

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY INDUSTRIAL UTILITY	)	
CUSTOMERS, INC.	)	
	)	
COMPLAINANT	)	
	)	CASE NO.
V.	)	2018-00034
	)	
KENTUCKY UTILITIES COMPANY	)	
AND	)	
LOUISVILLE GAS AND ELECTRIC COMPANY	)	
	)	
DEFENDANTS	)	

ORDER

This matter arises on rehearing of the Commission’s March 20, 2018 Order (March 20, 2018 Order) that approved with modifications a unanimous Offer and Acceptance of Satisfaction (Settlement) and established surcredits reflecting the effect of the Tax Cuts and Jobs Act (TCJA)<sup>1</sup> on the rates of Kentucky Utilities Company (KU) and Louisville Gas and Electric Company (LG&E) (jointly, “KU/LG&E”).

BACKGROUND

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. (KIUC) filed a formal complaint against KU, LG&E, and two other investor-owned utilities alleging that the utilities’ respective rates were no longer fair, just, and reasonable under KRS 278.030(1) due to the enactment of the TCJA, which reduced the federal corporate

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<sup>1</sup> H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017).

income tax rate from 35 percent to 21 percent. KIUC's complaint was initially docketed as Case No. 2017-00477,<sup>2</sup> but that case was subsequently closed and the instant case was established to review KIUC's complaint against KU/LG&E, while two other cases were opened to review KIUC's complaint against the two other investor-owned utilities. KIUC requested rate reductions to reflect the lower tax rate and a refund of accumulated deferred income taxes in excess of future liability.

The Attorney General, by and through the Office of Rate Intervention (Attorney General), is the only intervenor in this proceeding.

On January 29, 2018, KU/LG&E filed the Settlement signed by all the parties, along with supporting testimony. KU/LG&E proposed to adjust their rate mechanisms, including the Environmental Cost Recovery Surcharges, to reflect the impact of the TCJA beginning in March 2018 based on a January expense month. KU/LG&E would also provide a surcredit (TCJA Surcredit) to pass the base rate benefits to customers for service rendered beginning April 1, 2018, and continuing until April 30, 2019, based upon KU/LG&E filing general rate adjustment cases with an expected effective date of May 1, 2019.

KU/LG&E estimated the total benefit to customers under the Settlement was \$176,888,715, as follows:

- Bill reductions to KU customers in the amount of \$91,290,656, with \$70,180,255 taking the form of the TCJA Surcredit for an estimated 4.2 percent reduction to the monthly bill for the average KU residential customer.

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<sup>2</sup> Case No. 2017-00477, *Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Company, Louisville Gas and Electric Company, Kentucky Power Company, and Duke Energy Kentucky, Inc.* (filed Dec. 21, 2017).

- Bill reductions to LG&E electric customers in the amount of \$68,934,450, with \$48,993,021 taking the form of the TCJA Surcredit for an estimated 4.3 percent reduction to the monthly bill for the average LG&E electric residential customer.
- Bill reductions to LG&E's gas customers \$16,663,609, with \$16,229,321 taking the form of the TCJA Surcredit for an estimated 3.0 percent reduction to the monthly bill for the average LG&E gas residential customer.
- Reductions in the ECR mechanism of 1.0 percent and 1.3 percent for KU and LG&E residential customers, respectively, which would result in estimated *total* bill reductions of 5.1 percent for the average KU residential customer and 5.6 percent for the average LG&E electric residential customer.

If KU/LG&E did not have new rates effective as of May 1, 2019, the Settlement provided that the TCJA Surcredit would continue on customer bills at a lower level based on annualized amounts rather than being based on 16 months of savings being returned over 13 months as described above.

The March 20, 2018 Order approved certain modifications to the Settlement that increased the benefits to KU/LG&E customers from \$176,888,715 to \$203,779,543 over the period April 1, 2018, through April 30, 2019. The Commission's modifications included calculating the impacts of the TCJA based on the 12-month test year ending June 30, 2018, as accepted in KU/LG&E's last rate cases, rather than the proposal to use new forecasted test years spanning the 16 months of January 1, 2018, through April 30, 2019.<sup>3</sup>

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<sup>3</sup> March 20, 2018 Order at 7.

On March 26, 2018, KU/LG&E filed their petition for rehearing, specifically seeking a hearing limited to the modification of the capitalization and cost of capital used in the March 20, 2018 Order. KU/LG&E further requested authorization, while rehearing is pending, to implement the TCJA Surcredit effective April 1, 2018, at the levels proposed in the unanimous Settlement. In the alternative, KU/LG&E requested that a hearing be conducted on all issues raised in this proceeding, and KU/LG&E would not implement the TCJA Surcredit unless ordered to do so once a final decision was entered. Attached to the KU/LG&E petition was a letter stating their withdrawal from the Settlement. Also, on March 26, 2018, KIUC filed a letter in support of KU/LG&E's petition and the request to implement the TCJA Surcharge at the levels proposed in the Settlement.

By Order entered on March 28, 2018 (Rehearing Order), the Commission granted KU/LG&E's petition for rehearing on the modifications to capitalization and cost of capital, established a procedural schedule, and directed KU/LG&E to implement the TCJA Surcredit on an interim basis at the levels proposed in the Settlement, except that LG&E's TCJA Surcredit for gas customers was to be calculated on gas revenues rather than gas sales. Also on March 28, 2018, the Attorney General filed an Interim Response to KU/LG&E's petition, asserting that if rehearing is granted, it should *not be* limited to issues of capitalization and cost of capital.

On March 30, 2018, the Commission amended the Rehearing Order to allow the parties to raise any relevant issue related to the TCJA. On that same date, the Attorney General gave notice of withdrawal from the Settlement. Subsequently, KU/LG&E and KIUC agreed to reinstate the Settlement, but since the Attorney General declined to join KU/L&GE and KIUC, the settlement became non-unanimous.

Pursuant to the established procedural schedule, KU/LG&E submitted testimony on April 6, 2018, noting that its purpose was to respond to the “expand[ed] the scope of rehearing to any relevant issue related to the Tax Cuts and Jobs Act.”<sup>4</sup> KU/LG&E filed responses to data requests from Commission Staff and the Attorney General, and the Commission conducted a formal hearing on May 24, 2018. KU/LG&E filed responses to post-hearing data requests from each of Commission Staff and KIUC on June 11, 2018. Each of the parties submitted post-hearing briefs on the issues they deemed relevant.

#### ANALYSIS AND FINDINGS<sup>5</sup>

The Commission’s statutory obligation when reviewing rates is to determine whether the rates are “fair, just and reasonable.”<sup>6</sup> Since what was originally a unanimous Settlement transformed into a non-unanimous Settlement during this rehearing phase, the Commission cannot now accept that Settlement as a full and complete resolution of the issues raised in this case. To satisfy our obligation in this case, the Commission has investigated and analyzed the methodology proposed by KU/LG&E and KIUC in the non-unanimous Settlement, the recommendations of the Attorney General, and the entire evidence of record.

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<sup>4</sup> Direct Testimony of Kent W. Blake (Blake Direct Testimony) at 8.

<sup>5</sup> If it is determined that application of the normalization requirements herein are inconsistent with the requirements of the TCJA, based on an interpretation that is different than anticipated or otherwise, the Commission would consider modifying the amortization of the “protected” excess accumulated deferred income taxes to ensure that Internal Revenue Service penalties, which would be detrimental to the utilities and ratepayers, are not incurred.

<sup>6</sup> KRS 278.030(1).

KU/LG&E's post-hearing brief<sup>7</sup> takes issue with the March 20, 2018 Order, in which the Commission accepted the Settlement but made modifications that changed the rates proposed in the Settlement. Citing to the Commission's regulation governing procedures for processing complaint cases, 807 KAR 5:001, Section 20, KU/LG&E assert that prior to modifying a settlement, the Commission must offer the parties an opportunity to accept the Commission's modifications, and if the parties reject the modifications a procedural schedule needs to be established. The Commission rejects this argument for numerous reasons. First, and most significantly, this issue became moot when the scope of rehearing was expanded and the Settlement became non-unanimous.

