COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.	)	
COMPLAINANT	)	
V.	)	CASE NO. 2018-00034
KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY	)	
DEFENDANTS	)	

ORDER

This proceeding concerns the effect of the Tax Cuts and Jobs Act[1] on the rates of Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (jointly, "KU/LG&E"). For the reasons stated in this Order, the Commission finds that the Offer of Acceptance and Satisfaction agreed to by the parties, as modified by this Order, is reasonable and should be approved. Based on the information provided, the Commission anticipates that for services performed from April 1, 2018, through April 30, 2019, KU's retail electric rates will be reduced by approximately $108,001,624, LG&E's

[1] H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017).

retail electric rates will be reduced by approximately $78,909,353, and LG&E's retail gas rates will be reduced by approximately $16,868,565.[2]

BACKGROUND

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. ("KIUC") filed a formal complaint against KU, LG&E, and two other investor-owned utilities. KIUC's complaint, which was docketed as Case No. 2017-00477,[3] alleges that KU/LG&E's tax rates are no longer "fair, just and reasonable" under KRS 278.030(1) due to the recent enactment of the Tax Cuts and Jobs Act, which reduced the federal corporate tax rate from 35 percent to 21 percent. In addition to requesting rate reductions to reflect the lower tax rate, the complaint alleges that KU/LG&E have on their books accumulated deferred income taxes that are now in excess of future liability and these excess accumulated deferred income taxes need to be refunded to ratepayers over the remaining useful life of the property creating the deferred taxes.

By Order entered December 27, 2017, the Commission notified KU/LG&E of the complaint and directed them to satisfy or answer the matters complained of within 10 days.[4] This Order further directed KU/LG&E to begin recording deferred liabilities on their respective books for electric and gas service, as applicable, to reflect the reduction in the federal corporate tax rate to 21 percent and the associated savings in excess

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[2] If it is determined that application of the normalization requirements herein are inconsistent with the requirements of the Tax Cut and Jobs Act, based on an interpretation that is different than anticipated or otherwise, the Commission would consider modifying the amortization of the "protected" excess accumulated deferred income taxes to ensure that Internal Revenue Service penalties, which would be detrimental to the utilities and ratepayers, are not incurred.

[3] *Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Company, Louisville Gas and Electric Company, Kentucky Power Company, and Duke Energy Kentucky, Inc.*

[4] The Commission's January 5, 2018 Order extended this time period.

accumulated deferred income taxes on an interim basis until their rates are adjusted to reflect the federal tax savings.

The Commission granted the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention ("Attorney General"), leave to intervene in Case No. 2017-00477 by Order entered January 5, 2018.

KU and LG&E each filed Answers and Offers of Satisfaction in Case No. 2017-00477 on January 8, 2018. The parties participated in two informal conferences, on January 17, 2018, and January 22, 2018, at the Commission's offices. The Commission subsequently entered Orders on January 25, 2018, closing Case No. 2017-00471 and establishing the instant case to review KIUC's complaint against KU/LGE, while two other cases were established to review KIUC's complaint against the two other investor-owned utilities. In opening the instant case, the Commission made KIUC, KU, LG&E, and the Attorney General parties to this proceeding, and incorporated by reference the record of Case No. 2017-00477.

On January 29, 2018, KU/LG&E filed testimony and exhibits that include an Offer and Acceptance of Satisfaction signed by the parties. A summary of the provisions contained in the Offer and Acceptance of Satisfaction is as follows:

- KU/LG&E will adjust their rate mechanisms, most notably their Environmental Cost Recovery ("ECR") Surcharges, to reflect the impact of the Tax Cuts and Jobs Act beginning in March 2018 based on a January expense month.
- KU/LG&E will provide a surcredit to pass the base rate benefits of the Tax Cuts and Jobs Act to customers for service rendered beginning April 1,

2018, and continuing until such times as KU/LG&E's retail rates are reset through base rate cases.

- The surcredit will be labeled Tax Cuts and Jobs Act Surcredit ("TCJA Surcredit").
- The TCJA Surcredit will be applied for services rendered on and after April 1, 2018, through April 30, 2019. The parties do not anticipate the TCJA Surcredit continuing after that date because KU/LG&E plan to file for a change in their base rates — which will take into account the changes from the Tax Cut and Jobs Act, among other potential factors — effective May 1, 2019, either as approved by the Commission or placed in effect by KU/LG&E subject to refund based on the Commission's final orders in the anticipated rate cases.
- KU/LG&E estimate the benefits of the Offer and Acceptance of Satisfaction for services rendered on and after April 1, 2018, through April 30, 2019, as follows:

  Bill reductions to KU customers in the amount of $91,290,656, with $70,180,255 taking the form of the TCJA Surcredit for an estimated 4.2 percent reduction to the monthly bill for the average KU residential customer.

