

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)
KENTUCKY UTILITIES COMPANY FOR AN) CASE NO. 2018-00294
ADJUSTMENT OF ITS ELECTRIC RATES)

KENTUCKY UTILITIES COMPANY’S
APPLICATION FOR AUTHORITY TO ADJUST ELECTRIC RATES

Applicant, Kentucky Utilities Company (“KU”), pursuant to KRS Chapter 278 and the applicable sections of 807 KAR Chapter 5, hereby applies to the Kentucky Public Service Commission (“Commission”) for authority to adjust its electric rates. KU’s Notice of Intent to File a Rate Application, required by 807 KAR 5:001, Section 16(2), stated that the Application would be supported by a fully forecasted test period, was filed with the Commission on August 27, 2018, was provided to the Attorney General of Kentucky, Office of Rate Intervention, and is attached hereto at Tab 7 of the Filing Requirements.

In support of its Application, KU states as follows:

1. The full name and mailing address of KU are: Kentucky Utilities Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40202. KU may be reached by electronic mail at the electronic mail addresses of its counsel set forth below.

2. KU is a utility engaged in the electric business. KU generates and purchases electricity, and distributes and sells electricity at retail in the following counties in Central, Northern, Southeastern, and Western Kentucky:

Adair	Edmonson	Jessamine	Ohio
Anderson	Estill	Knox	Oldham
Ballard	Fayette	Larue	Owen
Barren	Fleming	Laurel	Pendleton
Bath	Franklin	Lee	Pulaski

Bell	Fulton	Lincoln	Robertson
Bourbon	Gallatin	Livingston	Rockcastle
Boyle	Garrard	Lyon	Rowan
Bracken	Grant	Madison	Russell
Bullitt	Grayson	Marion	Scott
Caldwell	Green	Mason	Shelby
Campbell	Hardin	McCracken	Spencer
Carlisle	Harlan	McCreary	Taylor
Carroll	Harrison	McLean	Trimble
Casey	Hart	Mercer	Union
Christian	Henderson	Montgomery	Washington
Clark	Henry	Muhlenberg	Webster
Clay	Hickman	Nelson	Whitley
Crittenden	Hopkins	Nicholas	Woodford
Daviess			

3. KU was incorporated in Kentucky on August 17, 1912, and in Virginia on November 26, 1991 (and effective as of December 1, 1991), and is in good standing in both Kentucky and Virginia. Copies of KU's good standing certificates from the Kentucky Secretary of State and the Virginia State Corporation Commission are attached in Tab 1 of the Filing Requirements.

4. This Application constitutes notice to the Commission pursuant to KRS 278.180(1) of the changes proposed to be made to KU's electric rates. KU's Statutory Notice is attached to this Application. KU is filing its Certificate of Notice to the public of the changes in its tariffs that result in increased rates, which Certificate is attached hereto at Tab 6 of the Filing Requirements.

5. Pursuant to 807 KAR 5:001 Section 8, on August 27, 2018, KU filed with the Commission notice of its election of the use electronic filing procedures in this proceeding. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

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Adjustment of Electric Rates

6. In accordance with the provisions of KRS 278.180 and 278.190, KU requests Commission approval of a change in existing rates, terms, conditions, and tariffs for electric service. KU proposes to change its existing rates and tariffs to those rates and charges set

forth in the proposed tariff attached hereto at Tab 4 of the Filing Requirements. A comparison of the present and proposed rates and charges is attached hereto at Tab 5 of the Filing Requirements. KU does not currently have any special contracts for retail electric service that contain rates not available under KU's tariff. KU does have a special-contract customer that KU bills under Rate Retail Transmission Service except that the customer is not billed for the following components: Energy Charge or Fuel Adjustment Clause, and Demand-Side Management Cost Recovery Mechanism. Because the special contract does not contain any special rates or terms, KU does not propose any changes to the special contract. The proposed adjustments in electric rates will result in an increase in revenues of approximately \$112 million or 6.9 percent per year for the forecasted test period compared to the operating revenues for the forecasted test period under existing electric rates.

