

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR AN)	
ADJUSTMENT OF ITS ELECTRIC AND GAS)	CASE NO. 2016-00371
RATES AND FOR CERTIFICATES OF)	
PUBLIC CONVENIENCE AND NECESSITY)	

MOTION TO CORRECT ORDER

Louisville Gas and Electric Company (“LG&E”) 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 \$1,246,499 of LG&E electric’s 401(k) plan matching contributions to certain employees, as well as \$407,808 of LG&E gas’s 401(k) plan matching contributions to certain employees.¹ The Commission further reduced the stipulated revenue requirement increase for LG&E by reducing the awarded return on equity (“ROE”) from 9.75% to 9.70%, resulting in a decrease of \$641,522 for LG&E electric and \$187,156 for LG&E gas net operating income for electric and gas operations.² To arrive at the Commission’s total adjustments to LG&E’s stipulated revenue requirement increases, the Commission applied a gross-up factor to *both* the pre-tax 401(k)-related disallowance and the after-tax ROE-related reduction for each utility, arriving at a total reduction to the stipulated revenue requirement increase of \$3,097,125 for LG&E electric and \$975,984 for LG&E gas.³

¹ Final Order at 17.

² *Id.* at 17-21.

³ Final Order at 21.

	LGEE	LGEG
401(k) Plan - Pre Tax	(1,246,499)	(407,808)
Income Taxes @ Statutory Rate	-	-
401(k) Plan - After Tax	(1,246,499)	(407,808)
ROE from 9.75% to 9.7%	(641,522)	(187,156)
Impact to Net Operating Income	(1,888,021)	(594,964)
Multiplied by: Gross Up Factor	1.640408	1.640408
Revenue Requirement Impact	(3,097,125)	(975,984)
Increase per Stipulation	59,400,000	7,500,000
Net Increase Granted by the Commission	56,302,875	6,524,016

LG&E respectfully submits it was incorrect to apply the gross-up factor to the pre-tax 401(k)-related disallowances. 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 LG&E’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 deficiencies for electric and gas operations.⁵ The Attorney General’s revenue requirement witness Mr. Smith used the same two-step methodology in presenting his recommended adjustments to LG&E’s revenue requirements.⁶ And the adjustments to LG&E’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 LG&E and the AG.⁷

⁴ See, e.g., *In the Matter of: The Application of Louisville Gas and Electric 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. 2000-00386, Order at 16 n. 32 (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 Louisville Gas and Electric Company, Tab 56, Schedule C, *Jurisdictional Operating Income for the Base and Forecasted Period*; Tab 54 *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:

	LGEE	LGEG
401(k) Plan - Pre Tax	(1,246,499)	(407,808)
Income Taxes @ Statutory Rate	484,888	158,637
401(k) Plan - After Tax	(761,611)	(249,171)
ROE from 9.75% to 9.7%	(641,522)	(187,156)
Impact to Net Operating Income	(1,403,133)	(436,327)
Multiplied by: Gross Up Factor	1.640408	1.640408
Revenue Requirement Impact	(2,301,710)	(715,754)
Increase per Stipulation	59,400,000	7,500,000
Net Increase Granted by the Commission	57,098,290	6,784,246

LG&E respectfully asks the Commission to issue an order reflecting this correction.

In addition, LG&E asks the Commission to make several 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 6 of Appendix B, the following entry should be removed because the lighting offering was eliminated: "25,000 Lumens- Cobra (State of KY Pole) \$23.84."
- On page 7 of Appendix B, the "Special Contracts" section should be eliminated. Under the terms of the First Stipulation as approved by the Commission, beginning July 1, 2017,

Fort Knox will no longer be served under a special contract, but rather under standard tariff rates.⁸

- Several items on page 12 of Appendix B require correction:
 - Under the heading “Rider TS-2 Gas Transportation Service” at the top of the page, the following should be deleted, as it does not apply to Rider TS-2: “Customer Charge per Month Meters >= 5000 cf/hr \$750.00.”
 - Under the heading “Rider TS-2 Gas Transportation Service” under Rate AAGS, the following should be deleted, as it does not apply to Rider TS-2: “Customer Charge per Month \$500.00.”
 - A Rider TS-2 Gas Transportation Service should be listed under Rate DGGS as follows:

Rider TS-2 Gas Transportation Service	
Administrative Charge per Month	\$550.00
Distribution Charge per Mcf	\$0.2992
 - Under Rate SGSS, a subheading, “Rates for Commercial Customers,” should be added to the rates shown, and an additional section with the subheading, “Rates for Industrial Customers,” and appropriate rates should be shown.
- The Daily Storage Charge of \$ 0.2785 per Mcf included on Rate Schedules FT (Sheet 30.6) and LGDS (Sheet No. 36.8) is not shown in Appendix B.

LG&E 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

⁸ See First Stipulation at Section 5.8, page 19 (“All Other Relief Requested by Utilities to Be Approved as Filed. The Parties agree and recommend to the Commission that, except as modified in this Stipulation and the exhibits attached hereto, the rates, terms, and conditions contained in the Utilities’ filings in these Rate Proceedings, as well as the Companies’ requests for CPCNs for their proposed Distribution Automation project, should be approved as filed.”); Direct Testimony of Robert M. Conroy at 20-21 (“The Company believes it is now appropriate for Special Contract Customer 1 to move to standard tariff rates for the service it receives, namely the rates prescribed by Rate TODP due to the customer’s service characteristics. Therefore, because the contract is subject to the jurisdiction of this Commission, the Company respectfully asks the Commission to terminate the existing special contract between the Company and Special Contract Customer 1, allowing the Company to serve Special Contract Customer 1 under the standard rate schedule appropriate for its service characteristics, namely Rate TODP.”); Direct Testimony of Thomas J. Prisco at 6 (“Our client has no objection to transferring to the ‘TODP’ standard rate.”).

corrections in an expedited manner will also assist LG&E and other parties as they continue to evaluate the Final Order and its implications.⁹

WHEREFORE, LG&E 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,



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⁹ KRS 278.400; KRS 278.410.

CERTIFICATE OF COMPLIANCE

This is to certify that Louisville Gas and Electric 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.



Counsel for Louisville Gas and Electric Company