

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE)	
ENVIRONMENTAL SURCHARGE MECHANISM)	CASE NO.
OF KENTUCKY UTILITIES COMPANY FOR THE)	2019-00205
TWO-YEAR BILLING PERIOD ENDING APRIL 30,)	
2019)	

ORDER

On June 28, 2019, the Commission initiated a two-year review of Kentucky Utilities Company's (KU) environmental surcharge as billed to customers for the two-year period of May 1, 2017, through April 30, 2019.¹ At six-month intervals, the Commission must review the past operations of the environmental surcharge, disallow any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable.² At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge, disallow improper expenses, and to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.³

For purposes of this review, the Commission has examined KU's monthly environmental surcharges for the six-month billing period ended April 30, 2019, and for

¹ KU's surcharge is billed on a two-month lag. Thus, surcharge billings for May 2017 through April 2019 are based on costs incurred from March 2017 through February 2019.

² KRS 278.183(3).

³ *Id.*

the two-year billing period ended April 30, 2019. The three previous six-month billing periods of this two-year period were reviewed in Case Nos. 2018-00051, 2018-00257, and 2019-00014.⁴

The June 28, 2019 Order included a procedural schedule that provided for discovery and the filing of prepared testimony and intervenor testimony. KU filed prepared direct testimony and responded to one request for information. There are no intervenors in this proceeding. On October 4, 2019, KU requested that this case be submitted for a decision based on the existing record. As there are no intervenors in this case and a hearing is not 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 cumulative over-recovery of its environmental costs for the period of \$600,966.⁵ KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$600,966 for one month, beginning in the second full billing month following the Commission's final Order in this proceeding.⁶ The decrease in the jurisdictional environmental surcharge revenue requirement would decrease KU's environmental cost recovery billing factor by

⁴ Case No. 2018-00051, *Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Period Ending October 31, 2017* (Ky. PSC July 19, 2018); Case No. 2018-00257, *Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Period Ending April 30, 2018* (Ky. PSC Nov. 19, 2018); and Case No. 2019-00014, *Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Period October 31, 2018* (Ky. PSC Apr. 30, 2019).

⁵ Direct Testimony of Derek A. Rahn (Rahn Testimony) at 7.

⁶ *Id.*

approximately 0.48 percent for one month.⁷ KU stated that the actual average residential customer's usage for the 12-month period ending May 31, 2019, is 1,180 kilowatt-hours (kWh) per month.⁸ KU calculates that for a residential customer using 1,180 kWh per month, the impact of its proposed decrease in environmental cost recovery billing factor would be a decrease of approximately \$0.58 for one month, using rates and adjustment clause factors in effect for the May 2019 billing month.⁹

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$600,966 for the billing period covered in this proceeding. The Commission also finds reasonable KU's proposal to decrease the total jurisdictional environmental surcharge revenue requirement for one month by \$600,966 beginning in the second full billing month following the date of this Order.

SURCHARGE ROLL-IN

KU proposed that it was appropriate in this case to incorporate surcharge amounts found just and reasonable for the two-year billing period into its existing base rates. KU recommended an incremental "roll-in" of \$10,168,724.¹⁰ KU determined the roll-in amount using the base-current methodology, consistent with current practice and as previously approved by the Commission. The incremental roll-in of \$10,168,724 was determined using the environmental surcharge rate base as of February 28, 2019, and environmental surcharge operating expenses for the 12-month period ended February

⁷ Response to Commission Staff's First Request for Information (Staff's First Request), Item 6.

⁸ *Id.*

⁹ *Id.*

¹⁰ Rahn Testimony at 8.

28, 2019. With the incremental roll-in of \$10,168,724, the total amount of environmental surcharge revenues to be included in base rates is \$154,448,344. The Commission has reviewed and finds reasonable that \$10,168,724 from the surcharge should be rolled into KU's existing base rates incrementally, resulting in total environmental surcharge revenues in base rates of \$154,448,344.

ALLOCATION OF ROLL-IN

KU proposed to follow an allocation methodology originally approved in the Settlement Agreement in Case No. 2011-00161,¹¹ whereby KU's rate classes are divided into two groups: Group 1¹² and Group 2.¹³ This methodology was first authorized for the base rate roll-in in Case No. 2011-00231,¹⁴ as well as KU's most recent two-year review.¹⁵ In KU's most recent base rate case, Case No. 2018-00294,¹⁶ KU updated its Environmental Cost Recovery Surcharge tariff to reflect the current rate classes in each group. The \$10,168,724 total roll-in is allocated between the two groups based on the

¹¹ 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).

