FEDERAL ENERGY REGULATORY COMMISSION
Washington, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. AC21-147-000
August 12, 2021

LG&E and KU Energy LLC
Attn: Christopher M. Garrett, Controller
220 West Main Street
Louisville, Kentucky 40202

Dear Mr. Garrett:

This is in response to your letter dated July 16, 2021. You filed the letter on behalf of Louisville Gas and Electric Company and Kentucky Utilities Company (Applicants) and requested approval to treat the deployment of their Advanced Metering Infrastructure (AMI) program as a single project for purposes of accrual of Allowance for Funds Used During Construction (AFUDC).[1] In addition, you requested permission to record the remaining net book value (NBV) of the legacy meters in Account 182.2, Unrecovered Plant and Regulatory Study Costs, upon the full deployment of the AMI program. Notice of this filing was published in the Federal Register, with comments due by August 2, 2021. The Kentucky Attorney General filed a timely motion to intervene. Your request is authorized as discussed below. This authorization is not intended to influence the outcome of any rate treatment related to this request.

<u>Accrual of AFUDC on AMI Program</u>

Applicants estimate $302.5 million of capital expenditures related to the five-year AMI program, and request to capitalize AFUDC until the entire program is implemented, tested, and deemed fully operational in 2026.[2] You state that the approval of this request will not result in a direct[3] increase in FERC-jurisdictional rates. Accounting Release No. 5 states that "[c]apitalization of AFUDC stops when the facilities have been tested and

[1] Applicants state that the full benefit of their AMI program cannot be achieved until all components are complete, synchronized, and functional in their service areas.

[2] Applicants state that the physical deployment and integration of the AMI program on their distribution systems will include IT system activities and processes.

[3] If the accrued AFUDC affects formula rate inputs that are used to calculate plant allocators, Applicants must disclose the indirect effect in their annual informational transmission rate filings.

are placed in, or ready for, service," which includes "those portions of construction projects completed and put into service although the project is not fully completed.[4] Based on your representation that the components are not used and useful or placed in or ready for service until the entire AMI program is complete, we authorize your request. To the extent any component of your program is ready for service prior to the completion of the entire project, such components must be transferred to plant in service and related AFUDC accruals must cease, consistent with the Commission's accounting regulations.

Legacy Meters: Unrecovered Costs upon Deployment of AMI Program

Applicants represent that the legacy meters consist of assets entirely within their distribution system, and therefore will have no direct[5] impact on FERC-jurisdictional customers. Applicants state that the remaining NBV of the legacy meters will be $26.8 million upon placement of their AMI program into service in 2026. Applicants state that they will transfer the remaining NBV of the legacy meters to Account 182.2 for future recovery in retail rates.[6] Based on your representations, the proposed use of Account 182.2 is authorized. If rate recovery of all or part of the amount included in Account 182.2 is disallowed, the disallowed amount should be charged to Account 426.5, Other Deductions, in the year of disallowance.

The Commission delegated authority to act on this matter to the Director of the Office of Enforcement or his designee under 18 C.F.R. § 375.311 (2020). The Director has designated this authority to the Chief Accountant. This letter order constitutes final agency action. Your company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2020).

Sincerely,

Gerald Williams

Digitally signed by Gerald Williams
Date: 2021.08.11 12:38:11 -04'00'

Gerald Williams
Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement

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[4] *AR-5 (Revised), Capitalization of AFUDC*, Docket No. AI11-1-000 (2011).

[5] If the reclassification affects transmission rates, Applicants must request transmission rate approval in an appropriate rate filing.

[6] Applicants state that these costs will be addressed in future rate proceedings with the Kentucky Public Service Commission and the Virginia State Corporation Commission, in which the amortization will be addressed.

Document Content(s)