Second, this argument places form over substance. Upon the filing of the Settlement and supporting testimony by KU/LG&E, no party requested either a procedural schedule or an evidentiary hearing. The Commission, in furtherance of its statutory duty, conducted discovery and then modified the Settlement rates upon finding that the rates as proposed were not fair, just, or reasonable. The parties then exercised their statutory rights to seek a rehearing, which was granted, and to conduct discovery and participate in an evidentiary hearing.

Third, KU/LG&E's reliance on Case No. 91-281<sup>8</sup> is misplaced. KU/LG&E cite to the Commission's December 6, 1992 Order in that water district case, in which the Commission gave the parties to a settlement the option of agreeing to the Commission's modifications of a settlement involving the costs to 14 customers for extending water

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<sup>7</sup> Brief of Kentucky Utilities Company and Louisville Gas and Electric Company filed June 29, 2018 (Brief of KU/LG&E).

<sup>8</sup> Case No. 91-281, *Charles and Carolyn Pope v. Nicholas County Water Dist.* (Ky. PSC Dec. 6, 1991).

service. But KU/LG&E fail to recognize that not all of the parties to that case indicated their acceptance of the Commission's modification such that the Commission, on its own accord by Order entered February 28, 1992, accepted the settlement agreement "as amended" by the Commission. Thus, the Commission's March 20, 2018 Order was entirely consistent with its precedent. Moreover, the March 20, 2018 Order is consistent with Commission procedure in the last general rate case for each of KU and LG&E.<sup>9</sup> In those cases, the Commission applied its expertise to review a filed settlement, accepted as reasonable the resolutions agreed to by the parties on some issues and utilized the case record to adjudicate those issues on which the Commission rejected as unreasonable the resolutions agreed to by the parties.

KU/LG&E further take issue with what they describe as "the Commission . . . expand[ing] the scope of the rehearing on its Order of March 20, 2018." Nothing in 807 KAR 5:001, however, limits the Commission in the way KU/LG&E suggest, and KU/LG&E were specifically put on notice of the issues in this proceeding in the Commission's March 30, 2018 Order. Pursuant to that Order, KU/LG&E filed testimony, responded to multiple rounds of discovery, and participated in a formal hearing. This scope of rehearing is consistent with the Commission's exclusive jurisdiction of the rates and service of utilities, including KU/LG&E, even in the face of a settlement agreement from some of the parties.<sup>10</sup>

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<sup>9</sup> Case No. 2016-00370, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017), Order at 13, 28, and Case No. 2016-00371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017), Order at 15, 35.

<sup>10</sup> KRS 278.040; see also *Fern Lake Co. v. Pub. Serv. Comm'n*, 357 S.W.2d 701, 704 (Ky. 1962); *Bd. of Ed. of Jefferson County v. William Dohrman, Inc.*, 620 S.W.2d 328, 329 (Ky. App. 1981).

## ADJUSTMENTS TO CAPITAL STRUCTURE

In determining the capital structure used to calculate the proposed TCJA Surcredit, KU/LG&E adjusted the jurisdictional capitalization accepted by the Commission in each utility's most recent rate case to represent the January 1, 2018, through May 1, 2019, time period for which the Tax Act impact would be in effect before the KU/LG&E's next base rate case. Specifically, KU/LG&E attributed the capitalization adjustments it made to the TCJA, higher interest rates, and changes associated with the period in which the TCJA and the TCJA Surcredit would be in effect. KU/LG&E claimed that these adjustments are needed so that each utility's financial condition corresponds to the time period the TCJA is in effect and to match the current market financing costs.<sup>11</sup> KU/LG&E state that determining the effect of the TCJA outside the context of a full base rate case should be done fairly, and therefore, that they should be allowed to present established, known, and measurable adjustments to capitalization and the cost of capital during the term of the TCJA Surcredit.<sup>12</sup>

The TCJA Surcredit calculations approved in the March 20, 2018 Order were based on KU/LG&E's prior rate case capital structures for the test years ending June 30, 2018. That Order stated that KU/LG&E's proposed adjusted capital structures for the January 1, 2018 through April 30, 2019 time period had not been subjected to the Commission's investigation and review, but the capital structures accepted in the rate cases for the test year ending June 30, 2018, had been investigated and reviewed.

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<sup>11</sup> Rehearing Testimony of Kent W. Blake (Blake Rehearing Testimony) at 7–8.

<sup>12</sup> *Id.*

In response, KU/LG&E argue the use of capital structures from the last rate case is inappropriate because the TCJA was in effect for only a portion of the test year, which ended June 30, 2018. KU/LG&E further argue that they were unaware of the TCJA at the time of their last general rate cases, and could not incorporate changes in the federal tax law that had not yet been enacted.<sup>13</sup>

### TCJA Impact

The proposed capital structures in the non-unanimous Settlement include an increase in capitalization that KU/LG&E attribute to the direct impacts of the TCJA. KU/LG&E believe it is necessary to include such direct impacts so each utility is given the opportunity to earn its authorized rate of return.<sup>14</sup> The claimed impacts include increases to capitalization that are the result of funding the TCJA and the subsequent return of the proceeds to the customers.<sup>15</sup> Additionally, KU/LG&E claimed that the elimination of bonus tax depreciation by the TCJA will result in an increase in their cash taxes paid.

KU/LG&E contend that they should be able to recover a return on capital outlays arising from the TCJA surcharge and the increase in their cash tax expense because they are necessary to finance the distribution of the TCJA benefits to customers as additional cash will be paid out without a corresponding cash expense reduction.<sup>16</sup> KU/LG&E argue that the modification made by the Commission in the March 20, 2018 Order eliminates this recovery and thus would lower KU/LG&Es net income and return on equity (ROE).<sup>17</sup>

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<sup>13</sup> *Id.* at 10.

<sup>14</sup> Brief of KU/LG&E at 12.

<sup>15</sup> *Id.* at 13.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 14.

KU/LG&E also raised concerns about the potential of a normalization violation under the TCJA and Internal Revenue Code (IRC) if no adjustment is made to capitalization to reflect the amortization of excess ADIT.<sup>18</sup> Specifically, KU/LG&E claimed that the normalization rules require its deferred tax liabilities to be calculated during the same period used to calculate the amortization of excess ADIT.<sup>19</sup> KU/LG&E claimed that the amortization of excess ADIT resulted in the reduction of its deferred tax liabilities during the period it used to calculate the amortization of excess ADIT and that the reduction in deferred tax liabilities would result in an increase in capitalization in this case. KU/LG&E indicated that the Commission's failure to reflect the increase in capitalization arising from the reduction in deferred tax liabilities attributable to the amortization of excess ADIT may result in a normalization violation, which could result in the loss of accelerated depreciation.<sup>20</sup>

For the excess ADIT impact, the change in KU/LG&E's ADIT resulting from the enactment of the TCJA is a direct reduction to KU/LG&E's rate base. Since capitalization is used in the calculations of KU/LG&E's revenue requirements, the Commission finds that an adjustment to reflect the excess amortization of ADIT is appropriate.

The Commission notes that, due to bonus depreciation and the resulting net loss, KU/LG&E have not paid income taxes even though income taxes have been included as ratemaking expenses in prior rate cases. The revenue requirement that the Commission awarded in each prior rate case included a gross up based upon a 35 percent federal

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<sup>18</sup> *Id.* at 14, 29–31.

<sup>19</sup> *Id.* at 30.

<sup>20</sup> *Id.* at 30–31.

income tax (FIT) rate and this incremental increase in rates was for FIT taxes that have not yet been paid to the federal government. Thus, KU/L&GE have been allowed to collect additional cash for FIT taxes without a corresponding cash expense, thereby increasing their cash position. Based upon the evidence of record, the Commission rejects the capitalization adjustment for the TCJA impact to KU/LG&E's current FIT expense because it is requiring the ratepayers to pay the increased cost of capitalization of the current FIT refund.<sup>21</sup> Further, KU/LG&E discussed the possibility of normalization violations regarding adjustments to amortization of excess ADIT, and not to the FIT.<sup>22</sup>

As shown in Appendix B, the Commission has determined that KU/LG&E's capitalization should be adjusted for excess ADIT as follows: LG&E's capital structure for the electric operations is to increase by \$6,645,884; LG&E's capital structure for the gas operations is to increase by \$1,392,195; and KU's jurisdictional capital structure is to increase by \$7,845,284.<sup>23</sup>

#### Cost of Debt

The Settlement included a 9.7 percent return on equity as authorized in KU/LG&E's last base rate cases and adjustments to increase the cost of both short-term and long-term debt. These increases were based on projected estimates for the 16-month period during which the TCJA impact is being estimated.<sup>24</sup> KU/LG&E support these interest rate updates by asserting that the adjustments reflect the current interest rate environment

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<sup>21</sup> *Id.* at 13.

