

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE ENVIRONMENTAL)	CASE NO.
SURCHARGE MECHANISM OF KENTUCKY)	2018-00257
UTILITIES COMPANY FOR THE SIX-MONTH)	
BILLING PERIOD ENDING APRIL 30, 2018)	

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

FILED: September 5, 2018

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 5th day of September 2018.


_____ (SEAL)
Notary Public

My Commission Expires:
Judy Schooler
Notary Public, ID No. 603967
State at Large, Kentucky
Commission Expires 7/11/2022

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Susan S. Neal**, being duly sworn, deposes and says that he is Director of Accounting & Regulatory Reporting for LG&E and KU Services Company, and that he 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.

Susan S Neal
Susan S. Neal

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 5th day of September 2018.

Judy Schooler (SEAL)
Notary Public

My Commission Expires:
Judy Schooler
Notary Public, ID No. 603967
State at Large, Kentucky
Commission Expires 7/11/2022

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **J. Scott Williams**, being duly sworn, deposes and says that he is Director – Corporate Tax and Payroll 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.

J. Scott Williams

J. Scott Williams

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 5th day of September 2018.

Judy Schooler

Notary Public (SEAL)

My Commission Expires:
Judy Schooler
Notary Public, ID No. 603967
State at Large, Kentucky
~~Commission Expires 7/11/2022~~

KENTUCKY UTILITIES COMPANY

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

Case No. 2018-00257

Question No. 1

Witness: Derek A. Rahn / Susan S. Neal

- Q-1. Concerning the rate of return on the 2009, 2011 , and 2016 amendments to the environmental compliance plan, and for the period under review, calculate any trueup 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 February 28, 2018. 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 attached provided in Excel format.

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

KENTUCKY UTILITIES COMPANY

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

Case No. 2018-00257

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 such additional 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 \$2,761,467.

The attachments are
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separate files in Excel
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KENTUCKY UTILITIES COMPANY

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

Case No. 2018-00257

Question No. 3

Witness: J. Scott Williams

- 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 format, 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
To Appendix B of Commission's Order Dated August 8, 2018**

Case No. 2018-00257

Question No. 4

Witness: Susan S. Neal

- Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the review 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. 2018-00257

Question No. 5

Witness: Susan S. Neal

- Q-5. In Case No. 2000-00439,⁶ the Commission ordered that KU's cost of debt and preferred stock would be reviewed and re-established during the six-month review case. Provide the following information as of February 28, 2018:
- 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 exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-5. a-d. See the attachment provided in Excel format for the period ended February 28, 2018 under review. There was no preferred stock outstanding as of February 28, 2018; 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 January 24, 2018 Order in Case No. 2017-00266. See the attachment provided in Excel format for the period ended February 28, 2018 under review, utilizing a return on equity of 9.70%.

KU recommends the use of an effective tax rate of 24.95% in the gross-up revenue factor used in the rate of return calculation. Reflective of Chris Garrett's previous direct testimony in Case No. 2018-00051, this is mainly due to the effect of the Tax Cuts and Jobs Act law that became effective January 1, 2018. Additionally, in April 2018, the Kentucky legislature passed HB366 tax reform, effective January 1, 2018,

⁶ Case No. 2000-00439, Kentucky Utilities Company (Ky. PSC Apr. 18, 2001).

that also impacted the tax rate. 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.

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KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
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Case No. 2018-00257

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-funder-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 June 30, 2018 is 1,201 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 \$2,761,467 over three months, the ECR billing factor will be lower by approximately 0.71% for three months. For a residential customer using 1,201 kWh per month, the impact of the adjusted ECR billing factor would be a decrease of approximately \$0.83 per month for three months, using rates and adjustment clause factors in effect for the August 2018 billing month.

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format.