

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE	)	
PUBLIC SERVICE COMMISSION OF THE	)	
ENVIRONMENTAL SURCHARGE MECHANISM	)	CASE NO.
OF KENTUCKY UTILITIES COMPANY FOR THE	)	2019-00014
SIX-MONTH BILLING PERIOD ENDING	)	
OCTOBER 31, 2018	)	

ORDER

On February 13, 2019, 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, 2018, to October 31, 2018.<sup>1</sup> Pursuant to KRS 278.183(3), the Commission must review the past operations of a utility's environmental surcharge at six-month intervals and shall disallow, by temporary adjustment of the surcharge, any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable.

The February 13, 2019 Order also established a procedural schedule that provided for discovery and the filing of prepared testimony by KU and intervenors. KU filed prepared direct testimony and responded to one request for information issued by Commission Staff. On April 5, 2019, KU requested that the Commission take this case under submission for a decision based on the evidentiary record and issue an order by May 3, 2019. As there are no intervenors in this case and a hearing is not necessary in

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<sup>1</sup> KU's environmental surcharge is billed on a two-month lag. Thus, surcharge billings for May 2018 through October 2018 are based on costs incurred from March 2018 through August 2018.

the public interest, the Commission will adjudicate this case based on the evidence of record.

### SURCHARGE ADJUSTMENT

KU determined that it had a net over-recovery of environmental costs for the six-month billing period ended October 31, 2018, of \$54,918.<sup>2</sup> KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement of \$54,918 for one month, beginning in the second full-billing month following the Commission's final Order in this proceeding.<sup>3</sup> The one-month decrease in the jurisdictional environmental surcharge revenue requirement would decrease KU's environmental-cost-recovery billing factor for that month.

The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$54,918 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 \$54,918 for one month beginning in the second full-billing month following the date of this Order. KU stated that the actual average residential customer's usage for the 12-month period ended December 31, 2018, is 1,220 kilowatt-hours (kWh) per month.<sup>4</sup> KU calculates that for a residential customer using 1,220 kWh per month, the impact of its proposed decrease in environmental-cost-recovery billing factor would be a decrease of

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<sup>2</sup> Direct Testimony of Derek A. Rahn (Rahn Testimony) at 6.

<sup>3</sup> *Id.* at 7.

<sup>4</sup> KU's Response to Commission Staff's First Request for Information (Response to Staff's First Request), Item 6.

approximately \$0.05 for one month, using rates and adjustment clause factors in effect for the December 2018 billing month.<sup>5</sup>

### RATE OF RETURN

KU provided the outstanding balances for its long-term debt, short-term debt, and common equity and the blended interest rates for its long-term and short-term debt as of August 31, 2018, the last expense month of the review period.<sup>6</sup> KU also provided the overall weighted average cost of capital (WACC) reflecting the tax gross-up approach approved in Case No. 2004-00426.<sup>7</sup> The Commission takes administrative notice that KU filed a base rate application docketed as Case No. 2018-00294.<sup>8</sup> We also take notice that the final order was issued in the proceeding on April 30, 2019, wherein the Commission determined that a reasonable return on equity (ROE) for KU was 9.725 percent. Based on our determination in Case No. 2018-00294, the Commission finds that the ROE determination in that case is applicable to the instant proceeding. Using the approved 9.725 ROE, the Commission has calculated a WACC, before income tax gross up, of 7.14 percent for KU's 2009, 2011, and 2016 Environmental Compliance Plans (Compliance Plans).

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<sup>5</sup> *Id.*

<sup>6</sup> Response to Staff's First Request, Item 5.

<sup>7</sup> 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 for Recovery by Environmental Surcharge* (Ky. PSC June 20, 2005); and the Response to Staff's First Request, Item 5, Attachment.

<sup>8</sup> Case No. 2018-00294, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates* (Ky. PSC Apr. 30, 2019).

The Commission has 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. The gross-up factor excludes the Internal Revenue Code §199 manufacturing tax deduction, which was repealed by the Tax Cuts and Jobs Act.<sup>9</sup> Therefore, the Commission finds that the WACC for KU's Compliance Plans of 7.14 percent and the income tax gross-up factor of 0.75, which produces an overall grossed-up return of 8.89 percent, should be used in all KU monthly environmental surcharge filings beginning in the second full-billing month following the date of this Order.

#### EMISSION ALLOWANCE REPORTING FORMS

KU is proposing a change to its monthly environmental surcharge report form ES Form 2.00 to eliminate the section for Proceeds From By-Product and Allowance Sales. KU states that the information is reported in more detail on other reporting forms, making the inclusion on the ES Form 2.00 unnecessary.<sup>10</sup> The Commission finds reasonable KU's proposed change to its ES Form 2.00.

IT IS THEREFORE ORDERED that:

1. The amounts billed to customers by KU through its environmental surcharge for the period from May 1, 2018, to October 31, 2018, are approved.
2. Beginning in the second full-billing month following the date of this Order, KU shall decrease its jurisdictional environmental revenue requirement by \$54,918 for one month.

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<sup>9</sup> Response to Staff's First Request, Item 5.

<sup>10</sup> Rahn Testimony at 4.

3. Beginning in the second full-billing month following the date of this Order, KU shall use a WACC of 7.14 percent, a tax gross-up factor of 0.75, a return-on-equity rate of 9.725 percent, and an overall grossed-up return of 8.89 percent in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

4. KU's proposed change to its environmental reporting format ES Form 2.00 is approved and shall be used for all monthly environmental surcharge filings subsequent to the date of this Order.

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

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By the Commission

ENTERED  
APR 30 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director  
for Owen W. Benson

Case No. 2019-00014

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