<sup>22</sup> *Id.* at 14.

<sup>23</sup> See Appendix A to this Order.

<sup>24</sup> Blake Rehearing Testimony at 14.

and that relying on outdated projections from the past rate case would deny KU/LG&E the opportunity to recover their cost of debt.<sup>25</sup>

The capital structure from Case Nos. 2016-00370 and 2016-00371 included a long-term debt interest rate of 4.12 percent for both KU and LG&E. The Settlement proposed to increase this cost of debt to 4.26 percent for KU and 4.18 percent for LG&E. Upon rehearing, KU/LG&E proposed using lower long-term interest rates of 4.24 percent and 4.12 percent for KU and LG&E, respectively. No forecasts of long-term debt were included as KU/LG&E stated that the fixed rate debt remains at the level embedded in those debt instruments.<sup>26</sup>

For the short-term debt component, the rate case capital structure included an interest rate of 0.72 percent for KU and 0.74 percent for LG&E. For KU, the Settlement proposed a forecasted interest rate of 2.94 percent and upon rehearing, this number was lowered to 2.63 percent. For LG&E, the Settlement forecasted a short-term interest rate of 2.9 percent, but then lowered that rate to 2.59 percent. The projections were based upon the April 2018 rate of 2.35 percent plus at least two more rate increases in 2018 of 0.25 percent each, resulting in a rate of approximately 2.85 percent by year-end and an average rate of 2.5 percent for 2018. For 2019, KU/LG&E predicted further increases so that the average rate for the first four months would be 3 percent.<sup>27</sup>

The Attorney General's post-hearing brief did not address KU/LG&E's proposed adjustments to the cost of debt.

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<sup>25</sup> Brief of KU/LG&E at 16.

<sup>26</sup> Blake Rehearing Testimony at 15 and Exhibit KWB-4.

<sup>27</sup> *Id.*, Exhibit KWB-4.

The Commission finds that the projected interest rates are unknown and unreliable. This is evident in the revisions KU/LG&E made on rehearing to reflect that actual interest rates have not increased at the level projected in the Settlement. However, we note the three Federal Fund interest rate increases that occurred this year have raised the benchmark rate to a range of 2.00 to 2.25 percent.<sup>28</sup> Consequently, we believe the short-term interest rates used in the 2016 rate cases' capital structure of 0.72 percent for KU and 0.74 percent for LG&E are no longer reasonable. Therefore, the Commission agrees with KU/LG&E that an estimated average rate of is 2.50 percent for 2018 is reasonable. However, since future rate increases are unknown and unreliable, the 2019 proposed average rate of 3.00 percent is denied. The Commission finds the weighted cost of short-term debt to be 2.47 percent for KU and 2.45 percent for LG&E.<sup>29</sup> The Commission further finds that the current long-term interest rates of 4.24 percent for KU and 4.12 percent for LG&E are known and measurable and should be accepted.

#### Other Capitalization Impacts

KU/L&GE believe that consideration of other impacts upon capitalization is necessary to allow them the opportunity to recover their cost of capital.<sup>30</sup> The other category primarily includes a combined \$76.9 million additional pension funding that occurred in January 2018. The balance of the other impacts is capital expenditures, which

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<sup>28</sup> <https://www.marketwatch.com/story/fed-hikes-interest-rates-signals-strong-support-for-another-increase-in-december-2018-09-26>.

<sup>29</sup> See Appendix F to this Order.

<sup>30</sup> Brief of KU/LG&E at 18.

include a \$9.7 million increase for KU and reductions of \$14.2 million and \$20.4 million for LG&E electric and gas service, respectively.<sup>31</sup>

In his post-hearing brief, the Attorney General addresses the other capitalization changes. The Attorney General states that the Commission should not allow the recovery of any other capitalization impacts as these are not directly related to the TCJA and would have incurred independently, regardless of the passage of the TCJA.<sup>32</sup>

The Commission finds that the adjustments to the capitalization resulting from the pension contributions are known and measurable since they have already occurred. The timing of the increased pension contributions is a direct result of the enactment of the TCJA. For these reasons, the Commission finds that the inclusion of additional capitalization for the pension contributions is reasonable and should be included, which increases the capitalization by \$15.7 million for KU and \$17.2 million for LG&E.<sup>33</sup> All other adjustments have not yet occurred but are forecasted, are not a direct result of the TCJA, and the timing of the capital expenditures is within the sole discretion of KU/LG&E. For these reasons, the Commission finds that KU/LG&E have failed to provide sufficient evidence to support a finding that these adjustments are reasonable. Thus, they have not been included.

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<sup>31</sup> The Other category does not include any change in capitalization for any project requiring a Certificate of Public Convenience and Necessity that has not already been issued.

<sup>32</sup> Attorney General's Post-Hearing Brief filed June 29, 2018 at 7–8.

<sup>33</sup> Kentucky Utilities Company and Louisville Gas and Electric Company's Response to Commission Staff's Post Hearing Request for Information (Response to Staff's Post Hearing Data Request), Item 6.

## ADIT Impact

The reduction in the federal corporate income tax rate on regulated utilities from 35 percent to 21 percent results in excess ADIT balances that must be returned to the ratepayers. The TCJA separates the excess ADIT into two categories: protected and unprotected. The TCJA normalization rules only apply to the protected ADIT, which is defined as public utility property subject to accelerated depreciation under IRC Sections 167 and 168.<sup>34</sup>

The TCJA normalization rules require that utilities use the Average Rate Assumption Method (ARAM) to amortize the excess ADIT over the remaining regulatory lives of the property at a rate that follows the reversal of the deferred taxes. If a utility does not have sufficient financial records to comply with the requirements of ARAM, the TCJA requires the use of a simplified alternative method, the Reverse South Georgia Method (RSGM). The RSGM amortizes the protected excess ADIT over the remaining regulatory life of the utility property using the weighted average life or the composite rate that is being used for regulatory book depreciation.<sup>35</sup>

KU/LG&E applied the ARAM method using the underlying vintage property records for the amortization of the protected excess ADIT.<sup>36</sup> For the non-protected, KU/LG&E applied a 15-year straight-line method. KIUC agreed to the use of a 15-year amortization period for the non-protected ADIT, which was consistent with the ratemaking treatment

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<sup>34</sup> Tax Cuts and Jobs Act, Pub. L. No. 115-97, § 13001, 131 Stat 2054, 2099 (2017); Tax News Update, *Power and Utility concerns under the TCJA*, January 25, 2018 2018-0186, <https://taxnews.ey.com/news/2018-0186-power-and-utility-concerns-under-the-tcja>

<sup>35</sup> *Id.*

<sup>36</sup> Direct Testimony of Kent W. Blake (Blake Testimony) at 10.

being provided to the amortization of actuarial gains and losses in KU/LG&E's pension expense.<sup>37</sup>

In response to KU/LG&E's amortization of the protected excess ADIT, the Attorney General notes that KU/LG&E amortized some property-related protected excess ADIT over 15 years as opposed to the ARAM. However, the Attorney General states that for KU/LG&E, the treatment is reasonable as the amortization of these items at 15 years provides a net benefit to the customers. The Attorney General also indicated that this may not always be the case and requests that the Commission investigate this issue in other cases stemming from the TCJA.<sup>38</sup> Regarding the amortization of the unprotected excess ADIT, the Attorney General notes the amount relative to the entire TCJA Surcredit is not significant enough to result in a benefit to customers if a shorter amortization period is applied. The Attorney General does suggest that the Commission can reevaluate and shorten the amortization period in the subsequent base rate cases, thereby lowering the revenue requirement.<sup>39</sup>

The Commission finds the methodologies proposed by KU/LG&E to refund the protected and unprotected portions of the excess ADIT are reasonable and should be approved. The Commission does note the Attorney General's suggestion regarding the amortization period for the unprotected excess ADIT, and will reexamine the 15-year amortization period during KU/LG&E's next base rate cases.