7. The monthly residential electric bill increase due to the proposed electric base rates will be 8.1 percent, or approximately \$9.63, for a customer using 1,139 kWh of electricity (the average monthly consumption of a KU residential customer). However, due to the expiration of the Tax Cuts and Jobs Act ("TCJA") Surcredit when new base rates go into effect, the total monthly residential electric bill increase will be 11.7 percent, or approximately \$13.47, using the same amount of electricity under the proposed rates.¹

Support for Change in Existing Rates and Tariffs

8. In accordance with 807 KAR 5:001 Section 16(1)(b)(1), KU states that the requested change in existing rates, terms, conditions, and tariffs is required to enable KU to continue providing safe, reasonable, and adequate service to its customers, and to afford KU

¹ By Order dated March 20, 2018, in Case No. 2018-00034, the Commission approved an *Offer and Acceptance of Satisfaction* providing that KU and Louisville Gas and Electric Company "will continue to impose on the bills of their customers the [TCJA Surcredit], adjusted to reflect estimated annual Tax Act benefits, until such time as new base rates resulting from applications to change base rates take effect."

a reasonable opportunity to earn a fair return on its investment property which is used to provide that service while attracting necessary capital at reasonable rates. KU’s current rates and tariffs are inadequate for those purposes. Therefore, as explained in more detail in the verified testimony and exhibits identified below, the requested change in existing rates is required.

9. KU supports its request for a change in its existing rates and tariffs for electric service with the verified testimony and exhibits of the following persons:

- Paul W. Thompson, Chairman, Chief Executive Officer and President
- Kent W. Blake, Chief Financial Officer
- Lonnie E. Bellar, Chief Operating Officer
- David S. Sinclair, Vice President – Energy Supply and Analysis
- Gregory J. Meiman, Vice President – Human Resources
- Daniel K. Arbough, Treasurer
- Adrien M. McKenzie, Consultant, FINCAP, Inc.
- Christopher M. Garrett, Controller
- John J. Spanos, Senior Vice President, Gannett Fleming, Inc.
- Robert M. Conroy, Vice President – State Regulation and Rates
- William Steven Seelye, Managing Partner, The Prime Group LLC

10. KU further supports its request for a change in its existing rates and tariffs for electric service with the following exhibits complying with the requirements of 807 KAR 5:001, Sections 14, 16 and 17:

Tab	Filing Requirement	Description
1	807 KAR 5:001 Section 14(1)	Name, Address, Facts
1	807 KAR 5:001 Section 14(2)	Corp. - Incorporation, Good Standing
1	807 KAR 5:001 Section 14(3)	LLC - Organized, Good Standing
1	807 KAR 5:001 Section 14(4)	LP - Agreement

