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 LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-MONTH BILLING PERIOD ENDING APRIL 30, 2018	)))))	CASE NO. 2018-00258

ORDER

On August 10, 2018, the Commission initiated a six-month review of Louisville Gas and Electric Company's (LG&E) 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 LG&E and intervenors. LG&E filed prepared direct testimony and responded to a request for information issued by Commission Staff. On October 31, 2018, LG&E 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

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[1] LG&E'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

LG&E determined that it had a net over-recovery of environmental costs for the six-month billing period ending April 30, 2018, of $1,158,649.[2] LG&E recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of $579,324 for one month and $579,325 for one month, beginning in the second full-billing month following the Commission's Final Order in this proceeding.[3] The two-month decrease in jurisdictional environmental surcharge revenue requirement would decrease LG&E's environmental cost recovery billing factor for those same months.

The Commission has reviewed and finds reasonable LG&E's calculation of a net over-recovery of $1,158,649 for the six-month billing period covered in this proceeding. The Commission also finds reasonable LG&E's proposal to refund this over-recovery by decreasing the total jurisdictional environmental surcharge revenue requirement by $579,324 for one month and $579,325 for one month beginning in the second full-billing month following the date of this Order. LG&E stated that the actual average residential customer's usage for the 12-month period ending June 30, 2018, is 981 kilowatt-hours (kWh) per month.[4] LG&E calculates that for a residential customer using 981 kWh per month, the impact of its proposed decrease in the environmental cost recovery billing

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[2] Direct Testimony of Derek A. Rahn at 5.

[3] *Id.* at 7.

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

factor would be an decrease of approximately $0.66 per month for six months, using rates and adjustment clause factors in effect for the August 2018 billing month.[5]

RATE OF RETURN

LG&E 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] LG&E calculated a weighted average cost of capital (WACC), before income tax gross-up, of 6.94 percent for its 2009, 2011, and 2016 Environmental Compliance Plans (Compliance Plans).[8] LG&E also provided the overall WACC reflecting the tax gross-up approach approved in Case No. 2004-00421.[9]

The Commission has reviewed LG&E's calculation of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2004-00421. The gross-up factor excludes the Internal Revenue Code §199 manufacturing tax deduction, which was repealed by the Tax Cuts and Jobs Act. Therefore, the Commission finds that the WACC for LG&E's Compliance Plans of 6.94 percent and the income tax gross-up factor of 0.75, which produces an overall grossed-up return of 8.66 percent, should be used in

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[5] *Id.*

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

[7] Case No. 2016-00371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas 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. 2004-00421, *The Application of Louisville Gas and Electric Company for 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.

all LG&E 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 LG&E 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, LG&E shall decrease its jurisdictional environmental revenue requirement by $579,324 for one month and $579,325 for one month.

3. Beginning in the second full-billing month following the date of this Order, LG&E shall use an overall rate of return on capital of 6.94 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 8.66 percent in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

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By the Commission

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson
Executive Director

*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

*Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

*Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010