9 and BESF are determined using different 12 month historical revenues in the  
10 denominator.

11 **Q. Will you please explain the reason for KU's proposed modification to the current**  
12 **methods?**

13 A. Yes. KU believes that greater accuracy and timeliness of revenue collection can be  
14 achieved with a minor change to the manner in which the monthly revenue  
15 requirement is determined. KU's proposal maintains the base-current methodology, in  
16 that each month the revenue requirement to be collected from customers will  
17 represent only that portion of the monthly revenue requirement above the level  
18 embedded in KU's base rates as a result of cumulative ECR roll-ins.

19           Under the current methodology, KU calculates the appropriate ECR revenue  
20 requirement to roll-in to base rates and the corresponding base rate change needed to  
21 collect this amount of ECR revenue. This calculation is done on an approximate two-  
22 year schedule. Commensurate with the determination of new base rates, a BESF,  
23 representing twelve months of environmental costs to be rolled-in divided by twelve

1 month revenues, is determined. On a monthly basis, the Companies calculate the  
 2 CESF and adjust the CESF by the BESF to determine the MESF. However, as  
 3 previously mentioned, different twelve-month periods of revenues are used in the  
 4 calculation of the CESF and BESF.

5 This percentage method results in accurate revenue recovery only when the  
 6 environmental surcharge revenue collected through base rates is mathematically equal  
 7 to the revenue that would be collected by applying the BESF to monthly revenues.  
 8 The following table, using February 2009 actual data illustrates this point:

(1)	Jurisdictional E(m) (actual Feb, before monthly true-up adjustment)		\$ 11,869,041
(2)	ECR Revenue Collected Through Base Rates (Actual Feb)		\$ 3,779,846
(3)	Retail Base, FAC and DSM Revenue (Actual, Feb)		\$103,026,104
(4)	BESF (Actual)		5.51%
(5)	BESF times Revenue (assumed revenue through base rates)	(3) x (4)	\$ 5,676,738
(6)	Assumed Revenue less Actual Revenue	(5) - (2)	\$ 1,896,892

10  
 11 As shown above, the approved method of calculating the current billing factor  
 12 is based on an assumption that more revenue will be collected through base rates than  
 13 historically occurs. Because less revenue is collected through base rates than the  
 14 amount assumed by the methodology, an understatement of the monthly billing factor  
 15 (the MESF) is caused, which in turn results in an under-collection of the Company's  
 16 Jurisdictional E(m).

17 **Q. Please explain the Company's proposed alternative to billing the monthly ECR.**

1 A. KU proposes that the determination of the environmental billing factor be modified in  
2 such a way that the monthly filings more accurately reflect the same determination of  
3 the over- or under-collected position that is used during the six-month and two-year  
4 review cases. Through recent process improvements and modifications to the billing  
5 system, KU now knows the amount of ECR revenue collected through base rates in a  
6 given expense month is known *prior* to the filing of the ECR monthly billing factor  
7 for the expense month. This eliminates the need to use a BESF percentage method as  
8 an estimate of the ECR revenue collected through base rates. This is so because the  
9 same calculation can be performed on a monthly basis that KU now performs in each  
10 ECR review case.

11 The Companies propose that the monthly Net Jurisdictional E(m) (monthly  
12 ECR revenue requirement) continue to be determined following current methods, but  
13 eliminate the adjustment for the estimated over/under collection. This adjustment has  
14 not resulted, as intended, in a reduction of the cumulative over- or under-collection  
15 position presented in periodic review cases, as was its intent. KU believes that with  
16 the implementation of the proposed modification to the monthly filings, the  
17 adjustment for the estimated over/under-collection is not needed and will  
18 unnecessarily complicate the monthly filing without any benefits.

19 The Net Jurisdictional E(m) revenue requirement reported on ES Form 1.10  
20 will be reduced by the actual ECR revenue collected through base rates during the  
21 expense month to arrive at the Net Jurisdictional E(m) to be collected through the  
22 monthly billing factor applied to customer bills. The resulting Net Jurisdictional  
23 E(m) divided by the average twelve month retail revenues (Jurisdictional R(m)) will

1 calculate the current billing factor (MESF) to be applied to retail customer bills. The  
 2 following table, again using actual February 2009 data shows this point:

3

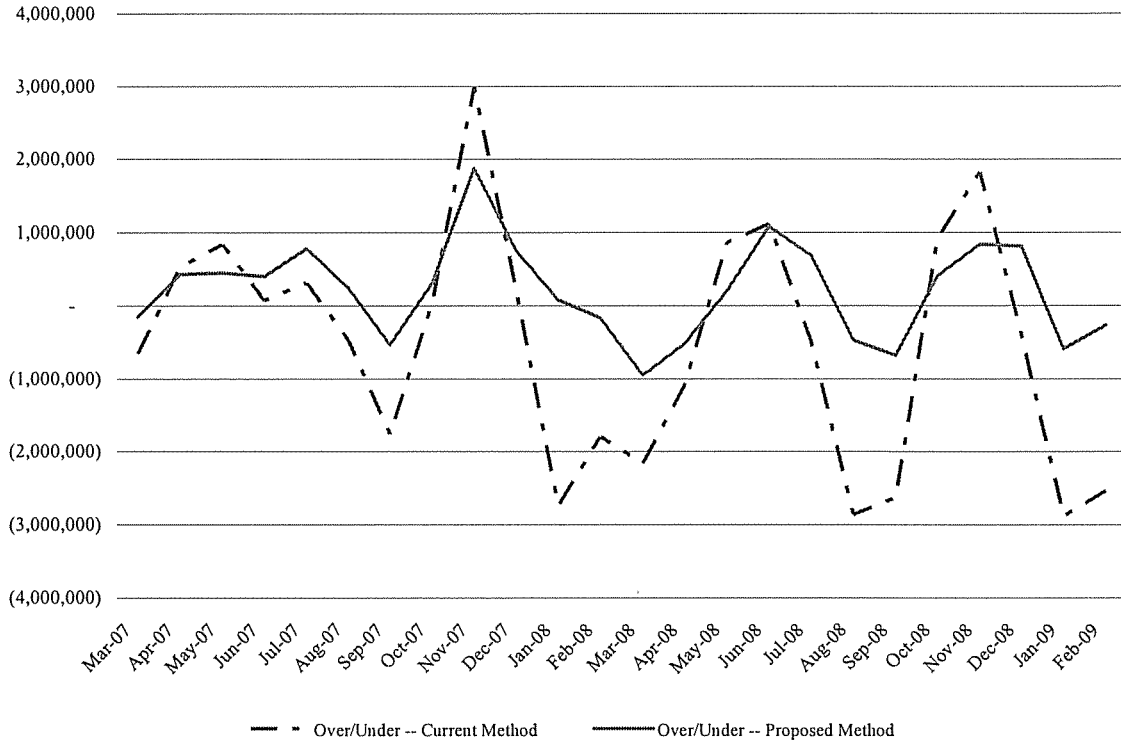
			Current		Proposed
(1)	Jurisdictional E(m)(actual Feb)*		\$ 11,869,041		\$ 11,869,041
(2)	Jurisdictional R(m)		\$ 92,077,262		\$ 92,077,262
(3)	Revenue Collected Through Base Rates (actual Feb)		\$ 3,779,846		\$ 3,779,846
(4)	Revenue Requirement to Collect Through Billing Factor (in April)			(1) - (3)	\$ 8,089,195
(5)	CESF*	(1) / (2)	12.89%	(4) / (2)	8.79%
(6)	BESF		5.51%		0.00%
(7)	MESF*	(5) - (6)	7.38%	(5) - (6)	8.79%
(8)	Revenue Subject to ECR (April)		\$ 88,769,817		\$88,769,817
(9)	Revenue Collected Through Billing Factor (April)*	(7) x (8)	\$ 6,551,212	(7) x (8)	\$ 7,798,629
(10)	Total Revenue Collected*	(3) + (9)	\$ 10,331,058	(3) + (9)	\$11,578,475
(11)	Revenue Under-collection*	(1) - (10)	\$ 1,537,983	(1) - (10)	\$ 290,566
* Amounts are exclusive of the adjustment for monthly true-up. Actual as-filed E(m) was \$11,070,129; actual CESF was 6.51% and actual revenue collected through billing factor was \$5,801,057					