  Bill reductions to LG&E electric customers in the amount of $68,934,450, with $48,993,021 taking the form of the TCJA Surcredit for an estimated 4.3 percent reduction to the monthly bill for the average LG&E electric residential customer.

Bill reductions to LG&E's gas customers $16,663,609, with $16,229,321 taking the form of the TCJA Surcredit for an estimated 3 percent reduction to the monthly bill for the average LG&E gas residential customer.

- KU/LG&E also estimate 1.0 percent and 1.3 percent reductions in the ECR mechanism for KU and LG&E residential customers, respectively, which would result in estimated *total* bill reductions of 5.1 percent for the average KU residential customer and 5.6 percent for the average LG&E electric residential customer.
- The total benefit to customers estimated by KU/LG&E under the Offer and Acceptance of Satisfaction is $176,888,715.

Should KU/LG&E not have new rates effective as of May 1, 2019, the Offer and Acceptance of Satisfaction provides that KU/LG&E will continue to include the TCJA Surcredit on customer bills. However, from May 1, 2019, until KU/LG&E's rates are otherwise modified, the TCJA Surcredit will be based on annualized amounts (that is, not amounts based on a 16-month savings period being returned over the period of 13 months, described above).

KU/LG&E responded to data requests from Commission Staff on February 6, 2018, and February 21, 2018, regarding the Offer and Acceptance of Satisfaction.

ANALYSIS AND FINDINGS

The Commission's statutory obligation when reviewing rates is to determine whether the rates are "fair, just and reasonable."[5] While KIUC and the Attorney General have significant experience in rate proceedings and collectively represent a diverse range of customer interests in this case, the Commission cannot defer to the parties as to what constitutes fair, just, and reasonable rates. The Commission must review the record, including the Offer and Acceptance of Satisfaction, and apply its expertise to make an independent decision as to the level of rates that should be approved.

To satisfy its obligation in this case, the Commission has investigated and analyzed the methodology proposed and agreed to by the parties to reduce KU/LG&E's rates to reflect the impact of the Tax Cuts and Jobs Act. Based on its review of the Offer and Acceptance of Satisfaction and the case record, including the testimony and data request responses, the Commission finds that, with the modifications discussed below, the methodology used in the Offer and Acceptance of Satisfaction and the resulting impact on rates is reasonable and in the public interest. With those modifications, the Commission further finds that the Offer and Acceptance of Satisfaction is the product of arm's-length negotiations among knowledgeable, capable parties and should be approved. Such approval is based solely on the reasonableness of the Offer and Acceptance of Satisfaction, as modified herein, and does not constitute a precedent on any individual issue.

[5] KRS 278.030(1).

BASE YEAR FOR CALCULATIONS

The parties calculated the TCJA Surcredit in the Offer and Acceptance of Satisfaction by beginning with KU's and LG&E's adjusted jurisdictional capitalization for the forecasted 12 month test years ending June 30, 2018, as accepted by the Commission in their most recent rate cases.[6] Then the adjusted jurisdictional capitalization of each utility was moved from the test year ending June 30, 2018, forward to a new forecasted period from January 1, 2018, to April 30, 2019.[7] Utilizing this new forecasted period required certain adjustments to the average amounts of short-term debt, long-term debt, and common equity for each utility. As a result, the Kentucky jurisdictional capitalization increased by $88,738,874 for KU, increased by $54,310,037 for LG&E electric, and decreased by $7,028,326 for LG&E gas. Since KU/LG&E have recently concluded rate cases based on current test years ending June 30, 2018, the Commission finds that it is not reasonable to utilize forecasted test years extending through April 2019. Use of the forecasted test years as proposed in the Offer and Acceptance of Satisfaction would require the adoption of forecasted adjustments to the capitalizations of KU/LG&E that have not been subjected to the Commission's investigation and review. For these reasons, the Commission will base the calculations

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[6] 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), Order at 1, and Case No. 2016-00371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017), Order at 1.

[7] Direct Testimony of Kent W. Blake, Chief Financial Officer Louisville Gas & Electric Company Kentucky Utilities Company (filed January 29, 2018) at 8.

of the tax rate reductions on the forecasted capitalizations for the test year ending June 30, 2018, used in KU/LG&E's prior rate cases.

ALLOCATION OF SURCREDIT TO GAS CUSTOMERS

For allocating the TCJA Surcredit to the electric rates of KU and LG&E, the Offer and Acceptance of Satisfaction proposed using each utility's percent of revenues provided by the residential and nonresidential customer classes. This methodology results in allocating the tax reduction for KU by 39 percent to the residential class and 61 percent to the nonresidential classes, and for LG&E's electric operations by 41 percent to the residential class and 59 percent to the nonresidential classes. However, for LG&E's gas operations, the Offer and Acceptance of Satisfaction proposed allocating the TCJA Surcredit between residential and nonresidential customers based on Ccf sales, rather than on the basis of revenues.[8] KU/LG&E stated in response to a Commission Staff data request that, for Ccf sales in the test year ending June 30, 2018, residential customers accounted for 43.9 percent and nonresidential customers 56.1 percent, whereas for gas *revenues,* residential customers accounted for 65.4% compared to nonresidential customers' 34.6 percent in that same time period.[9] KU/LG&E further stated that they are prepared to use either per Ccf sales or revenue as a basis for allocation between LG&E's residential and nonresidential gas customers.[10]

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[8] Response of Kentucky Utilities Company and Louisville Gas and Electric Company to Commission Staff's First Request for Information (filed February 6, 2018), Item 3.b.

