

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE)	
PUBLIC SERVICE COMMISSION OF THE)	
ENVIRONMENTAL SURCHARGE)	
MECHANISM OF KENTUCKY UTILITIES)	
COMPANY FOR THE SIX-MONTH BILLING)	CASE NO. 2023-00376
PERIODS ENDING APRIL 30, 2020, OCTOBER)	
31, 2020, OCTOBER 31, 2021, APRIL 30, 2022,)	
OCTOBER 31 2022, AND OCTOBER 31, 2023,)	
AND FOR THE TWO YEAR BILLING PERIODS)	
ENDING APRIL 30, 2021 AND APRIL 30, 2023)	

RESPONSE OF
KENTUCKY UTILITY COMPANY
TO
THE COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED JANUARY 3, 2024

FILED: FEBRUARY 14, 2024

VERIFICATION

COMMONWEALTH OF KENTUCKY)

COUNTY OF JEFFERSON)

The undersigned, **Chad E. Clements**, being duly sworn, deposes and says that he is the Director – Regulated Utility Tax for PPL Services Corporation and currently provides tax related services to Kentucky Utilities Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as a witness, and that the answers contained therein are true and correct to the best of his information, knowledge, and belief.

DocuSigned by:
Chad Clements
583EC22E6AAG41B...
Chad E. Clements

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 12th day of February 2024.

Caroline J. Davison
Notary Public

Notary Public ID No. KYNP 63286

My Commission Expires:

January 22, 2027



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 Kentucky Utilities Company, an employee of LG&E and KU Services Company, 220 West Main Street, Louisville, KY 40202, 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
Andrea M. Fackler

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 12th day of January 2024.

Caroline J. Davison
Notary Public

Notary Public ID No. KPNP63286

My Commission Expires:

January 22, 2027



VERIFICATION

COMMONWEALTH OF PENNSYLVANIA)
)
COUNTY OF LEHIGH)

The undersigned, **Breanne Kent**, being duly sworn, deposes and says that she is the Manager – Corporate Finance for PPL Services Corporation and currently provides corporate finance services to Kentucky Utilities Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as a witness, and that the answers contained therein are true and correct to the best of her information, knowledge, and belief.

Breanne Kent
Breanne Kent

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of February 2024.

Commonwealth of Pennsylvania - Notary Seal
Michelle L. Bartolomei, Notary Public
Lehigh County
My commission expires July 10, 2026
Commission number 1333990
Member, Pennsylvania Association of Notaries

Michelle L. Bartolomei
Notary Public

Notary Public ID No. 1333990 (SEAL)

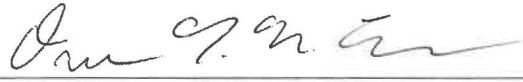
My Commission Expires: July 10, 2026

VERIFICATION

COMMONWEALTH OF KENTUCKY)

COUNTY OF JEFFERSON)

The undersigned, **Drew T. McCombs**, being duly sworn, deposes and says that he is Director – Accounting & Regulatory Reporting for Kentucky Utilities Company, an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses, and that the answers contained therein are true and correct to the best of his information, knowledge, and belief.



Drew T. McCombs

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 12th day of February 2024.



Notary Public

Notary Public ID No. KYNP61560

My Commission Expires:

November 9, 2026



KENTUCKY UTILITY COMPANY

Response to Commission Staff's First Request for Information

Dated January 3, 2024

Case No. 2023-00376

Question No. 1

Responding Witness: Andrea M. Fackler / Breanne Kent

Q-1. Concerning the rate of return on the 2009, 2011, 2016, 2017, and 2020 amendments to the environmental compliance plan, for the periods 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, 2023. 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 periods under review. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns fully accessible.

A-1. See the attachments provided in Excel format for all periods under review.

For the September 2019 through February 2020 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of February 29, 2020 and a 9.725% authorized return on equity for all Plan projects.

For the March 2020 through August 2020 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of August 31, 2020 and a 9.725% authorized return on equity for all Plan projects.

For the September 2020 through February 2021 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of February 28, 2021 and a 9.725% authorized return on equity for Pre-2020 Plan projects and a 9.200% authorized return on equity for 2020 Plan projects.

For the March 2021 through June 2021 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of June 30, 2021 and a 9.725% authorized return on equity for Pre-2020 Plan projects and a 9.2% authorized return on equity for 2020 Plan projects. For the July 2021 through the August 2021 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term

debt as of August 31, 2021 and a 9.35% authorized return on equity for all Plan projects.

For the September 2021 through February 2022 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of February 28, 2022 and a 9.35% authorized return on equity for all Plan projects.

For the March 2022 through August 2022 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of August 31, 2022 and a 9.35% authorized return on equity for all Plan projects.

For the September 2022 through February 2023 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of February 28, 2023 and a 9.35% authorized return on equity for all Plan projects.

For the March 2023 through August 2023 expense months, the weighted average cost of capital was based on the average daily balances for short- and long-term debt as of August 31, 2023 and a 9.35% authorized return on equity for all Plan projects.

