

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIRONMENTAL )  
SURCHARGE MECHANISM OF KENTUCKY )  
UTILITIES COMPANY FOR THE SIX-MONTH )  
BILLING PERIOD ENDING OCTOBER 31, 2013 )**

**CASE NO.  
2013-00436**

**DIRECT TESTIMONY OF**  
  
**ROBERT M. CONROY**  
**DIRECTOR - RATES**  
**LG&E AND KU SERVICES COMPANY**

**Filed: January 23, 2014**

1 **Q. Please state your name, title, and business address.**

2 A. My name is Robert M. Conroy. I am the Director – Rates for LG&E and KU  
3 Services Company, which provides services to Kentucky Utilities Company (“KU” or  
4 “Company”) and Louisville Gas and Electric Company (“LG&E”) (collectively “the  
5 Companies”). My business address is 220 West Main Street, Louisville, Kentucky,  
6 40202. A complete statement of my education and work experience is attached to  
7 this testimony as Appendix A.

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I have previously testified before this Commission in proceedings concerning  
10 the Companies’ most recent rate cases, fuel adjustment clauses, and environmental  
11 cost recovery (“ECR”) surcharge mechanisms.

12 **Q. What is the purpose of this proceeding?**

13 A. The purpose of this proceeding is to review the past operation of KU’s environmental  
14 surcharge during the six-month billing period ending October 31, 2013 (expense  
15 months of March 2013 through August 2013) and to determine whether the surcharge  
16 amounts collected during the period are just and reasonable.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to summarize the operation of KU’s environmental  
19 surcharge during the billing period under review, demonstrate that the amount  
20 collected during the period was just and reasonable, present and discuss KU’s  
21 proposed adjustment to the Environmental Surcharge Revenue Requirement based on  
22 the operation of the surcharge during the period and explain how the environmental  
23 surcharge factors were calculated during the period under review.

1 **Q. Please summarize the operation of the environmental surcharge for the billing**  
2 **period included in this review.**

3 A. KU billed an environmental surcharge to its customers from May 1, 2013 through  
4 October 31, 2013. For purposes of the Commission's examination in this case, the  
5 monthly KU environmental surcharges are considered as of the six-month billing  
6 period ending October 31, 2013. In each month of the six-month period under review  
7 in this proceeding, KU calculated the environmental surcharge factors in accordance  
8 with its ECR Tariff and the requirements of the Commission's previous orders  
9 concerning KU's environmental surcharge. The calculations were made in  
10 accordance with the Commission-approved monthly forms and filed with the  
11 Commission ten days before the new monthly charge was billed by the Company.

12 **Q. What costs were included in the calculation of the environmental surcharge**  
13 **factors for the billing period under review?**

14 A. The capital and operating costs included in the calculation of the environmental  
15 surcharge factors for the six-month billing period were the costs incurred each month  
16 by KU from March 2013 through August 2013, as detailed in the attachment in  
17 response to Question No. 2 of the Commission Staff's Request for Information,  
18 incorporating all required revisions.

19 The monthly environmental surcharge factors applied during the billing period  
20 under review were calculated consistent with the Commission's Orders in KU's  
21 previous applications to assess or amend its environmental surcharge mechanism and  
22 plan, as well as Orders issued in previous review cases. The monthly environmental

1 surcharge reports filed with the Commission during this time reflect the various  
2 changes to the reporting forms ordered by the Commission from time to time.

3 **Q. Has the Commission recently approved changes to KU's ECR Compliance Plan?**

4 A. Yes. In Case No. 2011-00161, the Commission approved KU's 2011 ECR  
5 Compliance Plan that included two new projects and associated operation and  
6 maintenance costs, amended Project 29 (2009 Plan) to convert the Brown Main Ash  
7 Pond to a Landfill, and approved the reporting of operation and maintenance costs  
8 associated with sorbent injection approved with the 2006 Plan for Ghent Units 1, 3,  
9 and 4 as part of the 2011 Plan. Pursuant to the Commission's December 15, 2011  
10 Order approving the Settlement Agreement in Case No 2011-0161, KU began  
11 including the approved projects in the monthly filing for the December 2011 expense  
12 month that was billed in February 2012 with separate authorized rates of return for  
13 the Pre-2011 and 2011 ECR Plans. In addition, the Commission approved the use of  
14 net (non-fuel) revenues to calculate the jurisdictional revenue requirement for non-  
15 residential customers defined as Group 2 in the ECR Tariff. The use of net revenues  
16 for Group 2 customers was implemented in Case No. 2011-00231 as discussed below.

