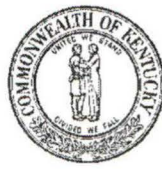


Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Daniel E. Logsdon, Jr.
Commissioner

August 28, 2015

PARTIES OF RECORD

Re: Case No. 2015-00221
2015-00222

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Staff Attorney, at 502/782-2581.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

Enclosures

INTRA-AGENCY MEMORANDUM ADDENDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File – Case No. 2015-00221
2015-00222

FROM: Jonathan Beyer, Staff Attorney

DATE: August 28, 2015

RE: Informal Conference of August 27, 2015

Pursuant to the Commission's August 5, 2015 Order, an informal conference was held in these matters on August 27, 2015. A list of attendees is attached.

The purpose of the informal conference was to discuss the environmental surcharge mechanisms of Kentucky Utilities Company and Louisville Gas and Electric Company (collectively the "Companies"). The Companies distributed a handout, which addressed their respective over/under-recoveries for the previous six-month period, provided an update on the Companies' election to utilize bonus tax depreciation for the 2014 and 2015 years, explained the billing factors used, and detailed the requested roll-in of incremental environmental compliance costs into base rates. A copy of the handout is attached.

Commission Staff asked clarifying questions regarding the Off-Systems Sales Tracker ("OSS"), to which the Companies' representatives stated that the OSS tracker was recently created as a result of the Companies' last general rate proceedings. Commission Staff also requested that the Companies provide their responses to Staff's initial request for information in Excel spreadsheet format, which the Companies agreed to timely provide.

Finding that no party had any further questions, the conference was adjourned.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NOS.
UTILITIES COMPANY AND LOUISVILLE GAS &) 2015-00221 & 00222
ELECTRIC COMPANY FOR THE TWO-YEAR)
BILLING PERIOD ENDING APRIL 30, 2015)

August 27, 2015

Please sign in:

NAME	REPRESENTING
Molly Katen	PSC Legal
Mary Whitaker	PSC FA
Ron Handzjak	PSC - FA
Andrea Schneider	LGE - KU
Chris Garret	LGE - KY
Jason Knoy	LGE - KU
Robert M. Conroy	LGE / KU
Amel R. Payne	S&D for LGE / KU
Jonathan Bayer	PSC
Bob Russell	PSC F/A



PPL companies

ECR Review Case Nos. 2015-00221 and 2015-00222

August 27, 2015



Overview

- Review Period:
 - *Two-year review period beginning March 2013 and concluding with the six-month period for expense months of September 2014 through February 2015*
 - *ECR Plans in effect - 2009 and 2011*
- Bonus Tax Depreciation Update
- Address Group 1 and Group 2
- Incremental ECR Roll-in and Methodology
- ECR Tariff Revision
- Recommendations
- Next Steps

Over/(Under) Reconciliation

	KU	LG&E
Combined Over/(Under) Recovery	(\$701,452)	(\$1,959,324)
Due to Change in Rate of Return	(1,344,426)	126,047
Use of 12-Month Average Revenues	1,062,605	(1,761,671)
Correction to ROR in two 6-month Periods	<u>(419,631)</u>	<u>(323,700)</u>
Total	<u>(\$701,452)</u>	<u>(\$1,959,324)</u>

Over/(Under) Recovery Position

- KU - under-recovery position
 - *Total under-recovery for the 6-month period is (\$701,452)*
 - Under-recovery for current 6-month period is (\$281,821)
 - Correction to ROR in previous 6-month reviews is under-recovery (\$419,631)
 - *Recommend collection over 1 month*
 - *Impact to residential customer using 1,234 kWh/mo is \$0.69 per month*
- LG&E - under-recovery position
 - *Total under-recovery for the 6-month period is (\$1,959,324)*
 - Under-recovery for current 6-month period is (\$1,635,624)
 - Correction to ROR in previous 6-month reviews is under-recovery (\$323,700)
 - *Recommend collection over 3 months*
 - *Impact to residential customer using 973 kWh/mo is \$0.74 per month*

Out of Period Correction

- The overall rate of return true-up adjustment for the six-month review periods ending February 28, 2014 and August 14, 2014 was understated.
- The calculation did not include the full six-months in each of the periods in the calculation of the average daily balances and daily interest rates for short- and long-term debt rates.
 - *Only used 4 months of data in the original true-up calculations for each six-month period*
- Correction included in this proceeding:
 - *KU under-statement is \$419,631*
 - *LG&E under-statement is \$323,700*

Bonus Tax Depreciation Update

- In December 2014, the 2014 Tax Increase Prevention Act ("ACT") was passed into law.
 - *The Act included an extension of 50% bonus tax depreciation for qualified property placed into service before January 1, 2015 and further provides 50% bonus tax depreciation on long-production-period property.*
 - *As a result of bonus tax depreciation, KU and LG&E will incur tax losses in 2014 and 2015 and will be unable to take the IRS Section 199 Manufacturing Tax Deduction.*
 - *The loss of the Section 199 deduction results in an increase in KU and LG&E's effective income tax rates, thereby, increasing the gross-up revenue factor used in the rate of return calculations.*
- Propose use of 38.6660% effective income tax rate for the rate of return true-up calculations; excludes Section 199 deduction
 - *Consistent with Commission's Orders in the most recent 6-month review cases*

Why Elect Bonus Tax Depreciation?