4

5 KU's proposed modification to the monthly filings is the same over/under calculation  
 6 that KU uses in its six-month and two-year reviews. However, this modification  
 7 allows for a more accurate and timely determination of the amount collected through  
 8 base rates and minimizes the volatility from month to month of the impact to  
 9 customers. The graph below illustrates the impact on KU's over- and under-  
 10 collection of ECR revenues over the two-year period under review using the two  
 11 methods of calculating the ECR monthly billing factor.

12

Comparison of Over-Under Collection -- KU



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12

As shown by the figure above, the change in the Base - Current method from a percentage to a revenue amount mitigates the month-to-month volatility in the over- or under-collection of total ECR revenue.

**Q. Will the implementation of this proposal require any revision to KU’s monthly ECR filing forms?**

A. Yes. KU is proposing a revision to ES Forms 1.00, 1.10 and 2.00 to reflect the proposed methodology and elimination of the CESF and BESF percentages. Please see Exhibit RMC-1 for an illustration of the modifications being proposed to the monthly filing forms. It is important to note that the change in methodology will not change the amount of environmental cost collected from customers. The two

1 methodologies, over time, are revenue neutral to customers but will temper the  
2 month-to-month variance in the ECR billing factor.

3 **Q What rate of return is KU proposing to use for all ECR Plans upon the**  
4 **Commission's Order in this proceeding?**

5 A. KU is recommending an overall rate of return on capital of 11.00%, including the  
6 currently approved 10.63% return on equity and adjusted capitalization, to be used to  
7 calculate the environmental surcharge going forward upon Commission approval.  
8 This is based on capitalization as of February 28, 2009 and the Settlement Agreement  
9 approved by the Commission in its February 5, 2009 Order in Case No. 2008-00251.

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

- 11 A. KU makes the following recommendations to the Commission in this case:
- 12 a) The Commission should approve the proposed increase to the Environmental  
13 Surcharge Revenue Requirement of \$636,994 per month for the first four  
14 months and \$636,995 for the last two months, beginning in the second full  
15 billing month following the month in which the Commission issues its Final  
16 Order in this Proceeding;
  - 17 b) The Commission should determine environmental surcharge amounts for the  
18 two-year billing period ending April 30, 2009 to be just and reasonable;
  - 19 c) KU's proposed incremental roll-in amount of \$86,667,849 should be approved  
20 as the incremental amount to be incorporated into base electric rates for bills  
21 rendered on and after the second full billing month following the month in  
22 which the Commission issues its Final Order in this Proceeding;

1 d) The Commission should (1) approve the proposed methodology to calculate  
2 the revenue requirement using actual ECR revenues collected through base  
3 rates, (2) eliminate the use of the BESF percentage, (3) eliminate the monthly  
4 true-up, and (4) approve KU's proposed revisions to ES Forms 1.00, 1.10 and  
5 2.00 beginning with the second full billing month following the month in  
6 which the Commission issues its Final Order in this Proceeding; and

7 e) The Commission should approve the use of an overall rate of return on capital  
8 of 11.00% using a return on equity of 10.63% beginning in the second full  
9 billing month following the month in which the Commission issues its Final  
10 Order in this Proceeding.

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

12 A. Yes.

## APPENDIX A

### **Robert M. Conroy**

Director - Rates  
E.ON U.S. Services Inc.  
220 West Main Street  
Louisville, Kentucky 40202  
(502) 627-3324

### **Education**

Masters of Business Administration  
Indiana University (Southeast campus), December 1998. GPA: 3.9.  
Bachelor of Science in Electrical Engineering;  
Rose Hulman Institute of Technology, May 1987. GPA: 3.3  
Essentials of Leadership, London Business School, 2004.  
Center for Creative Leadership, Foundations in Leadership program, 1998.  
Registered Professional Engineer in Kentucky, 1995.

### **Previous Positions**

Manager, Rates	April 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – April 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	April 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 - April 1996
System Planning Analyst II	Jan. 1991 - Oct. 1992
Electrical Engineer II	Jun. 1990 - Jan. 1991
Electrical Engineer I	Jun. 1987 - Jun. 1990

### **Professional/Trade Memberships**

Registered Professional Engineer in Kentucky, 1995.



**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		\$ -
<b>Additions:</b>		
Inventory - Limestone	\$ -	
Less: Limestone Inventory in base rates	-	
Inventory - Emission Allowances per ES Form 2.31, 2.32 and 2.33	-	
Less: Allowance Inventory Baseline	-	
Net Emission Allowance Inventory	-	
Cash Working Capital Allowance	-	
Subtotal		-
<b>Deductions:</b>		
Accumulated Depreciation on Eligible Pollution Control Plant	-	
Pollution Control Deferred Income Taxes	-	
Pollution Control Deferred Investment Tax Credit	-	
Subtotal		-
<b>Environmental Compliance Rate Base</b>		<b>\$ -</b>

**Determination of Pollution Control Operating Expenses**

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	\$ -
Monthly Depreciation & Amortization Expense	-
Monthly Taxes Other Than Income Taxes	-
Monthly Insurance Expense	-
Monthly Emission Allowance Expense from ES Form 2.31, 2.32 and 2.33	-
Less Monthly Emission Allowance Expense in base rates (1/12 of \$58,345.76)	-
Net Recoverable Emission Allowance Expense	-
Monthly Surcharge Consultant Fee	-
<b>Total Pollution Control Operations Expense</b>	<b>\$ -</b>

**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	-	-	-
<b>Total Proceeds from Sales</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Revised  
Direct Testimony of  
Robert M. Conroy  
Director – Rates  
E.ON U.S.**

**RED-LINE VERSION**

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.  
UTILITIES COMPANY FOR THE TWO-YEAR ) 2009-00310  
BILLING PERIOD ENDING APRIL 30, 2009 )

REVISED

DIRECT TESTIMONY OF

ROBERT M. CONROY  
DIRECTOR - RATES  
E.ON U.S. SERVICES INC.

