

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

**In the Matter of:**

<b>AN ELECTRONIC EXAMINATION BY THE PUBLIC</b>	)	
<b>SERVICE COMMISSION OF THE ENVIRONMENTAL</b>	)	
<b>SURCHARGE MECHANISM OF KENTUCKY</b>	)	<b>CASE NO.</b>
<b>UTILITIES COMPANY FOR THE TWO-YEAR</b>	)	<b>2017-00266</b>
<b>BILLING PERIOD ENDING APRIL 30, 2017</b>	)	

**PETITION OF KENTUCKY UTILITIES COMPANY**  
**FOR RECONSIDERATION OF COMMISSION'S ORDER OF DECEMBER 19, 2017**

Pursuant to KRS 278.400, Kentucky Utilities Company ("KU" or the "Company"), by counsel, for its Petition for Reconsideration of the Order of the Kentucky Public Service Commission ("Commission") dated December 19, 2017, states as follows:

On July 27, 2017, the Commission initiated a two-year review of KU's environmental surcharge as billed to customers for the two-year period from May 1, 2015 through April 30, 2017. During the course of the proceeding, 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, 2017.<sup>1</sup> Utilizing this information, along with the currently approved 9.70 percent return on equity,<sup>2</sup> KU calculated a weighted average cost of capital ("WACC") before income tax gross-up, of 7.07 percent for its 2009, 2011, and 2016 Environmental Compliance

---

<sup>1</sup> Response to Staff's First Request, Item 7.

<sup>2</sup> Case No. 2016-00370 (Order of June 22, 2017, p. 18) ("Based on the entire record developed in this proceeding, we find that KU's required ROE falls within a range of 9.20 percent to 10.20 percent with a midpoint of 9.70 percent. An ROE of 9.70 should be used for the purpose of base rate revenues and certain tariffs.").

Plans ("Compliance Plans"). KU also provided the overall WACC of 10.33 percent reflecting the tax gross-up approach approved in Case No. 2004-00426.<sup>3</sup>

On December 19, 2017, the Commission issued an order finding that the WACC for KU's Compliance Plans of 7.07 percent and the income tax gross-up factor of 0.61334, which produces an overall grossed-up return of 10.33 percent, should be used in all KU monthly environmental surcharge filings beginning in the second full-billing month following the issuance of the Order.

As the Commission is aware, the Tax Cuts and Jobs Act ("Tax Act") was passed by the United States Senate and House of Representatives on December 20, 2017, and was signed into law by President Trump on December 22, 2017. This extensive update to the federal tax code has a significant impact on the tax treatment of businesses in the United States. One immediate impact is the effect of this legislation on the Company's overall WACC. As a result, KU is now requesting the Commission to modify the tax gross-up for its WACC to reflect the changes resulting from the Tax Act effective with the January 2018 expense month. In support of this change, KU is attaching the revised attachment to Q7 of Commission Staff's First Request for Information dated July 27, 2017, which reflects the following information: (1) the outstanding balances for long-term debt, short-term debt, preferred stock, and common equity; (2) the blended interest rates for long-term debt, short-term debt, and preferred stock, including all supporting calculations; and (3) the Company's calculation of its weighted average cost of capital for environmental surcharge purposes.

---

<sup>3</sup> Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge (Ky. PSC June 20, 2005); and the Response to Staff's First Request, Item 7.

**WHEREFORE**, Kentucky Utilities Company respectfully requests the Commission to approve the use of an overall rate of return on capital of 7.07% using a return on equity of 9.70%, a tax gross-up factor of 0.745444, and an overall grossed-up return of 8.84% beginning with the January 2018 expense month to be billed during the March 2018 billing cycle, and for all other relief to which it may be entitled.

Respectfully submitted,



---

Allyson K. Sturgeon  
Senior Corporate Attorney  
LG&E and KU Energy LLC  
220 W. Main Street  
Louisville, KY 40202  
Telephone: (502) 627-2088  
[allyson.sturgeon@lge-ku.com](mailto:allyson.sturgeon@lge-ku.com)

*Counsel for Kentucky Utilities Company*

**CERTIFICATE OF SERVICE**

This is to certify that Kentucky Utilities Company's January 8, 2018 electronic filing is a true and accurate copy of the documents being filed in paper medium; that the electronic filing was transmitted to the Commission on January 8, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a copy of the filing in paper medium is being hand-delivered to the Commission within two business days of this filing.



---

*Counsel for Kentucky Utilities Company*