

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH)	2018-00257
BILLING PERIOD ENDING APRIL 30, 2018)	

ORDER

On August 10, 2018, the Commission initiated a six-month review of Kentucky Utilities Company's (KU) environmental surcharge as billed to customers for the six-month period beginning November 1, 2017, through April 30, 2018.¹ Pursuant to KRS 278.183(3), the Commission must review the past operations of a utility's environmental surcharge at six-month intervals and shall, by temporary adjustment of the surcharge, disallow any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable.

The August 10, 2018 Order also established a procedural schedule that provided for discovery and the filing of prepared testimony by KU and intervenors. KU filed prepared direct testimony and responded to a request for information issued by Commission Staff. On October 31, 2018, KU requested the Commission take this case under submission for decision based on the evidentiary record and issue an order by November 30, 2018. Because there are no intervenors in this case and a hearing is not

¹ KU's environmental surcharge is billed on a two-month lag. Thus, surcharge billings for November 2017 through April 2018 are based on costs incurred from September 2017 through February 2018.

necessary in the public interest, the Commission will adjudicate this case based on the evidence of record.

SURCHARGE ADJUSTMENT

KU determined that it had a net over-recovery of environmental costs for the six-month billing period ending April 30, 2018, of \$2,761,467.² KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$920,489 per month for three months, beginning in the second full-billing month following the Commission's Final Order in this proceeding.³ The three-month decrease in the jurisdictional environmental surcharge revenue requirement would decrease KU's environmental cost recovery billing factor for each month.

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$2,761,467 for the six-month billing period covered in this proceeding. The Commission also finds reasonable KU's proposal to refund this over-recovery by decreasing the total jurisdictional environmental surcharge revenue requirement by \$920,489 per month for three months beginning in the second full-billing month following the date of this Order. KU stated that the actual average residential customer's usage for the 12-month period ending June 30, 2018, is 1,201 kilowatt-hours (kWh) per month.⁴ KU calculates that for a residential customer using 1,201 kWh per month, the impact of its proposed decrease in environmental cost recovery billing factor would be a decrease of

² Direct Testimony of Derek A. Rahn at 6.

³ *Id.* at 8.

⁴ KU's response to Commission Staff's First Request for Information (Response to Staff's First Request), Item 6.

approximately \$0.83 per month for three months, using rates and adjustment clause factors in effect for the August 2018 billing month.⁵

RATE OF RETURN

KU provided the outstanding balances for its long-term debt, short-term debt, and common equity and the blended interest rates for its long-term and short-term debt as of February 28, 2018, the last expense month of the review period.⁶ Using this information, along with the currently approved 9.70 percent return on equity,⁷ KU calculated a weighted average cost of capital (WACC), before income tax gross-up, of 7.12 percent for its 2009, 2011, and 2016 Environmental Compliance Plans (Compliance Plans).⁸ KU also provided the overall WACC reflecting the tax gross-up approach approved in Case No. 2004-00426.⁹

The Commission has reviewed KU's calculation of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2004-00426. The gross-up factor excludes the Internal Revenue Code §199 manufacturing tax deduction, which was repealed by the Tax Cuts and Jobs Act.¹⁰ Therefore, the Commission finds that the weighted average cost of capital for KU's Compliance Plans of 7.12 percent and the

⁵ *Id.*

⁶ Response to Staff's First Request, Item 5.

⁷ Case No. 2016-00370, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017).

⁸ Response to Staff's First Request, Item 5.

⁹ 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 for Recovery by Environmental Surcharge* (Ky. PSC June 20, 2005); and the Response to Staff's First Request, Item 5.

¹⁰ Response to Staff's First Request, Item 5.

income tax gross-up factor of 0.75, which produces an overall grossed-up return of 8.86 percent, should be used in all KU monthly environmental surcharge filings beginning in the second full-billing month following the date of this Order.

IT IS THEREFORE ORDERED that:

1. The amounts billed to customers by KU through its environmental surcharge for the period from November 1, 2017, through April 30, 2018, are approved.
2. Beginning in the second full-billing month following the date of this Order, KU shall decrease its jurisdictional environmental revenue requirement by \$920,489 per month for three months.
3. Beginning in the second full-billing month following the date of this Order, KU shall use an overall rate of return on capital of 7.12 percent, a tax gross-up factor of 0.75, a return on equity rate of 9.70 percent, and an overall grossed-up return of 8.86 percent in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

By the Commission

ENTERED
NOV 19 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2018-00257

*Honorable Allyson K Sturgeon
Senior Corporate Attorney
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Derek Rahn
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Rick E Lovekamp
Manager - Regulatory Affairs
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Robert Conroy
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Sara Judd
LG&E and KU Energy LLC
220 West Main Street
Louisville, KENTUCKY 40202

*Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010