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David L. Armstrong
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Linda Breathitt
Commissioner

February 18, 2014

PARTIES OF RECORD

Re: Case No. 2013-00437

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum concerning the February 13, 2014 Informal Conference, please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Staff Attorney, at 502/782-2581.

Sincerely,

Jeff Derouen
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File – Case No. 2013-00437

FROM: Jonathan Beyer, Staff Attorney

DATE: February 18, 2014

RE: Informal Conference of February 13, 2014

Pursuant to the Commission's December 23, 2013 Order, an Informal Conference was held in this matter at the Commission's office in Frankfort, Kentucky on February 13, 2014. A list of attendees is attached to this memorandum.

Beginning the conference, Mr. Robert Conroy for Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively the "Companies") distributed a handout, a copy of which is attached. Mr. Conroy summarized the instant environmental surcharge filings and indicated that both companies experienced an over-recovery during the review period. He proposed the Commission authorize one month and two month recovery periods for KU and LG&E respectively. He further indicated that the Companies would likely submit the cases on the record after the issuance of any supplemental requests for information.

Finally, the parties discussed the propriety of utilizing the billing versus the expense month in updating the Companies' rate of return calculations. Mr. Conroy indicated that the Companies would be amenable to usage of either month.

Finding that no party had any further questions, the conference was adjourned.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL) CASE NO.
SURCHARGE MECHANISM OF LOUISVILLE GAS) 2013-00437
& ELECTRIC COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING OCTOBER 31, 2013)

February 13, 2014

Please sign in:

| NAME | REPRESENTING |
|-------------------------|------------------|
| <u>Jonathan Beyer</u> | <u>PSC-Legal</u> |
| <u>Ron Handziah</u> | <u>PSC-FA</u> |
| <u>Enrol Kwagren</u> | <u>PSC-FA</u> |
| <u>Allyson Sturgeon</u> | <u>LG+E</u> |
| <u>Andrea Schneider</u> | <u>LG+E</u> |
| <u>Robert Conroy</u> | <u>LG+E</u> |
| <u>Chris Garrett</u> | <u>LG+E</u> |



PPL companies

**ECR Review
Case Nos. 2013-00436
and 2013-00437**

February 13, 2014

Overview

- Review Period:
 - *Six-month period for expense months of March 2013 through August 2013*
 - *ECR Plans in effect - 2009 and 2011*
- Recent Changes to the ECR:
 - *2011 ECR Plans approved in December 2011*
 - *Elimination of 2005 and 2006 ECR Compliance Plans in December 2012*
 - *Two-Year Review & Roll-in approved in November 2013*
- Next Steps

Over/(Under) Reconciliation

| | KU | LG&E |
|--|------------------|--------------------|
| Combined Over/(Under) Recovery | \$347,028 | \$1,309,850 |
| Due to Change in Rate of Return | 99,133 | 124,362 |
| Use of 12-Month Average Revenues | 247,895 | 1,280,467 |
| Input Error in March Expense Mo. (LG&E only) | <u>N/A</u> | <u>(94,979)</u> |
| Total | <u>\$347,028</u> | <u>\$1,309,850</u> |

Over/(Under) Recovery Position

- **KU - over-recovery position**
 - *Over-recovery for the 6-month period is \$347,028*
 - *Recommend distribution over 1 month*
 - *Impact to residential customer using 1,208 kWh/mo is (\$0.31) per month*
- **LG&E - over-recovery position**
 - *Over-recovery for the 6-month period is \$1,309,850*
 - *Recommend distribution over 2 months*
 - *Impact to residential customer using 987 kWh/mo is (\$0.75) per month*

Recent Changes to the ECR

- In December 2011, the Commission approved the 2011 ECR Compliance Plans for KU and LG&E
 - *Use of Group 1 and Group 2 ECR billing factors*
 - *Use of average daily balances and daily interest rates for short- and long-term debt rates in calculation of overall rate of return true-up adjustment*
- On December 20, 2012, the Commission approved the elimination of the 2005 and 2006 ECR Compliance Plans from the monthly filings for KU and LG&E
 - *Plan eliminations were an approved provision in the most recent rate case settlement*

- On November 14, 2013, the Commission issued final Orders in the ECR Two-Year Reviews
 - *Approved roll-in of incremental ECR charges to base rates*
 - *Effective with the November 2013 expense month billed in January 2014*
 - *ES forms revised to reflect the elimination of the 2005 and 2006 Compliance Plans*

Rate of Return Going Forward

- Propose use of 10.25% return on equity
 - *Consistent with the Commission's recent Orders in Case Nos. 2012-00221 and 2012-00222 (most recent base rate cases affirming the ROE for all Plans for ECR purposes, Orders issued December 20, 2012)*
 - *Overall rate of return established based on capitalization for the month ended August 2013*
 - 10.22% for KU
 - 10.43% for LG&E

Recommendations – KU and LG&E

- Approve distribution of over-recovery positions:
 - *KU over-recovery of \$347,028 over a one month period*
 - *LG&E over-recovery of \$1,309,850 over a two month period*
- Find environmental surcharge amounts for the billing period ending October 2013 just and reasonable
- Approve the use of an overall rate of return on capital using a return on equity of 10.25% beginning in the second billing month following the Commission's Order
 - *10.22% for KU*
 - *10.43% for LG&E*

Next Steps

Procedural Schedule

- *All additional requests for information to KU and LG&E February 27*
- *KU and LG&E shall file responses March 13*
- *Intervenor testimony, if any, to be filed March 27*
- *All requests for information to Intervenors April 10*
- *Intervenors shall file responses April 24*
- *Last day for KU and LG&E to request a hearing or submit the case for decision based on the record..... May 1*