

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 LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2020-00171
BILLING PERIOD ENDING OCTOBER 31, 2019)	

DIRECT TESTIMONY OF
ANDREA M. FACKLER
MANAGER, REVENUE REQUIREMENT/COST OF SERVICE
LG&E AND KU SERVICES COMPANY

Filed: JULY 8, 2020

1 **Q. Please state your name, title, and business address.**

2 A. My name is Andrea M. Fackler. I am the Manager, Revenue Requirement/Cost of
3 Service for Louisville Gas and Electric Company (“LG&E” or “Company”) and an
4 employee of LG&E and KU Services Company, which provides services to LG&E.
5 My business address is 220 West Main Street, Louisville, Kentucky, 40202. A
6 complete statement of my education and work experience is attached to this testimony
7 as Appendix A.

8 **Q. Have you previously testified before this or any other Commission?**

9 A. Yes. I submitted testimony and sponsored data responses to the Kentucky Public
10 Service Commission (“Commission”) regarding LG&E’s and its sister utility Kentucky
11 Utilities Company’s (“KU”) 2020 ECR Plan filings¹. I also sponsored data responses
12 to the Commission for LG&E’s and KU’s most recent fuel adjustment clause six-month
13 review cases² and LG&E’s annual Gas Line Tracker filing³, was responsible for data
14 and information provided to the Commission for LG&E’s and KU’s data responses in
15 a variety of proceedings over the last four years, and submitted testimony to and

¹ *Application of Louisville Gas and Electric Company for Approval an Amended 2020 Environmental Compliance Plan and a Revised Environmental Surcharge*, Case No. 2020-00061, Response of Louisville Gas and Electric Company to Commission Staff’s Initial Request for Information Dated May 6, 2020 (Ky. PSC May 22, 2020); *Application of Kentucky Utilities Company for Approval of its 2020 Compliance Plan for Recovery by Environmental Surcharge*, Case No. 2020-00060, Response of Kentucky Utilities Company to Commission Staff’s Initial Request for Information Dated May 6, 2020 (Ky. PSC May 22, 2020).

² *An Examination of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company from May 1, 2019 to October 31, 2019*, Case No. 2020-00007, Response of Louisville Gas and Electric Company to Commission Staff’s First Request for Information Dated February 11, 2020 (Ky. PSC Feb. 25, 2020); *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from May 1, 2019 to October 31, 2019*, Case No. 2020-00006, Response of Kentucky Utilities Company to Commission Staff’s First Request for Information Dated February 11, 2020 (Ky. PSC Feb. 25, 2020).

³ *Electronic Application of Louisville Gas and Electric Company for Approval of Revised Rates to be Recovered Through Its Gas Line Tracker*, Case No. 2020-00032, Response of Louisville Gas and Electric Company to Commission Staff’s First Request for Information Dated April 7, 2020 (Ky. PSC April 17, 2020).

1 sponsored data responses to the Virginia State Corporation Commission regarding
2 KU's 2020 Levelized Fuel Factor filing⁴.

3 **Q. What is the purpose of this proceeding?**

4 A. The purpose of this proceeding is to review the past operation of LG&E's
5 environmental surcharge during the six-month billing period ending October 31, 2019
6 and determine whether the surcharge amounts collected during the period are just and
7 reasonable.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to summarize the operation of LG&E's environmental
10 surcharge during the billing period under review, demonstrate that the amount collected
11 during the period was just and reasonable, present and discuss LG&E's proposed
12 adjustment to the Environmental Surcharge Revenue Requirement based on the
13 operation of the surcharge during the period and explain how the environmental
14 surcharge factors were calculated during the period under review.

15 **Q. Please summarize the operation of the environmental surcharge for the billing
16 period included in this review.**

17 A. LG&E billed an environmental surcharge to its customers from May 1, 2019 through
18 October 31, 2019. For purposes of the Commission's examination in this case, the
19 monthly LG&E environmental surcharges are considered as of the six-month billing
20 period ending October 31, 2019. In each month of the six-month period under review
21 in this proceeding, LG&E calculated the environmental surcharge factors in accordance
22 with its ECR Tariff and the requirements of the Commission's previous orders

⁴ *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company to Revise Its Fuel Factor*, Case No. PUR-2020-00029, Direct Testimony of Andrea M. Fackler (Va. SCC filed Feb. 14, 2020).

