

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE PUBLIC	)	
SERVICE COMMISSION OF THE	)	
ENVIRONMENTAL SURCHARGE MECHANISM	)	CASE NO.
OF KENTUCKY UTILITIES FOR THE SIX-MONTH	)	2025-00172
BILLING PERIODS ENDING APRIL 30, 2024 AND	)	
OCTOBER 31, 2024, AND FOR THE TWO-YEAR	)	
BILLING PERIOD ENDING APRIL 30, 2025	)	

ORDER

On June 30, 2025, the Commission initiated the review of Kentucky Utilities Company's (KU) environmental surcharge for (1) the six-month billing periods ending April 30, 2024, and October 31, 2024; and (2) the two-year billing period ending April 30, 2025.¹

LEGAL STANDARD

KRS 278.183(3) requires, in pertinent part, that:

At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section. Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

¹ Opening Order (Ky. PSC June 30, 2025). KU's environmental surcharge is billed on a two-month lag. Thus, for example, surcharge billings for November 2023 through April 2024 are based on costs incurred from September 2023 through February 2024.

Additionally, KRS 278.183(5) states:

The commission shall retain all jurisdiction granted by this section and KRS 278.020 to review the environmental surcharge authorized by this section and any complaints as to the amount of any environmental surcharge or the incorporation of any environmental surcharge into the existing base rate of any utility.

BACKGROUND

On July 19, 1994, the Commission approved KU's environmental surcharge application and established a surcharge mechanism.² The Commission's last review was completed on August 30, 2024.³

In this matter, the Commission issued a procedural schedule as Appendix A to the opening Order.⁴ KU provided direct testimony and responded to one request for information from Commission Staff.⁵ There were no intervenors. KU filed a statement requesting that this matter be submitted for decision based on the written record.⁶ The matter stands submitted for a decision.

² Case No. 1993-00465, *The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products* (Ky. PSC July 19, 1994).

³ Case No. 2023-00376, *Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending April 30, 2020, October 31, 2020, October 31, 2021, April 30, 2022, October 31, 2022, and October 31, 2023, and for the two-year billing periods ending April 30, 2021, and April 30, 2023* (Ky. PSC Aug. 30, 2024).

⁴ Opening Order, June 30, 2025.

⁵ KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed July 24, 2025).

⁶ KU's Request to Submit on the Record (filed Oct. 17, 2025).

SIX MONTH BILLING PERIOD ENDING APRIL 30, 2024

Surcharge Amount

For the six-month billing period ended April 30, 2024, KU determined that it had a net under-recovery of environmental costs of \$19,801.⁷ The Commission has reviewed and finds reasonable KU's calculation of a net under-recovery of \$19,801 for this six-month billing period.

Rate of Return

KU provided the outstanding balances for its long-term debt, short-term debt, common equity and the blended interest rates for its long-term and short-term debt.⁸ For all approved plans as of the September 2023 expense month, the weighted average cost of capital (WACC) was based on the average daily balances for short- and long-term debt as of September 30, 2023, and the authorized 9.35 percent return on equity (ROE).⁹ For all approved plans for the October 2023 through February 2024 expense months, the WACC was based on the average daily balances for short- and long-term debt as of February 29, 2024, and the authorized 9.35 percent ROE.¹⁰

⁷ KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed July 24, 2025), Item 2, Attachment 4 - KU_ECR_DR1_Attach_to_Q1_and_Q2 - (CN2025-0172).xlsx, Tab Q2 p.2 – Detailed Over-Under.

⁸ KU's Response to Staff's First Request, Item 5.

⁹ Direct Testimony of Andrea M. Fackler (Fackler Direct Testimony) (filed July 24, 2024) at 8. The approved ROE of 9.35 percent was authorized in Case No. 2020-00349, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Sur credit* (Ky. PSC June 30, 2021).

¹⁰ Fackler Direct Testimony at 8.

SIX MONTH BILLING PERIOD ENDING OCTOBER 31, 2024

Surcharge Amount

For the six-month billing period ended October 31, 2024, KU determined that it had a net over-recovery of environmental costs of \$652,178.¹¹ The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$652,178 for this six-month billing period.

Rate of Return

For all approved plans for the March 2024 through August 2024 expense months, the WACC was based on the average daily balances for short- and long-term debt as of August 31, 2024, and the authorized 9.35 percent ROE.¹²

TWO YEAR BILLING PERIOD ENDING APRIL 30, 2025

Surcharge Amount

For the last six months of the two-year billing period ended April 30, 2025, KU determined that it had a net under-recovery of environmental costs of \$78,901.¹³ The Commission has reviewed and finds reasonable KU's calculation of a net under-recovery of \$78,901 for this billing period.

Rate of Return

For the September 2024 through February 2025 expense months, the WACC was based on the average daily balances for short- and long-term debt as of February 28,

¹¹ KU's Response to Staff's First Request, Item 2, Attachment 4 - _KU_ECR_DR1_Attach_to_Q1_and_Q2_-_ (CN2025-0172).xlsx, Tab Q2 p.2 – Detailed Over-Under.

