

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

**In the Matter of:**

<b>ELECTRONIC JOINT APPLICATION OF</b>	)	
<b>LOUISVILLE GAS AND ELECTRIC</b>	)	
<b>COMPANY AND</b>	)	
<b>KENTUCKY UTILITIES COMPANY FOR</b>	)	<b>CASE NO. 2018-00005</b>
<b>CERTIFICATES OF PUBLIC</b>	)	
<b>CONVENIENCE AND NECESSITY FOR</b>	)	
<b>FULL DEPLOYMENT OF ADVANCED</b>	)	
<b>METERING SYSTEMS</b>	)	

**VERIFIED INFORMATIONAL UPDATE FILING**

This Verified Informational Update Filing of Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”) (collectively “the Companies”) provides updates to the Electric and Gas Advanced Metering Systems Business Case for Louisville Gas & Electric Company and Kentucky Utilities Company (“AMS Business Case”) attached to John P. Malloy’s testimony as Exhibit JPM-1, which testimony and the Companies’ Joint Application were filed in this proceeding on January 10, 2018. The Companies noted in the AMS Business Case and at various points in their Joint Application and supporting testimony that the cost and benefit values were calculated prior to the revision in the federal corporate income tax rate that became effective on January 1, 2018.<sup>1</sup> The Companies further noted they were working to revise their cost-benefit calculations to account for the new tax rate and would file them in this proceeding as soon as reasonably possible, and no later than January 31, 2018. The Companies are making this filing to satisfy that commitment.

The Companies stated in their Joint Application and testimony that they expected the net benefits resulting from the proposed full deployment of Advanced Metering Systems (“AMS”)

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<sup>1</sup> Joint Application at 7 fn.6; Testimony of John P. Malloy at 2 fn.2 and Exh. JPM-1 at 52 fn. 54.

would increase on a net present value basis as a result of the 2017 Tax Cuts and Job Act (“Tax Act”).<sup>2</sup> The table below shows the Companies were correct: The effect of the new tax law is to increase the net benefits on a net present value of revenue requirements (“NPVRR”) basis by \$5.6 million (in 2018 dollars) from \$28.5 million to \$34.1 million:

<b>AMS Cost-Benefit Summary (2018-2040) (\$ millions; NPVRR in 2018 dollars)</b>				
	<b>Nominal Cash Outlays or Benefits</b>	<b>Nominal Revenue Requirements (Nominal RR) *</b>	<b>NPVRR As Filed</b>	<b>NPVRR Revised for Tax Act</b>
<b>(Costs)</b>				
Total Project Costs (Capital)	(320.0)	(515.0)	(357.1)	(342.5)
Total Project Costs (O&M)	(29.8)	(29.8)	(26.0)	(25.8)
<b>Total Project Costs</b>	<b>\$ (349.8)</b>	<b>\$ (544.8)</b>	<b>\$ (383.1)</b>	<b>\$ (368.3)</b>
Total Recurring Costs (Capital) **	(43.8)	(63.0)	(22.3)	(20.9)
Total Recurring Costs (O&M)	(108.8)	(108.8)	(47.9)	(46.5)
<b>Total Recurring Costs</b>	<b>\$ (152.6)</b>	<b>\$ (171.8)</b>	<b>\$ (70.2)</b>	<b>\$ (67.4)</b>
<b>Total Lifecycle Costs</b>	<b>\$ (502.4)</b>	<b>\$ (716.6)</b>	<b>\$ (453.3)</b>	<b>\$ (435.7)</b>
<b>Benefits</b>				
Operational Savings	425.1	425.1	208.3	203.0
ePortal Benefit	158.0	158.0	76.7	74.8
Recovery of Non-Technical Losses	402.3	402.3	196.8	192.0
<b>Total Lifecycle Benefits</b>	<b>\$ 985.4</b>	<b>\$ 985.4</b>	<b>\$ 481.8</b>	<b>\$ 469.8</b>
<b>Net Benefits vs (Costs)</b>	<b>\$ 483.0</b>	<b>\$ 268.8</b>	<b>\$ 28.5</b>	<b>\$ 34.1</b>
<b>Discount Rate</b>			<b>6.32%</b>	<b>6.58%</b>

\* Nominal revenue requirements (Nominal RR) includes expected effects of 2017 Tax Cuts and Jobs Act.

\*\* To account for full impact of recurring capital investments made through 2040, revenue requirements (Nominal RR and NPVRR) resulting from those investments are included through 2055.

The discount rate of 6.32% shown in the “NPVRR As Filed” column was the Companies’ weighted average cost of capital used for capital expenditure modeling prior to the reduction in the top marginal federal corporate income tax rate resulting from the Tax Act. The discount rate of 6.58% shown in the “NPVRR Revised for Tax Act” column is the weighted average cost of

<sup>2</sup> Tax Cuts and Jobs Act, H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017).

capital the Companies now use for capital expenditure modeling, which takes into account the reduced top federal marginal corporate income tax rate resulting from the Tax Act. The increased discount rate (weighted cost of capital) results solely from the reduced tax rate; reducing the tax rate reduces the tax benefit of deducting interest expense, resulting in an increased after-tax cost of debt, which in turn increases the weighted average cost of capital even when using the same pre-tax cost of debt.

The Companies have also included in the updated benefit and cost table a column showing nominal revenue requirements (Nominal RR) to ensure full comparability between the proposed deployment's nominal costs and benefits and the NPVRR costs and benefits shown in the NPVRR Revised column. In the benefit-cost table as filed, the nominal values column included nominal capital outlays but not the nominal cost of capital associated with those outlays. The net present value column as filed did include cost of capital, and therefore was truly a set of NPVRR values, which did not allow for full comparability between the nominal and net present value columns with regard to the capital cost entries. The revised table above ensures full comparability between the Nominal RR and NPVRR Revised columns. Please note that the changes to the capital entries between the Nominal Cash Outlays or Benefits column and the Nominal RR column are solely due to including cost of capital in the latter, and do not reflect changes to the amounts of the proposed capital investments.

Dated: January 30, 2018

Respectfully submitted,



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**CERTIFICATE OF COMPLIANCE**

In accordance with 807 KAR 5:001 Section 8(7), this is to certify that Louisville Gas and Electric Company and Kentucky Utilities Company's January 30, 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 30, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original and six copies of the filing will be filed with the Commission within two business days from the date of the electronic filing.

  
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*Counsel for Louisville Gas and Electric  
Company and Kentucky Utilities Company*