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

KENTUCKY UTILITY COMPANY

**Response to Commission Staff's First Request for Information
Dated January 3, 2024**

Case No. 2023-00376

Question No. 2

Responding 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 periods. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing periods 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 fully 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 periods under review, KU experienced a net over-recovery of \$4,573,958.

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

KENTUCKY UTILITY COMPANY

**Response to Commission Staff's First Request for Information
Dated January 3, 2024**

Case No. 2023-00376

Question No. 3

Responding Witness: Chad E. Clements

- Q-3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported during each of the billing periods 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 fully 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 attachments for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review periods.

The attachments are
being provided in a
separate file in Excel
format.

KENTUCKY UTILITY COMPANY

**Response to Commission Staff's First Request for Information
Dated January 3, 2024**

Case No. 2023-00376

Question No. 4

Responding Witness: Drew T. McCombs

- Q-4. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the expense months covered by the applicable billing periods. 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
being provided in a
separate file in Excel
format.

KENTUCKY UTILITY COMPANY

Response to Commission Staff's First Request for Information

Dated January 3, 2024

Case No. 2023-00376

Question No. 5

Responding Witness: Andrea M. Fackler / Breanne Kent

Q-5. In Case No. 2000-00439,⁴ the Commission ordered that KU's cost of debt and preferred stock be reviewed and re-established during the six-month review case. Provide the following information as of August 31, 2023:

- 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 fully accessible.

A-5. a-e. KU calculated its overall grossed-up rate of return on capital as of August 31, 2023 consistent with prior ECR review cases and recommends that the Commission approve 8.73% to be used in all monthly environmental surcharge filings beginning in the second full billing month following the date of an Order in this proceeding.

See the attachment provided in Excel format for the period ended August 31, 2023. There was no preferred stock outstanding as of August 31, 2023; therefore, it is not listed in the attached schedules.

⁴ Case No. 2000-00439, Apr. 18, 2001 Order.

For re-establishing the rate of return to be used in future monthly filings, KU utilized a return on equity of 9.35% as approved by the Commission in its June 30, 2021 Order in Case No. 2020-00349. Additionally, consistent with Case No. 2020-00170, 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.

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

KENTUCKY UTILITY COMPANY

Response to Commission Staff's First Request for Information

Dated January 3, 2024

Case No. 2023-00376

Question No. 6

Responding Witness: Andrea M. Fackler

Q-6. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

- a. Provide the surcharge amount that KU believes should be incorporated into its existing base rates. Include all supporting calculations, work papers, and assumptions.
- b. The surcharge factor reflects a percentage of revenue approach, rather than a per-kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into KU's base rates. Include any analysis that KU believes supports its position.
- c. State whether KU proposes any modifications to either the surcharge mechanism or the monthly surcharge reports as a result of incorporating additional environmental surcharge amounts into KU's existing base rates. If so, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.

A-6.

- a. See attachment provided in Excel format. KU is proposing to roll-in \$42,304,190 of incremental environmental surcharge revenues into base rates resulting in total environmental surcharge revenues in base rates of \$74,085,745.
- b. The Commission previously approved KU's proposed roll-in methodology in Case Nos. 2011-00231, 2013-00242, 2015-00221, 2017-00266 and most recently in 2019-00205. KU uses a two-step roll-in methodology as described below:

Step #1 – Customer Group Allocation: Allocate the total roll-in between Group 1 and Group 2 customers based on the percentage of each group's total base revenue to KU's total base revenue (excluding base environmental surcharge revenue).

Step #2 - Group Rate Class Allocation:

Group 1 amount from Step 1 is allocated to the Group 1 rate classes based on total base revenues excluding base environmental surcharge revenues.

Group 2 amount from Step 1 is allocated to Group 2 rate classes based on non-fuel base revenues excluding base environmental surcharge revenues.

Furthermore, for Group 1 and Group 2, the amount of the roll-in will be spread to the energy portion of rates (without a demand charge) and to the demand portion of rates (with a separately metered and billed demand component). Lastly, lighting rates will continue to be billed on a per-light basis.

KU recommends that this method continue to be used to accomplish this roll-in to base rates.

- c. No. The incorporation of additional environmental surcharge revenues into existing base rates does not require modifications to the surcharge mechanism or monthly ES Forms.

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

KENTUCKY UTILITY COMPANY

**Response to Commission Staff's First Request for Information
Dated January 3, 2024**

Case No. 2023-00376

Question No. 7

Responding Witness: Andrea M. Fackler

- Q-7. Provide the actual average residential customer's usage as of October 31, 2023. 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 periods. Provide all supporting calculations and documentation in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns fully accessible.
- A-7. See the attachment being provided in Excel format.

The actual average monthly residential customer's usage based on the 12-months ended October 31, 2023 is 1,060 kWh per month. Actual usage for residential customers will vary monthly depending on the time of the year.

Based on distributing the over-recovered position of \$4,573,958 over six months, the ECR billing factor will decrease by approximately 0.53% each month. For a residential customer using 1,060 kWh per month, the impact of the adjusted ECR billing would be a decrease of approximately \$0.65 for each of the six months, using rates and adjustment clause factors in effect for the February 2024 billing period.

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