1 concerning LG&E's environmental surcharge. The calculations were made in
2 accordance with the Commission-approved monthly forms and filed with the
3 Commission ten days before the new monthly factor was billed by the Company.

4 **Q. What costs were included in the calculation of the environmental surcharge**
5 **factors for the billing period under review?**

6 A. The capital and operating costs included in the calculation of the environmental
7 surcharge factors for the six-month billing period under review were the costs incurred
8 each month by LG&E from March 2019 through August 2019, as detailed in the
9 attachment to the response to Question No. 2 of the Commission Staff's First Request
10 for Information, incorporating all required revisions.

11 The monthly environmental surcharge factors applied during the billing period
12 under review were calculated consistent with the Commission's Orders in LG&E's
13 previous applications to assess or amend its environmental surcharge mechanism and
14 plan, as well as, Orders issued in previous review cases. The monthly environmental
15 surcharge reports filed with the Commission during this time reflect the various
16 changes to the reporting forms ordered by the Commission from time to time.

17 **Q. Please describe the most recently approved changes to LG&E's ECR Compliance**
18 **Plan.**

19 A. In Case No. 2016-00027, the Commission approved LG&E's 2016 ECR Compliance
20 Plan that included three new projects and associated operation and maintenance costs.
21 Pursuant to the Commission's August 8, 2016 Order approving the Settlement
22 Agreement in Case No. 2016-00027, LG&E began including the approved projects in
23 the monthly filing for the August 2016 expense month that was billed in October 2016

1 with separate authorized rates of return for the Pre-2016 and 2016 ECR Compliance
2 Plans.

3 **Q. Please describe the most recently approved changes to the environmental**
4 **surcharge mechanism and the monthly ES forms.**

5 A. There were two changes approved in Case No. 2019-00015.

6 First, the Commission increased the return on equity to be used in the monthly
7 environmental surcharge filings to 9.725% for all ECR Plans. Pursuant to the
8 Commission's April 30, 2019 Order, the changes were implemented with the April
9 2019 expense month that was billed in June 2019.

10 Second, the Commission approved a form change on ES Form 2.00 which
11 eliminated the section for Proceeds From By-Product and Allowance Sales.

12 **Q. Is LG&E proposing any changes to its Environmental Cost Recovery Surcharge**
13 **tariff?**

14 A. No. There are no needed changes to the Environmental Cost Recovery Surcharge tariff.

15 **Q. Is LG&E proposing any changes to the environmental surcharge mechanism and**
16 **the monthly ES forms?**

17 A. No, there are currently no needed changes to the ES Forms.

18 **Q. Are there any changes or adjustments in Operating Expenses from the originally**
19 **filed expense months?**

20 A. Yes. For the period under review, there are two updates to Operating Expenses that
21 are reflected in the attachment to the response to Question No. 2 of Commission Staff's
22 First Request for Information. The first update relates to \$271,331 in expenses for
23 account 512107 - Landfill Maintenance, which is related to the coal combustion

1 residuals treatment facility (“CCRT”) at Trimble County, that were inadvertently
2 excluded from ES FORM 2.50 for expense months April through August 2019 of the
3 period under review. When the error was discovered, the expenses were included in
4 the December 2019 expense month filing. Because the monthly revenue requirement
5 impacts were not significant (total understated jurisdictional E(m) was \$266,643 for
6 April through August 2019 and total overstated jurisdictional E(m) for December 2019
7 when corrected was \$262,995), LG&E did not restate the prior months’ ECR filings
8 and instead is correcting them in this review case. The impact of this issue on operating
9 expenses and the cash working capital component of rate base is reflected in the
10 attachments to the responses to Question Nos. 1 and 2.