Filed: September 29, 2009

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

2 A. My name is Robert M. Conroy. I am the Director – Rates for E.ON U.S. Services  
3 Inc., which provides services to Louisville Gas and Electric Company (“LG&E”) and  
4 Kentucky Utilities Company (“KU”) (collectively “the Companies”). My business  
5 address is 220 West Main Street, Louisville, Kentucky, 40202. A complete statement  
6 of my education and work experience is attached to this testimony as Appendix A.

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

8 A. Yes. I have previously testified before this Commission in proceedings concerning  
9 the Companies’ most recent rate case, fuel adjustment clauses, and environmental  
10 surcharge mechanisms.

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

12 A. Yes. I am sponsoring Exhibit RMC-1 – Proposed KU Environmental Surcharge ES  
13 Forms 1.00, 1.10, and 2.00.

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

15 A. The purpose of this proceeding is to review the past operation of KU’s environmental  
16 surcharge during the six-month billing period ending April 30, 2009 that is part of the  
17 two-year billing period also ending April 30, 2009, determine whether the surcharge  
18 amounts collected during the period are just and reasonable, and then incorporate or  
19 “roll-in” such surcharge amounts into KU’s existing electric base rates.

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

21 A. The purpose of my testimony is to review the operation of KU’s environmental  
22 surcharge during the billing period under review, demonstrate the amounts collected  
23 during the period were just and reasonable, present and discuss KU’s proposed

1 adjustment to the Environmental Surcharge Revenue Requirement based on the  
2 operation of the surcharge during the review period and explain how the  
3 environmental surcharge factors were calculated during the period under review.  
4 Further, my testimony will recommend that the cumulative ECR revenue requirement  
5 for the twelve-months ending with the expense month of February 2009 be used for  
6 purposes of incorporating or “rolling-into” KU’s electric base rates the appropriate  
7 surcharge amounts using the methodology approved by this Commission in Case Nos.  
8 2006-00129 and 2007-00379. Finally, I will propose an improvement to the  
9 calculation of the ECR mechanism for consideration by the Commission to help  
10 reduce the fluctuation of the over- or under-recovery balance.

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

13 A. KU billed an environmental surcharge to its customers from November 1, 2008  
14 through April 30, 2009. For purposes of the Commission’s examination in this case,  
15 the monthly KU environmental surcharges are considered as the six-month billing  
16 period ending April 30, 2009; that same review period is part of the two-year billing  
17 period also ending April 30, 2009. In each month of the period, KU calculated the  
18 environmental surcharge factors by using the costs incurred as recorded on its books  
19 and records for the expense months of September 2008 through February 2009 and in  
20 accordance with the requirements of the Commission’s previous orders concerning  
21 KU’s environmental surcharge.

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

1 A. The capital and operating costs included in the calculation of the environmental  
2 surcharge factors for the billing period were the costs incurred each month by KU  
3 from September 2008 through February 2009. The details are shown in the  
4 attachment in response to Question No. 2 of the Commission Staff Request for  
5 Information, incorporating all required revisions.

6 The monthly environmental surcharge factors applied during the billing period  
7 under review were calculated consistent with the Commission's orders in KU's  
8 previous applications to assess or amend its environmental surcharge mechanism and  
9 plan, as well as orders issued in previous review cases, most recently Case No. 2008-  
10 00550. The monthly environmental surcharge reports filed with the Commission  
11 during this time reflect the various changes to the reporting forms ordered by the  
12 Commission from time to time.

13 **Q. Are there any changes or adjustments in Rate Base from the amounts originally**  
14 **filed as part of the expense month reports?**

15 A. During the period under review, there were no changes to Rate Base from the  
16 amounts originally filed during the billing period. This is shown in summary form in  
17 KU's response to the Commission Staff Request for Information, Question No. 1.

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

20 A. Yes. Effective with the July 2004 expense month, the scrubber operations expense  
21 and gypsum proceeds for the Ghent 1 FGD were included in base rates and removed  
22 from the ECR monthly filings due to the elimination of the 1994 ECR Plan in Case

1 No. 2003-00434. Consequently, beginning in July 2004, KU no longer included an  
2 adjustment in its ECR monthly filings for the proceeds from gypsum sales.

3 Beginning with the June 2007 expense month, the Ghent 3 FGD was placed in  
4 service and KU began reporting scrubber operations expense on Form ES 2.50.  
5 Consistent with previous practice, proceeds from the sale of gypsum net of the  
6 amount included in base rates should be included as an adjustment to the monthly  
7 ECR filing. During the preparation of data responses in Case No. 2009-00197, KU's  
8 Amended ECR Compliance Plan filing, KU determined that the proceeds, net of the  
9 amount included in base rates, from sale of gypsum from the Ghent FGDs were  
10 inadvertently omitted from the monthly ECR filings. Therefore, KU is proposing an  
11 adjustment to operating expenses to reflect the difference between actual gypsum  
12 proceeds and the amounts included in base rates for the period of June 2007 through  
13 February 2009. The result of the adjustment is a decrease to cumulative Jurisdictional  
14 E(m) of \$61,113. For the months outside of this review period, a one-time  
15 adjustment will be made to the August 2009 expense month filing. Going-forward,  
16 the difference between actual monthly byproduct proceeds and the amount in base  
17 rates for Ghent will be reported on ES Form 2.00.

18 Furthermore, adjustments to E(m) are necessary for compliance with the  
19 Commission's Order in Case No. 2000-00439, to reflect the actual changes in the  
20 overall rate of return on capitalization that is used in the determination of the return  
21 on environmental rate base associated with KU's Compliance Plans. The changes in  
22 the actual cost of long term debt and capital structure result in a decrease to  
23 cumulative E(m) of \$1,365,289. The details of and support for this calculation are

1 shown in the attachment to KU's response to Question No. 1 of the Commission Staff  
2 Request for Information. Also shown are the revisions to the previous six-month  
3 periods included in this two-year review as calculated in Case No. 2008-00216 for  
4 billing periods ending October 31, 2007 and April 30, 2008; and Case No. 2008-  
5 00550 for billing period ending October 31, 2008. The true-up adjustments were  
6 included in the monthly filings consistent with the Commission's final Orders in each  
7 case.

