

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	CASE NO.
SURCHARGE MECHANISM OF KENTUCKY)	2012-00546
UTILITIES COMPANY FOR THE SIX-MONTH)	
BILLING PERIOD ENDING OCTOBER 31, 2012)	

ORDER

On January 2, 2013, the Commission initiated a six-month review of Kentucky Utilities Company's ("KU") environmental surcharge as billed to customers for the six-month period beginning May 1, 2012 through October 31, 2012.¹ Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of a utility's environmental surcharge. Also, pursuant to KRS 278.183(1), the Commission shall, by temporary adjustment of the surcharge, disallow any surcharge amounts that are not just and reasonable and reconcile past surcharge collections with actual costs recoverable.

The January 2, 2013 initiating Order also established a procedural schedule that provided for discovery, the filing of prepared testimony by KU, an informal conference, and intervenor testimony. KU filed prepared direct testimony and responded to requests for information propounded by Commission Staff. On February 26, 2013, an informal conference was held at the Commission's offices to discuss the issues in this case. On March 4, 2013, KU filed responses to information requested at the informal

¹ KU's environmental surcharge is billed on a two-month lag. Thus, surcharge billings for May 2012 through October 2012 are based on costs incurred from March 2012 through August 2012.

conference. On March 20, 2013, KU requested the Commission take this case under submission for decision based on the evidentiary record and issue an order by April 30, 2013. Since there are no intervenors in this case and a hearing is not necessary in the public interest, the Commission will adjudicate this case based on the evidence of record.

SURCHARGE ADJUSTMENT

The January 2, 2013 Order initiating this case indicated that since over- or under-recoveries of allowable environmental compliance costs may have occurred during the period under review, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. KU determined that it had a net over-recovery of environmental costs for the six-month billing period ending October 31, 2012 of \$218,511.² KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$218,511 for one month, beginning in the second full billing month following the Commission's Final Order in this proceeding.³ The one-month decrease in the jurisdictional environmental surcharge revenue requirement would be achieved by decreasing KU's environmental cost recovery billing factor for that same month.

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$218,511 for the six-month billing period covered in this proceeding. The Commission also finds reasonable KU's proposal to refund this over-recovery by decreasing the total jurisdictional environmental surcharge revenue requirement by \$218,511 for one month beginning in the second full-billing month following the date of

² Direct Testimony of Robert M. Conroy, p.5.

³ *Id.* at 7.

this Order. KU stated that the actual average residential customer's usage for the 12-months ending November 30, 2012 is 1,188 kWh per month.⁴ KU calculates that for a residential customer using 1,188 kWh per month, the impact of its proposed decrease in environmental cost recovery billing factor would be a decrease of approximately \$0.21 for one month, using rates and adjustment clause factors in effect for the January 2013 billing month.⁵

RATE OF RETURN

KU provided the outstanding balances for its long-term debt, short-term debt, and common equity as of August 31, 2012, the last expense month of the review period.⁶ It also provided the blended interest rates for its long-term and short-term debt as of August 31, 2012.⁷ Using this information, along with the currently-approved 10.25 percent return on equity,⁸ KU calculated a weighted average cost of capital, before income tax gross-up, of 7.23 percent for its 2009 and 2011 Environmental Compliance Plans ("Compliance Plans.")⁹ KU also provided the overall rate of return on capital reflecting the tax gross-up approach approved in Case No. 2004-00426.¹⁰

⁴ KU's response to Commission Staff's First Request for Information ("Staff's First Request,") Item 6.

⁵ *Id.*

⁶ KU's response to Staff's First Request, Item 5.a.

⁷ *Id.* at Item 5.b.

⁸ Case No. 2012-00221, Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates (Ky. PSC Dec. 20, 2012).

⁹ KU's response to Staff's First Request, Item 5.c.

¹⁰ Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan and Recovery by Environmental Surcharge (Ky. PSC June 20, 2005); and KU's response to Staff's First Request, Item 5.c. In the response, KU determined that the income tax gross-up factor was 0.64, which would produce a tax grossed-up weighted average cost of capital of 10.30 percent.

The Commission has reviewed KU's calculation of the weighted average cost of capital and finds that its use of 7.23 percent is reasonable for the Compliance Plans and should be approved. The Commission has also reviewed KU's calculation of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2004-00426. Therefore, the Commission finds that the weighted average cost of capital for KU's Compliance Plans of 7.23 percent and the income tax gross-up factor of 0.64, which produces an overall grossed-up return of 10.30 percent, should be used in all KU monthly environmental surcharge filings beginning in the second full-billing month following the date of this Order.

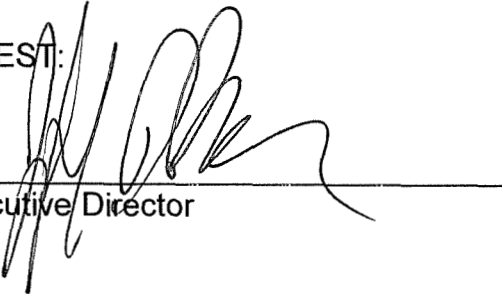
IT IS THEREFORE ORDERED that:

1. The amounts billed to customers by KU through its environmental surcharge for the period from May 1, 2012 through October 31, 2012 are approved.
2. In the second full-billing month following the date of this Order, KU shall decrease its jurisdictional environmental revenue requirement by \$218,511 for one month.
3. Beginning in the second full-billing month following the date of this Order, KU shall use an overall rate of return on capital of 7.23 percent, a tax gross-up factor of 0.64, a return on equity rate of 10.25 percent, and an overall grossed-up return of 10.30 percent in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

By the Commission

ENTERED *f*
APR 19 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2012-00546

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