

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE ENVIRONMENTAL)	CASE NO.
SURCHARGE MECHANISM OF KENTUCKY UTILITIES)	2017-00266
COMPANY FOR THE TWO-YEAR BILLING PERIOD)	
ENDING APRIL 30, 2017)	

ORDER

On July 19, 1994, the Commission approved Kentucky Utilities Company's ("KU") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. Therefore, the Commission hereby initiates the two-year review of the surcharge as billed from May 1, 2015, to April 30, 2017.²

¹ Case No. 1993-00465, *The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products* (Ky. PSC July 19, 1994).

² Since KU's surcharge is billed on a two-month lag, the amounts billed are based on costs incurred from March 2015 through February 2017.

On May 3, 2013, KU filed with the Commission written notification of its election pursuant to 807 KAR 5:001, Section 8, to use the electronic filing procedures in all future company six-month and two-year environmental surcharge review proceedings.³ As 807 KAR 5:001, Section 8, permits the Commission to direct the use of electronic filing procedures for proceedings which we initiate on our own motion, we find that electronic filing procedures should be used. As such, KU shall follow the procedures set forth in 807 KAR 5:001, Section 8, when filing any document or paper in this matter. Pursuant to 807 KAR 5:001, Section 8, unless a party granted leave to intervene states its objection to the use of electronic filing procedures in a motion for intervention, the party shall be deemed to have consented to the use of electronic filing procedures and the service of all papers, including Orders of the Commission, by electronic means. In addition, the intervening party shall file with the Commission within seven days of the date of an Order of the Commission granting the intervention a written statement affirming that the party, or the party's authorized agent, possesses the facilities to receive electronic transmissions and setting forth the electronic mail address to which all electronic notices and messages related to the proceeding should be served.

To facilitate this review, a procedural schedule is set forth in Appendix A to this Order. In accordance with that schedule, KU is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review; and (b) on a proposal to roll its environmental surcharge into existing base rates. In addition, KU is to file its response to the information requested in Appendix B to this Order. Since the period under review

³ Letter from Allyson K. Sturgeon, Counsel for Kentucky Utilities Company, to Jeff Derouen, Executive Director, Public Service Commission (May 3, 2013).

in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, KU has sought and been granted seven amendments to its original environmental compliance plan and surcharge mechanism. Pursuant to our Order approving the Settlement Agreement, Stipulation and Recommendation in Case No. 2012-00221,⁴ all costs associated with KU's 2005 and 2006 amended compliance plans were rolled into KU's base rates. After this last roll-in, the environmental surcharge provides recovery of the costs associated with the 2009, 2011, and 2016 amended environmental compliance plans. When determining its over- or under-recovery of the surcharge in this proceeding, KU should reflect the impacts of these prior cases, as applicable.

IT IS THEREFORE ORDERED that:

1. Unless otherwise ordered by the Commission, the procedures set forth in 807 KAR 5:001, Section 8, shall be followed when filing papers in this proceeding.
2. Pursuant to 807 KAR 5:001, Section 8(10), within seven days of entry of this Order, KU shall file a written statement, with a copy to parties of record, affirming that it, or its authorized agent, possesses the facilities to receive electronic transmissions.
3. Unless a party granted leave to intervene states its objection to use of electronic filing procedures in a motion for intervention, the party shall:

⁴ Case No. 2012-00221, *Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates* (Ky. PSC Dec. 20, 2012).

a. Be deemed to have consented to the use of electronic filing procedures and the service of all papers, including Orders of the Commission, by electronic means; and

b. Within seven days of the date of an Order of the Commission granting its intervention, file with the Commission a statement that:

(1) Affirms that it, or its authorized agent, possesses the facilities to receive electronic transmissions; and

(2) Sets forth the electronic mail address to which all electronic notices and messages related to this proceeding should be served.

4. If a party objects to the use of electronic filing procedures and the Commission determines that good cause exists to excuse that party from the use of electronic filing procedures, service of documents on that party and by that party shall be made in accordance with 807 KAR 5:001, Section 4(8).

5. The procedural schedule set forth in Appendix A to this Order shall be followed in this proceeding.

6. Any motion to intervene filed after August 28, 2017, shall show a basis for intervention and good cause for being untimely. If the untimely motion is granted, the movant shall accept and abide by the existing procedural schedule.

7. KU shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

8. a. The information requested in Appendix B to this Order shall be filed by the date set forth in Appendix A. Responses to requests for information in paper

medium shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with an original in paper medium and an electronic version to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any requests to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

e. Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

f. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

9. Any party filing testimony shall comply with the electronic filing procedures set forth in 807 KAR 5:001, Section 8, and shall file with the Commission an original in paper medium and an electronic version. The copy in paper medium shall be appropriately bound, tabbed, and indexed.