[9] *Id.* at Item 3.c.

[10] *Id.* at Item 3.d.

The Commission finds that using gas revenue, as opposed to sales, as a basis for allocation is more consistent with the goal of this proceeding to ensure fair, just, and reasonable rates in light of the reduction in the federal corporate tax rate.

IMPACTS OF COMMISSION MODIFICATIONS

The Commission has calculated the TCJA Surcredit using the parties' agreed-to methodology and applying it to the adjusted jurisdictional capitalizations accepted in the most recent rate cases, as described above.[11] A comparison of the TCJA Surcredit as proposed in the Offer and Acceptance of Satisfaction and the Commission's TCJA Surcredit calculations, for services rendered on and after April 1, 2018, through April 30, 2019, is as follows:

	Residential Tariff		Nonresidential Tariff	
	Commission	Settlement	Commission	Settlement
KU	$(0.00514)/kWh	$(0.00415)/kWh	$(0.00400)/kWh	$(0.00325)/kWh
LG&E Electric	$(0.00534)/kWh	$(0.00444)/kWh	$(0.00415)/kWh	$(0.00344)/kWh
LG&E Gas	$(0.05105)/Ccf	$(0.03384)/Ccf	$(0.02114)/Ccf	$(0.03384)/Ccf

The Commission anticipates the effects of this Order for services performed from April 1, 2018, through April 30, 2019, as follows:

	Total Tax Reduction[12]	TCJA Surcredit	Reduction to Average Residential Bill
KU	$ (108,001,624)	$ (86,891,224)	6.1%
LG&E Electric	$ (78,909,353)	$ (58,967,924)	6.4%
LG&E Gas	$ (16,868,565)	$ (16,504,277)	4.5%

[11] The reductions in the Offer and Acceptance of Satisfaction to the Environmental Cost Recovery Surcharge (ECR) ($21,002,921 for KU and $19,852,212 for LG&E electric), Gas Line Tracker (GLT) ($364,288 for LG&E gas), and Demand Side Management (DSM) ($107,480 for KU and $89,217 for LG&E electric) are accepted.

[12] *See* Appendix A for Total Tax Reduction components. The Commission's calculations are included in Appendices B and C.

The total benefit to customers during this time period based on the Commission's calculations is $203,779,543.

Should KU/LG&E not have new rates effective as of May 1, 2019, the Commission calculates, based on the same methodology above, that KU/LG&E should continue to include the TCJA Surcredit on customer bills based on annualized amounts, as follows:

	Residential Tariff		Nonresidential Tariff	
	Commission	Settlement	Commission	Settlement
KU	$(0.00417)/kWh	$(0.00337)/kWh	$(0.00325)/kWh	$(0.00262)/kWh
LG&E Electric	$(0.00434)/kWh	$(0.00360)/kWh	$(0.00337)/kWh	$(0.00280)/kWh
LG&E Gas	$(0.04148)/Ccf	$(0.02750)/Ccf	$(0.01717)/Ccf	$(0.02750)/Ccf

IT IS THEREFORE ORDERED that:

1. The rates and charges in Appendix D, attached hereto, are fair, just, and reasonable for KU to charge for services rendered on or after April 1, 2018.

2. The rates and charges in Appendix E, attached hereto, are fair, just, and reasonable for LG&E to charge for services rendered on or after April 1, 2018.

3. The Offer and Acceptance of Satisfaction, attached hereto as Appendix F, is approved with the modifications discussed herein.

4. Within 20 days of the date of the entry of this Order, each of KU and LG&E shall file with the Commission, using the Commission's electronic Tariff Filing System, its revised tariffs as set forth in this Order reflecting that they were approved pursuant to this Order.