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

10 A. Yes. KU experienced a cumulative under-recovery of ~~\$3,821,966~~ for the six month  
11 billing period ending April 30, 2009. The attachment to KU's response to Question  
12 No. 2 of the Commission Staff Request for Information shows the calculation of the  
13 ~~\$3,821,966~~ cumulative under-recovery. Therefore, an adjustment to the revenue  
14 requirement is necessary to reconcile the collection of past surcharge revenues with  
15 actual costs for the billing period under review.

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16 **Q. Has KU identified the causes of the net under-recovery during the billing period**  
17 **under review?**

18 A. Yes. KU has identified five components that make up the net under-recovery during  
19 the billing period under review. The components are: (1) changes in overall rate of  
20 return, (2) the exclusion of gypsum proceeds net of the amount in base rates, (3) the  
21 difference between the calculation of BESF in the review case and application of  
22 BESF in the monthly filings beginning with the March 2008 expense month, (4) the  
23 use of the BESF percentage in determining the amount collected in base rates, and (5)



1 the use of 12 month average revenues to determine the billing factor. The details of  
 2 and support for the components that make up the net under-recovery during the  
 3 billing period under review are shown in the attachment to KU's response to Question  
 4 No. 2 of the Commission Staff Request for Information. The table below summarizes  
 5 the components of the under-recovery position.

<b>OVER/(UNDER) RECONCILIATION</b>			
Combined Over/(Under) Recovery		(3,821,966)	Deleted: 4,272,721
Due to BESF Calculation Differences	(1,633,929)		
Due to use of BESF %	(2,577,201)		Deleted: 3,027,955
Due to Change in ROR	1,365,289		
Use of 12 Month Average Revenues	(1,037,238)		
Ghent Gypsum Net Proceeds (including prior period adj.)	61,113		
Subtotal		(3,821,966)	Deleted: 4,272,721
Unreconciled Difference		-	

7  
8  
9 **Q. Please explain the change in rate of return.**

10 A. As previous stated, the cumulative impact of the revised rate of return resulted in a  
 11 decrease to the jurisdictional revenue requirement and an over-recovery of  
 12 \$1,365,289.

13 **Q. Please explain the exclusion of the Ghent gypsum proceeds**

1 A. As previously stated, the impact of including the Ghent gypsum proceeds, net of the  
2 amounts included in base rates, resulted in a decrease to the jurisdictional revenue  
3 requirement and an over-recovery of \$61,113.

4 **Q. Please explain the calculation differences that occurred in determining BESF.**

5 A. In the course of preparing the responses in Case No. 2008-00550, KU's most recent  
6 six-month review proceeding, KU determined that a difference existed between the  
7 calculation of the BESF in the previous 2-year review case and the application of the  
8 BESF in the monthly filings beginning with the March 2008 expense month.  
9 Specifically, in Case No. 2007-00379, KU calculated the BESF factor using base rate  
10 revenues excluding the customer charge revenues, while the monthly filings use  
11 BESF times total base revenues to estimate the ECR revenues collected through base  
12 rates. BESF was calculated using a lower revenue total than is used in its application  
13 in the monthly filings, thereby overstating the BESF percentage. Because the  
14 monthly estimate of ECR revenues collected through base rates is made by  
15 multiplying BESF times total base revenues, overstating BESF results in a  
16 corresponding overstatement of the estimated ECR revenues collected through base  
17 rates. When estimated ECR revenues collected through base rates are overstated, the  
18 monthly E(m) is correspondingly understated. As a result, KU's net recovery  
19 position is understated. If the BESF had been calculated using total revenues, the  
20 BESF would be 5.20% instead of 5.51% as filed. Applying the recalculated BESF to  
21 the base rate revenues results in an under-recovery of \$1,633,929. As discussed later  
22 in my testimony, KU is proposing a change in the use of BESF that will eliminate the  
23 impacts from using the BESF percentage as discussed.

1 **Q. For the other two components, please explain how the function of the ECR**  
2 **mechanism contributes to the net under-recovery in the billing period under**  
3 **review?**

4 A. The first component is the use of the BESF percentage to estimate the amount  
5 collected through base rates. In the monthly filings, the BESF percentage is used to  
6 determine the amount of ECR revenue collected through base rates by applying the  
7 percentage to total base rate revenues. In the review proceedings, however, the  
8 billing determinants are used to determine the actual ECR revenues collected through  
9 base rates. The difference between these two methodologies results in a continuous  
10 mismatch between actual revenues collected and estimated revenues as reported in  
11 the monthly filings. In the billing period under review, the mismatch resulted in an  
12 under-recovery of \$2,577,201. As discussed later in my testimony, KU is proposing a  
13 change in the use of BESF that will eliminate the impacts of using the BESF  
14 percentage as discussed.

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15 The second component is the use of 12-month average revenues to calculate  
16 the MESF and then applying that same MESF to the actual monthly revenues. The  
17 result is an over-collection during the summer months when actual revenues will  
18 generally be greater than the 12-month average and an under-collection during the  
19 shoulder months when actual revenues will generally be less than the 12-month  
20 average. In the billing period under review, the use of 12-month average revenues  
21 resulted in an under-recovery of \$1,037,238.

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

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1 A. KU is proposing that the cumulative under-recovery of ~~\$3,821,966~~ be recovered over  
2 the six months following the Commission's Order in this proceeding. Specifically,  
3 KU recommends that the Commission approve an increase to the Environmental  
4 Surcharge Revenue Requirement of ~~\$636,994~~ per month for the first ~~four~~ months and  
5 ~~\$636,995~~ for the last two months, beginning in the second full billing month  
6 following the Commission's Final Order in this proceeding. This method is  
7 consistent with the method of implementing previous over- or under-recovery  
8 positions in prior ECR review cases.

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9 **Q. Should the Commission in the case approve the incorporation into KU's base**  
10 **electric rates the environmental surcharge amounts found just and reasonable**  
11 **for the two-year billing period ending April 2009?**

12 A. Yes. It is appropriate, at this time, to incorporate surcharge amounts found just and  
13 reasonable for the two-year billing period ending April 2009 into electric base rates.  
14 KU recommends that an incremental environmental surcharge amount of \$86,667,849  
15 be incorporated into base rates at the conclusion of this case. KU determined the  
16 incremental roll-in amount of \$86,667,849 using the base-current methodology,  
17 consistent with current practice and as previously approved by the Commission. If  
18 approved, the total amount of environmental surcharge that will be included in base  
19 rates will be \$136,185,631 upon conclusion of this proceeding.

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

22 A. The incorporation of the recommended surcharge amounts into base rates will  
23 increase base rates and simultaneously reduce ECR revenues by an equal amount.

1           Therefore, there will be no impact on KU's revenue requirement or on KU's total  
2           ECR revenue. In other words, the roll-in will be revenue neutral to KU.

