

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)	2018-00051
SIX-MONTH BILLING PERIOD ENDING)	
OCTOBER 31, 2017)	

ORDER

On February 8, 2018, the Commission initiated a six-month review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers for the period May 1, 2017, to October 31, 2017.¹ 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 February 8, 2018 Order initiating this review also established a procedural schedule that provided for discovery and the filing of prepared testimony by KU and intervenors. KU filed prepared direct testimony and responded to one request for information issued by Commission Staff.² On May 11, 2018, KU requested that the

¹ KU's environmental surcharge is billed on a two-month lag. Thus, surcharge billings for May 2017, through October 2017 are based on costs incurred from March 2017, through August 2017.

² On April 20, 2018, KU filed amendments to the Direct Testimony of Derek A. Rahn ("Amended Rahn Testimony") and responses to Commission Staff's First Request for Information ("Amended Response to Staff's First Request") to correct errors made in the original filing.

Commission take this case under submission for a decision based on the evidentiary record and issue an order by June 15, 2018. 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, 2017, of \$341,879.³ KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$341,879 for one month, beginning in the second full billing month following the Commission's final Order in this proceeding.⁴ 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 \$341,879 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 \$341,879 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 December 31, 2017, is 1,048 kilowatt-hours ("kWh") per month.⁵ KU calculates that for a residential customer using 1,048 kWh per month, the impact of its

³ Amended Response to Staff's First Request, Item 2.

⁴ Amended Rahn Testimony at 2.

⁵ KU's response to Commission Staff's First Request for Information ("Response to Staff's First Request"), Item 6.

proposed decrease in environmental cost recovery billing factor would be a decrease of approximately \$0.29 for one month, using rates and adjustment clause factors in effect for the December 2017 billing month.⁶

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, 2017, the last expense month of the review period.⁷ Using this information, along with the currently approved 9.70 percent return on equity,⁸ KU calculated a weighted average cost of capital (“WACC”), before income tax gross-up, of 7.12 percent for its 2009, 2011, and 2017 Environmental Compliance Plans (“Compliance Plans”). It also provided the overall WACC reflecting the tax gross-up approach approved in Case No. 2004-00426.⁹

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 gross-up factor excludes the Internal Revenue Code §199 manufacturing tax deduction, which was repealed by the Tax Cuts and Jobs Act.¹⁰ Therefore, the Commission finds that the WACC for KU’s Compliance Plans of 7.12 percent and the income tax gross-up factor of

⁶ *Id.*

⁷ Response to Staff’s First Request, Item 5.

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).

⁹ 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.

¹⁰ Response to Staff’s First Request, Item 5.

0.75, which produces an overall grossed-up return of 8.90 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, 2017, to October 31, 2017, 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 \$341,879 for one month.
3. Beginning in the second full-billing month following the date of this Order, KU shall use a WACC of 7.12 percent, a tax gross-up factor of 0.75, a return on equity rate of 9.70 percent, and an overall grossed-up return of 8.90 percent in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

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By the Commission

ENTERED
JUN 28 2018
KENTUCKY PUBLIC
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ATTEST:


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