By the Commission

ENTERED

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00034 DATED MAR 20 2018

KENTUCKY UTILITIES COMPANY

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2018-00034

SUMMARY OF TAX REDUCTION CREDITS

LINE NO.	DESCRIPTION	KU	LG&E-ELECTRIC	LG&E-GAS	TOTAL CREDITS
		$	$	$	$
1	BASE RATE CREDIT MECHANISM	(86,891,224)	(58,967,924)	(16,504,277)	(162,363,425)
2	ENVIRONMENTAL SURCHARGE (ECR)	(21,002,921)	(19,852,212)		(40,855,133)
3	GAS LINE TRACKER (GLT)			(364,288)	(364,288)
4	DEMAND SIDE MANAGEMENT (DSM)	(107,480)	(89,217)	-	(196,697)
5	TOTAL CREDITS	(108,001,624)	(78,909,353)	(16,868,565)	(203,779,543)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00034 DATED MAR 20 2018

NOTES:
Using February Billing Factors
ECR using December Expense Month
Using January Base Rates

						March		April
KU Residential Electric Bill				**Current**		**ECR Change**		**Tax Act**
						Average Usage		
Residential Rate RS				1,179 kWh				
Customer Charge				$12.25		$12.25		$12.25
All kWh	kWh	X	0.08795	$103.69		$103.69		$103.69
Fuel/OSS Clause	kWh	X	-0.00157	($1.85)		($1.85)		($1.85)
DSM	kWh	X	0.00230	$2.71		$2.71		$2.71
Tax Act Surcredit	kWh	X		$0.00		$0.00	-0.00514	($6.05)
Subtotal				$116.80		$116.80		$110.75
ECR (X subtotal)			3.87%	$4.52	2.86%	$3.34		$3.17
Subtotal				$121.32		$120.14		$113.92
HEA			0.30	$0.30		$0.30		$0.30
TOTAL				**$121.62**		**$120.44**		**$114.22**
Increase Per Month						($1.18) -1.0%		($6.22) -5.2%
							Total	($7.40)
							Total %	-6.1%

NOTES:
Using February Billing Factors
ECR using December Expense Month
Using January Base Rates

						March		April
LG&E Residential Electric Bill				**Current**		**ECR Change**		**Tax Act**
						Average Usage		
Residential Rate RS				957 kWh				
Customer Charge				$12.25		$12.25		$12.25
All kWh	kWh	X	0.08865	$84.84		$84.84		$84.84
Fuel/OSS Clause	kWh	X	-0.00076	($0.73)		($0.73)		($0.73)
DSM	kWh	X	0.00248	$2.37		$2.37		$2.37
Tax Act Surcredit	kWh	X		$0.00		$0.00	-0.00534	($5.11)
Subtotal				$98.73		$98.73		$93.62
ECR (X subtotal)			7.74%	$7.64	6.31%	$6.23		$5.91
Subtotal				$106.37		$104.96		$99.53
HEA			0.25	$0.25		$0.25		$0.25
TOTAL				**$106.62**		**$105.21**		**$99.78**
Increase Per Month						($1.41) -1.3%		($5.43) -5.2%
							Total	($6.84)
							Total %	-6.4%

NOTES:
Using February Billing Factors
Using January Base Rates

LG&E Residential Gas Bill

				Current		April Tax Act
				Average Usage		
Residential Rate RGS				55 Ccf		
Customer Charge				$16.35		$16.35
All Ccf	Ccf	X	0.36300	$19.97		$19.97
Gas Supply Clause	Ccf	X	0.43432	$23.89		$23.89
DSM	Ccf	X	0.01877	$1.03		$1.03
Tax Act Surcredit	Ccf	X		$0.00	-0.05105	($2.81)
Subtotal				$61.24		$58.43
GLT - per meter			0.71	$0.71		$0.71
GLT - per Ccf	Ccf	X	0.00065	$0.04		$0.04
HEA			0.25	$0.25		$0.25
TOTAL				**$62.24**		**$59.43**
Increase Per Month						($2.81) -4.5%

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00034 DATED MAR 20 2018

KENTUCKY UTILITIES COMPANY
CASE NO. 2018-00034
OVERALL FINANCIAL SUMMARY

Line No.	DESCRIPTION	CASE NO. 2016-00370 Final Order: Rate of Return Adjusted for the 35% Federal Tax Rate	CASE NO. 2016-00370 Final Order: Rate of Return Adjusted for the 21% Federal Tax Rate	Revenue Requirement Impact	Residential Tariff 39% of Total Revenues	Residential Tariff 61% of Total Revenues
1	Capitalization Allocated to Kentucky Jurisdiction	$ 3,607,984,536	$ 3,607,984,536			
2	Required Rate of Return Adjusted for Income Taxes	10.25%	8.79%			
3						
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	$ 369,897,726	$ 317,145,824	$ (52,751,902)		
5	Years Equivalent To 16 Months (16/12)			1.33		
6						
7	Total Reduction in Income Tax Expense (Line 4 x Line 5)			(70,335,870)		
8						
9	Amortization of Excess ADIT (Protected) - (Using ARAM)		(11,459,997)			
10	Amortization of Excess ADIT (Unprotected) - (SI Over 15 Years)		(850,810)			
11						
12	Total Amortization of Excess ADIT (Line 9 + Line 10)		(12,310,807)			
13	Gross-Up Factor Using 25.64% Effective Tax Rate		1.34			
14						
15	Total Reduction in Deferred Income Tax Expense (Line 12 x Line 13)			(16,555,354)		
16						
17	Total Reduction in Revenue Requirements (Line 4 + Line 15)			(86,891,224)	$ (33,887,577)	$ (53,003,646)
18	Energy Billing Units (TY kWh / 12 Mo. X 13 MO.)			19,857,410,575	6,599,267,393	13,258,143,182
19						
20	Energy Credit Per kWh (April 1, 2018 - April 30, 2019) (Line 17 / Line 18)				$ (0.00514)	$ (0.00400)
21						
22	Rate per Month Calculations:					
23	Total Monthly Reduction In Revenue Requirements (Line 17 / 16 Mo)			(5,430,701)	(2,117,974)	(3,312,728)
24	Energy Billing Units per Month (TY kWh / 12 Mo)			1,527,493,121	507,635,953	1,019,857,168
25						
26	Monthly Energy Credit per kWh (Line 22 / Line 23)			$ (0.00356)	$ (0.00417)	$ (0.00325)