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<sup>37</sup> Blake Rehearing Testimony at 18.

<sup>38</sup> Attorney General's Post-Hearing Brief filed June 29, 2018, at 4.

<sup>39</sup> KU/LG&E filed notice on August 27, 2018, of Intent and Election for an Application for an adjustment of rates.

## Rate Design

The calculation of the TCJA Surcredit as proposed by KU/LG&E follows the same process that the Commission previously found to be fair, just, and reasonable, as modified, in the March 20, 2018 Order. The adjusted jurisdictional capitalization from KU/LG&E's most recent rate cases are updated to include the pension contribution impact, the TCJA impact of the excess ADIT, and the current interest rates. KU's revised capital structure results in a rate of return of 8.88 percent versus 10.25 percent after adjusting for income taxes. The net result is a total reduction in income tax expense of \$63,188,052 for KU. Adding to this reduction (\$16,548,489) in deferred income tax expenses related to the excess ADIT, the total reduction in revenue requirements totals \$79,736,541 for KU. For LG&E, the rate of return adjusted for income taxes decreases from 10.22 percent to 8.81 percent and, subsequently, the reduction in income tax expense is \$42,272,702 and \$12,511,898 for LG&E electric and gas operations, respectively. The excess ADIT reduction for LG&E electric is (\$12,334,125) and for LG&E gas is (\$2,949,245), for a total refund of \$54,606,827 and \$15,436,143.<sup>40</sup>

The Commission finds that the allocation method of the TCJA Surcredit as approved in the March 20, 2018 Order is still reasonable. Using the same methodology and applying it to the adjusted jurisdictional capitalization as described above, the TCJA Surcredit for services rendered from the date of this Order through April 30, 2019, is as follows:

<b>Residential Tariff</b>		
	<u>March 28, 2018 Order</u>	<u>Rehearing</u>
KU	\$(0.00415)/kWh	\$(0.00471)/kWh
LGE Electric	\$(0.00444)/kWh	\$(0.00494)/kWh

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<sup>40</sup> See Appendix E.

LGE Gas	\$(0.05042)/Ccf	\$(0.04775)/Ccf
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**Non- Residential Tariff**

	<u>March 28, 2018 Order</u>	<u>Rehearing</u>
KU	\$(0.00323)/kWh	\$(0.00367)/kWh
LGE Electric	\$(0.00344)/kWh	\$(0.00384)/kWh
LGE Gas	\$(0.02087)/Ccf	\$(0.01977)/Ccf

The Commission estimates the effects of this Order for services performed from April 1, 2018, through April 30, 2019, including the impacts on the environmental surcharge (ECR), gas line tracker (GLC), and demand-side management (DSM), are as follows<sup>41</sup>:

**Total Tax Reduction**

	<u>March 28, 2018 Order</u>	<u>Rehearing</u>
KU	\$(91,290,656)	\$(100,846,942)
LG&E Electric	\$(68,934,450)	\$(74,548,257)
LG&E Gas	\$(16,663,309)	\$(15,800,431)

The estimated impact due to the TCJA Surcredit only are as follows:

**TCJA Surcredit**

	<u>March 28, 2018 Order</u>	<u>Rehearing</u>
KU	\$(70,180,255)	\$(79,736,541)
LG&E Electric	\$(48,993,021)	\$(54,606,827)
LG&E Gas	\$(16,299,321)	\$(15,436,143)

The reduction to the average bill for the TCJA, ECR, GLT, and DSM impacts are as follows:<sup>42</sup>

**Reduction to Average Residential Bill**

	<u>March 28, 2018 Order</u>	<u>Rehearing</u>
KU	4.2%	5.7%
LG&E Electric	4.5%	6.0%
LG&E Gas	3.0%	4.2%

<sup>41</sup> See Appendix B.

<sup>42</sup> See Appendix C.

Based on the Commission's calculations, the total benefit to customers during this time period is \$191,195,630. This total benefit amount reflects the impacts of the TCJA from January 1, 2018, through April 30, 2019.

Should KU/LG&E not have new rates effective as of May 1, 2019, based on the same methodology above, KU/LG&E should continue to include the TCJA Surcredit on customers' bills based on annualized amounts as follows:

**Residential Tariff**

	<u>March 28, 2018 Order</u>	<u>Rehearing</u>
KU	\$(0.00337)/kWh	\$(0.00383)/kWh
LGE Electric	\$(0.00360)/kWh	\$(0.00402)/kWh
LGE Gas	\$(0.04096)/Ccf	\$(0.03880)/Ccf

**Non- Residential Tariff**

	<u>March 28, 2018 Order</u>	<u>Rehearing</u>
KU	\$(0.00262)/kWh	\$(0.00298)/kWh
LGE Electric	\$(0.00280)/kWh	\$(0.00312)/kWh
LGE Gas	\$(0.01696)/Ccf	\$(0.01606)/Ccf

The Commission recognizes that in initiating this case, our December 27, 2017 Order in Case No. 2017-00477 required KU/LG&E to commence recording deferred liabilities on their respective books to reflect the reduction in federal corporate income tax rate to 21 percent and the associated savings in excess deferred taxes on an interim basis until rates are adjusted to reflect the federal tax savings. Those tax savings commenced as of January 1, 2018, and a portion of those savings have been passed through to customers by the interim TCJA Surcredits implemented by KU/LG&E pursuant to the Commission's March 28, 2018 Order. The interim TCJA Surcredits reflected the TCJA savings as calculated by KU/LG&E for the 16 months of January 1, 2018, through

April 30, 2019, with those 16-month savings to be refunded over the 13 months of April 1, 2018, through April 30, 2019. Based on the findings in this Order approving higher TCJA Surcredits due to revisions to the 16-month TCJA calculations proposed by KU/LG&E, the Commission finds that the interim TCJA Surcredits charged from April 1, 2018, through September 30, 2018, for KU and LG&E electric were too low, while the interim TCJA Surcredit charged for LG&E gas was too high. To properly reflect the TCJA savings for customers since January 1, 2018, KU/LG&E should file within 30 days of the date of entry of this Order, a plan to true up the difference between the interim surcharges effective April 1, 2018, and those that would have been in effect under the calculations in this Order.

IT IS THEREFORE ORDERED that:

1. The rates set forth in the non-unanimous Settlement and implemented on an interim basis pursuant to the March 20, 2018 Order are denied.
2. The rates and charges in Appendix G, attached hereto, are fair, just, and reasonable for KU to charge for service rendered on and after the date of this Order.
3. The rates and charges in Appendix H, attached hereto, are fair, just, and reasonable for LG&E to charge for service rendered by on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, each of KU and LG&E shall file with the Commission, using the Commission's electronic Tariff Filing System, its revised tariffs as set forth in this Order reflecting that they were approved pursuant to this Order.

5. Within 30 days of the date of this Order, KU/LG&E shall file a plan to true up the difference between the interim surcharges effective April 1, 2018, and those that would have been in effect under the calculations in this Order.

6. Any documents filed in the future pursuant to ordering paragraph 5 shall reference this case number and shall be retained in the post-case correspondence file.