17 In Case No. 2012-00221, KU's most recent rate case, the Commission  
18 approved the elimination of KU's 2005 and 2006 ECR Compliance Plans (with the  
19 exception of Project 22 related to Emission Allowances) from the monthly  
20 environmental surcharge filings and reset the return on equity to be used in the  
21 monthly environmental surcharge filings. Pursuant to the Commission's December  
22 20, 2012 Order in that case, the changes were implemented with the January 2013  
23 expense month. The approved return on equity is used in this proceeding to establish

1 the overall rate of return on capital to be used to calculate the environmental  
2 surcharge as discussed later in this testimony.

3 **Q. Has the Commission recently approved changes to the environmental surcharge**  
4 **mechanism and the monthly ES forms?**

5 A. Yes. In Case No. 2011-00231, KU's previous ECR two-year review, the Commission  
6 implemented the use of net revenues to calculate the jurisdictional revenue  
7 requirement for non-residential customers defined as Group 2 in the ECR Tariff in  
8 conjunction with the ECR Roll-in and revisions to the monthly reporting forms to  
9 reflect the implementation of Group 1 and Group 2 billing factors. Pursuant to the  
10 Commission's January 31, 2012 Order in that case, the changes were implemented  
11 with the January 2012 expense month that was billed in March 2012.

12 In Case No. 2013-00242, KU's most recent ECR two-year review, the  
13 Commission approved the ECR Roll-in, revisions to the monthly ES forms to reflect  
14 the elimination of KU's 2005 and 2006 ECR Compliance Plans and the use of an  
15 overall rate of return for all ECR Plans. Pursuant to the Commission's November 14,  
16 2013 Order in that case, the changes were implemented with the November 2013  
17 expense month that was billed in January 2014.

18 **Q. Are there any changes or adjustments in Rate Base from the originally filed**  
19 **expense months?**

20 A. No. During the period under review, there were no changes to Rate Base from the  
21 originally filed billing months as summarized in KU's response to the Commission  
22 Staff's Request for Information, Question No. 1. In addition, there were no changes

1 identified as a result of preparing responses to the requests for information in this  
2 review.

3 **Q. Are there any changes necessary to the jurisdictional revenue requirement**  
4 **(E(m))?**

5 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's  
6 Order in Case No. 2000-00439 to reflect the actual changes in the overall rate of  
7 return on capitalization that is used in the determination of the return on  
8 environmental rate base. Pursuant to the terms of the Settlement Agreement  
9 approving the 2011 ECR Plan, KU calculated the short- and long-term debt rate using  
10 average daily balances and daily interest rates in the calculation of the overall rate of  
11 return true-up adjustment for the six-month period ending October 31, 2013. The  
12 details of and support for this calculation are shown in KU's response to Question  
13 No. 1 of the Commission Staff's Request for Information.

14 **Q. Are there corrections to information provided in the monthly filings during the**  
15 **billing period under review?**

16 A. No.

17 **Q. As a result of the operation of the environmental surcharge during the billing**  
18 **period under review, is an adjustment to the revenue requirement necessary?**

19 A. Yes. KU experienced an over-recovery of \$347,028 for the billing period ending  
20 October 31, 2013. KU's response to Question No. 2 of the Commission Staff's  
21 Request for Information shows the calculation of the over-recovery. An adjustment  
22 to the revenue requirement is necessary to reconcile the collection of past surcharge  
23 revenues with the actual costs for the billing period under review.

1 **Q. Has KU identified the causes of the over-recovery during the billing period**  
2 **under review?**

3 A. Yes. KU has identified the components that make up the over-recovery during the  
4 billing period under review. The components are (1) changes in overall rate of return  
5 as previously discussed and (2) the use of 12-month average revenues to determine  
6 the billing factor. The details and support of the components that make up the over-  
7 recovery during the billing period under review are shown in KU's response to  
8 Question No. 2 of the Commission Staff's Request for Information.

