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March 10, 2010

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2009-00501
Case No. 2009-00502

Enclosed please find a memorandum that has been filed in the record of the above-referenced cases. 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2009-00501
Main Case File - Case No. 2009-00502

FROM: Ronald Handziak, Team Leader *RH*

DATE: March 10, 2010

RE: Informal Conference of February 17, 2010

Pursuant to the Commission's January 8, 2010 Order, on February 17, 2010, 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 Attachments 1 and 2

Representatives of LG&E and KU distributed a handout that provided an overview of their filing and their responses to information requested in Appendix B of the Commission's January 8, 2010 Order. 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 3.

Commission Staff asked a few clarifying questions related to information included in the handout and the response to the data request. LG&E and KU agreed to provide further information to questions raised at the informal conference. 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

**ECR Review
Case Nos. 2009-00501
and 2009-00502**

**Kentucky Utilities Company
Louisville Gas and Electric Company
February 17, 2010**

Review Cases

- Review Period
 - Six-month period for expense months of March 2009 through August 2009
- Modification of ECR Mechanism
 - Revenue Requirement method
 - Elimination of two-month true-up
 - Revised ES Forms
- 2009 ECR Compliance Plan
 - Plans approved in December 2009
 - New and Revised ES Forms

Operation of the ECR -- KU

- Four Components that make up the net under-collection of \$3,705,904:
 - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
 - BESF calculation differences
 - Use of BESF percentage in determining amount collected in base rates
 - Use of 12-month average revenues to determine the billing factor

Operation of the ECR -- LG&E

- Four Components that make up the net under-collection of \$390,130:
 - Updating overall rate of return for the ECR Plan (overall rate of return including return on equity)
 - BESF calculation differences
 - 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	(390,130)
Due to BESF Calculation Differences	(589,557)
Due to Use of BESF %	(984,566)
Due to Change in Rate of Return	(213,597)
Use of 12-Month Average Revenues	<u>1,397,589</u>
Subtotal	<u>(390,130)</u>
Unreconciled Difference	(-)

Modification of ECR Mechanism – KU and LG&E

- Commission approved modifications to the ECR Mechanism in its December 2, 2009 Orders, including:
 - Use of a revenue requirement method to calculate monthly billing factor in place of the percentage method (BESF method)
 - Elimination of two-month true-up
 - Revised ES Forms
- December 2009 Expense Month filing made on January 15, 2010 incorporated new forms and methodology.
- ECR Review for Six-Month Period ending April 30, 2010 will reflect the transition of the changes approved in the December Orders.

2009 ECR Compliance Plans – KU and LG&E

- On December 23, 2009, the Commission approved the 2009 ECR Compliance Plans for KU and LG&E.
 - KU 2009 Plan includes 6 projects
 - LG&E 2009 Plan includes 4 projects
 - Revised ES Forms
- December 2009 Expense Month filing made on January 15, 2010 included the 2009 Projects, and new and revised forms.
- ECR Review for Six-Month Period ending April 30, 2010 will reflect the inclusion of the 2009 Plan projects.

Recommendations

- Kentucky Utilities Company
 - Approve collection of \$3,705,904 over a six month period following the Commission's Order
 - Find environmental surcharge amount for the billing period ending October 2009 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 second billing month following the Commission's Order

Recommendations

- Louisville Gas and Electric Company
 - Approve collection of \$390,130 over a one month period following the Commission's Order
 - Find environmental surcharge amount for the billing period ending October 2009 just and reasonable
 - Approve the use of an overall rate of return on capital of 10.97% using a return on equity of 10.63% beginning in the second billing month following the Commission's Order