- Electing bonus tax depreciation provides the greatest net benefit to customers
 - *Lowest Net Present Value Revenue Requirement (NPVRR)*
 - *Consistent with base rate case treatment*

ECR Compliance Plans

2009 ECR Plan

- On December 23, 2009, the Commission approved the 2009 ECR Compliance Plan for KU and LG&E

2011 ECR Plan

- On December 15, 2011, the Commission approved the 2011 ECR Compliance Plan for KU and LG&E
- Key provisions affecting the ECR calculations during the review period:
 - *Use of Group 1 and Group 2 ECR billing factors*
 - *Use of average daily balances and daily interest rates for short- and long-term debt rates in calculation of overall rate of return true-up adjustment*

Two-Year Review & ECR Roll-in

- Commission approval on November 14, 2013
 - *Roll-in accomplished using Group 1 and Group 2 methodology*
 - *Effective with the November 2013 expense month billed in January 2014*
- Pursuant to 2011 ECR Plan Settlement Agreement, implemented the use of non-fuel revenues to calculate the monthly ECR billing factor for Group 2 customers to coincide with the roll-in implementation
- Settlement Agreement required KU and LG&E to address impacts of change in revenue allocation in next two future Environmental Surcharge two-year reviews or ECR compliance plan proceedings.
 - *Current case is the second of the two-year review cases to address the use of Group 1 and Group 2 billing factors*

Group 1 and Group 2 Billing Factors

- Implemented Group 1 and Group 2 billing factors with March 2012 billing month
- Communicated changes to customers through bill inserts and the Company's website
- No customer inquires or complaints have been received regarding Group 1 and Group 2 billing factors
- Actual results of the revenue requirement allocation are relatively consistent with the anticipated results presented in the 2011 ECR Plan

Incremental ECR Roll-In

- Roll-in of incremental ECR costs and revenues into base rates based on February 2015 ECR rate base and 12-months operating expenses
 - *KU proposes to roll-in \$65,367,762 (\$111,188,413 total)*
 - *LG&E proposes to roll-in \$60,574,071 (\$73,663,008 total)*
- Continue to use Group 1 and Group 2 methodology to accomplish the roll-in
- No impact on allowed recovery
- ECR recovery through base rates increases in the expense month corresponding with the effective date of new base rates
- Corresponding decrease in ECR billing factors occurs on a two month lag

Roll-in Methodology

- The Companies propose to continue to follow past practice and allocate the roll-in on base-rate revenues
- The roll-in will be applied to base rate components as approved in Case Nos. 2013-00242 and 2013-00243
 - *Energy portion for rate schedules with no separate demand charges, with the exception of new RTOD-Demand rate*
 - *Demand portion for all rates with a separate metered and billed demand component*
 - *Lighting rates continue to be on a per-light basis*

Rate of Return Going Forward

- Propose use of 10.00% return on equity
 - *Consistent with the Commission's recent Orders in Case Nos. 2014-00371 and 2014-00372 (most recent base rate cases establishing the ROE for all Plans for ECR purposes, Orders issued June 30, 2015)*
 - *Overall rate of return established based on capitalization for the month ended February 2015 (end of expense period) and use of the 2015 gross-up revenue factor (38.6660%) that excludes the Section 199 manufacturing tax deduction*
 - 10.15% for KU
 - 9.99% for LG&E

ECR Tariff Revision

- Pursuant to the Settlement Agreement in the Companies recent retail rate cases, the Off-System Sales ("OSS") tracker was approved.
- The Companies are proposing minor changes to clarify that the OSS tracker is included with the Fuel Adjustment Clause revenues included on ES Forms 3.00 and 3.10 monthly filing forms.
 - *Adding the phrase "(including the Off-System Sales Tracker) to the Availability of Service section*

Recommendations – KU and LG&E

- Approve collection of under-recovery positions:
 - *KU under-recovery of (\$701,452) over a one month period*
 - *LG&E under-recovery of (\$1,959,324) over a three month period*
- Find environmental surcharge amounts for the billing periods ending April 2015 just and reasonable
- Approve the use of an overall rate of return on capital using a return on equity of 10.00% beginning in the second billing month following the Commission's Order
 - *10.15% for KU*
 - *9.99% for LG&E*

Recommendations – KU and LG&E

- Approve roll-in of incremental ECR charges to base rates:
 - *KU proposes to roll-in \$65,367,762 (\$111,188,413 total)*
 - *LG&E proposes to roll-in \$60,574,071 (\$73,663,008 total)*
- Approve ECR Tariff revision to become effective with the expense month in which the Commission issues its Order

Next Steps

Procedural Schedule

- *All additional requests for information to KU and LG&E September 10*
- *KU and LG&E shall file responses September 21*
- *Intervenor testimony, if any, to be filed October 2*
- *All requests for information to Intervenors October 16*
- *Intervenors shall file responses October 30*
- *Last day for KU and LG&E to request a hearing or submit the case for decision based on the record..... November 6*

*Robert Conroy
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