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Michael J. Schmitt
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Robert Cicero
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Daniel E. Logsdon Jr.
Commissioner

August 18, 2016

PARTIES OF RECORD

Re: Case No. 2016-00214
Case No. 2016-00215

Attached is a copy of a memorandum which is being filed in the record of the above-referenced cases. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Molly Katen, Staff Attorney, at 502/782-2591.

Sincerely,

A handwritten signature in blue ink that reads "Talina R. Mathews".

Talina Mathews
Executive Director

Enclosures

INTRA-AGENCY MEMORANDUM ADDENDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File – Case No. 2016-00214
Case No. 2016-00215

FROM: Mary Whitaker, Financial Analyst

DATE: August 19, 2016

RE: Informal Conference of August 18, 2016

Pursuant to the Commission's July 14, 2016 procedural order, an informal conference was held in this matter on August 18, 2016. A list of attendees is attached.

Beginning the conference, Kentucky Utilities Company ("KU") and Louisville Gas & Electric Company ("LG&E") (collectively, "the Companies") distributed a presentation, a copy of which is attached. The presentation discussed the Companies' over/under positions, updated rate of return calculations for the review period, election to take bonus tax depreciation and the resulting inability to take the Section 199 tax deduction. The Companies stated that the change in the rate of return applicable to the review period was tied to approximately \$1.05 billion in both new and refinanced long-term debt issuances and the removal of the Section 199 tax deduction from the income tax gross-up factor calculation for the first three months of the review period. The Companies also provided the rate of return calculation, a copy of which is attached, for the most recent environmental compliance plan ("2016 Plan") utilizing a return on equity of 9.80 percent, as approved in Case Nos. 2016-00026¹ and 2016-00027.² The resulting grossed-up rates of return for the 2016 Plans are 10.36 percent for KU and 10.20 percent for LG&E.

Finding that no party had any further questions, the conference was adjourned.

¹ Case No. 2016-00026, *Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2016 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Aug. 8, 2016).

² Case No. 2016-00027, *Application of Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Approval of Its 2016 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Aug. 8, 2016).

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC AN EXAMINATION BY THE) CASE NO.
PUBLIC SERVICE COMMISSION OF THE) 2016-00214
ENVIRONMENTAL SURCHARGE MECHANISM)
OF KENTUCKY UTILITIES COMPANY FOR)
THE SIX-MONTH BILLING PERIOD ENDING)
APRIL 30, 2016)

ELECTRONIC AN EXAMINATION BY THE) CASE NO.
PUBLIC SERVICE COMMISSION OF THE) 2016-00215
ENVIRONMENTAL SURCHARGE MECHANISM)
OF LOUISVILLE GAS AND ELECTRIC)
COMPANY FOR THE SIX-MONTH BILLING)
PERIOD ENDING APRIL 30, 2016)

INFORMAL CONFERENCE OF AUGUST 18, 2016

Please sign in:

NAME

REPRESENTING

Molly Katen	PSC-Legal
J.E.B. Pinney	PSC-Legal
Dejok Bahyn	LGE/KU
Chris Campbell	LGE/KU
Allyson Sturgeon	LGE/KU
Jason Knoy	LGE/KU
Heather Metts	LGE/KU
Ron Handzjak	PSC - FA
Mary Whitaker	PSC - FA



PPL companies

ECR Review Case Nos. 2016-00214 and 2016-00215

August 18, 2016



Overview

- Review Period:
 - *Six-month review period for expense months of September 2015 through February 2016*
 - *ECR Plans in effect: 2009 and 2011*
- Section 199 Tax Deduction Update
- Revision to Rate of Return
- Next Steps

Over/(Under) Reconciliation

	<u>KU</u>	<u>LG&E</u>
Combined Over/(Under) Recovery	\$561,550	(\$4,702,532)
Due to Change in Rate of Return	(1,800,805)	(1,660,538)
Use of 12-Month Average Revenues	2,362,355	(3,041,994)

- Change in Rate of Return
 - *Increase in weighted average cost of debt*
 - *Section 199 deduction*
- Average Revenues
 - *LG&E driven by seasonality*

Over/(Under) Recovery Position

- KU: over-recovery position
 - *Total over-recovery for the 6-month period is \$561,550*
 - *Recommend distribution over 1 month*
 - *Impact to residential customer using 1,119 kWh/mo is (\$0.51) for one month*
- LG&E: under-recovery position
 - *Total under-recovery for the 6-month period is \$4,702,532*
 - *Recommend collection over 6 months*
 - *Impact to residential customer using 943 kWh/mo is \$0.88 per month for six months*

Section 199 Tax Deduction Update

- KU and LG&E incurred tax losses in 2014 & 2015 driven by bonus depreciation
- LG&E projecting a 2016 tax loss due to bonus depreciation on environmental capital spend
- KU projecting moderate taxable income in 2016 to be offset by NOL carryforward
- Continued use of 38.6660% effective income tax rate for the rate of return true-up calculations; excludes Section 199 deduction
 - *Consistent with Commission's Orders in the most recent review cases*

In December 2015, the "Protecting Americans from Tax Hikes Act of 2015" was passed into law. The new law extends the 50% bonus rate to the years 2015-17 and then phases the bonus rate down to 40% for 2018 and 30% for 2019.

