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PSC Issues Orders in Rate Filings of Louisville Gas & Electric and Kentucky Utilities

FRANKFORT, Ky. (June 30, 2021) – The Kentucky Public Service Commission (PSC/Commission) issued an Order today in each of the rate filings of Louisville Gas & Electric (LG&E) and Kentucky Utilities (KU). The PSC set rates lower than those applied for by the utilities and lower than the rates agreed to in a settlement agreement (Stipulation) entered into among the companies and intervenors.

With the new rates established in today's Orders, the average electric bill of a typical LG&E residential customer will increase by about 6.79 percent per month (or $6.75 per month). The average natural gas bill of a typical LG&E residential customer will increase by about 5.40 percent per month ($3.55). The average bill of a typical KU residential customer will increase by 6.58 percent per month ($7.92). As agreed to in the Stipulation, the companies will not have another change in base rates until after July 1, 2025.

The companies filed their applications on Nov. 25, 2020, seeking approval for an increase in electric rates for both companies (and gas rates for LG&E), requests to deploy advanced metering infrastructure (AMI), changes to the companies' net metering tariffs, establishment of a one-year surcredit, and other items. The companies' most recent general rate increase became effective in 2019 [Case No. 2018-00294 (KU) and Case No. 2018-00295 (LG&E)].

On April 19, 2021, the companies filed with the PSC a Stipulation entered into by LG&E/KU and the intervening parties. The PSC conducted information sessions and public meetings for the purpose of taking public comments on April 14, 15, and 21, 2021. Due to the COVID-19 state of emergency, the information sessions and public meetings were conducted virtually. The PSC conducted a formal evidentiary hearing on April 26, 27, and 28, 2021, for the purposes of cross-examination and for consideration of the stipulation. Today's Order approves the stipulation with modifications. The PSC notes that approval is based only on the finding that the Stipulation is reasonable and in the public interest and does not establish a precedent.

Other provisions of today's Orders:

- The Commission authorized a Return on Equity (ROE) of 9.425 percent for the companies' electric operations (and gas operations for LG&E). The Commission further authorized an ROE of 9.35 percent for the environmental surcharge mechanisms and

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9.35 percent for LG&E's gas line tracker. The Commission determined that the 9.55 percent ROE in the Stipulation for the companies' electric operations was unreasonable and higher than ROEs required by investors in today's economic climate.

- The Commission granted approval of a Certificate of Convenience and Necessity (CPCN) for deployment of AMI. The Commission expects KU and LG&E to go beyond the promise of net benefits to customers from AMI deployment to ensure customers' rates are not increased as a result of AMI expenditures. The companies are required to develop a customer engagement plan and file the plan by June 30, 2022, and annually thereafter and are to study system benefits that could result from AMI deployment, including avoided distribution costs. The Orders state, "but for the expected savings," the Commission would not have authorized the AMI CPCN, and notes that the Commission will conduct a review in a future rate case to determine whether costs to deploy AMI are reasonable. Additionally, the Commission directs the companies to implement pre-pay and Demand Side Management (DSM) programs that will provide benefits to low-income customers, once AMI deployment is completed.
- The Commission approved one-year economic relief surcredits of $38.9 million for LG&E's electric customers, $2.7 million for LG&E's natural gas customers, and $11.9 million for KU's customers.
- The companies are directed to file proposed Electric Vehicle (EV) tariffs for home and business charging, with tariffs designed such that customers have an incentive to engage in off-peak EV charging. The Commission is also directing the companies to complete a study to identify areas of the distribution system that, with minimal upgrade costs, can best support EV charging. Given the inherent advantages incumbent utilities have by the nature of their monopoly status, the Commission cautions the companies against making unreasonable, unnecessary, or unfair EV infrastructure investments.
- The companies are to begin evaluating the cost-effectiveness of DSM programs (many of which have been discontinued in recent years due to over capacity) in light of the shorter expected useful lives of Mill Creek 1, Mill Creek 2, and Brown 3 and the stated need for additional capacity by 2028.
- LG&E/KU are to file quarterly reports regarding the companies' membership in the Southeast Energy Exchange Market (SEEM), and also provide updates on SEEM activities in the off-systems sales portions of their monthly Fuel Adjustment Clause filings.
- The companies are to conduct an analysis and submit a report on the potential application of tax incentives, particularly the federal 45Q incentives, and other matters relating to carbon dioxide emissions that could have an impact on the companies' fossil fuel generation units.

The Commission rejected several items in the applications.

The Commission is deferring a decision on the companies' proposed changes to their net metering tariffs so that additional information can be entered into the case record to ensure the export compensation rate for energy supplied to the grid is fair, just and reasonable. The companies proposed a net metering rate for residential and commercial customers, but

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sufficient evidence was not provided by the companies nor by the intervening parties to support an export rate that differs from the existing one-to-one rate. The Commission notes that many of the needs identified by the companies in their plans to invest millions of dollars in distribution system upgrades could be addressed by distributed energy resources, such as roof-top solar.

Intervenors in the two cases are: The Attorney General of the Commonwealth of Kentucky; Kentucky Industrial Utility Customers, Inc.; Kroger Company; Walmart, Inc.; Kentucky Solar Industries Association, Inc.; Sierra Club; United States Department of Defense and all other Federal Executive Agencies; Mountain Association; Kentuckians for the Commonwealth; Kentucky Solar Energy Society; and Metro Louisville/Jefferson County Government (LG&E)/Lexington-Fayette Urban County Government (KU).

Today's Orders and other records in the cases are available at psc.ky.gov. The Case numbers are 2020-00349 (KU) and 2020-00350 (LG&E).

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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