10. KU shall give notice of the hearing in accordance with the provisions set out in 807 KAR 5:001, Section 9(2)(b). In addition, the notice of hearing shall include the following statement: "This hearing will be streamed live and may be viewed on the PSC website, psc.ky.gov." At the time publication is requested, KU shall forward a duplicate of the notice and request to the Commission.

11. Pursuant to KRS 278.360 and 807 KAR 5:001, Section 9(a), a digital video transcript shall be made of the hearing and the official record of the proceeding shall be by video only.

12. Within seven days of the Commission's granting of intervention to a party, KU shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

13. KU's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

14. The case records of Case Nos. 1993-00465, 2000-00439, 2002-00146, 2003-00068, 2003-00434, 2004-00426, 2006-00206, 2009-00197, 2011-00161, and 2016-00026⁵ shall be incorporated by reference into the record of this case.

15. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

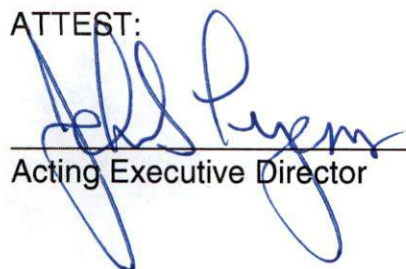
16. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

⁵ Case No. 1993-00465, *Kentucky Utilities Company* (Ky. PSC July 19, 1994); Case No. 2000-00439, *The Application of Kentucky Utilities Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Surcharge Tariff* (Ky. PSC Apr. 18, 2001); Case No. 2002-00146, *Application for Amended Environmental Compliance Plan and a Revised Surcharge to Recover the Costs* (Ky. PSC Feb. 11, 2003); Case No. 2003-00068, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending January 31, 2001, July 31, 2001, January 31, 2002, and January 31, 2003, and for the Two-Year Billing Periods Ending July 31, 2000 and July 31, 2002* (Ky. PSC May 4, 2004); Case No. 2003-00434, *An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company* (Ky. PSC Mar. 31, 2006); Case No. 2004-00426, *The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan and Recovery by Environmental Surcharge* (Ky. PSC June 20, 2005); Case No. 2006-00206, *The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct a Selective Catalytic Reduction System and Approval of Its 2006 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Dec. 21, 2006); Case No. 2009-00197, *Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2009 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Dec. 23, 2009); Case No. 2011-00161, *Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2011 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Dec. 15, 2011); and Case No. 2016-00026, *Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2016 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Aug. 8, 2016).

By the Commission

ENTERED
JUL 27 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Acting Executive Director

Case No. 2017-00266

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00266 DATED **JUL 27 2017**

KU shall file its prepared direct testimony and responses to the information requested in Appendix B no later than08/21/17

A person interested in becoming a party to this proceeding shall file a motion to intervene with the Commission pursuant to 807 KAR 5:001, Section 4(11), no later than08/28/17

All additional requests for information to KU shall be filed no later than09/11/17

KU shall file responses to additional requests for information no later than09/25/17

Intervenor testimony, if any, in verified prepared form shall be filed no later than10/09/17

Requests for information to Intervenors shall be filed no later than10/23/17

Intervenors shall file responses to requests for information no later than11/06/17

Last day for KU to request a hearing or submit this case for decision based on the record11/20/17

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00266 DATED **JUL 27 2017**

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY UTILITIES COMPANY

1. Concerning the rate of return on the 2009, 2011, and 2016 amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional capital structure as of February 28, 2017. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review. Provide all exhibits and schedules of your response in Excel spreadsheet format with formulas intact and unprotected and all rows and columns accessible.

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 for 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 two-year review. Include all supporting

calculations and documentation for any such additional over- or under-recovery. Provide all exhibits and schedules of your response in Excel spreadsheet format with formulas intact and unprotected and all rows and columns accessible.

3. Provide the calculations, assumptions, work papers, and other supporting documents used to determine the amounts KU has reported during each billing period under review for Pollution Control Deferred Income Taxes. Provide all exhibits and schedules of your response in Excel spreadsheet format with formulas intact and unprotected and all rows and columns accessible.

4. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the expense months covered by the review period. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that KU believes should be incorporated into its existing base rates. Include all supporting calculations, work papers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per-kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into KU's base rates. Include any analysis that KU believes supports its position.

c. Does KU believe that modifications will need to be made to either the surcharge mechanism or the monthly surcharge reports as a result of incorporating additional environmental surcharge amounts into KU's existing base rates? If so, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.

6. Provide the actual average residential customer's usage. Based on this usage amount, provide the dollar impact the over/under recovery will have on the average residential customer's bill for the requested recovery period. Provide all supporting calculations.

7. In Case No. 2000-00439,⁶ the Commission ordered that KU's cost of debt and preferred stock would be reviewed and re-established during six-month surcharge review cases. Provide the following information as of February 28, 2017:

a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.

b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.

c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.

⁶ Case No. 2000-00439, *Kentucky Utilities Company* (Ky. PSC Apr. 18, 2001).

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