Tab	Filing Requirement	Description
2	807 KAR 5:001 Section 16(1)(b)1	Reason for Rate Adjustment
3	807 KAR 5:001 Section 16(1)(b)2	Certificate of Assumed Name
4	807 KAR 5:001 Section 16(1)(b)3	Proposed Tariff
5	807 KAR 5:001 Section 16(1)(b)4	Proposed Tariff Changes
6	807 KAR 5:001 Section 16(1)(b)5	Statement about Customer Notice
6	807 KAR 5:001 Section 16(3)	Comply with 807 KAR 5:051, Section 2
7	807 KAR 5:001 Section 16(2)	Notice of Intent
8	807 KAR 5:001 Section 16(6)(a)	Financial Data
9	807 KAR 5:001 Section 16(6)(b)	Forecasted Adjustments
10	807 KAR 5:001 Section 16(6)(c)	Capital, Net Investment Rate Base
11	807 KAR 5:001 Section 16(6)(d)	No Revisions to Forecast
12	807 KAR 5:001 Section 16(6)(e)	Alternative Forecast
13	807 KAR 5:001 Section 16(6)(f)	Reconciliation of Rate Base and Capital
14	807 KAR 5:001 Section 16(7)(a)	Testimony
15	807 KAR 5:001 Section 16(7)(b)	Capital Construction Budget
16	807 KAR 5:001 Section 16(7)(c)	Factors Used in Preparing Forecast
17	807 KAR 5:001 Section 16(7)(d)	Annual and Monthly Budget
18	807 KAR 5:001 Section 16(7)(e)	Statement of Attestation
19	807 KAR 5:001 Section 16(7)(f)	Major Construction Projects
20	807 KAR 5:001 Section 16(7)(g)	Other Construction Projects
21	807 KAR 5:001 Section 16(7)(h)	Financial Forecasts
22	807 KAR 5:001 Section 16(7)(h)(1)	Operating Income Statement
23	807 KAR 5:001 Section 16(7)(h)(2)	Balance Sheet
24	807 KAR 5:001 Section 16(7)(h)(3)	Statement of Cash Flows
25	807 KAR 5:001 Section 16(7)(h)(4)	Revenue Requirement
26	807 KAR 5:001 Section 16(7)(h)(5)	Load Forecast
27	807 KAR 5:001 Section 16(7)(h)(6)	Access Line Forecast (Telephone)
28	807 KAR 5:001 Section 16(7)(h)(7)	Mix of Generation (Electric)
29	807 KAR 5:001 Section 16(7)(h)(8)	Mix of Gas Supply (Gas)
30	807 KAR 5:001 Section 16(7)(h)(9)	Employee Level
31	807 KAR 5:001 Section 16(7)(h)(10)	Labor Cost Changes
32	807 KAR 5:001 Section 16(7)(h)(11)	Capital Structure Requirements
33	807 KAR 5:001 Section 16(7)(h)(12)	Rate Base
34	807 KAR 5:001 Section 16(7)(h)(13)	Gallons of Water Projected (Water)
35	807 KAR 5:001 Section 16(7)(h)(14)	Customer Forecast (Gas, Water)
36	807 KAR 5:001 Section 16(7)(h)(15)	Sales Volume Forecasts (Gas)
37	807 KAR 5:001 Section 16(7)(h)(16)	Toll and Access Forecast (Telephone)
38	807 KAR 5:001 Section 16(7)(h)(17)	Detailed Explanation of Other Info
39	807 KAR 5:001 Section 16(7)(i)	FERC Audit Reports
40	807 KAR 5:001 Section 16(7)(j)	Stock or Bond Prospectuses
41	807 KAR 5:001 Section 16(7)(k)	FERC Form 1, 2
42	807 KAR 5:001 Section 16(7)(l)	Annual Reports to Shareholders
43	807 KAR 5:001 Section 16(7)(m)	Current Chart of Accounts
44	807 KAR 5:001 Section 16(7)(n)	Monthly Managerial Reports
45	807 KAR 5:001 Section 16(7)(o)	Monthly Budget Variance Reports

Tab	Filing Requirement	Description
46	807 KAR 5:001 Section 16(7)(p)	SEC Reports (10-Ks, 8-Ks, 10-Qs)
47	807 KAR 5:001 Section 16(7)(q)	Independent Auditor's Annual Opinion
48	807 KAR 5:001 Section 16(7)(r)	Quarterly Reports to Stockholders
49	807 KAR 5:001 Section 16(7)(s)	Summary of Latest Depreciation Study
50	807 KAR 5:001 Section 16(7)(t)	Computer, Software, Hardware, etc.
51	807 KAR 5:001 Section 16(7)(u)	Affiliate, et. al., Allocations/Charges
52	807 KAR 5:001 Section 16(7)(v)	Cost-of-Service Study
53	807 KAR 5:001 Section 16(7)(w)	Incumbent Local Exchange Carriers
54	807 KAR 5:001 Section 16(8)(a)	Financial Summaries
55	807 KAR 5:001 Section 16(8)(b)	Rate Base Summaries
56	807 KAR 5:001 Section 16(8)(c)	Operating Income Summaries
57	807 KAR 5:001 Section 16(8)(d)	Summary of Income Adjustments
58	807 KAR 5:001 Section 16(8)(e)	Federal & Income State Tax Summaries
59	807 KAR 5:001 Section 16(8)(f)	Summary of Membership Dues, etc.
60	807 KAR 5:001 Section 16(8)(g)	Analyses of Payroll Costs
61	807 KAR 5:001 Section 16(8)(h)	Gross Revenue Conversion Factor
62	807 KAR 5:001 Section 16(8)(i)	Comparative Income Statements, etc.
63	807 KAR 5:001 Section 16(8)(j)	Cost of Capital Summary
64	807 KAR 5:001 Section 16(8)(k)	Financial Data and Earnings Measures
65	807 KAR 5:001 Section 16(8)(l)	Narrative Description of Tariff Changes
66	807 KAR 5:001 Section 16(8)(m)	Revenue Summary
67	807 KAR 5:001 Section 16(8)(n)	Typical Bill Comparison
68	807 KAR 5:001 Section 17(4)	Customer Notice Information
68	807 KAR 5:001 Section 17(1)	Sample Notices Posted
68	807 KAR 5:001 Section 17(2)	Method of Customer Notice
68	807 KAR 5:001 Section 17(3)	Proof of Customer Notice