¹² Fackler Direct Testimony at 8.

¹³ KU's Response to Staff's First Request, Item 2, Attachment 4 - _KU_ECR_DR1_Attach_to_Q1_and_Q2_-_ (CN2025-0172).xlsx, Tab Q2 p.2 – Detailed Over-Under.

2025, and the authorized 9.35 percent ROE for all approved Environmental Cost Recovery (ECR) Plan projects.¹⁴

SURCHARGE AMOUNT DURING ALL REVIEW PERIODS

KU determined that, cumulatively during all billing periods under review, it had a net over-recovery of \$553,476.¹⁵ KU stated that the primary components that make up the over-recovery during the review periods are: (1) changes in overall rates of return and (2) the use of 12-month average revenues to determine the billing factor.¹⁶ KU is proposing that the over-recovery be distributed over one month following the Commission's Order in this proceeding.¹⁷ Specifically, KU recommends that the Commission approve a decrease to the ECR Surcharge Revenue Requirement of \$553,476 for one month beginning in the second full billing month following the Commission's Order in this proceeding.¹⁸

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$553,476 for all review periods in this proceeding. The Commission also finds reasonable KU's proposal to refund this over-recovery by distributing the amount over one month following the Commission's Order in this proceeding. The inclusion of the distribution reflecting the over-recovery position in the determination of the Environmental Surcharge Billing Factor will decrease the billing factor by approximately 0.36 percent per

¹⁴ Fackler Direct Testimony at 8.

¹⁵ KU's Response to Staff's First Request, Item 2, Attachment 4 - _KU_ECR_DR1_Attach_to_Q1_and_Q2_-_ (CN2025-0172).xlsx, Tab Q2 p.2 – Detailed Over-Under.

¹⁶ Fackler Direct Testimony at 9.

¹⁷ Fackler Direct Testimony at 13.

¹⁸ Fackler Direct Testimony at 10.

month for one month.¹⁹ For a residential customer using an average of 1,198 kWh per month (based on 12-month ended April 2025 data), the impact of the adjusted Environmental Surcharge Billing Factor would be a decrease of approximately \$0.51 for the month.²⁰

RATE OF RETURN DURING ALL REVIEW PERIODS

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 February 28, 2025, the last expense month of the review period.²¹ KU also provided the overall WACC reflecting the tax gross-up approach.²² KU recommended an overall rate of return on capital of 8.72 percent.²³ This is based on the adjusted capitalization as of February 28, 2025, the currently authorized 9.35 percent ROE for all ECR plans, and federal and Kentucky state corporate income tax rates to be used to calculate the environmental surcharge.²⁴

The Commission finds that the WACC for all KU's ECR Plans of 7.05 percent and the income tax gross-up factor of 0.7505, which produces an overall grossed-up return of

¹⁹ KU's Response to Staff's First Request, Item 7.

²⁰ Fackler Direct Testimony at 11.

²¹ Fackler Direct Testimony at 7.

²² Fackler Direct Testimony at 20 and KU's Response to Staff's First Request, Attachment 4 - _KU_ECR_DR1_Attach_to_Q1_and_Q2_-_ (CN2025-0172).xlsx, Tab Q1 p.8 – ECC(Feb25).

²³ Fackler Direct Testimony at 12.

²⁴ Fackler Direct Testimony at 12 and KU's Response to Staff's First Request, Attachment 7 - _KU_ECR_DR1_Attach_to_Q5_-_ (CN2025-00172).xlsx, Tab Q5 - Tax Rate.

8.72 percent,²⁵ should be used in all KU monthly environmental surcharge filings beginning in the second full billing month following the date of this Order.

SURCHARGE ROLL-IN

KU stated that, pursuant to the Commission's final order in KU's last ECR Surcharge two-year review proceeding, Case No. 2023-00376, KU rolled \$42,304,190 into base rates for a total amount of ECR Surcharge revenues included in base rates of \$74,085,745.²⁶ New base rates took effect September 30, 2024, as a result of this roll-in. KU stated it has not experienced a significant increase in ECR Surcharge rate base or operating expenses since that time and does not believe an incremental roll-in is necessary at this time.²⁷

IT IS THEREFORE ORDERED that:

1. The amounts billed to customers by KU through its environmental surcharge for the six-month billing periods ending April 30, 2024, and October 31, 2024; and the two-year billing period ending April 30, 2025, 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 \$553,476 for one month.

3. Beginning in the second full billing month following the date of this Order, KU shall use a WACC of 7.05 percent, a tax gross-up factor of 0.7505, an ROE of 9.35 percent and an overall rate of return on capital of 8.72 percent for all its ECR Plans in all

²⁵ KU's Response to Staff's First Request, Item 5, Attachment 7_-_KU_ECR_DR1_Attach_to_Q5_-_ (CN2025-00172).xlsx, Tab Q5 - KU ROR.

²⁶ Fackler Direct Testimony at 11.

²⁷ Fackler Direct Testimony at 11.

future monthly environmental surcharge filings unless directed otherwise by the Commission.

4. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director





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