

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE)	
PUBLIC SERVICE COMMISSION OF THE)	
ENVIRONMENTAL SURCHARGE)	
MECHANISM OF KENTUCKY UTILITIES)	CASE NO. 2020-00170
COMPANY FOR THE SIX-MONTH BILLING)	
PERIOD ENDING OCTOBER 31, 2019)	

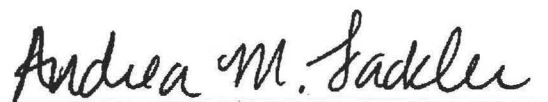
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO COMMISSION STAFF'S FIRST REQUESTS FOR INFORMATION
DATED JUNE 10, 2020

FILED: JULY 8, 2020

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Andrea M. Fackler**, being duly sworn, deposes and says that she is Manager - Revenue Requirement/Cost of Service 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.



Andrea M. Fackler

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of July 2020.



Notary Public

Notary Public, ID No. 603967

My Commission Expires:

7/11/2022

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Susan S. Neal**, being duly sworn, deposes and says that she is Director of Accounting & 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.

Susan S Neal
Susan S. Neal

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of July 2020.

Judy Schuster
Notary Public

Notary Public, ID No. 603967

My Commission Expires:

7/11/2022

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
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 1st day of July 2020

Judy Scholer

Notary Public

Notary Public, ID No. 003967

My Commission Expires:

7/11/2022

Kentucky Utilities Company
Response to Commission Staff's First Request for Information
Dated June 10, 2020

Case No. 2020-00170

Question No. 1

Witness: Susan S. Neal / Andrea M. Fackler

- 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, 2019. 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 being provided in Excel format. For the March 2019 expense month, the weighted average cost of capital was based on the average daily balances as of March 31, 2019 and the 9.700% authorized return on equity for all Plan projects. For the April 2019 through August 2019 expense months, the weighted average cost of capital was based on the average daily balances as of August 31, 2019 and the 9.725% return on equity for all Plan projects.

The attachment is
being provided in a
separate file in Excel
format.

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Question No. 2

Witness: Andrea M. Fackler

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 being provided in Excel format.

- Page 1 shows the impact on E(m) due to revisions in operating expenses and rate base and the actual rate of return for the period under review.
- Page 2 shows the combined total 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 \$1,625,177.

The attachment is
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format.

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Question No. 3

Witness: J. Scott Williams

- Q-3. Provide the calculations, assumptions, workpapers, 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 Income Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

See the attachment being 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.

The attachment is
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Question No. 4

Witness: Susan S. Neal

- 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 being provided in Excel format. The Company has provided the variances and explanations within the Excel file.

The attachment is
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Question No. 5

Witness: Susan S. Neal

Q-5. In Case No. 2000-00439,⁷ 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 August 31, 2019:

- 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. KU's calculation of its tax gross-up factor.
- e. Provide all supporting exhibits and schedules in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.

A-5. a-e. See the attachment being provided in Excel format for the period ended August 31, 2019 under review. There was no preferred stock outstanding as of August 31, 2019; 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 9.725% as approved by the Commission in its October 22, 2019 Order in Case No. 2019-00205. See the attachment provided in Excel format for the period ended August 31, 2019 under review, utilizing a return on equity of 9.725%.

KU recommends the continued use of an effective tax rate of 24.95% in the gross-up revenue factor used in the rate of return calculation.

⁷ Case No. 2000-00439, Kentucky Utilities Company (Ky. PSC Apr. 18, 2001).

The attachment is
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Question No. 6

Witness: Andrea M. Fackler

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

The actual average residential customer's usage for 12-months ended March 31, 2020 is 1,134 kWh per month. Actual average monthly usage for residential customer will vary monthly depending on the time of the year.

Based on distributing the over-recovered position of \$1,625,177 over three months, the ECR billing factor will decrease by approximately 0.42% each month. For a residential customer using 1,134 kWh per month, the impact of the adjusted ECR billing would be a decrease of approximately \$0.48 for each of the three months, using rates and adjustment clause factors in effect for the March 2020 billing month.

The attachment is
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Question No. 7

Witness: Susan S. Neal / Andrea M. Fackler

- Q-7. Refer to KU's Environmental Surcharge Report for the expense month of August 2019 (received September 20, 2019), ES FORM 2.01, column (4). Explain why the current month amortization amounts for Amended Project 36 - Brown Station (Main Pond) and Project 42 - Brown Station (Aux. Pond) differ from the amount calculated according to the formula in this column.
- A-7. In accordance with the Commission's Order in Case No. 2016-00026¹, CCR closure costs associated with pond closures at active stations are amortized over 25 years, and CCR closure costs associated with pond closures at retired stations are amortized over 10 years. When the Order was initially issued, the Project 36 Brown Station Main Pond was considered an active pond. KU inadvertently included this project's CCR closure costs on ES FORM 2.01 with the Project 42 Brown Station Auxiliary Pond which was also considered an active pond. This issue did not impact the revenue requirements in the affected monthly ECR filings.

In July 2018, the Commission issued an Order in Case No. 2017-00483² approving an amended plan which allowed treatment of the Brown Station Main Pond closure as a retired pond given that the closure was necessitated by the retirement of Brown units 1 and 2. As such, starting in August 2018, the amortization of CCR closure costs associated with the Project 36 Brown Station Main pond should have been switched to eight years to match the term of the other retired ponds' amortization, as two years of amortization had taken place under the original order. However, KU continued to incorrectly include the closure costs of the Brown Station Main Pond with the Brown Station Auxiliary Pond and amortize over the original 25 years. The cumulative error for this issue for the expense months August 2018 through July 2019 was discovered and corrected in the August 2019 expense month through inclusion of adjustments to the current month amortization calculated in column (4) of ES FORM 2.01. The table below reconciles the as filed amounts shown on ES FORM 2.01 to the revised amounts reflected in this review case proceeding.

Because the monthly revenue requirement impacts were not significant (total overstated jurisdictional E(m) was \$49,123 for March 2019 through August 2019 expense months), KU followed the accounting books and did not restate the prior month ECR filings. The impact of this issue on rate base and operating expenses is reflected in the attachments to the responses to Question Nos. 1 and 2.

¹ Case No. 2016-00026, Kentucky Utilities Company (Ky. PSC Aug. 8, 2016).

² Case No. 2017-00483, Kentucky Utilities Company (Ky. PSC Jul. 9, 2018).

Amortization Schedule				
Date	Monthly Spend	Cumulative Spend	Amortization Project 42 correction	Amortization Project 36 correction
Aug-18	11,318	11,318	(41)	119
Sep-18	15,032	26,350	(96)	279
Oct-18	47,105	73,455	(269)	786
Nov-18	27,481	100,936	(370)	1,084
Dec-18	1,733,052	1,833,989	(6,765)	20,129
Jan-19	11,015	1,845,004	(6,805)	20,251
Feb-19	13,058	1,858,062	(6,854)	20,398
Mar-19	25,886	1,883,949	(6,951)	20,692
Apr-19	670,697	2,554,645	(9,463)	28,401
May-19	404,581	2,959,226	(10,984)	33,106
Jun-19	405,797	3,365,024	(12,515)	37,880
Jul-19	386,071	3,751,095	(13,977)	42,477
Total Error Correction			(75,088)	225,601
Aug-19 Current Month Amortization			22,898	47,954
Total Project on ES FORM 2.01 Column 4			(52,190)	273,555