11. As authorized by KRS 278.192(1), KU's Application for a general adjustment of electric rates is supported by a twelve-month fully forecasted test period in accordance with 807 KAR 5:001, Section 16(1)(a)2 with the forecasted test period ending April 30, 2020. The Application is supported by a base period consisting of the twelve (12) months ending December 31, 2018. As authorized by KRS 278.192(2), this base period begins not more than nine (9) months prior to the date of the filing of this Application, and is a period consisting of not less than six (6) months of historical data and not more than six (6) months of estimated data. Within forty-five (45) days after the last day of the base period, KU will file the actual results for the estimated months of the base period as required by KRS 278.192(2)(b).

12. In support of its Application for a general adjustment of rates supported by a fully forecasted test period, KU has presented its financial data for the forecasted period in the form of pro forma adjustments to the base period, has limited the forecasted adjustments to the forecasted period, and has based capitalization and net investment rate base on a thirteen-month average for the forecasted period, all as shown in Tabs 8, 9, and 10.

13. The testimony and exhibits to the application demonstrate the rates, terms, conditions and tariffs proposed for electric service are fair, just, and reasonable under KRS 278.030.

Depreciation Rates

14. In support of this Application, KU submits Mr. Spanos' testimony and the updated steam generation depreciation rates he prepared at KU's request. Mr. Spanos recommends KU's continued use of the Average Service Life and remaining life basis methodology of depreciation and KU agrees with that recommendation.

Regulatory Assets and Liabilities

15. In a separate application,² KU and Louisville Gas and Electric Company ("the Companies") have jointly requested the Commission authorize the establishment of regulatory liabilities to account for excess accumulated deferred income taxes ("ADIT") created by recent Kentucky state tax reform and the establishment of regulatory assets to accumulate and defer for future recovery the costs incurred to repair damage and restore service following the storms that struck the Companies' service territories beginning on July 20, 2018. In addition, as described in Mr. Garrett's written testimony, KU seeks regulatory asset treatment for \$1.9 million in remaining Kentucky jurisdictional inventory

² *Application of Kentucky Utilities Company and Louisville Gas and Electric Company for an Order Approving the Establishment of Regulatory Liabilities and Regulatory Assets*, Case No. 2018-00304 (Ky. PSC filed Sept. 10, 2018).

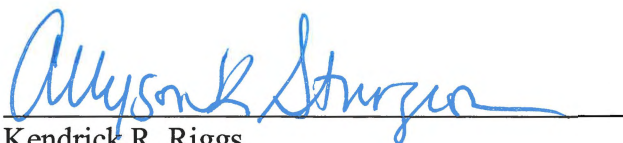
values of E.W. Brown Generating Station (“Brown”) Units 1 and 2 consistent with the regulatory treatment provided for the closure of Green River Generating Station. The rates that KU proposes in this application for rate adjustment reflect these requests.

WHEREFORE, Kentucky Utilities Company respectfully requests the Kentucky Public Service Commission to enter an order:

1. Approving the revised tariff sheets for electric service at Tab 4 of the Filing Requirements;
2. Approving the expiration of the Tax Cuts and Jobs Act Surcredit;
3. Approving KU’s proposed depreciation rates;
4. Including the amortization amounts from the regulatory liabilities for state tax reform and regulatory assets for costs related to the July 2018 storm in the calculation of KU’s revenue requirement;
5. Approving KU’s proposed regulatory asset for and amortization of the remaining inventory values of Brown Units 1 and 2; and
6. Granting all other relief to which Kentucky Utilities Company may be entitled.

Dated: September 28, 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 Kentucky Utilities Company's September 28, 2018 electronic filing is a true and accurate copy of the documents being filed in paper medium; that the electronic filing has been transmitted to the Commission on September 28, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original is being hand-delivered to the Commission on September 28, 2018.



Counsel for Kentucky Utilities Company