3   **Q.   Can improvements be made to the operation of the Environmental Cost**  
4   **Recovery mechanism?**

5   A.   Yes. KU reviews the operation of the ECR, during review cases and as a matter of  
6           policy, in its ongoing efforts for continuous improvement. As a result of these  
7           ongoing efforts, KU has identified a modification to the calculation of the ECR that it  
8           is proposing for implementation following the Commission's final Order in this  
9           proceeding. Specifically, KU is proposing to revise the calculation of the base-  
10          current bill factor from a percentage method to a revenue requirement method.

11 **Q.   Why is KU proposing a revision to the calculation of the base-current billing**  
12 **factor?**

13 A.   A frequently recurring issue with the ECR review cases is the significant fluctuation  
14          in the cumulative over- or under-recovered balance of allowed ECR revenue  
15          requirement, which typically results in true-up adjustments to the monthly  
16          calculations. KU believes that a simple modification to the determination of the  
17          monthly billing factor has the potential to significantly reduce these periodic  
18          fluctuations, and further believes the modification can be implemented without  
19          changing the basic structure of the monthly filing calculations in general or the base-  
20          current practice in particular. Further, the modification KU is proposing is  
21          completely consistent with the methodologies that have been followed in the periodic  
22          ECR review cases beginning with Case No. 2006-00129, when KU began presenting

1 its cumulative over- or under-recovered position as a component of both ECR billing  
2 factor revenues and ECR revenues collected through base rates.

3 With recent enhancements in reporting capabilities, KU can now determine in  
4 a timely manner the ECR component collected through base rates. This can be  
5 accomplished on a monthly basis and incorporated into the monthly filings instead of  
6 waiting for a review proceeding. This change will result in more timely and accurate  
7 collection of allowed ECR revenues while avoiding the potential for significant  
8 swings in over- or under-collection of ECR revenues.

9 Importantly, there will be no change to the total revenues KU is allowed to  
10 collect through the ECR as a result of this revision; only the timing and accuracy of  
11 revenue collection will be impacted.

12 **Q. Please describe the Base-Current method of billing the ECR subsequent to a**  
13 **base rate roll-in.**

14 **A.** KU implemented the Base-Current method of billing current ECR expenses in Case  
15 No. 2003-00068, a two-year review of the ECR. In that proceeding, the calculation to  
16 determine the Monthly Environmental Surcharge Factor (“MESF”) was established  
17 by subtracting the Base Environmental Surcharge Factor (“BESF”) from the Current  
18 Environmental Surcharge Factor (“CESF”). This is known as the “Base-Current”  
19 methodology. All three environmental surcharge factors are based on a percentage of  
20 a 12- month historical revenue calculation. Since that time, both KU and LG&E have  
21 consistently used the Base-Current method, using percentage of revenues as the basis  
22 for all calculations, with only minor adjustments.

1           The CESF, BESF and MESF as currently defined are based on a percentage of  
2 revenue for each component of the Base-Current methodology. The CESF is the net  
3 jurisdictional E(m) divided by the 12-month average retail revenues (excluding ECR  
4 revenues). The BESF is the ECR annual revenue requirement currently included in  
5 base rates divided by 12-month base rate revenues (customer charges, energy charges  
6 and demand charges) for the period immediately preceding the effective date of the  
7 roll-in adjustment to base rates. The MESF is the arithmetic difference between  
8 CESF and BESF and is the billing factor applied to retail bills. However, the CESF  
9 and BESF are determined using different 12 month historical revenues in the  
10 denominator.

11 **Q. Will you please explain the reason for KU's proposed modification to the current**  
12 **methods?**

13 A. Yes. KU believes that greater accuracy and timeliness of revenue collection can be  
14 achieved with a minor change to the manner in which the monthly revenue  
15 requirement is determined. KU's proposal maintains the base-current methodology, in  
16 that each month the revenue requirement to be collected from customers will  
17 represent only that portion of the monthly revenue requirement above the level  
18 embedded in KU's base rates as a result of cumulative ECR roll-ins.

19           Under the current methodology, KU calculates the appropriate ECR revenue  
20 requirement to roll-in to base rates and the corresponding base rate change needed to  
21 collect this amount of ECR revenue. This calculation is done on an approximate two-  
22 year schedule. Commensurate with the determination of new base rates, a BESF,  
23 representing twelve months of environmental costs to be rolled-in divided by twelve

1 month revenues, is determined. On a monthly basis, the Companies calculate the  
 2 CESF and adjust the CESF by the BESF to determine the MESF. However, as  
 3 previously mentioned, different twelve-month periods of revenues are used in the  
 4 calculation of the CESF and BESF.

5 This percentage method results in accurate revenue recovery only when the  
 6 environmental surcharge revenue collected through base rates is mathematically equal  
 7 to the revenue that would be collected by applying the BESF to monthly revenues.  
 8 The following table, using February 2009 actual data illustrates this point:

(1)	Jurisdictional E(m) (actual Feb, before monthly true-up adjustment)		\$ 11,869,041
(2)	ECR Revenue Collected Through Base Rates (Actual Feb)		\$ <u>3,779,846</u>
(3)	Retail Base, FAC and DSM Revenue (Actual, Feb)		\$103,026,104
(4)	BESF (Actual)		5.51%
(5)	BESF times Revenue (assumed revenue through base rates)	(3) x (4)	\$ 5,676,738
(6)	Assumed Revenue less Actual Revenue	(5) - (2)	\$ <u>1,896,892</u>

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11 As shown above, the approved method of calculating the current billing factor  
 12 is based on an assumption that more revenue will be collected through base rates than  
 13 historically occurs. Because less revenue is collected through base rates than the  
 14 amount assumed by the methodology, an understatement of the monthly billing factor  
 15 (the MESF) is caused, which in turn results in an under-collection of the Company's  
 16 Jurisdictional E(m).

17 **Q. Please explain the Company's proposed alternative to billing the monthly ECR.**



1 A. KU proposes that the determination of the environmental billing factor be modified in  
2 such a way that the monthly filings more accurately reflect the same determination of  
3 the over- or under-collected position that is used during the six-month and two-year  
4 review cases. Through recent process improvements and modifications to the billing  
5 system, KU now knows the amount of ECR revenue collected through base rates in a  
6 given expense month is known *prior* to the filing of the ECR monthly billing factor  
7 for the expense month. This eliminates the need to use a BESF percentage method as  
8 an estimate of the ECR revenue collected through base rates. This is so because the  
9 same calculation can be performed on a monthly basis that KU now performs in each  
10 ECR review case.

11 The Companies propose that the monthly Net Jurisdictional E(m) (monthly  
12 ECR revenue requirement) continue to be determined following current methods, but  
13 eliminate the adjustment for the estimated over/under collection. This adjustment has  
14 not resulted, as intended, in a reduction of the cumulative over- or under-collection  
15 position presented in periodic review cases, as was its intent. KU believes that with  
16 the implementation of the proposed modification to the monthly filings, the  
17 adjustment for the estimated over/under-collection is not needed and will  
18 unnecessarily complicate the monthly filing without any benefits.

