

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)	2020-00170
THE SIX-MONTH BILLING PERIOD ENDING)	
OCTOBER 30, 2019)	

ORDER

On June 10, 2020, 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 May 1, 2019, to October 31, 2019.¹ 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 disallow, by temporary adjustment of the surcharge, any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable.

The June 10, 2020 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 two requests for information issued by Commission Staff. On October 7, 2020, KU requested that the Commission take this case under submission for a decision based on the evidentiary record. As there are no intervenors

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

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 net over-recovery of environmental costs for the six-month billing period ended October 31, 2019, of \$1,625,177.² KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$541,726 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 those months.

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$1,625,177 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 \$541,726 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 ended March 31, 2020, is 1,134 kilowatt-hours (kWh) per month.⁴ KU calculates that for a residential customer using 1,134 kWh per month, the impact of its proposed decrease in environmental-cost-recovery billing factor would be a decrease of

² Direct Testimony of Andrea M. Fackler (filed July 8, 2020) at 7.

³ *Id.* at 8.

⁴ KU's Response to Commission Staff's First Request for Information (filed July 8, 2020) (Response to Staff's First Request), Item 6.

approximately \$0.48 per month, using rates and adjustment clause factors in effect for the March 2020 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 August 31, 2019, the last expense month of the review period.⁶ KU also provided the overall weighted average cost of capital (WACC) reflecting the tax gross-up approach approved in Case No. 2004-00426.⁷ In Case No. 2018-00294, the Commission determined that a reasonable return on equity (ROE) for KU was 9.725 percent.⁸ In case No. 2020-00060, the Commission determined that a reasonable ROE for KU's 2020 Environmental Compliance Plan (2020 Plan) was 9.200 percent.⁹ Using the approved 9.725 percent ROE, KU calculated a WACC, before income tax gross up, of 7.13 percent,¹⁰ which is appropriate for KU's 2009, 2011, and 2016 Environmental Compliance Plans (Pre-2020 Compliance Plans). Using the approved 9.200 percent ROE, the Commission has calculated a WACC, before income tax gross up, of 6.85 percent for KU's 2020 Compliance Plans.

⁵ *Id.*

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

⁷ 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, Attachment.

⁸ Case No. 2018-00294, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates* (Ky. PSC Apr. 30, 2019).

⁹ Case No. 2020-00060, *Electronic Application of Kentucky Utilities Company for Approval of Its 2020 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Sept. 29, 2020).

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

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. 2004-00426.¹¹ Therefore, the Commission finds that the WACC for KU's Pre-2020 Plans of 7.13 percent and the 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. The Commission also finds that the WACC for KU's 2020 Plan of 6.85 percent and the income tax gross-up factor of 0.75, which produces an overall grossed-up return of 8.48 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:

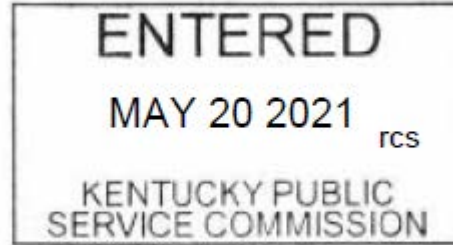
1. The amounts billed to customers by KU through its environmental surcharge for the period from May 1, 2019, to October 31, 2019, are approved.
2. Beginning in the second full-billing month following the date of this Order, KU shall decrease its jurisdictional environmental revenue requirement by \$541,726 for three months.
3. Beginning in the second full-billing month following the date of this Order, KU shall use a WACC of 7.13 percent, a tax gross-up factor of 0.75, an ROE rate of 9.725 percent, and an overall grossed-up return of 8.86 percent for its Pre-2020 Plans and a WACC of 6.85 percent, a tax gross-up factor of 0.75, an ROE rate of 9.200 percent, and an overall grossed-up return of 8.48 percent for its 2020 Plan in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

¹¹ Response to Staff's First Request , Item 5.d.

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

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By the Commission



ATTEST:


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