7. This case is now closed and removed from the Commission's docket.

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By the Commission

ENTERED  
SEP 28 2018  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

*for*  
  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

TCJA ADIT Adjustment to Capitalization

KU		
13-Month Average Residential ADIT	\$	3,277,054
13-Month Average Other ADIT		5,510,226
13-Month Average Total ADIT		8,787,280
Multiplied By: Rate Base Jurisdictional Factor		89.28%
Jurisdictional ADIT Impact to Capital Structure	\$	7,845,284
LG&E		
	Gas	Electric
13-Month Average Electric Residential ADIT	\$ 2,789,257	\$ 2,789,257
13-Month Average Electric Other ADIT	4,024,901	4,024,901
13-Month Average Gas ADIT	1,223,921	1,223,921
Total ADIT	8,038,079	8,038,079
Multiplied By: Rate Base Allocation Factor	17.32%	82.68%
Allocated ADIT Impact to Capital Structure	\$ 1,392,195	\$ 6,645,884

KU

	Total	Residential 39%	Other 61%
Amortization of Excess ADIT (Protected)	\$ (11,459,997)	\$ (4,469,399)	\$ (6,990,598)
Amortization of Excess ADIT (Unprotected)	(850,810)	(331,816)	(518,994)
Amortization of Excess ADIT (Total)	<u>\$ (12,310,807)</u>	(4,801,215)	(7,509,592)
Gross-up Factor - 21% FIT Rate		<u>1.3535787</u>	<u>1.3535787</u>
Revenue Requirement Impact		(6,498,823)	(10,164,824)
Energy Billing Units		<u>6,599,267,393</u>	<u>13,258,143,182</u>
ADIT Sur Credit		<u>\$ (0.0009848)</u>	<u>\$ (0.0007667)</u>

	KU - Residential				KU - Other			
	ADIT Sur Credit kWh	Energy Billing Units	Monthly ADIT Credit	Cumulative Balance	ADIT Sur Credit kWh	Energy Billing Units	Monthly ADIT Credit	Cumulative Balance
Apr-18	\$ 0.0009848	367,882,886	362,284	\$ 362,284	\$ 0.0007667	905,980,400	694,602	\$ 694,602
May-18	\$ 0.0009848	373,489,493	367,805	730,089	\$ 0.0007667	1,037,359,570	795,328	1,489,930
Jun-18	\$ 0.0009848	465,315,108	458,233	1,188,322	\$ 0.0007667	1,096,086,770	840,354	2,330,284
Jul-18	\$ 0.0009848	556,162,998	547,698	1,736,020	\$ 0.0007667	1,097,375,686	841,342	3,171,626
Aug-18	\$ 0.0009848	569,946,896	561,272	2,297,292	\$ 0.0007667	1,126,785,680	863,890	4,035,516
Sep-18	\$ 0.0009848	419,057,959	412,680	2,709,972	\$ 0.0007667	979,922,407	751,292	4,786,808
Oct-18	\$ 0.0009848	361,122,074	355,626	3,065,598	\$ 0.0007667	1,004,699,175	770,288	5,557,096
Nov-18	\$ 0.0009848	456,877,357	449,923	3,515,521	\$ 0.0007667	1,005,867,253	771,184	6,328,280
Dec-18	\$ 0.0009848	643,584,709	633,789	4,149,310	\$ 0.0007667	1,029,519,847	789,318	7,117,598
Jan-19	\$ 0.0009848	736,904,932	725,689	4,874,999	\$ 0.0007667	1,041,829,959	798,756	7,916,354
Feb-19	\$ 0.0009848	608,819,914	599,553	5,474,552	\$ 0.0007667	966,177,488	740,754	8,657,108
Mar-19	\$ 0.0009848	532,467,111	524,363	5,998,915	\$ 0.0007667	946,681,601	725,807	9,382,915
Apr-19	\$ 0.0009848	507,635,953	499,909	6,498,824	\$ 0.0007667	1,019,857,153	781,910	10,164,825
		<u>6,599,267,389</u>	<u>6,498,824</u>			<u>13,258,142,989</u>	<u>10,164,825</u>	
13-Month Average				<u>\$ 3,277,054</u>				<u>\$ 5,510,226</u>

LG&E - Electric

	Total	Residential 41%	Other 59%
Amortization of Excess ADIT (Protected)	\$ (7,552,799)	\$ (3,096,648)	\$ (4,456,151)
Amortization of Excess ADIT (Unprotected)	(1,618,844)	(663,726)	(955,118)
Amortization of Excess ADIT (Total)	<u>\$ (9,171,643)</u>	(3,760,374)	(5,411,269)
Gross-up Factor - 21% FIT Rate		1.3518666	1.3518666
Revenue Requirement Impact		(5,083,524)	(7,315,314)
Energy Billing Units		4,528,429,568	8,391,482,722
ADIT Sur Credit		<u>\$ (0.0011226)</u>	<u>\$ (0.0008718)</u>

	LGE - Residential				LGE - Other			
	ADIT Sur Credit kWh	Energy Billing Units	Monthly ADIT Credit	Cumulative Balance	ADIT Sur Credit kWh	Energy Billing Units	Monthly ADIT Credit	Cumulative Balance
Apr-18	\$ 0.0011226	241,412,700	271,005	\$ 271,005	\$ 0.0008718	582,892,165	508,139	\$ 508,139
May-18	\$ 0.0011226	312,660,687	350,987	621,992	\$ 0.0008718	681,584,081	594,174	1,102,313
Jun-18	\$ 0.0011226	416,406,759	467,450	1,089,442	\$ 0.0008718	736,657,656	642,185	1,744,498
Jul-18	\$ 0.0011226	501,247,441	562,690	1,652,132	\$ 0.0008718	732,499,123	638,560	2,383,058
Aug-18	\$ 0.0011226	500,112,289	561,416	2,213,548	\$ 0.0008718	745,700,106	650,068	3,033,126
Sep-18	\$ 0.0011226	348,008,133	390,667	2,604,215	\$ 0.0008718	627,199,793	546,764	3,579,890
Oct-18	\$ 0.0011226	250,438,135	281,137	2,885,352	\$ 0.0008718	606,393,709	528,627	4,108,517
Nov-18	\$ 0.0011226	261,676,337	293,753	3,179,105	\$ 0.0008718	604,157,458	526,677	4,635,194
Dec-18	\$ 0.0011226	364,721,094	409,429	3,588,534	\$ 0.0008718	637,377,900	555,637	5,190,831
Jan-19	\$ 0.0011226	382,356,687	429,226	4,017,760	\$ 0.0008718	624,827,252	544,696	5,735,527
Feb-19	\$ 0.0011226	305,979,661	343,487	4,361,247	\$ 0.0008718	572,608,203	499,174	6,234,701
Mar-19	\$ 0.0011226	295,068,909	331,238	4,692,485	\$ 0.0008718	594,086,603	517,898	6,752,599
Apr-19	\$ 0.0011226	348,340,736	391,040	5,083,525	\$ 0.0008718	645,498,671	562,716	7,315,315
		<u>4,528,429,568</u>	<u>5,083,525</u>			<u>8,391,482,722</u>	<u>7,315,315</u>	
13-Month Average				<u>\$ 2,789,257</u>				<u>\$ 4,024,901</u>

LG&E Gas

Amortization of Excess ADIT (Protected)	\$ (1,950,880)
Amortization of Excess ADIT (Unprotected)	(223,585)
<hr/>	
Amortization of Excess ADIT (Total)	(2,174,465)
Gross-up Factor - 21% FIT Rate	1.3518666
<hr/>	
Revenue Requirement Impact	(2,939,587)
Energy Billing Units	481,601,824
<hr/>	
ADIT Sur Credit	\$ (0.0061038)
<hr/>	

	ADIT Sur Credit kWh	Energy Billing Units	Monthly ADIT Credit	Cumulative Balance
Apr-18	\$ 0.0610380	2,710,262	\$ 165,429	\$ 165,429
May-18	\$ 0.0610380	1,895,547	115,700	281,129
Jun-18	\$ 0.0610380	1,502,260	91,695	372,824
Jul-18	\$ 0.0610380	1,460,735	89,160	461,984
Aug-18	\$ 0.0610380	1,521,346	92,860	554,844
Sep-18	\$ 0.0610380	1,608,015	98,150	652,994
Oct-18	\$ 0.0610380	2,583,798	157,710	810,704
Nov-18	\$ 0.0610380	4,386,580	267,748	1,078,452
Dec-18	\$ 0.0610380	6,728,815	410,713	1,489,165
Jan-19	\$ 0.0610380	8,097,444	494,252	1,983,417
Feb-19	\$ 0.0610380	6,938,839	423,533	2,406,950
Mar-19	\$ 0.0610380	5,021,912	306,527	2,713,477
Apr-19	\$ 0.0610380	3,704,629	226,123	2,939,600
		<hr/>	<hr/>	<hr/>
Totals		48,160,182	\$ 2,939,600	
		<hr/>	<hr/>	<hr/>
13-Month Average				\$ 1,223,921
				<hr/>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
 COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2018-00034

