

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)	2026-00003
SIX-MONTH BILLING PERIOD ENDING)	
OCTOBER 31, 2025.)	

ORDER

On February 9, 2026, the Commission initiated the review of Kentucky Utilities Company's (KU) environmental surcharge for the six-month billing period ending October 31, 2025.

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.

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.¹ The Commission's last review was completed on November 10, 2025.²

In this matter, the Commission issued a procedural schedule as Appendix A to the opening Order.³ KU provided direct testimony and responded to two requests for information from Commission Staff.⁴ There were no intervenors. KU filed a statement requesting that this matter be submitted for decision based on the written record.⁵ The matter stands submitted for a decision.

SIX MONTH BILLING PERIOD ENDING OCTOBER 31, 2025

Surcharge Amount

For the six-month billing period ended October 31, 2025, KU determined that it had a net over-recovery of environmental costs of \$196,502.⁶ KU stated that the primary components that make up the over-recovery during the review period are: (1) changes in

¹ 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).

² Case No. 2025-00172, *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, 2024, October 31, 2024, and for the Two-Year Billing Periods Ending April 30, 2025* (Ky. PSC Nov. 10, 2025).

³ Opening Order, February 9, 2026.

⁴ KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed March 6, 2026). KU's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed April 13, 2026).

⁵ KU's Request to Submit on the Record (filed June 9, 2026).

⁶ KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed March 6), Item 2, Attachment 4_-_KU_ECR_DR1_Attach_to_Q1_and_Q2_-__(CN2026-00003).xlsx, Tab Q2 p.2 – Detailed Over-Under.

overall rates of return and (2) the use of 12-month average revenues to determine the billing factor.⁷ KU proposed that the over-recovery be credited over one month following the Commission's Order in this proceeding.⁸ Specifically, KU recommends that the Commission approve a decrease to the ECR Surcharge Revenue Requirement of \$196,502 for one month beginning in the second full billing month following the Commission's Order in this proceeding.⁹

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$196,502. 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 credit reflecting the over-recovery position in the determination of the Environmental Surcharge Billing Factor will decrease the billing factor by approximately 0.12 percent for one month.¹⁰ For a residential customer using an average of 1,087 kWh per month (based on 12-month ended October 2025 data), the impact of the adjusted Environmental Surcharge Billing Factor would be a decrease of approximately \$0.19 for a month.¹¹

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 as of

⁷ Fackler Direct Testimony at 7.

⁸ Fackler Direct Testimony at 9.

⁹ Fackler Direct Testimony at 9.

¹⁰ KU's Response to Staff's First Request, Item 6.

¹¹ KU's Response to Staff's First Request, Item 6.

August 31, 2025, the last expense month of the review period.¹² KU also provided the overall weighted average cost of capital (WACC) reflecting the tax gross-up approach.¹³ KU recommended an overall rate of return on capital of 8.81 percent.¹⁴ This is based on the adjusted capitalization as of August 31, 2025, the currently authorized 9.675 percent ROE for all ECR plans, and federal and Kentucky state corporate income tax rates to be used to calculate the environmental surcharge.¹⁵

The Commission finds that the WACC for all of KU's ECR Plans of 7.18 percent and the income tax gross-up factor of 0.7505, which produces an overall grossed-up return of 8.81 percent,¹⁶ 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 six-month billing period ending October 31, 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 \$196,502 for one month.

¹² KU's Response to Staff's First Request, Item 5.

¹³ Fackler Direct Testimony at 20 and KU's Response to Staff's First Request, Attachment 7_-_KU_ECR_DR1_Attach_to_Q5_-_ (CN_2026-00003).xlsx, Tab Q7 p.5 – ECC(Oct25).

¹⁴ Fackler Direct Testimony at 9.

¹⁵ Fackler Direct Testimony at 10 and KU's Response to Staff's First Request, Attachment 7_-_KU_ECR_DR1_Attach_to_Q5_-_ (CN_2026-001003).xlsx, Tab Q5 - Tax Rate.

¹⁶ KU's Response to Staff's First Request, Item 5, Attachment 7_-_KU_ECR_DR1_Attach_to_Q5_-_ (CN2026-00003).xlsx, Tab Q5 - KU ROR.

3. Beginning in the second full billing month following the date of this Order, KU shall use a WACC of 7.18 percent, a tax gross-up factor of 0.7505, an ROE of 9.675 percent and an overall rate of return on capital of 8.81 percent for all its ECR Plans in all 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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Entered on this 30th day of June, 2026.


PUBLIC SERVICE COMMISSION



Angle Hatton
Chair



Mary Pat Regan
Vice Chair



Andrew W. Wood
Commissioner



Barry L. Mayfield
Commissioner

ATTEST:



Linda C. Bridwell, PE
Executive Director

Service List for 2026-00003

- * Andrea M. Fackler
Manager, Revenue Requirement
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202

- * Honorable Allyson K Sturgeon
Vice President and Deputy General Counsel-Regulatory and PPL
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202

- * Robert Conroy
Vice President, State Regulation and Rates
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202

- * Kentucky Utilities Company
2701 Eastpoint Parkway
P. O. Box 32010
Louisville, KY 40223

- * Sara Judd
Senior Corporate Attorney
LG&E and KU Energy LLC
220 West Main Street
Louisville, KY 40202