The Rate of Return Adjusted for the 21 percent Federal Income Tax rate reflects the impact PSC Assessment rate of 0.320 percent and the Uncollectible rate of 0.1941 percent

Louisville Gas and Electric Company
Electric Operations
Energy Credit Calculations

Line No.	DESCRIPTION	Case No. 2016-00371 Final Order: Rate of Return Adjusted for the 35% Federal Tax Rate	Case No. 2016-00371 Final Order: Rate of Return Adjusted for the 21% Federal Tax Rate	Revenue Requirement Impact	Residential Tariff 41% of Total Revenues	Residential Tariff 59% of Total Revenues
1	Capitalization Allocated to Kentucky Jurisdiction	$ 2,388,355,971	$ 2,388,355,971			
2	Required Rate of Return Adjusted for Income Taxes	10.22%	8.75%			
3						
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	$ 243,998,420	$ 209,036,324	$ (34,962,097)		
5	Years Equivalent To 16 Months (16/12)			1.33		
6						
7	Total Reduction in Income Tax Expense (Line 4 x Line 5)			(46,616,129)		
8						
9	Amortization of Excess ADIT (Protected) - (Using ARAM)		(7,552,799)			
10	Amortization of Excess ADIT (Unprotected) - (SI Over 15 Years)		(1,618,844)			
11						
12	Total Amortization of Excess ADIT (Line 9 + Line 10)		(9,171,643)			
13	Gross-Up Factor Using 25.64% Effective Tax Rate		1.35			
14						
15	Total Reduction in Deferred Income Tax Expense (Line 12 x Line 13)			(12,351,795)		
16						
17	Total Reduction in Revenue Requirements (Line 4 + Line 15)			(58,967,924)	$ (24,176,849)	$ (34,791,075)
18	Energy Billing Units (TY kWh / 12 Mo. X 13 MO.)			12,919,919,682	4,528,429,567	8,391,490,115
19						
20	Energy Credit Per kWh (April 1, 2018 - April 30, 2019) (Line 17 / Line 18)				$ (0.00534)	$ (0.00415)
21						
22	Rate per Month Calculations:					
23	Total Monthly Reduction in Revenue Requirements (Line 17 / 16 Mo)			(3,685,495)	(1,511,053)	(2,174,442)
24	Energy Billing Units per Month (TY kWh / 12 Mo)			993,839,976	348,340,736	645,499,240
25						
26	Monthly Energy Credit per kWh (Line 22 / Line 23)			$ (0.00371)	$ (0.00434)	$ (0.00337)

The Rate of Return Adjusted for the 21 percent Federal Income Tax rate reflects the impact PSC Assessment rate of 0.320 percent and the Uncollectible rate of 0.1941 percent.

Louisvile Gas and Electric Company
Gas Operations
Energy Credit Calculations

Line No.	DESCRIPTION	Case No. 2016-00371 Final Order: Rate of Return Adjusted for the 35% Federal Tax Rate	Case No. 2016-00371 Final Order: Rate of Return Adjusted for the 21% Federal Tax Rate	Revenue Requirement Impact	Residential Tariff 65.4% of Total Revenues	Residential Tariff 34.6% of Total Revenues
1	Capitalization Allocated to Kentucky Jurisdiction	$ 695,552,077	$ 695,552,077			
2	Required Rate of Return Adjusted for Income Taxes	10.22%	8.75%			
3						
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	$ 71,058,758	$ 60,876,875	$ (10,181,882)		
5	Years Equivalent To 16 Months (16/12)			1.33		
6						
7	Total Reduction in Income Tax Expense (Line 4 x Line 5)			(13,575,843)		
8						
9	Amortization of Excess ADIT (Protected) - (Using ARAM)		(1,950,880)			
10	Amortization of Excess ADIT (Unprotected) - (SI Over 15 Years)		(223,585)			
11						
12	Total Amortization of Excess ADIT (Line 9 + Line 10)		(2,174,466)			
13	Gross-Up Factor Using 25.64% Effective Tax Rate		1.35			
14						
15	Total Reduction in Deferred Income Tax Expense (Line 12 x Line 13)			(2,928,434)		
16						
17	Total Reduction in Revenue Requirements (Line 4 + Line 15)			(16,504,277)	$ (10,793,797)	$ (5,710,480)
18	Energy Billing Units (TY kWh / 12 Mo. X 13 MO.)				211,426,821	270,175,003
19						
20	Energy Credit Per kWh (April 1, 2018 - April 30, 2019) (Line 17 / Line 18)				$ (0.05105)	$ (0.02114)
21						
22	Rate per Month Calculations:					
23	Total Monthly Reduction In Revenue Requirements (Line 17 / 16 Mo)			(1,031,517)	(674,612)	(356,905)
24	Energy Billing Units per Month (TY kWh / 12 Mo)			37,046,294	16,263,602	20,782,693
25						
26	Monthly Energy Credit per kWh (Line 22 / Line 23)			$ (0.02784)	$ (0.04148)	$ (0.01717)

