

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 LOUISVILLE GAS AND ELECTRIC COMPANY	)	2016-00438
FOR THE SIX-MONTH BILLING PERIOD ENDING	)	
OCTOBER 31, 2016	)	

ORDER

On January 4, 2017, the Commission initiated a six-month review of Louisville Gas and Electric Company's ("LG&E") environmental surcharge as billed to customers for the period May 1, 2016, to October 31, 2016.<sup>1</sup> 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 LG&E, an informal conference, and intervenor testimony. LG&E 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, LG&E requested that the

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<sup>1</sup> LG&E'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.

Commission take this case under submission for decision based on the evidentiary record and issue an order 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

LG&E determined that it had a net over-recovery of environmental costs for the six-month billing period ended October 31, 2016, of \$1,697,822.<sup>2</sup> LG&E recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$848,911 per month for two months, beginning in the second full billing month following the Commission's final Order in this proceeding.<sup>3</sup> The two-month decrease in jurisdictional environmental surcharge revenue requirement would decrease LG&E's environmental-cost-recovery billing factor for those same months.

The Commission has reviewed and finds reasonable LG&E's calculation of a net over-recovery of \$1,697,822 for the six-month billing period covered in this proceeding. The Commission also finds reasonable LG&E's proposal to refund this over-recovery by decreasing the total jurisdictional environmental surcharge revenue requirement by \$848,911 per month for two months beginning in the second full-billing month following the date of this Order. LG&E stated that the actual average residential customer's usage for the 12-month period ended November 30, 2016, is 974 kilowatt-hours ("kWh") per month.<sup>4</sup> LG&E calculates that for a residential customer using 974 kWh per month,

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<sup>2</sup> Direct Testimony of Derek A. Rahn at 7.

<sup>3</sup> *Id.* at 9.

<sup>4</sup> LG&E's Response to Commission Staff's First Request for Information ("Response to Staff's First Request"), Item 6.

the impact of its proposed decrease in the environmental cost recovery billing factor would be a decrease of approximately \$0.98 per month for two months, using rates and adjustment clause factors in effect for the December 2016 billing month.<sup>5</sup>

#### RATE OF RETURN

LG&E 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.<sup>6</sup> LG&E also provided the overall weighted average cost of capital (“WACC”) reflecting the tax gross-up approach approved in Case No. 2004-00421.<sup>7</sup> The Commission takes notice that LG&E filed a base rate application docketed as Case No. 2016-00371.<sup>8</sup> 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 LG&E was 9.70 percent. Based on our determination in Case No. 2016-00371, 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 7.03 percent for LG&E’s 2009, 2011, and 2016 Environmental Compliance Plans (“Compliance Plans”).

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<sup>5</sup> *Id.*

<sup>6</sup> Response to Staff’s First Request, Item 5.

<sup>7</sup> Case No. 2004-00421, *The Application of Louisville Gas and Electric Company for 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.

<sup>8</sup> Case No. 2016-00371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017).

The Commission has reviewed LG&E's calculation of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2004-00421. The gross-up factor excludes the Internal Revenue Code §199 manufacturing tax deduction ("§199 deduction"), as LG&E expects to incur a tax loss for 2016 due to bonus depreciation.<sup>9</sup> The §199 deduction is not available to companies that do not have taxable income. Therefore, the Commission finds that the WACC for LG&E's Compliance Plans of 7.03 percent and the income tax gross-up factor of 0.61, which produces an overall grossed-up return of 10.31 percent, should be used in all LG&E monthly environmental surcharge filings beginning in the second full-billing month following the date of this Order.

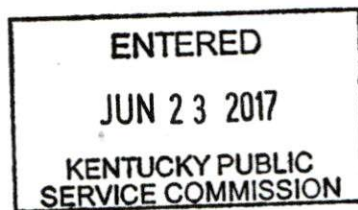
IT IS THEREFORE ORDERED that:

1. The amounts billed to customers by LG&E 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, LG&E shall decrease its jurisdictional environmental revenue requirement by \$848,911 per month for two months.
3. Beginning in the second full-billing month following the date of this Order, LG&E shall use a WACC of 7.03 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 10.31 percent in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

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<sup>9</sup> *Id.*

By the Commission



ATTEST:

  
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