¹² Group 1 includes the following rate classes: Residential Service, Residential Time-of-Day Energy Service, Residential Time-of-Day Demand Service, Volunteer Fire Department Service, All Electric School, Lighting Service, Restricted Lighting Service, Lighting Energy Service, and Traffic Energy Service.

¹³ Group 2 includes the following rate classes: General Service, Power Service, Time-of-Day Secondary Service, Time-of-Day Primary Service, Retail Transmission Service, Fluctuating Load Service, Electric Vehicle Supply Equipment, Electric Vehicle Charging Service, Outdoor Sports Lighting Service, and special contracts.

¹⁴ Case No. 2011-00231, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Two-Year Billing Period Ending April 30, 2011* (Ky. PSC Feb. 29, 2012).

¹⁵ Case No. 2017-00266, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Two-Year Billing Period Ending April 30, 2017* (Ky. PSC Dec. 19, 2017).

¹⁶ Case No. 2018-00294, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates*, Application, Tab 5, PSC No. 19, Original Sheet No. 87 (filed Sept. 28, 2018).

percentage of each group's total revenue, excluding base environmental surcharge revenue, to KU's total revenue, excluding base environmental surcharge revenue. The rolled-in amounts for Group 1 also use total billed revenues, excluding base environmental surcharge revenues, to allocate costs to base rates between the rate classes in Group 1. For Group 2 rate classes, the roll-in will be allocated based on non-fuel revenues only for each Group 2 rate class. KU recommended that no changes be made to the allocation methodology.

The Commission has reviewed and found reasonable KU's proposal to allocate the roll-in of \$10,168,724 pursuant to the terms of the Settlement Agreement in Case No. 2011-00161. In accordance with the terms of the Settlement Agreement, KU shall use the revenue allocation methodology as described above unless directed to do otherwise by the Commission.

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, 2019, the last expense month of the review period.¹⁷ Using this information, along with the currently approved 9.725 percent return on equity,¹⁸ KU calculated a weighted average cost of capital (WACC), before income tax gross-up, of 7.04 percent for its 2009, 2011, and 2016 Environmental Compliance Plans (Compliance Plans).¹⁹ KU

¹⁷ Response to Staff's First Request, Item 5.

¹⁸ Case No. 2018-00294, *Kentucky Utilities Company* (Ky. PSC Apr. 30, 2019).

¹⁹ Response to Staff's First Request, Item 5.

also provided the overall WACC of 8.75 percent, reflecting the tax gross-up approach approved in Case No. 2004-00426.²⁰

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. Therefore, the Commission finds that the WACC for KU's Compliance Plans of 7.04 percent and the income tax gross-up factor of 0.75050, which produces an overall grossed-up return of 8.75 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 environmental surcharge amounts determined by KU for the review period ended April 30, 2019, are just and reasonable.
2. In the second full billing month following the date of this Order, KU shall decrease its jurisdictional environmental revenue requirement by \$600,966 for one month.
3. KU shall roll \$10,168,724 of incremental environmental surcharge amounts found to be just and reasonable herein into its existing base rates, for a total base rate environmental component of \$154,448,344. The roll-in shall be allocated to the customer classes as described in the Settlement Agreements approved in Case Nos. 2011-00161, 2011-00231, and 2018-00294.
4. KU shall use an overall rate of return on capital of 7.04 percent, a return-on-equity rate of 9.725 percent, a tax gross-up factor of 0.75050, and an overall grossed-

²⁰ 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.

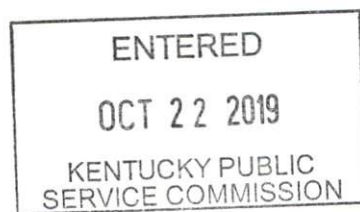
up return of 8.75 percent in all monthly environmental surcharge filings beginning in the second full billing month following the date of this Order.

5. Within 20 days of the date of this Order, KU shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariffs reflecting the changes to its base rates as a result of the roll-in of environmental surcharge amounts described herein; the same type of supporting documentation it filed in Case No. 2011-00231; and a red-lined version of its tariffs.

6. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:


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Case No. 2019-00205

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