

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

**In the Matter of:**

<b>ELECTRONIC EXAMINATION BY THE PUBLIC</b>	)	
<b>SERVICE COMMISSION OF THE ENVIRONMENTAL</b>	)	<b>CASE NO.</b>
<b>SURCHARGE MECHANISM OF KENTUCKY</b>	)	<b>2018-00051</b>
<b>UTILITIES COMPANY FOR THE SIX-MONTH</b>	)	
<b>BILLING PERIOD ENDING OCTOBER 31, 2017</b>	)	

**RESPONSE OF**  
**KENTUCKY UTILITIES COMPANY**  
**TO**  
**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO**  
**APPENDIX B OF COMMISSION'S ORDER**  
**DATED FEBRUARY 8, 2018**

**FILED: March 14, 2018**

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Controller for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14<sup>th</sup> day of March 2018.

 (SEAL)  
Notary Public

My Commission Expires:  
JUDY SCRIBNER  
Notary Public, State at Large, KY  
My commission expires July 11, 2018  
Notary ID # 512743

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Heather D. Metts**, being duly sworn, deposes and says that she is Director – Accounting and Regulatory Reporting for LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Heather D. Metts  
**Heather D. Metts**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of March 2018.

Judy Schooler (SEAL)  
Notary Public

My Commission Expires:  
JUDY SCHOOLER  
Notary Public, State at Large, KY  
My commission expires July 11, 2018  
Notary ID # 512743

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Derek A. Rahn**, being duly sworn, deposes and says that he is Manager - Revenue Requirement/COS for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



**Derek A. Rahn**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14~~th~~ day of March 2018.



**Judy Schooler** (SEAL)  
Notary Public

My Commission Expires:  
JUDY SCHOOLER  
Notary Public, State at Large, KY  
My commission expires July 11, 2018  
Notary ID # 512743

**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's First Request for Information  
To Appendix B of Commission's Order Dated February 8, 2018**

**Case No. 2018-00051**

**Question No. 1**

**Witness: Derek A. Rahn / Heather D. Metts**

- Q-1. Concerning the rate of return on the 2009, 2011, and 2016 amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional capital structure as of August 31, 2017. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-1. See the attachment provided in Excel format.

KU calculated the true-up adjustment to recognize changes in the cost of debt and capital structure in two steps, shown on Pages 1 and 2 of the attachment to this response. Page 1 reflects the true-up required due to the changes between the Rate Base as filed and the Rate Base as Revised through the Monthly Filings. However, during the period under review there were no revisions to reflect. Page 2 represents the true-up in the Rate of Return as filed compared to the actual Rate of Return calculations, which impacted the true-up adjustment for the period under review in this case. No further revisions to Rate Base were identified in preparation of this response.

Page 3 provides the adjusted weighted average cost of capital for the expense period ending May 31, 2017 to true-up the months March thru May in the review period utilizing the return on equity of 10.00% as agreed to for all pre-2016 ECR Plans and 9.8% as agreed to for all 2016 ECR Plans. These were the approved rates of return on equity by the Commission in Case No. 2016-00214 and Case No. 2016-00026.

Page 4 provides the adjusted weighted average cost of capital for the expense period ending August 31, 2017 to true-up the months June thru August in the review period utilizing the return on equity of 9.7% as agreed to for all ECR Plans and approved by the Commission in its December 19, 2017 Order in Case No. 2017-00266.

Page 5 provides detail for short- and long-term debt for the expense period March 1, 2017 thru May 31, 2017, while Page 6 provides detail for short- and long-term debt for the expense period June 1, 2017 thru August 31, 2017. KU calculated the short- and long-term debt rates using average daily balances and daily interest rates pursuant to the Commission's Order in Case No. 2011-00161.

The attachments are  
being provided in  
separate files in Excel  
format.

**KENTUCKY UTILITIES COMPANY**

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**Case No. 2018-00051**

**Question No. 2**

**Witness: Derek A. Rahn**

Q-2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing period under review. Include all supporting calculations and documentation for any over- or under-recovery. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.