SUMMARY OF TAX REDUCTION CREDITS

LINE NO.	DESCRIPTION	KU \$	LG&E-ELECTRIC \$	LG&E-GAS \$	TOTAL CREDITS \$
1	BASE RATE CREDIT MECHANISM	(79,736,541)	(54,606,827)	(15,436,143)	(149,779,512)
2	ENVIRONMENTAL SURCHARGE (ECR)	(21,002,921)	(19,852,212)		(40,855,133)
3	GAS LINE TRACKER (GLT)			(364,288)	(364,288)
4	DEMAND SIDE MANAGEMENT (DSM)	(107,480)	(89,217)	-	(196,697)
5	TOTAL CREDITS	(100,846,942)	(74,548,257)	(15,800,431)	(191,195,630)

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

NOTES:

Using February Billing Factors  
ECR using December Expense Month  
Using January Base Rates

KU Residential Electric Bill				Current		March	April
				Current		ECR Change	Tax Act
				Average Usage			
Residential Rate RS				1,179 kWh			
Customer Charge				\$12.25	\$12.25		\$12.25
All Kwh	kWh	X	0.08795	\$103.69	\$103.69		\$103.69
Fuel/OSS Clause	kWh	X	-0.00157	(\$1.85)	(\$1.85)		(\$1.85)
DSM	kWh	X	0.00230	\$2.71	\$2.71		\$2.71
Tax Act Surcredit	kWh	X		\$0.00	\$0.00	-0.00471	(\$5.56)
Subtotal				\$116.80	\$116.80		\$111.24
ECR (X subtotal)			3.87%	\$4.52	2.86%	\$3.34	\$3.18
Subtotal				\$121.32	\$120.14		\$114.42
HEA			0.30	\$0.30	\$0.30		\$0.30
<b>TOTAL</b>				<b>\$121.62</b>	<b>\$120.44</b>		<b>\$114.72</b>
Increase Per Month					(\$1.18) -1.0%		(\$5.72) -4.7%
						Total	(\$6.90)
						Total %	-5.7%

NOTES:  
 Using February Billing Factors  
 ECR using December Expense Month  
 Using January Base Rates

LG&E Residential Electric Bill				Current		March	April
				Current		ECR Change	Tax Act
				Average Usage			
Residential Rate RS				957			
				kWh			
Customer Charge				\$12.25	\$12.25	\$12.25	\$12.25
All Kwh	kWh	X	0.08865	\$84.84	\$84.84	\$84.84	\$84.84
Fuel/OSS Clause	kWh	X	-0.00076	(\$0.73)	(\$0.73)		(\$0.73)
DSM	kWh	X	0.00248	\$2.37	\$2.37		\$2.37
Tax Act Surcredit	kWh	X		\$0.00	\$0.00	-0.00494	(\$4.73)
Subtotal				\$98.73	\$98.73		\$94.00
ECR (X subtotal)				7.74%	\$7.64	6.31%	\$5.93
Subtotal				\$106.37	\$104.96		\$99.93
HEA				0.25	\$0.25		\$0.25
<b>TOTAL</b>				<b>\$106.62</b>	<b>\$105.21</b>		<b>\$100.18</b>
Increase Per Month					(\$1.41)		(\$5.03)
					-1.3%		-4.8%
						Total	(\$6.44)
						Total %	-6.0%

NOTES:  
 Using February Billing Factors  
 Using January Base Rates

LG&E Residential Gas Bill				April	
				Current	Tax Act
				Average Usage	
				55	
Residential Rate RGS				Ccf	
Customer Charge				\$16.35	\$16.35
All Ccf	Ccf	X	0.36300	\$19.97	\$19.97
Gas Supply Clause	Ccf	X	0.43432	\$23.89	\$23.89
DSM	Ccf	X	0.01877	\$1.03	\$1.03
Tax Act Surcredit	Ccf	X		\$0.00	-0.04775 (\$2.63)
Subtotal				\$61.24	\$58.61
GLT - per meter			0.71	\$0.71	\$0.71
GLT - per Ccf	Ccf	X	0.00065	\$0.04	\$0.04
HEA			0.25	\$0.25	\$0.25
TOTAL				<b>\$62.24</b>	<b>\$59.61</b>
<b>Increase Per Month</b>					(\$2.63) -4.2%

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

KENTUCKY UTILITIES COMPANY  
CASE NO. 2018-00034  
COST OF CAPITAL SUMMARY  
THIRTEEN MONTH AVERAGE  
FROM JULY 1, 2017 TO JUNE 30, 2018

LINE NO.	CLASS OF CAPITAL	MONTH AVERAGE AMOUNT (PENSION CONTRIBUTION)	ADJUSTMENT AMOUNT	ADJUSTED CAPITAL	JURISDICTIONAL RATE BASE PERCENTAGE	JURISDICTIONAL CAPITAL	JURISDICTIONAL ADJUSTMENTS	JURISDICTIONAL ADJUSTED CAPITAL	PERCENT OF TOTAL	UPDATED COST RATE	13 MONTH AVERAGE WEIGHTED COST	TAX GROSS-UP	COST ADJUSTED FOR INCOME TAXES
	(A)	(C)	(D)	(E=C+D)	(F)	(G=ExF)	(H)	(I=G+H)	(J)	(K)	(L=JxK)	25.61%	(L+M)
		\$	\$	\$		\$	\$	\$		%	%	%	%
1	SHORT-TERM DEBT	129,792,963	(30,147)	129,762,816	89.28%	115,852,242	(26,243,498)	89,608,744	2.47%	2.47%	0.06%		0.06%
2	LONG-TERM DEBT	2,326,749,842	(540,431)	2,326,209,411	89.28%	2,076,839,762	(470,457,361)	1,606,382,402	44.25%	4.24%	1.88%		1.88%
3	COMMON EQUITY	2,801,648,206	(1,154,801)	2,800,493,404	89.28%	2,500,280,511	(566,377,528)	1,933,902,983	53.28%	9.70%	5.17%	1.78%	6.95%
4	TOTAL CAPITAL	5,258,191,011	(1,725,379)	5,256,465,632		4,692,972,516	(1,063,078,387)	3,629,894,129	100.00%		7.11%	1.78%	8.88%

LOUISVILLE GAS AND ELECTRIC COMPANY  
CASE NO. 2018-00034  
COST OF CAPITAL SUMMARY - ELECTRIC OPERATIONS  
THIRTEEN MONTH AVERAGE  
FROM JULY 1, 2017 TO JUNE 30, 2018

LINE NO.	CLASS OF CAPITAL	UPDATED 13 MONTH AVERAGE AMOUNT (PENSION CONTRIBUTION & ADIT)	JURISDICTIONAL RATE BASE PERCENTAGE	JURISDICTIONAL CAPITAL (E=CxD)	ADJUSTMENT AMOUNT (F)	JURISDICTIONAL ADJUSTED CAPITAL (G=E+F)	PERCENT OF TOTAL (H)	UPDATED COST RATE (I)	13 MONTH AVERAGE WEIGHTED COST (J=HxI)	TAX GROSS-UP 25.64%	WEIGHTED COST ADJUSTED FOR INCOME TAXES
	(A)	(C)	(D)	(E=CxD)	(F)	(G=E+F)	(H)	(I)	(J=HxI)	%	%
		\$	%	\$	\$	\$		%	%	%	%
ELECTRIC:											
1	SHORT-TERM DEBT	160,435,142	82.68%	132,647,776	(40,566,630)	92,081,145	3.82%	2.45%	0.09%		0.09%
2	LONG-TERM DEBT	1,801,346,869	82.68%	1,489,353,591	(455,477,345)	1,033,876,246	42.91%	4.12%	1.77%		1.77%
3	COMMON EQUITY	<u>2,235,967,667</u>	82.68%	<u>1,848,698,067</u>	<u>(565,372,852)</u>	<u>1,283,325,215</u>	<u>53.27%</u>	<u>9.70%</u>	<u>5.17%</u>	<u>1.78%</u>	<u>6.95%</u>
4	TOTAL CAPITAL	<u>4,197,749,678</u>		<u>3,470,699,434</u>	<u>(1,061,416,828)</u>	<u>2,409,282,605</u>	<u>100.00%</u>		<u>7.03%</u>	<u>1.78%</u>	<u>8.81%</u>

