

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ADJUSTMENT OF ITS)	
ELECTRIC RATES AND FOR)	CASE NO. 2016-00370
CERTIFICATES OF PUBLIC CONVENIENCE)	
AND NECESSITY)	

MOTION TO CORRECT ORDER

Kentucky Utilities Company (“KU”) hereby respectfully moves the Kentucky Public Service Commission (“Commission”) to make certain technical corrections to its Order dated June 22, 2017 (“Final Order”).

First, the Commission disallowed \$1,720,383 of KU’s 401(k) plan matching contributions to certain employees.¹ The Commission further reduced the stipulated revenue requirement increase for KU by reducing the awarded return on equity (“ROE”) from 9.75% to 9.70%, resulting in a decrease of \$969,324 to net operating income.² To arrive at the Commission’s total adjustment to KU’s stipulated revenue requirement increase, the Commission applied a gross-up factor to *both* the pre-tax 401(k)-related disallowance and the after-tax ROE-related reduction, arriving at a total reduction to the stipulated revenue requirement increase of \$4,415,348:³

¹ Final Order at 15.

² *Id.* at 15-18.

³ Final Order at 19.

	KU
401(k) Plan - Pre Tax	(1,720,383)
Income Taxes @ Statutory Rate	-
401(k) Plan - After Tax	(1,720,383)
ROE from 9.75% to 9.7%	(969,324)
Impact to Net Operating Income	(2,689,707)
Multiplied by: Gross Up Factor	1.641572
Revenue Requirement Impact	(4,415,348)
Increase per Stipulation	54,900,000
Net Increase Granted by the Commission	50,484,652

KU respectfully submits it was incorrect to apply the gross-up factor to the pre-tax 401(k)-related disallowance. The primary purpose of a gross-up factor is to account for the effect of federal and state income taxes on net operating income.⁴ KU's application reflects that operating expenses were tax affected before they were adjusted by the gross revenue conversion factor to arrive at the proposed revenue deficiency.⁵ The Attorney General's revenue requirement witness Mr. Smith used the same two-step methodology in presenting his recommended adjustments to KU's revenue requirement.⁶ And the adjustments to KU's revenue requirement proposed by Kentucky Industrial Utility Customer, Inc. witness Mr. Kollen also reflect the same methodology, albeit in a one-step instead of the two-step method used by KU and the AG.⁷

⁴ See, e.g., *In the Matter of: 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*, Case No. 2000-00439, Order at 16 n. 31 (Apr. 18, 2001) ("The overall rate of return includes short-term and long-term debt, preferred stock, and common equity. The preferred stock and common equity components are 'grossed up' to recognize the effects of income taxes on the overall rate of return."). See also I. Leonard Saul Goodman, *The Process of Ratemaking*, 710 -711 (1998).

⁵ Application of Kentucky Utilities Company, Tab 56, Schedule C, *Jurisdictional Operating Income for the Base and Forecasted Period*; Tab 54 Schedule A, *Jurisdictional Overall Financial Summary for the Base and Forecasted Period*

⁶ Direct Testimony of Ralph C. Smith on behalf of Kentucky Office of the Attorney General, *Summary of Net Operating Income Adjustments*, Exhibit RCS-1, Schedule C.1. page 1 of 3; *Gross Revenue Conversion Factor*, Exhibit RCS-1, Schedule A-1, page 1; *Calculation of Revenue Deficiency (Sufficiency)*, Exhibit RCS-1, Schedule A, page 1 of 2

⁷ Direct Testimony of Lane Kollen on behalf of Kentucky Industrial Utility Customers, p. 4 ("The following table lists each KIUC adjustment and the effect on the claimed revenue deficiency for each Company. The amounts for KU are shown on a Kentucky jurisdiction basis and the amounts for LG&E are electric only. The calculations are detailed in my workpapers for each Company, which are provided with my testimony in the form of an Excel

Because employers' matching contributions to 401(k) plans are a tax-deductible expense, applying a gross-up factor to the pre-tax operating expense adjustment overstates the disallowance. The calculation in the Final Order should have tax effected the 401(k) operating expense adjustment before applying the gross revenue conversion factor. In other words, operating expense adjustments for ratemaking purposes should generally result in approximately a comparable revenue requirement. The correct revenue requirement increase calculation is shown below:

	KU
401(k) Plan - Pre Tax	(1,720,383)
Income Taxes @ Statutory Rate	669,229
401(k) Plan - After Tax	(1,051,154)
ROE from 9.75% to 9.7%	(969,324)
Impact to Net Operating Income	(2,020,478)
Multiplied by: Gross Up Factor	1.641572
Revenue Requirement Impact	(3,316,760)
Increase per Stipulation	54,900,000
Net Increase Granted by the Commission	51,583,240

KU respectfully asks the Commission to issue an order reflecting this correction.

In addition, KU asks the Commission to make several small corrections to Appendix B of the Final Order. Concerning Schedule RTOD-Demand on page 1 of Appendix B, the description of "Off Peak Hours" should be "Base Hours," and the description of "On Peak Hours" should be "Peak Hours." On page 5 of Appendix B under the heading "Light Emitting Diode (LED)," the fourth entry should read "5,665 Lumens – Colonial," not "5,665 Lumens – Open Bottom."

KU respectfully asks the Commission to issue an order making the above corrections to its Final Order in this proceeding as soon as reasonably possible because rates pursuant to the Final Order are to become effective for service rendered beginning July 1, 2017. Having these

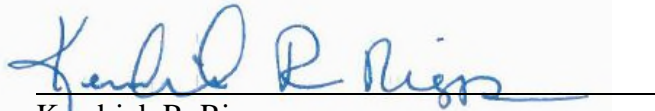
workbook in live format."); *Kollen Workpapers*, Excel workbook, Tabs: Summary Revenue Requirements and Revenue Gross-Up Factor.

corrections in an expedited manner will also assist KU and other parties as they continue to evaluate the Final Order and its implications.⁸

WHEREFORE, KU respectfully requests the Commission issue an order making the above corrections to its Final Order in this proceeding by June 30, 2017, or as soon thereafter as reasonably possible.

Dated: June 23, 2017

Respectfully submitted,



Kendrick R. Riggs
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828
Telephone: (502) 333-6000
Fax: (502) 627-8722
kendrick.riggs@skofirm.com

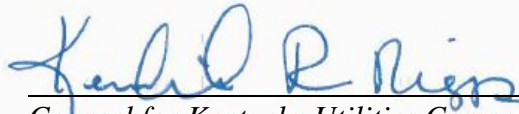
Allyson K. Sturgeon
Senior Corporate Attorney
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
Telephone: (502) 627-2088
Fax: (502) 627-3367
allyson.sturgeon@lge-ku.com

Counsel for Kentucky Utilities Company

⁸ KRS 278.400; KRS 278.410.

CERTIFICATE OF COMPLIANCE

This is to certify that Kentucky Utilities Company's June 23, 2017 electronic filing of its Motion to Correct Order is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on June 23, 2017; that there are currently no parties that the Commission has excused from participation by electronic means in these proceedings; and that an original and six copies of the Motion, in paper medium, will be sent via U.S. First Class Mail, postage prepaid, on June 23, 2017.

A handwritten signature in blue ink, reading "Gerald R. Nicks", is written over a horizontal line. The signature is cursive and includes a long horizontal stroke at the end.

Counsel for Kentucky Utilities Company