11 The second update relates to the issue identified by Commission Staff in
12 Question No. 7 of Commission Staff’s First Request for Information. As noted in the
13 response, certain costs related to the settlement of CCR ARO liabilities were
14 inadvertently included in the Accumulated CCR Closure Costs in the March 2019
15 expense month filing, which impacted the calculation of the March amortization
16 expense. When the CCR closure costs and amortization expense were corrected in
17 April 2019, the filing included the impact of the correction twice – once in the prior
18 month accumulated amortization and once in the current month amortization expense.
19 The May 2019 expense month filing was correct but still did not tie to the previous
20 month’s filing due to the error in the April 2019 filing. Because the monthly revenue
21 requirement impacts were not significant (total understated jurisdictional E(m) was
22 \$32,214 for March 2019 and April 2019), LG&E did not restate the prior months’ ECR
23 filings and instead is correcting them in this review case. The impact of this issue on

1 operating expenses and the net unamortized closure cost balances component of rate
2 base is reflected in the attachments to the responses to Question Nos. 1 and 2.

3 **Q. Are there any changes or adjustments in Rate Base from the originally filed**
4 **expense months?**

5 A. Yes. As discussed previously, both issues impacted rate base as well. The impact on
6 rate base is reflected in the attachments to the responses to Question Nos. 1 and 2. No
7 other changes or adjustments in rate base from the originally filed expense months is
8 necessary for the period under review.

9 **Q. Are there any other changes necessary to the jurisdictional revenue requirement**
10 **(E(m))?**

11 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's Order
12 in Case No. 2000-00386, to reflect the actual changes in the overall rate of return on
13 capital that is used in the determination of the return on environmental rate base.

14 Pursuant to the terms of the Settlement Agreement approving the 2011 ECR
15 Plan, LG&E calculated the short- and long-term debt rate using average daily balances
16 and daily interest rates in the calculation of the overall rate of return true-up adjustment
17 for the six-month expense period ending August 31, 2019. For the March 2019 expense
18 month, the weighted average cost of capital was based on the average daily balances as
19 of March 31, 2019 and the 9.700% authorized return on equity for all Plan projects.
20 For the April 2019 through August 2019 expense months, the weighted average cost of
21 capital was based on the average daily balances as of August 31, 2019 and the 9.725%
22 return on equity for all Plan projects. The details of and support for these calculations

1 are shown in the attachment to LG&E's response to Question No. 1 of the Commission
2 Staff's First Request for Information.

3 **Q. Are there any other corrections to information provided in the monthly filings**
4 **during the billing period under review?**

5 A. No.

6 **Q. As a result of the operation of the environmental surcharge during the billing**
7 **period under review, is an adjustment to the revenue requirement necessary?**

8 A. Yes. LG&E experienced an over-recovery of \$991,852 for the billing period ending
9 October 31, 2019. LG&E's attachment to the response to Question No. 2 of the
10 Commission Staff's First Request for Information shows the calculation of the over-
11 recovery. An adjustment to the revenue requirement is necessary to reconcile the
12 collection of past surcharge revenues with actual costs for the billing period under
13 review.

14 **Q. Has LG&E identified the causes of the over-recovery during the billing period**
15 **under review?**

16 A. Yes. LG&E has identified the primary components that make up the over-recovery
17 during the billing period under review. The primary components are: (1) changes in
18 overall rate of return as previously discussed and (2) the use of 12-month average
19 revenues to determine the billing factor. The details and support of the primary
20 components that make up the over-recovery during the billing period under review are
21 shown in LG&E's response to Question No. 2 of the Commission Staff's First Request
22 for Information.

1 **Q. Please explain how the function of the ECR mechanism contributes to the**
2 **recovery position in the billing period under review.**

3 A. The use of 12-month average revenues to calculate the monthly billing factors and then
4 applying those same billing factors to the actual monthly revenues will result in an
5 over- or under-collection of ECR revenues. The table below shows a comparison of
6 the 12-month average revenues used in the monthly filings to determine the ECR billing
7 factors and the actual revenues to which the ECR billing factors were applied in the
8 billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
March 2019	\$76,203,445	May 2019	\$68,426,406
April 2019	\$75,655,968	June 2019	\$80,087,011
May 2019	\$75,489,006	July 2019	\$95,079,160
June 2019	\$74,954,670	August 2019	\$94,119,714
July 2019	\$75,032,191	September 2019	\$90,091,738
August 2019	\$75,365,688	October 2019	\$83,476,040

*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Groups 1 and 2.