19 The Net Jurisdictional E(m) revenue requirement reported on ES Form 1.10  
20 will be reduced by the actual ECR revenue collected through base rates during the  
21 expense month to arrive at the Net Jurisdictional E(m) to be collected through the  
22 monthly billing factor applied to customer bills. The resulting Net Jurisdictional  
23 E(m) divided by the average twelve month retail revenues (Jurisdictional R(m)) will

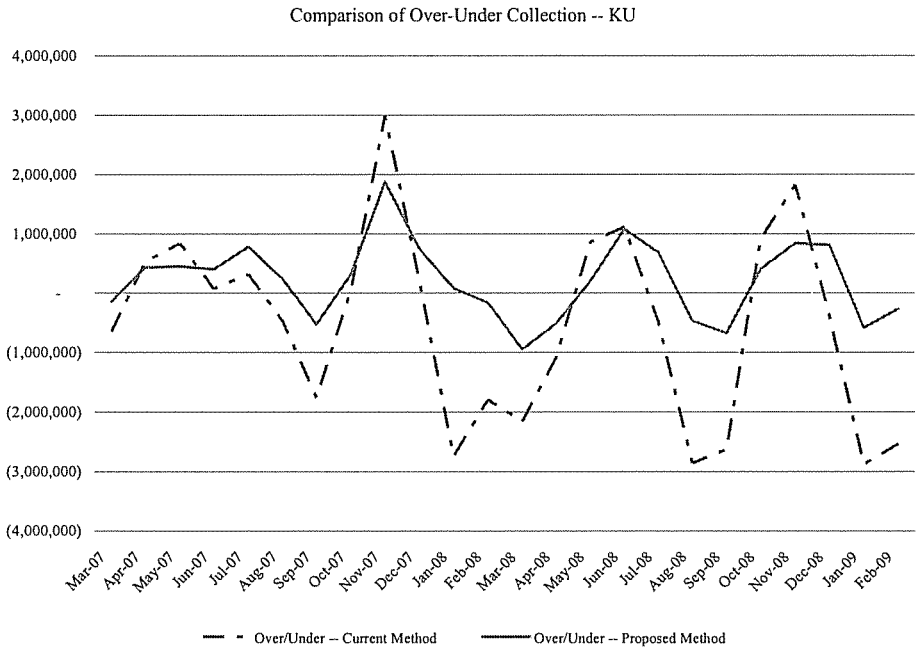
1 calculate the current billing factor (MESF) to be applied to retail customer bills. The  
 2 following table, again using actual February 2009 data shows this point:

			Current		Proposed
(1)	Jurisdictional E(m)(actual Feb)*		\$ 11,869,041		\$ 11,869,041
(2)	Jurisdictional R(m)		\$ 92,077,262		\$ 92,077,262
(3)	Revenue Collected Through Base Rates (actual Feb)		\$ 3,779,846		\$ 3,779,846
(4)	Revenue Requirement to Collect Through Billing Factor (in April)			(1) - (3)	\$ 8,089,195
(5)	CESF*	(1) / (2)	12.89%	(4) / (2)	8.79%
(6)	BESF		5.51%		0.00%
(7)	MESF*	(5) - (6)	7.38%	(5) - (6)	8.79%
(8)	Revenue Subject to ECR (April)		\$ 88,769,817		\$ 88,769,817
(9)	Revenue Collected Through Billing Factor (April)*	(7) x (8)	\$ 6,551,212	(7) x (8)	\$ 7,798,629
(10)	Total Revenue Collected*	(3) + (9)	\$ 10,331,058	(3) + (9)	\$ 11,578,475
(11)	Revenue Under-collection*	(1) - (10)	\$ 1,537,983	(1) - (10)	\$ 290,566

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\* Amounts are exclusive of the adjustment for monthly true-up. Actual as-filed E(m) was \$11,070,129; actual CESF was 6.51% and actual revenue collected through billing factor was \$5,801,057

4  
 5 KU's proposed modification to the monthly filings is the same over/under calculation  
 6 that KU uses in its six-month and two-year reviews. However, this modification  
 7 allows for a more accurate and timely determination of the amount collected through  
 8 base rates and minimizes the volatility from month to month of the impact to  
 9 customers. The graph below illustrates the impact on KU's over- and under-  
 10 collection of ECR revenues over the two-year period under review using the two  
 11 methods of calculating the ECR monthly billing factor.



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As shown by the figure above, the change in the Base - Current method from a percentage to a revenue amount mitigates the month-to-month volatility in the over- or under-collection of total ECR revenue.

**Q. Will the implementation of this proposal require any revision to KU's monthly ECR filing forms?**

A. Yes. KU is proposing a revision to ES Forms 1.00, 1.10 and 2.00 to reflect the proposed methodology and elimination of the CESF and BESF percentages. Please see Exhibit RMC-1 for an illustration of the modifications being proposed to the monthly filing forms. It is important to note that the change in methodology will not change the amount of environmental cost collected from customers. The two

1 methodologies, over time, are revenue neutral to customers but will temper the  
2 month-to-month variance in the ECR billing factor.

3 **Q What rate of return is KU proposing to use for all ECR Plans upon the**  
4 **Commission's Order in this proceeding?**

5 A. KU is recommending an overall rate of return on capital of 11.00%, including the  
6 currently approved 10.63% return on equity and adjusted capitalization, to be used to  
7 calculate the environmental surcharge going forward upon Commission approval.  
8 This is based on capitalization as of February 28, 2009 and the Settlement Agreement  
9 approved by the Commission in its February 5, 2009 Order in Case No. 2008-00251.

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

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

12 a) The Commission should approve the proposed increase to the Environmental  
13 Surcharge Revenue Requirement of \$636,994 per month for the first four  
14 months and \$636,995 for the last two months, beginning in the second full  
15 billing month following the month in which the Commission issues its Final  
16 Order in this Proceeding;

17 b) The Commission should determine environmental surcharge amounts for the  
18 two-year billing period ending April 30, 2009 to be just and reasonable;

19 c) KU's proposed incremental roll-in amount of \$86,667,849 should be approved  
20 as the incremental amount to be incorporated into base electric rates for bills  
21 rendered on and after the second full billing month following the month in  
22 which the Commission issues its Final Order in this Proceeding;

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1 d) The Commission should (1) approve the proposed methodology to calculate  
2 the revenue requirement using actual ECR revenues collected through base  
3 rates, (2) eliminate the use of the BESF percentage, (3) eliminate the monthly  
4 true-up, and (4) approve KU's proposed revisions to ES Forms 1.00, 1.10 and  
5 2.00 beginning with the second full billing month following the month in  
6 which the Commission issues its Final Order in this Proceeding; and

7 e) The Commission should approve the use of an overall rate of return on capital  
8 of 11.00% using a return on equity of 10.63% beginning in the second full  
9 billing month following the month in which the Commission issues its Final  
10 Order in this Proceeding.