9 **Q. Please explain how the function of the ECR mechanism contributes to the over-**  
10 **recovery in the billing period under review.**

11 A. The use of 12-month average revenues to calculate the monthly billing factors and  
12 then applying those same billing factors to the actual monthly revenues will result in  
13 an over- or under-collection of ECR revenues. The table below shows a comparison  
14 of the 12-month average revenues used in the monthly filings to determine the ECR  
15 billing factors and the actual revenues to which the ECR billing factors were applied  
16 in the billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
March 2013	\$ 81,531,021	May 2013	\$ 71,616,299
April 2013	83,066,181	June 2013	80,904,269
May 2013	83,170,909	July 2013	96,466,706
June 2013	83,258,412	August 2013	91,677,602
July 2013	82,944,439	September 2013	93,494,056
August 2013	82,629,463	October 2013	71,702,534

\*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Group 2.

17

1 Generally, an under-recovery will occur when actual revenues for the billing month  
2 are less than the 12-month average revenues used for the expense month. Likewise,  
3 an over-recovery will usually occur when actual revenues for the billing month are  
4 greater than the 12-month average revenues used for the expense month.

5 **Q. What kind of adjustment is KU proposing in this case as a result of the operation**  
6 **of the environmental surcharge during the billing period?**

7 A. KU is proposing that the over-recovery be distributed in one month following the  
8 Commission's Order in this proceeding. Specifically, KU recommends that the  
9 Commission approve a decrease to the Environmental Surcharge Revenue  
10 Requirement of \$347,028 for one month, beginning in the second full billing month  
11 following the Commission's Order in this proceeding. This method is consistent with  
12 the method of implementing previous over- or under- recovery positions in prior ECR  
13 review cases.

14 **Q. What is the bill impact on a residential customer for the proposed distribution of**  
15 **the over-recovery?**

16 A. The inclusion of the distribution reflecting the over-recovery position in the  
17 determination of the ECR billing factor will decrease the billing factor by  
18 approximately 0.31%. For a residential customer using an average of 1,208 kWh per  
19 month, the impact of the adjusted ECR billing factor would be a decrease of  
20 approximately \$0.31 for one month (using rates and adjustment clause factors in  
21 effect for the November 2013 billing month). The details of and support for this  
22 calculation are shown in KU's response to Question No. 6 of the Commission Staff's  
23 Request for Information.



1 **Q. What rate of return is KU proposing to use for all ECR Plans upon the**  
2 **Commission's Order in this proceeding?**

3 A. KU is recommending an overall rate of return on capital of 10.22%, including the  
4 currently approved 10.25% return on equity and adjusted capitalization, to be used to  
5 calculate the environmental surcharge. This is based on capitalization as of August  
6 31, 2013 and the Commission's Order of December 20, 2012 in Case No. 2012-  
7 00221. Please see the response and attachment to Commission Staff's Request for  
8 Information Question No. 5 following this testimony.

9 **Q. What is your recommendation to the Commission in this case?**

10 A. KU makes the following recommendations to the Commission in this case:

11 a) The Commission should approve the proposed decrease to the Environmental  
12 Surcharge Revenue Requirement of \$347,028 for one month beginning in the  
13 second full billing month following the Commission's Order in this  
14 proceeding;

15 b) The Commission should determine the environmental surcharge amount for  
16 the six-month billing period ending October 31, 2013 to be just and  
17 reasonable;

18 c) The Commission should approve the use of an overall rate of return on capital  
19 of 10.22% using a return on equity of 10.25% beginning in the second full  
20 billing month following the Commission's Order in this proceeding;

21 **Q. Does this conclude your testimony?**

22 A. Yes.



## APPENDIX A

### **Robert M. Conroy**

Director – Rates  
LG&E and KU Services Company  
220 West Main Street  
Louisville, Kentucky 40202  
(502) 627-3324

### **Education**

Masters of Business Administration,  
Indiana University (Southeast campus), December 1998. GPA: 3.9.  
Bachelor of Science in Electrical Engineering,  
Rose Hulman Institute of Technology, May 1987. GPA: 3.3.  
  
Essentials of Leadership, London Business School, 2004.  
  
Center for Creative Leadership, Foundations in Leadership program, 1998.  
  
Registered Professional Engineer in Kentucky, 1995.

### **Previous Positions**

Manager, Rates	Apr. 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – Apr. 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	Apr. 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 – Apr. 1996
System Planning Analyst II	Jan. 1991 – Oct. 1992
Electrical Engineer II	Jun. 1990 – Jan. 1991
Electrical Engineer I	Jun. 1987 – Jun. 1990

### **Professional/Trade Memberships**

Registered Professional Engineer in Kentucky, 1995.