

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)	2016-00437
SIX-MONTH BILLING PERIOD ENDING)	
OCTOBER 31, 2016)	

ORDER

On January 4, 2017, the Commission initiated a six-month review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers for the period May 1, 2016, to October 31, 2016.¹ Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of a utility's environmental surcharge. Also, pursuant to KRS 278.183(1), the Commission shall, by temporary adjustment of the surcharge, disallow any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable.

The January 4, 2017 Order initiating this review also established a procedural schedule that provided for discovery, the filing of prepared testimony by KU, an informal conference, and intervenor testimony. KU filed prepared direct testimony and responded to two requests for information issued by Commission Staff. On February 14, 2017, an informal conference was held at the Commission's offices to discuss the issues in this case. On April 21, 2017, KU requested that the Commission take this case under submission for decision based on the evidentiary record and issue an order

¹ KU's environmental surcharge is billed on a two-month lag. Thus, surcharge billings for May 2016 through October 2016 are based on costs incurred from March 2016 through August 2016.

by May 31, 2017. 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 net over-recovery of environmental costs for the six-month billing period ended October 31, 2016, of \$110,995.² KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$110,995 for one month, beginning in the second full billing month following the Commission's final Order in this proceeding.³ The one-month decrease in the jurisdictional environmental surcharge revenue requirement would decrease KU's environmental-cost-recovery billing factor for that month.

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$110,995 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 \$110,995 for one month 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 November 30, 2016, is 1,090 kilowatt-hours ("kWh") per month.⁴ KU calculates that for a residential customer using 1,090 kWh per month, the impact of its proposed decrease in environmental cost recovery billing factor would be a decrease

² Direct Testimony of Derek A. Rahn at 7.

³ *Id.* at 8-9.

⁴ KU's Response to Commission Staff's First Request for Information ("Response to Staff's First Request"), Item 6.

of approximately \$0.11 for one month, using rates and adjustment clause factors in effect for the December 2016 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, 2016, 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 The Commission takes notice that KU filed a base rate application docketed as Case No. 2016-00370.⁸ We also take notice that the final Order was issued in the proceeding on June 22, 2017, wherein the Commission determined that a reasonable return on equity (“ROE”) for KU was 9.70 percent. Based on our determination in Case No. 2016-00370, the Commission finds that the ROE determination in that case is applicable to the instant proceeding. Using the approved 9.70 ROE, the Commission has calculated a WACC, before income tax gross-up, of 7.08 percent for KU’s 2009, 2011, and 2016 Environmental Compliance Plans (“Compliance Plans”).

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. The

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. 2016-00370, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017).

gross-up factor excludes the Internal Revenue Code §199 manufacturing tax deduction (“§199 deduction”), as KU expects to have taxable income for 2016 that will be offset by a net operating loss carry-forward.⁹ The §199 deduction is not available to companies that do not have taxable income. Therefore, the Commission finds that the WACC for KU’s Compliance Plans of 7.08 percent and the income tax gross-up factor of 0.61, which produces an overall grossed-up return of 10.35 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, 2016, to October 31, 2016, 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 \$110,995 for one month.

3. Beginning in the second full-billing month following the date of this Order, KU shall use a WACC of 7.08 percent, a tax gross-up factor of 0.61, a return-on-equity rate of 9.70 percent, and an overall grossed-up return of 10.35 percent in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

⁹ *Id.*

By the Commission

ENTERED
JUN 23 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


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