The Rate of Return Adjusted for the 21 percent Federal Income Tax rate reflects the impact PSC Assessment rate of 0.320 percent and the Uncollectible rate of 0.1941 percent

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00034 DATED MAR 20 2018

The following rates and charges are prescribed for the customers served by Kentucky Utilities Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE TCJA
TAX CUTS AND JOBS ACT SURCREDIT

TCJA Surcredit per kWh:

Effective April 1, 2018 – April 30, 2019	
Residential (RGS, RTOD-Energy, RTOD-Demand, VFD):	$0.00514
Nonresidential (all other Rate Schedules):	$0.00400
Effective May 1, 2019	
Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	$0.00417
Nonresidential (all other Rate Schedules):	$0.00325

APPENDIX E

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00034 DATED MAR 20 2018

The following rates and charges are prescribed for the customers served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

ELECTRIC SERVICE RATES

RATE TCJA
TAX CUTS AND JOBS ACT SURCREDIT

TCJA Surcredit per kWh:

Effective April 1, 2018 – April 30, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	$0.00534
Nonresidential (all other Rate Schedules):	$0.00415

Effective May 1, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	$0.00434
Nonresidential (all other Rate Schedules):	$0.00337

GAS SERVICE RATES

RATE TCJA
TAX CUTS AND JOBS ACT SURCREDIT

TCJA Surcredit per Ccf

Effective April 1, 2018 – April 30, 2019

Residential (RGS, VFD):	$0.05105
Nonresidential (all other Rate Schedules):	$0.02114

Effective May 1, 2019

Residential (RGS, VFD):	$0.04148
Nonresidential (all other Rate Schedules):	$0.01717

APPENDIX F

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00034 DATED MAR 20 2018

OFFER AND ACCEPTANCE OF SATISFACTION

This Offer and Acceptance of Satisfaction is entered into this 29th day of January 2018 by and between Kentucky Utilities Company ("KU"); Louisville Gas and Electric Company ("LG&E") (collectively, "the Utilities"); Kentucky Industrial Utility Customers, Inc. ("KIUC" or "Complainant"); and the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention ("AG"). (Collectively, the Utilities, KIUC, and AG are the "Parties.")

WITNESSETH:

WHEREAS, on December 21, 2017, KIUC filed with the Kentucky Public Service Commission ("Commission") its *Complaint and Petition for the Establishment of a Regulatory Liability to Provide Customers a Rate Reduction Because of Tax Expense Savings* ("Complaint");

WHEREAS, on December 22, 2017, the legislation known as the Tax Cuts and Jobs Act, H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017)("Tax Act") was signed into law and took effect;

WHEREAS, on December 27, 2017, the Commission issued an order with a determination that KIUC's Complaint had established a *prima facie* case and opened Case No. 2017-00477;

WHEREAS, the Commission has granted full intervention in Case No. 2017-00477 to the AG;

WHEREAS, on January 25, 2018, the Commission issued an order separating Case No. 2017-00477 into three separate, utility-specific complaint proceedings. The Commission established a combined complaint case for KU and LG&E and assigned it Case No. 2018-00034 (the "Complaint Proceeding");

WHEREAS, an informal conference for the purpose of discussing the Answers and Offers of Satisfaction filed by Utilities and the possibility of settlement, attended by representatives of the Parties and the Commission Staff, took place on January 17 and 22, 2018, at the offices of the

Commission, and during which a number of procedural and substantive issues were discussed, including potential settlement of all issues pending before the Commission in the Complaint Proceeding;

WHEREAS, the Parties hereto unanimously desire to satisfy all the issues pending before the Commission in the Complaint Proceeding;

WHEREAS, it is understood by all Parties hereto that this Offer and Acceptance of Satisfaction is subject to the approval of the Commission, insofar as it constitutes an agreement by the Parties for satisfying KIUC's Complaint and the Complaint Proceeding, and, absent express agreement stated herein, does not represent agreement on any specific claim, methodology, or theory supporting the appropriateness of any proposed or recommended adjustments to Utilities' rates, terms, or conditions;