Rate of Return

- 10.00% ROE for pre-2016 ECR Plans
 - *Consistent with the Commission's recent Orders in Case Nos. 2014-00371 and 2014-00372 (most recent base rate cases establishing the ROE for all Plans for ECR purposes, Orders issued June 30, 2015)*
 - *Consistent with prior ECR six-month review Orders in Case Nos. 2015-00411 and 2015-00412 (issued March 16, 2016)*
- Proposed rate of return going forward using 10.00% ROE for pre-2016 ECR Plans
 - *10.54% for KU*
 - *10.38% for LG&E*
- Proposed rate of return going forward using 9.80% ROE for 2016 ECR Plan
 - *10.36% for KU*
 - *10.20% for LG&E*

Recommendations – KU and LG&E

- Approve distribution of KU's over-recovery position:
 - *Over-recovery of \$561,550 distributed over one month*
- Approve collection of LG&E's under-recovery position:
 - *Under-recovery of \$4,702,532 collected over a six-month period*
- Find environmental surcharge amounts for the billing periods ending April 2016 just and reasonable
- Approve the use of an overall rate of return on capital using a ROE of 10.00% beginning in the second billing month following the Commission's Order for pre-2016 ECR Plans
 - *10.54% for KU*
 - *10.38% for LG&E*
- Approve the use of an overall rate of return on capital using a ROE of 9.80% beginning in the second billing month following the Commission's Order for the 2016 ECR Plan
 - *10.36% for KU*
 - *10.20% for LG&E*

Next Steps

Procedural Schedule

- *All additional requests for information to KU and LG&E September 15*
- *KU and LG&E shall file responses September 29*
- *Intervenor testimony, if any, to be filed October 13*
- *All requests for information to Intervenors October 27*
- *Intervenors shall file responses November 10*
- *Last day for KU and LG&E to request a hearing or submit the case for decision based on the record..... December 1*

LOUISVILLE GAS AND ELECTRIC COMPANY

**Adjusted Electric Rate of Return on Common Equity - ECR Plans
As of February 29, 2016**

	Per Books 02-29-16 (1)	Capital Structure (2)	Electric Rate Base Percentage (3)	Electric Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 18) (5)	Adjusted Electric Capitalization (Col 4 + Col 5) (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
ELECTRIC									
1. Short Term Debt	\$ 140,979,486	3.76%	83.160%	\$ 117,238,541	\$ (33,475,552)	\$ 83,762,989	3.75%	0.73%	0.03%
2. Long Term Debt	1,654,759,556	44.08%	83.160%	1,376,098,047	(392,447,420)	983,650,627	44.08%	4.17%	1.84%
3. Common Equity	1,958,060,286	52.16%	83.160%	1,628,322,934	(464,384,242)	1,163,938,692	52.17%	9.80%	5.11%
4. Total Capitalization	<u>\$ 3,753,799,328</u>	<u>100.000%</u>		<u>\$ 3,121,659,522</u>	<u>\$ (890,307,214)</u>	<u>\$ 2,231,352,308</u>	<u>100.000%</u>		<u>6.98%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect $\{ROR + (ROR - DR) \times [TR / (1 - TR)]\}$									<u>10.20%</u>

	Electric Capitalization (Col 4) (10)	Capital Structure (11)	Trimble County Inventories (a) (Col 11 x Col 12 Line 4) (12)	Investments in OVEC & Other (Col 11 x Col 13 Line 4) (13)	JDIC (Col 11 x Col 14 Line 4) (14)	Environmental Compliance Rate Base (Col 11 x Col 15 Line 4) (15)	DSM Rate Base (Col 11 x Col 16 Line 4) (16)	Advanced Coal Investment Tax Credit (b) (Col 11 x Col 17 Line 4) (17)	Total Adjustments To Capital (Sum of Col 12 - Col 17) (18)
ELECTRIC									
1. Short Term Debt	\$ 117,238,541	3.76%	\$ (208,947)	\$ (43,684)	\$ 493,657	\$ (34,352,023)	\$ (160,816)	\$ 796,261	\$ (33,475,552)
2. Long Term Debt	1,376,098,047	44.08%	(2,449,566)	(512,131)	5,787,343	(402,722,649)	(1,885,310)	9,334,893	(392,447,420)
3. Common Equity	1,628,322,934	52.16%	(2,898,579)	(606,006)	6,848,182	(476,542,953)	(2,230,893)	11,046,007	(464,384,242)
4. Total Capitalization	<u>\$ 3,121,659,522</u>	<u>100.000%</u>	<u>\$ (5,557,092)</u>	<u>\$ (1,161,821)</u>	<u>\$ 13,129,182</u>	<u>\$ (913,617,625)</u>	<u>\$ (4,277,019)</u>	<u>\$ 21,177,161</u>	<u>\$ (890,307,214)</u>

(a) Trimble County Inventories	As of February 29, 2016	
Materials and Supplies		\$ 10,590,468
Stores Expense		1,874,303
Coal		9,507,489
Limestone		162,419
Fuel Oil		93,652
Emission Allowances		37
Total Trimble County Inventories		<u>\$ 22,228,368</u>
Multiplied by Disallowed Portion		25.00%
Trimble County Inv. Disallowed		<u>\$ 5,557,092</u>

(b) Reflects Investment Tax Credit treatment per Case No. 2007-00179.

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