CASE NO 2018-00034  
 COST OF CAPITAL SUMMARY - GAS OPERATIONS  
 THIRTEEN MONTH AVERAGE  
 FROM JULY 1, 2017 TO JUNE 30, 2018

LINE NO.	CLASS OF CAPITAL	UPDATED 13 MONTH AVERAGE AMOUNT (PENSION CONTRIBUTION & ADIT)	JURISDICTIONAL RATE BASE PERCENTAGE	JURISDICTIONAL CAPITAL (E=CxD)	ADJUSTMENT AMOUNT (F)	JURISDICTIONAL ADJUSTED CAPITAL (G=E+F)	PERCENT OF TOTAL (H)	UPDATED COST RATE (I)	13 MONTH AVERAGE WEIGHTED COST (J=HxI)	TAX GROSS-UP 25.64%	WEIGHTED COST ADJUSTED FOR INCOME TAXES
	(A)	(C)	(D)	(E=CxD)	(F)	(G=E+F)	(H)	(I)	(J=HxI)	25.64%	
		\$	%	\$	\$	\$		%	%	%	%
GAS:											
1	SHORT-TERM DEBT	160,435,142	17.32%	27,787,367	(1,036,294)	26,751,072	3.82%	2.45%	0.09%		0.09%
2	LONG-TERM DEBT	1,801,346,869	17.32%	311,993,278	(11,635,389)	300,357,888	42.91%	4.12%	1.77%		1.77%
3	COMMON EQUITY	<u>2,235,967,667</u>	17.32%	<u>387,269,600</u>	<u>(14,442,723)</u>	<u>372,826,876</u>	<u>53.27%</u>	<u>9.70%</u>	<u>5.17%</u>	<u>1.78%</u>	<u>6.95%</u>
4	TOTAL CAPITAL	<u>4,197,749,678</u>		<u>727,050,244</u>	<u>(27,114,407)</u>	<u>699,935,837</u>	<u>100.00%</u>		<u>7.03%</u>	<u>1.78%</u>	<u>8.81%</u>

## APPENDIX E

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

KENTUCKY UTILITIES COMPANY  
CASE NO. 2018-00034  
OVERALL FINANCIAL SUMMARY

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	CASE NO. 2016-00370	UPDATED	REVENUE REQUIREMENT IMPACT	RESIDENTIAL TARIFF	OTHER TARIFFS
			FINAL ORDER (7/1/2017 - 6/30/2018)	FINAL ORDER (7/1/2017 - 6/30/2018)		(39% OF TOTAL REVENUES)	(61% OF TOTAL REVENUES)
			\$	\$	\$	\$	\$
1	CAPITALIZATION ALLOCATED TO KENTUCKY JURISDICTION	PAGE 2	3,607,984,536	3,629,894,129	21,909,593		
2	REQUIRED RATE OF RETURN ADJUSTED FOR INCOME TAXES	PAGE 2	10.25%	8.88%	-1.37%		
3	REQUIRED ANNUAL OPERATING INCOME BEFORE TAXES (1 x 2)		369,897,726	322,506,687	(47,391,039)		
4	YEARS EQUIVALENT TO 16 MONTHS (16/12)				1.33		
5	TOTAL REDUCTION IN INCOME TAX EXPENSE (3 x 4)				(63,188,052)		
6	AMORTIZATION OF EXCESS ADIT (PROTECTED) - (\$309,333,049 USING ARAM)			(11,459,997)			
7	AMORTIZATION OF EXCESS ADIT (UNPROTECTED) - (SL OVER 15 YEARS)			(850,810)			
8	TOTAL AMORTIZATION OF EXCESS ADIT (6 + 7)			(12,310,807)			
9	GROSS-UP FACTOR USING 25.61% EFFECTIVE TAX RATE			1.34			
10	TOTAL REDUCTION IN DEFERRED INCOME TAX EXPENSE (8 x 9)				(16,548,489)		
11	<b>TOTAL REDUCTION IN REVENUE REQUIREMENTS (5 + 10)</b>				<b>(79,736,541)</b>	<b>(31,097,251)</b>	<b>(48,639,290)</b>
12	ENERGY BILLING UNITS (TY KWH / 12 MO x 13 MO)				19,857,410,575	6,599,267,393	13,258,143,182
13	ENERGY CREDIT PER KWH (APRIL 1, 2018 - APRIL 30, 2019) (11 / 12)					<b>(0.00471)</b>	<b>(0.00367)</b>
RATE PER MONTH CALCULATIONS:							
14	<b>TOTAL MONTHLY REDUCTION IN REVENUE REQUIREMENTS (11 / 16 MO)</b>				<b>(4,983,534)</b>	<b>(1,943,578)</b>	<b>(3,039,956)</b>
15	ENERGY BILLING UNITS PER MONTH (TY KWH / 12 MO)				1,527,493,121	507,635,953	1,019,857,168
16	MONTHLY ENERGY CREDIT PER KWH (14 / 15)				<b>(0.00326)</b>	<b>(0.00383)</b>	<b>(0.00298)</b>

LOUISVILLE GAS AND ELECTRIC COMPANY  
CASE NO. 2018-00034 - ELECTRIC OPERATIONS

OVERALL FINANCIAL SUMMARY

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	CASE NO. 2016-00371	UPDATED	REVENUE REQUIREMENT IMPACT	RESIDENTIAL TARIFF (41% OF TOTAL REVENUES)	OTHER TARIFFS (59% OF TOTAL REVENUES)	
			FINAL ORDER (7/1/2017 - 6/30/2018) (35%)	CASE NO. 2016-00371 FINAL ORDER (7/1/2017 - 6/30/2018) (21%)				
			\$	\$	\$	\$	\$	
1	CAPITALIZATION ALLOCATED TO ELECTRIC OPERATIONS	PAGE 2	2,388,355,971	2,409,282,605	20,926,635			
2	REQUIRED RATE OF RETURN ADJUSTED FOR INCOME TAXES	PAGE 2	10.22%	8.81%	-1.40%			
3	REQUIRED ANNUAL OPERATING INCOME BEFORE TAXES (1 x 2)		243,998,420	212,293,894	(31,704,527)			
4	YEARS EQUIVALENT TO 16 MONTHS (16/12)				1.33			
5	TOTAL REDUCTION IN INCOME TAX EXPENSE (3 x 4)				(42,272,702)			
6	AMORTIZATION OF EXCESS ADIT (PROTECTED) - (\$207,520,098 USING ARAM)			(7,552,799)				
7	AMORTIZATION OF EXCESS ADIT (UNPROTECTED) - (SL OVER 15 YEARS)			(1,618,844)				
8	TOTAL AMORTIZATION OF EXCESS ADIT (6 + 7)			(9,171,643)				
9	GROSS-UP FACTOR USING 25.64% EFFECTIVE TAX RATE			1.34				
10	TOTAL REDUCTION IN DEFERRED INCOME TAX EXPENSE (8 x 9)				(12,334,125)			
11	<b>TOTAL REDUCTION IN REVENUE REQUIREMENTS (5 + 10)</b>				<b>(54,606,827)</b>	<b>(22,388,799)</b>	<b>(32,218,028)</b>	
12	ENERGY BILLING UNITS (TY KWH / 12 MO x 13 MO)				12,919,919,682	4,528,429,567	8,391,490,115	
13	ENERGY CREDIT PER KWH (APRIL 1, 2018 - APRIL 30, 2019) (11 / 12)					<b>(0.00494)</b>	<b>(0.00384)</b>	
	RATE PER MONTH CALCULATIONS:							
14	<b>TOTAL MONTHLY REDUCTION IN REVENUE REQUIREMENTS (11 / 16 MO)</b>				<b>(3,412,927)</b>	<b>(1,399,300)</b>	<b>(2,013,627)</b>	
15	ENERGY BILLING UNITS PER MONTH (TY KWH / 12 MO)				993,839,976	348,340,736	645,499,240	
16	MONTHLY ENERGY CREDIT PER KWH (14 / 15)					<b>(0.00402)</b>	<b>(0.00312)</b>	