WHEREAS, all of the Parties agree that this Offer and Acceptance of Satisfaction, viewed in its entirety, is a fair, just, and reasonable resolution of all the issues in the Complaint Proceeding; and

WHEREAS, the Parties believe sufficient and adequate data and information in the record of this proceeding support this Offer and Acceptance of Satisfaction, and further believe the Commission should approve it and dismiss the Complaint Proceeding as required by 807 KAR 5:001, Section 20(2);

NOW, THEREFORE, for and in consideration of the promises and conditions set forth herein, Utilities make the following offer of satisfaction pursuant to KRS 278.260 and 807 KAR 5:001, Section 20(2), which the KIUC and AG accept:

ARTICLE I. TAX ACT BENEFITS

1.1. From April 1, 2018 to April 30, 2019, the estimated amount of benefits of the Tax Act to be distributed by Utilities as provided in this Offer and Acceptance of Satisfaction are as follows:

LINE NO.	DESCRIPTION	KU	LG&E/ELECTRIC	LG&E/GAS	TOTAL CREDITS
		$	$	$	$
1	BASE RATE CREDIT MECHANISM	(70,180,255)	(48,993,021)	(16,299,321)	(135,472,597)
2	ENVIRONMENTAL SURCHARGE (ECR)	(21,002,921)	(19,852,212)		(40,855,133)
3	GAS LINE TRACKER (GLT)			(364,288)	(364,288)
4	DEMAND SIDE MANAGEMENT (DSM)	(107,480)	(89,217)	-	(196,697)
5	TOTAL CREDITS	(91,290,656)	(68,934,450)	(16,663,609)	(176,888,715)

ARTICLE II. BILL SURCREDITS THROUGH APRIL 30, 2019

2.1. Beginning April 1, 2018 through April 30, 2019, Utilities will establish the following monthly energy credits on the electric bills of their Kentucky retail customers:

	Residential Tariff	Non-Residential Tariff
KU	$(0.00415) / kWh	$(0.00323) / kWh
LG&E Electric	$(0.00444) / kWh	$(0.00344) / kWh

2.2. Beginning April 1, 2018 through April 30, 2019, LG&E will establish a monthly energy credit on the gas bills of its Kentucky retail customers in the amount of $(0.03384) per Ccf.

ARTICLE III. BILL SURCREDITS AFTER APRIL 30, 2019

3.1. Utilities' current base rates took effect July 1, 2017, following orders issued in June 2017 from this Commission in Case Nos 2016-00370 and 2016-00371. Utilities expect to file applications to change base rates with the Commission in 2018. In the event that the current base rates for Utilities do not change on May 1, 2019 (excepting and excluding any adjustments to base rates required by incorporation or "rolled-into" of amounts from the fuel adjustment clause or the environmental surcharge mechanism), Utilities will continue to impose on the bills of their customers the following monthly energy credits, adjusted to reflect estimated annual Tax Act benefits, until such time as new base rates resulting from applications to change base rates take effect:

(A) Beginning May 1, 2019, if the current electric base rates are not changed as a result of a base rate case proceeding, Utilities will establish the following monthly energy credits on the electric bills of their Kentucky retail customers until such time as the base rates are changed:

	Residential Tariff	Non-Residential Tariff
KU	$(0.00337) / kWh	$(0.00262) / kWh
LG&E Electric	$(0.00360) / kWh	$(0.00280) / kWh

(B) Beginning May 1, 2019, if the current gas base rates are not changed as a result of a base rate case proceeding, LG&E will establish the following monthly energy credit on the gas bills of its Kentucky retail customers until such time as the gas base rates are changed: $(0.02750) per Ccf. [1]

[1] The bill surcredits through April 30, 2019 reflect estimated 16-month savings estimates returned over a 13-month billing period. The credits will be reduced May 1, 2019, to reflect an annual savings estimate.

ARTICLE IV. RATE ADJUSTMENT MECHANISMS

4.1. Utilities will employ the procedural mechanisms in their environmental cost recovery surcharge mechanism, demand-side management mechanism and gas line tracker to distribute the Tax Act benefits as follows:

4.2. Utilities will use the weighted average cost of capital, the income tax gross-up factor and the overall grossed-up rate of return authorized by the Commission's January 24, 2018 orders Case Nos. 2017-00266 and 2017-00267 effective for the ECR expense month of January 2018 for billings beginning with the March 2018 billing cycle.

4.3. In the next Commission initiated six-month review proceeding in 2018, Utilities will propose modifications to the ECR monthly forms to allow for the return of the excess deferred taxes.

4.4. With regard to their Demand Side Management mechanisms, Utilities will incorporate the Tax Act changes into the 2018 DSM rates when they make their balancing adjustment filings at the end of February 2018 with new rates effective April 1, 2018.