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

12 **A. Yes.**

## APPENDIX A

### **Robert M. Conroy**

Director - Rates  
E.ON U.S. Services Inc.  
220 West Main Street  
Louisville, Kentucky 40202  
(502) 627-3324

### **Education**

Masters of Business Administration  
Indiana University (Southeast campus), December 1998. GPA: 3.9.  
Bachelor of Science in Electrical Engineering;  
Rose Hulman Institute of Technology, May 1987. GPA: 3.3  
Essentials of Leadership, London Business School, 2004.  
Center for Creative Leadership, Foundations in Leadership program, 1998.  
Registered Professional Engineer in Kentucky, 1995.

### **Previous Positions**

Manager, Rates	April 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – April 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	April 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 - April 1996
System Planning Analyst II	Jan. 1991 - Oct. 1992
Electrical Engineer II	Jun. 1990 - Jan. 1991
Electrical Engineer I	Jun. 1987 - Jun. 1990

### **Professional/Trade Memberships**

Registered Professional Engineer in Kentucky, 1995.

**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.  
UTILITIES COMPANY FOR THE TWO-YEAR ) 2009-00310  
BILLING PERIOD ENDING APRIL 30, 2009 )**

**REVISED**

**RESPONSE OF  
KENTUCKY UTILITIES COMPANY  
TO  
INFORMATION REQUESTED IN  
APPENDIX B OF COMMISSION'S ORDER  
DATED AUGUST 18, 2009**

**FILED: September 29, 2009**

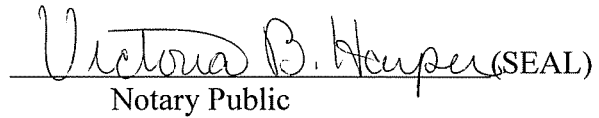
**VERIFICATION**

**STATE OF KENTUCKY    )**  
**) SS:**  
**COUNTY OF JEFFERSON )**

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director, Rates for E.ON U.S. Services Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
**ROBERT M. CONROY**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 21<sup>st</sup> day of September, 2009.

  
Notary Public

My Commission Expires:  
Sept 20, 2010



**KENTUCKY UTILITIES COMPANY**

**Response to Information Requested in Appendix B of  
Commission's Order Dated August 18, 2009**

**REVISED Response filed September 29, 2009**

**Case No. 2009-00310**

**Question No. 2**

**Witness: Robert M. Conroy**

- Q-2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the six-month review or the two-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.
- A-2. Please see the attachment to this response for the summary schedule of the two-year billing period ending April 30, 2009 and the cumulative components which make up the net under-recovery of \$3,821,966 for the six-month billing period ending April 30, 2009.

As discussed in Mr. Conroy's testimony, KU determined that the proceeds, net of the base amount established in Case No. 2003-00434, from the sale of gypsum from the Ghent FGDs were inadvertently omitted from the monthly ECR filings beginning in June 2007 when the Ghent 3 FGD was placed in service. KU is proposing an adjustment to reduce jurisdictional operating expenses by \$61,113 to reflect the difference between the actual gypsum proceeds and the amounts included in base rates for the period of June 2007 through February 2009. The details of the adjustment are provided on pages 4-5 of the attachment to this response.

The net under-recovery amounts occurring in the previous six-month review periods included in this two-year review were calculated in Case Nos. 2008-00216 (billing periods ending October 31, 2007 and April 30, 2008) and 2008-00550 (billing period ending October 31, 2008). The under-recovery amounts were included in the monthly filings consistent with the Commission's final Orders in each case.

Kentucky Utilities  
Calculation of E(m) and Jurisdictional Surcharge Billing Factor  
Summary Schedule for Expense Months March 2007 through February 2009

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
Expense Month	Retail E(m)	Adjustment For OMMU Environmental Expenses per Case No. 2003-00434	Adjustment to Retail E(m) for Under-Collection Case Nos. 2006-00129 2007-00379 2008-00216	Retail E(m) Including all Adjustments	Average Monthly Retail Revenues	Current Environmental Surcharge Factor (CESF) (5)/(6)	Base Environmental Surcharge Factor (BESF)	Monthly Environmental Surcharge Factor (MESF) (7) - (8)	ECR Billing Factor Revenues	ECR Revenue Recovered Through Base Rates	Combined Total Over/(Under) Recovery	
Mar-07	4,206,016	83,333	399,375	4,688,724	79,931,362	5.87%	3.11%	2.76%				
Apr-07	5,021,582	83,333	399,374	5,504,289	80,637,289	6.83%	3.11%	3.72%	2,339,019	2,016,822	(332,884)	
May-07	5,323,933	83,333		5,407,266	81,235,959	6.66%	3.11%	3.53%	3,973,879	2,214,070	683,660	
Jun-07	6,428,541	83,333		6,511,874	82,545,385	7.89%	3.11%	4.78%	4,095,263	2,340,993	1,028,990	
Jul-07	6,948,532	83,333		7,031,865	83,244,843	8.45%	3.11%	5.34%	4,367,489	2,479,181	334,796	
Aug-07	7,181,978	83,333		7,265,311	83,131,325	8.74%	3.11%	5.63%	5,094,711	2,534,872	597,718	
Sep-07									4,696,399	2,132,319	(436,594)	
Oct-07									24,566,729	13,718,257	1,875,686	
Sep-07	6,906,874	83,333		6,990,207	84,095,039	8.31%	3.11%	5.20%				
Oct-07	7,336,434	83,333		7,419,767	84,881,902	8.74%	3.11%	5.63%	3,486,782	2,000,449	(1,302,976)	
Nov-07	7,318,634	83,333		7,401,967	85,220,895	8.69%	3.11%	5.58%	5,482,500	2,258,900	321,634	
Dec-07	7,545,669	83,333		7,629,002	85,684,224	8.90%	3.11%	5.79%	8,085,888	2,598,897	3,282,818	
Jan-08	7,761,644	83,333		7,844,977	88,275,137	8.89%	3.11%	5.78%	5,168,528	2,527,869	67,395	
Feb-08	8,115,708	83,333		8,199,041	88,972,444	9.22%	3.11%	6.11%	2,964,623	2,360,997	(2,519,357)	
Mar-08									4,587,476	2,070,551	(1,541,014)	
Apr-08									29,775,797	13,817,663	(1,891,502)	
Mar-08	7,727,261	83,333	424,939	8,235,533	89,584,234	9.19%	5.51%	3.68%				
Apr-08	8,658,880	83,333	424,939	9,167,152	90,279,515	10.15%	5.51%	4.64%	2,816,309	3,406,885	(2,012,339)	
May-08	8,931,035	83,333	424,939	9,439,307	90,203,338	10.46%	5.51%	4.93%	4,470,912	3,767,850	(928,390)	
Jun-08	9,839,736	83,333	424,938	10,348,007	89,828,391	11.52%	5.51%	6.01%	6,243,205	4,216,621	1,020,519	
Jul-08	10,287,042	83,333		10,370,375	89,962,316	11.53%	5.51%	6.02%	7,422,675	4,215,753	1,290,422	
Aug-08	11,559,902	83,333	22,563	11,665,798	91,159,943	12.80%	5.51%	7.29%	5,832,354	4,177,504	(360,317)	
Sep-08									5,175,991	3,598,715	(2,891,092)	
Oct-08									31,961,447	23,383,327	(3,881,397)	
Sep-08	11,083,747	83,333		11,167,080	91,451,709	12.21%	5.51%	6.70%				
Oct-08	9,945,871	83,333		10,029,204	91,204,801	11.00%	5.51%	5.49%	5,235,307	3,555,299	(2,376,474)	
Nov-08	10,070,714	83,333		10,154,047	91,896,168	11.05%	5.51%	5.54%	6,771,154	4,400,119	1,142,069	
Dec-08	11,295,022	83,333		11,378,355	92,504,395	12.30%	5.51%	6.79%	7,615,494	4,597,245	2,058,692	
Jan-09	11,842,775	83,333		11,926,108	91,665,017	13.01%	5.51%	7.50%	6,688,271	4,582,206	(107,878)	
Feb-09	11,712,955			11,712,955	92,077,262	12.72%	5.51%	7.21%	5,529,205	3,915,930	(2,480,974)	
Mar-09									5,801,057	3,779,846	(2,132,052)	
Apr-09									37,640,488	24,830,644	(3,896,616)	
Prior Period Adjustment (Details shown on page 4 and 5)											74,650	
Total Over/(Under) Recovery for the six-month billing period ending April 30, 2009											(3,821,966)	
Grand Total											\$ 123,944,492	\$ (7,793,829)