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2018-00034 - GAS OPERATIONS

OVERALL FINANCIAL SUMMARY

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	CASE NO. 2016-00371	UPDATED	REVENUE REQUIREMENT IMPACT	RESIDENTIAL	NON-
			FINAL ORDER (7/1/2017 - 6/30/2018) (35%)	CASE NO. 2016-00371		FINAL ORDER (7/1/2017 - 6/30/2018) (21%)	TARIFF (65.4% OF TOTAL REVENUES)
			\$	\$	\$	\$	\$
1	CAPITALIZATION ALLOCATED TO GAS OPERATIONS	PAGE 2	695,552,077	699,935,837	4,383,760		
2	REQUIRED RATE OF RETURN ADJUSTED FOR INCOME TAXES	PAGE 2	10.22%	8.81%	-1.40%		
3	REQUIRED ANNUAL OPERATING INCOME BEFORE TAXES (1 x 2)		71,058,758	61,674,834	(9,383,924)		
4	YEARS EQUIVALENT TO 16 MONTHS (16/12)				1.33		
5	TOTAL REDUCTION IN INCOME TAX EXPENSE (3 x 4)				(12,511,898)		
6	AMORTIZATION OF EXCESS ADIT (PROTECTED) - (\$75,168,977 USING ARAM)			(1,950,880)			
7	AMORTIZATION OF EXCESS ADIT (UNPROTECTED) - (SL OVER 15 YEARS)			(223,585)			
8	TOTAL AMORTIZATION OF EXCESS ADIT (6 + 7)			(2,174,466)			
9	GROSS-UP FACTOR USING 25.64% EFFECTIVE TAX RATE			1.34			
10	TOTAL REDUCTION IN DEFERRED INCOME TAX EXPENSE (8 x 9)				(2,924,245)		
11	<b>TOTAL REDUCTION IN REVENUE REQUIREMENTS (5 + 10)</b>				<b>(15,436,143)</b>	<b>(10,095,237.77)</b>	<b>(5,340,906)</b>
12	GAS BILLING UNITS (TY CCF / 12 MO x 13 MO)				481,601,824	211,426,821	270,175,003
13	GAS CREDIT PER CCF (APRIL 1, 2018 - APRIL 30, 2019) (11 / 12)					(0.04775)	(0.01977)
	RATE PER MONTH CALCULATIONS:						
14	<b>TOTAL MONTHLY REDUCTION IN REVENUE REQUIREMENTS (11 / 16 MO)</b>				<b>(964,759)</b>	<b>(630,952)</b>	<b>(333,807)</b>
15	GAS BILLING UNITS PER MONTH (TY CCF / 12 MO)				37,046,294	16,263,602	20,782,693
16	MONTHLY GAS CREDIT PER CCF (14 / 15)					(0.03880)	(0.01606)

APPENDIX F

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

KENTUCKY UTILITIES COMPANY  
CASE NO. 2018-00034  
EMBEDDED COST OF SHORT-TERM DEBT  
SEVENTEEN MONTH AVERAGE  
FROM DECEMBER 31, 2017 TO APRIL 30, 2019

LINE NO.	ISSUE	AMOUNT OUTSTANDING	INTEREST RATE	INTEREST REQUIREMEN T
	(A)	(B)	(C)	(D=BxC)
		\$	%	\$
	Commercial Paper:			
1	Dec-17	88,757,433	1.500%	1,331,362
2	Jan-18	115,284,207	2.500%	2,882,105
3	Feb-18	80,223,956	2.500%	2,005,599
4	Mar-18	121,132,941	2.500%	3,028,324
5	Apr-18	148,699,047	2.500%	3,717,476
6	May-18	192,732,523	2.500%	4,818,313
7	Jun-18	181,134,637	2.500%	4,528,366
8	Jul-18	171,967,439	2.500%	4,299,186
9	Aug-18	158,153,465	2.500%	3,953,837
10	Sep-18	204,139,312	2.500%	5,103,483
11	Oct-18	234,068,428	2.500%	5,851,711
12	Nov-18	265,582,184	2.500%	6,639,555
13	Dec-18	256,266,518	2.500%	6,406,663
14	Jan-19	232,926,101	2.500%	5,823,153
15	Feb-19	205,950,275	2.500%	5,148,757
16	Mar-19	268,884,001	2.500%	6,722,100
17	Apr-19	296,436,768	2.500%	7,410,919
18	Total	<u>3,222,339,235</u>		<u>79,670,907</u>
19	Weighted Cost of Short-Term Debt		<u>2.47%</u>	

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2018-00034

EMBEDDED COST OF SHORT-TERM DEBT  
SEVENTEEN MONTH AVERAGE  
FROM DECEMBER 31, 2017 TO APRIL 30, 2019

LINE NO.	ISSUE	AMOUNT OUTSTANDING	INTEREST RATE	INTEREST REQUIREMENT
	(A)	(B)	(C)	(D=BxC)
		\$	%	\$
Commercial Paper:				
1	Dec-17	196,959,740	1.500%	2,954,396
2	Jan-18	131,235,186	2.500%	3,280,880
3	Feb-18	118,556,027	2.500%	2,963,901
4	Mar-18	139,367,573	2.500%	3,484,189
5	Apr-18	171,756,380	2.500%	4,293,910
6	May-18	207,172,900	2.500%	5,179,323
7	Jun-18	196,247,184	2.500%	4,906,180
8	Jul-18	203,429,539	2.500%	5,085,738
9	Aug-18	204,372,494	2.500%	5,109,312
10	Sep-18	229,620,415	2.500%	5,740,510
11	Oct-18	258,766,473	2.500%	6,469,162
12	Nov-18	284,723,869	2.500%	7,118,097
13	Dec-18	276,215,150	2.500%	6,905,379
14	Jan-19	250,868,543	2.500%	6,271,714
15	Feb-19	231,729,948	2.500%	5,793,249
16	Mar-19	282,780,800	2.500%	7,069,520
17	Apr-19	316,086,292	2.500%	7,902,157
18	Total	<u>3,699,888,513</u>		<u>90,527,615</u>
19	Weighted Cost of Short-Term Debt		<u>2.45%</u>	

APPENDIX G

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

The following rates and charges are prescribed for the customers served by Kentucky Utilities Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

RATE TCJA  
TAX CUTS AND JOBS ACT SURCREDIT

TCJA Surcredit per kWh:

Effective April 1, 2018 – April 30, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	\$0.00471
Nonresidential (all other Rate Schedules):	\$0.00367

Effective May 1, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	\$0.00383
Nonresidential (all other Rate Schedules):	\$0.00298

APPENDIX H

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00034 DATED **SEP 28 2018**

The following rates and charges are prescribed for the customers served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

ELECTRIC SERVICE RATES

RATE TCJA  
TAX CUTS AND JOBS ACT SURCREDIT

TCJA Surcredit per kWh:

Effective April 1, 2018 – April 30, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	\$0.00494
Nonresidential (all other Rate Schedules):	\$0.00384

Effective May 1, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	\$0.00402
Nonresidential (all other Rate Schedules):	\$0.00312

GAS SERVICE RATES

RATE TCJA  
TAX CUTS AND JOBS ACT SURCREDIT

TCJA Surcredit per kWh:

Effective April 1, 2018 – April 30, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	\$0.04775
Nonresidential (all other Rate Schedules):	\$0.01977

Effective May 1, 2019

Residential (RS, RTOD-Energy, RTOD-Demand, VFD):	\$0.03880
Nonresidential (all other Rate Schedules):	\$0.01606

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