4.5. For its Gas Line Tracker, LG&E will include the effect of the Tax Act changes in the 2018 annual filing being made at the end of February 2018 with rates effective May 1, 2018.

ARTICLE V. MISCELLANEOUS PROVISIONS

5.1. Except as specifically stated otherwise in this Offer and Acceptance of Satisfaction, entering into this Offer and Acceptance of Satisfaction shall not be deemed in any respect to constitute an admission by any of the Parties that any computation, formula, allegation, assertion, or contention made by any other party in this Complaint Proceeding is true or valid.

5.2. The Parties hereto agree that the foregoing stipulations and agreements represent a fair, just, and reasonable resolution of the issues addressed in KIUC's Complaint and the

Complaint Proceeding, and request the Commission to approve the Offer and Acceptance of Satisfaction.

5.3. Following the execution of this Offer and Acceptance of Satisfaction, the Parties shall cause the Offer and Acceptance of Satisfaction to be filed with the Commission on or about January 29, 2018.

5.4. This Offer and Acceptance of Satisfaction is subject to the acceptance of, and approval by, the Commission. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Offer and Acceptance of Satisfaction be accepted and approved as the complete disposition and resolution of the KIUC Complaint. The Parties commit to notify immediately any other Party of any perceived violation of this provision so the Party may have an opportunity to cure any perceived violation, and all Parties commit to work in good faith to address and remedy promptly any such perceived violation. In all events counsel for all Parties will represent to the Commission that the Offer and Acceptance of Satisfaction is a fair, just, and reasonable means of resolving all issues in the KIUC Complaint relating to the Utilities, and will clearly and definitively ask the Commission to accept and approve the Offer and Acceptance of Satisfaction as such.

5.5. If the Commission issues an order adopting this Offer and Acceptance of Satisfaction in its entirety and without additional conditions, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such order.

5.6. If the Commission does not accept and approve this Offer and Acceptance of Satisfaction in its entirety, then any adversely affected Party may withdraw from the Offer and Acceptance of Satisfaction within the statutory periods provided for rehearing and appeal of the

Commission's order by (1) giving notice of withdrawal to all other Parties and (2) timely filing for rehearing or appeal. If any Party timely seeks rehearing of or appeals the Commission's order, all Parties will continue to have the right to withdraw until the conclusion of all rehearings and appeals. Upon the latter of (1) the expiration of the statutory periods provided for rehearing and appeal of the Commission's order and (2) the conclusion of all rehearings and appeals, all Parties that have not withdrawn will continue to be bound by the terms of the Offer and Acceptance of Satisfaction as modified by the Commission's order.

5.7. If the Offer and Acceptance of Satisfaction is voided or vacated for any reason after the Commission has approved the Offer and Acceptance of Satisfaction, none of the Parties will be bound by the Offer and Acceptance of Satisfaction.

5.8. The Offer and Acceptance of Satisfaction shall inure to the benefit of and be binding upon the Parties hereto and their successors and assigns.

5.9. The Offer and Acceptance of Satisfaction constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into the Offer and Acceptance of Satisfaction.

5.10. The Parties hereto agree that, for the purpose of the Offer and Acceptance of Satisfaction only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

5.11. The Parties hereto agree that neither the Offer and Acceptance of Satisfaction nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Offer and Acceptance of Satisfaction. This Offer and Acceptance of Satisfaction shall not have any precedential value in this or any other jurisdiction.

5.12. The signatories hereto warrant that they have appropriately informed, advised, and consulted their respective Parties in regard to the contents and significance of this Offer and Acceptance of Satisfaction and based upon the foregoing are authorized to execute this Offer and Acceptance of Satisfaction on behalf of their respective Parties.

The Parties hereto agree that this Offer and Acceptance of Satisfaction is a product of negotiation among all Parties hereto, and no provision of this Offer and Acceptance of Satisfaction shall be strictly construed in favor of or against any party. Notwithstanding anything contained in the Offer and Acceptance of Satisfaction, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of the Utilities are unknown and this Offer and Acceptance of Satisfaction shall be implemented as written.

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

Kentucky Utilities Company and
Louisville Gas and Electric Company

HAVE SEEN AND AGREED:

By: Kendrick R Riggs
Kendrick R. Riggs

-and-

By: Allyson K. Sturgeon (KRR w/ approval)
Allyson K. Sturgeon

Attorney General for the Commonwealth of Kentucky, by and through the Office of Rate Intervention

HAVE SEEN AND AGREED:

By Rebecca W. Goodman

Rebecca W. Goodman
Kent A. Chandler
Justin M. McNeil
Lawrence W. Cook

Kentucky Industrial Utility Customers, Inc.

HAVE SEEN AND AGREED:

By: Mil L. Kurt

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn

*Honorable Allyson K Sturgeon
Senior Corporate Attorney
LG&E and KU Energy LLC
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