A-2. See the attachment provided in Excel format.

- Page 1 shows the impact on E(m) from the revisions in rate base and the rate of return.
- Page 2 shows the combined over-recovery for the period under review.
- Page 3 shows the effect of the change in rate of return and the use of 12-month average revenues on the over-recovery.
- Page 4 shows detailed variances within the calculation of the over-recovery.

For the period under review, KU experienced a net over-recovery of \$346,028.



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**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's First Request for Information  
To Appendix B of Commission's Order Dated February 8, 2018**

**Case No. 2018-00051**

**Question No. 3**

**Witness: Christopher M. Garrett**

- Q-3. Provide the calculations, assumptions, work papers, and other supporting documents used to determine the amounts KU has reported during each billing period under review for Pollution Control Deferred Income Taxes. Provide all exhibits and schedules of your response in Excel spreadsheet form at, with formulas intact and unprotected and all rows and columns accessible.
- A-3. KU calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation, bonus depreciation, or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

See the attachment provided in Excel format for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review period.

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**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's First Request for Information  
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**Case No. 2018-00051**

**Question No. 4**

**Witness: Derek A. Rahn / Heather D. Metts**

- Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the expense months covered by the applicable billing period. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.
- A-4. See the attachment provided in Excel format. The Company has provided the variance and an explanation within the Excel file itself.

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**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's First Request for Information  
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**Case No. 2018-00051**

**Question No. 5**

**Witness: Heather D. Metts**

- Q-5. In Case No. 2000-00439<sup>6</sup>, the Commission ordered that KU's cost of debt and preferred stock would be reviewed and re-established during the 6-month review case. Provide the following information as of August 31, 2017:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.
  - b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.
  - c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.
  - d. Provide all supporting exhibits and schedules in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-5. There was no preferred stock outstanding as of August 31, 2017; therefore, it is not listed in the attached schedules.

For re-establishing the rate of return to be used in future monthly filings, KU utilized a return on equity of 9.70% as approved by the Commission in its June 23, 2017 Order in Case No. 2016-00437. See the attachment provided in Excel format for the period ended August 31, 2017 under review, utilizing a return on equity of 9.70%.

KU recommends the use of an effective tax rate of 25.4556% in the gross-up revenue factor used in the rate of return calculation. Reflective of Chris Garrett's direct

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<sup>6</sup> Case No. 2000-00439, *Kentucky Utilities Company* (Ky. PSC Apr. 18, 2001 ).

testimony, this is due to the effect of the Tax Cuts and Jobs Act law that became effective January 1, 2018. KU has provided an adjusted rate of return calculation for the period ended August 31, 2017 with the recommended effective tax rate included for illustrative purposes. No Internal Revenue Code §199 manufacturing tax deduction is included in this rate due to its repeal in the Tax Cuts and Jobs Act that was signed into law on December 22, 2017.

The attachments are  
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**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's First Request for Information  
To Appendix B of Commission's Order Dated February 8, 2018**

**Case No. 2018-00051**

**Question No. 6**

**Witness: Derek A. Rahn**

Q-6. Provide the actual average residential customer's usage. Based on this usage amount, provide the dollar impact the over/under recovery will have on the average residential customer's bill for the requested recovery period. Provide all supporting calculations and documentation in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.

A-6. See the attachment provided in Excel format.

The actual average residential customer's usage for the 12-months ending December 31, 2017 is 1,048 kWh per month. Actual average monthly usage for residential customers will vary monthly depending on the time of year.

Based on distributing the over-recovered position of \$346,028 over one month, the ECR billing factor will be lower by approximately 0.28% for one month. For a residential customer using 1,048 kWh per month, the impact of the adjusted ECR billing factor would be a decrease of approximately \$0.29 per month for one month, using rates and adjustment clause factors in effect for the December 2017 billing month.

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