Note: The billing periods ending October 31, 2007 and April 30, 2008 were reviewed in Case No. 2008-00216. The net under recovery amount was included in the monthly filings consistent with the Commission's final Order. The billing period ending October 31, 2008 was reviewed in Case No. 2008-00550. The under-recovery total was included in the monthly filings consistent with the Commission's final Order.

**Kentucky Utilities Company**  
**Reconciliation of Combined Over/(Under) Recovery**  
**Summary Schedule for Expense Months September 2008 through February 2009**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return (3) - (4)	Rate Base as Revised	Impact of change in Rate of Return (5) * (6) / 12	Jurisdictional Allocation, ES Form 1 00	Jursidictional Impact (7) * (8)
Nov-08	Sep-08	11.13%	10.81%	0.32%	\$ 1,079,194,834	287,785	82.47%	237,337
Dec-08	Oct-08	11.13%	10.81%	0.32%	1,100,204,730	293,388	77.38%	227,024
Jan-09	Nov-08	11.13%	10.81%	0.32%	1,121,882,153	299,169	75.52%	225,932
Feb-09	Dec-08	11.13%	10.81%	0.32%	1,147,776,100	306,074	79.97%	244,767
Mar-09	Jan-09	11.13%	10.81%	0.32%	1,163,146,273	310,172	83.81%	259,955
Apr-09	Feb-09	11.12%	10.92%	0.20%	1,182,049,149	197,008	86.43%	170,274
Cumulative Impact of Changes in Rate of Return						\$ 1,693,596		\$ 1,365,289

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		Base Rate Revenues (from ES Form 3 00)	As filed BESF * Base Rates (from ES Form 2 00)	Actual ECR Base Rates (Q2, pg 2, Col 11)	As Filed BESF (from ES Form 1 00)	Recalculated BESF	Recalc BESF * Base Rates (3) * (7)	Recalculation Difference (8) - (4)	BESF % Difference (5) - (8)
Nov-08	Sep-08	90,521,028	4,987,709	3,555,299	5.51%	5.20%	4,707,093	(280,615)	(1,151,795)
Dec-08	Oct-08	76,940,137	4,239,402	4,400,119	5.51%	5.20%	4,000,887	(238,514)	399,231
Jan-09	Nov-08	74,813,379	4,122,217	4,597,245	5.51%	5.20%	3,890,296	(231,921)	706,949
Feb-09	Dec-08	92,880,410	5,117,711	4,582,206	5.51%	5.20%	4,829,781	(287,929)	(247,575)
Mar-09	Jan-09	97,188,749	5,355,100	3,915,930	5.51%	5.20%	5,053,815	(301,285)	(1,137,885)
Apr-09	Feb-09	94,730,238	5,219,636	3,779,846	5.51%	5.20%	4,925,972	(293,664)	(1,146,126)
		527,073,942	29,041,774	24,830,644			27,407,845	(1,633,929)	(2,577,201)
		Actual Base Rate Collections	24,379,889				24,379,889		
			(4,661,885)				(3,027,955)		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Billing Month	Expense Month	Combined Total Over/(Under) Recovery (Q2, pg 2, Col 12)	ROR Trueup	BESF Calculation Differences	Use of BESF %	Use of 12 Month Average Revenues	Ghent Gypsum Proceeds
Nov-08	Sep-08	(2,376,474)	237,337	(280,615)	(1,151,795)	(1,197,704)	16,304
Dec-08	Oct-08	1,142,070	227,024	(238,514)	399,231	757,858	(3,529)
Jan-09	Nov-08	2,058,692	225,932	(231,921)	706,949	1,345,600	12,132
Feb-09	Dec-08	(107,878)	244,767	(287,929)	(247,575)	195,627	(12,767)
Mar-09	Jan-09	(2,480,973)	259,955	(301,285)	(1,137,885)	(1,290,270)	(11,489)
Apr-09	Feb-09	(2,132,052)	170,274	(293,664)	(1,146,126)	(848,349)	(14,188)
Total Under-Recovery for 6-month billing period		(3,896,616)	1,365,289	(1,633,929)	(2,577,201)	(1,037,238)	(13,537)
Prior Period Adjustment							
Aug07 - Oct08	Jun07 - Aug08	74,650					74,650
Total Under-Recovery for 2-year billing period		(3,821,966)					61,113

OVER/(UNDER) RECONCILIATION	
Combined Over/(Under) Recovery	(3,821,966)
Due to BESF Calculation Differences	(1,633,929)
Due to use of BESF %	(2,577,201)
Due to Change in ROR	1,365,289
Use of 12 Month Average Revenues	(1,037,238)
Ghent Gypsum Net Proceeds (including prior period adj )	61,113
Subtotal	(3,821,966)
Unreconciled Difference	-