9

10 Generally, an under-recovery will occur when actual revenues for the billing
11 month are less than the 12-month average revenues used for the expense month.
12 Likewise, an over-recovery will usually occur when actual revenues for the billing
13 month are greater than the 12-month average revenues used for the expense month.

14 **Q. What kind of adjustment is LG&E proposing in this case as a result of the**
15 **operation of the environmental surcharge during the billing period?**

16 A. LG&E is proposing that the over-recovery be distributed over two months following
17 the Commission's Order in this proceeding. Specifically, LG&E recommends that the

1 Commission approve a decrease to the Environmental Surcharge Revenue
2 Requirement of \$495,926 for two months beginning in the second full billing month
3 following the Commission's Order in this proceeding. This method is consistent with
4 the method of implementing previous over- or under-recovery positions in prior ECR
5 review cases.

6 **Q. What is the bill impact on a residential customer for the proposed distribution of**
7 **the over-recovery?**

8 A. The inclusion of the distribution reflecting the over-recovery position in the
9 determination of the ECR billing factor will decrease the billing factor by
10 approximately 0.55% for two months. For a residential customer using an average of
11 945 kWh per month, the impact of the adjusted ECR billing factor would be a decrease
12 of approximately \$0.57 for each of the two months (using rates and adjustment clause
13 factors in effect for the March 2020 billing month).

14 See the response and attachment to Commission Staff's First Request for
15 Information Question No. 6.

16 **Q. What rate of return is LG&E proposing to use for all ECR Plans upon the**
17 **Commission's Order in this proceeding?**

18 A. LG&E is recommending an overall rate of return on capital of 8.85%, including the
19 currently approved 9.725% return on equity and adjusted capitalization, to be used to
20 calculate the environmental surcharge. This is based on capitalization as of August 31,
21 2019, the Commission's Order of October 22, 2019 in Case No. 2019-00206, and the
22 continued use of the federal corporate income tax rate implemented in accordance with

1 the Tax Cuts and Jobs Act and the Kentucky state corporate income tax rate
2 implemented in accordance with House Bill 487.

3 See the response and attachment to Commission Staff's First Request for
4 Information Question No. 5.

5 **Q. What is your recommendation to the Commission in this case?**

6 A. LG&E makes the following recommendations to the Commission in this case:

7 a) The Commission should approve the proposed decrease to the Environmental
8 Surcharge Revenue Requirement of \$495,926 for two months beginning in the
9 second full billing month following the Commission's Order in this proceeding;

10 b) The Commission should determine the environmental surcharge amount for the
11 six-month billing period ending October 31, 2019 to be just and reasonable,
12 and;

13 c) The Commission should approve the use of an overall rate of return on capital
14 of 8.85% for all projects, using a return on equity of 9.725%, beginning in the
15 second full billing month following the Commission's Order in this proceeding.

16 **Q. Does this conclude your testimony?**

17 A. Yes.

APPENDIX A

Andrea M. Fackler, CPA, CGMA

Manager, Revenue Requirement/Cost of Service
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202

Previous Positions

LG&E and KU Services Company	
Rate & Regulatory Analyst III & Senior	Jan 2016 – Nov 2019
Accounting Analyst III & Senior	Aug 2012 – Jan 2016
Accounting Analyst II & III	Jul 2010 – Aug 2012
Dean Dorton Ford, PSC	
Supervisor in Accounting and Compliance Services	Jan 2007 – May 2010

Professional/Trade Memberships

American Institute of Certified Public Accountants
Kentucky Society of Certified Public Accountants (“KSCPA”)
Institute of Management Accountants

Education/Training

LG&E and KU Strategic Business Integration, 2017-2018 Cohort
Bachelor of Science in Accounting, University of Kentucky, Dec 2006
Bachelor of Business Administration, University of Kentucky, Dec 2006

Civic Activities

Baptist Health NICU Family Advisory Council, 2019 – Current
Members in Business and Industry Committee Member, KSCPA, July 2017 – Current
President-Elect, President, and Immediate Past President, LG&E and KU Young Energy Professionals, 2015-2017
Member and Chair of Communications and Marketing Committee, LG&E and KU Young Energy Professionals, 2013-2014