

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 FOR THE SIX-MONTH)	
BILLING PERIODS ENDING APRIL 30, 2020,)	CASE NO.
OCTOBER 31, 2020, OCTOBER 31, 2021, APRIL)	2023-00376
30, 2022, OCTOBER 31, 2022, AND OCTOBER)	
31, 2023, AND FOR THE TWO-YEAR BILLING)	
PERIODS ENDING APRIL 30, 2021 AND APRIL)	
30, 2023)	

ORDER

On January 3, 2024, the Commission initiated (1) the six-month review of Kentucky Utilities Company’s (KU) environmental surcharge for the billing periods ending April 30, 2020; October 31, 2020; October 31, 2021; April 30, 2022; October 31, 2022; and October 31, 2023; and (2) the two-year review of KU’s environmental surcharge for the billing periods ending April 30, 2021, and April 30, 2023.¹

LEGAL STANDARD

KRS 278.183(3) requires, in pertinent part, that:

At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section.

¹ Opening Order (Ky. PSC Jan. 3, 2024). The case heading of the opening Order was amended, *nunc pro tunc*, by an Order issued on Jan. 19, 2024. KU’s environmental surcharge is billed on a two-month lag. Thus, for example, surcharge billings for November 2019 through April 2020 are based on costs incurred from September 2019 through February 2020.

Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

Additionally, KRS 278.183(5) states:

The commission shall retain all jurisdiction granted by this section and KRS 278.020 to review the environmental surcharge authorized by this section and any complaints as to the amount of any environmental surcharge or the incorporation of any environmental surcharge into the existing base rate of any utility.

BACKGROUND

On July 19, 1994, the Commission approved KU's environmental surcharge application and established a surcharge mechanism.² The Commission's last review was completed on May 20, 2021.³

The Commission issued a procedural schedule as Appendix A to the opening Order.⁴ KU responded to two requests for information from Commission Staff.⁵ There were no intervenors. KU filed a statement requesting that this matter be submitted for decision based on the written record.⁶ The matter stands submitted for a decision.

² Case No. 1993-00465, *The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products* (Ky. PSC July 19, 1994).

³ Case No. 2020-00170, *Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Period Ending October 30, 2019* (Ky. PSC May 20, 2021).

⁴ Jan. 3, 2024 Opening Order.

⁵ KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 14, 2024). KU's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Apr. 12, 2024).

⁶ KU's Request to Submit on the Record (filed June 18, 2024).

SIX MONTH BILLING PERIOD ENDING APRIL 30, 2020

SURCHARGE AMOUNT

KU determined that it had a net over-recovery of environmental costs for the six-month billing period ended April 30, 2020, of \$643,302.⁷ The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$643,302 for this six-month billing period.

RATE OF RETURN

KU provided the outstanding balances for its long-term debt, short-term debt, common equity and the blended interest rates for its long-term and short-term debt.⁸ For all approved plans as of the September 2019 expense month, the weighted average cost of capital (WACC) was based on the average daily balances for short- and long-term debt as of September 30, 2019, and the authorized 9.725 percent return on equity (ROE).⁹ For all approved plans for the October 2019 through February 2020 expense months, the WACC was based on the average daily balances for short- and long-term debt as of February 29, 2020, and the authorized 9.725 percent ROE.¹⁰

SIX MONTH BILLING PERIOD ENDING OCTOBER 31, 2020

KU completed a depreciation study during the review period, the result of which was a \$3,704,415 adjustment to increase Eligible Accumulated Depreciation on Form

⁷ KU's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 14, 2024), Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under.

⁸ KU's Response to Staff's First Request, Item 5.

⁹ Direct Testimony of Andrea M. Fackler (Fackler Direct Testimony) (filed Feb. 14, 2024) at 13. The approved ROE of 9.725% was authorized in Case No. 2018-00294, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates* (Ky. PSC Apr. 30, 2019).

¹⁰ Fackler Direct Testimony at 13.

2.10 for ECR Project 31 – Trimble Count Ash Treatment Basin. This resulted in a reduction to rate base for the June 2020 expense month.¹¹

SURCHARGE AMOUNT

KU determined that it had a net over-recovery of environmental costs for the six-month billing period ended October 31, 2020, of \$218,525.¹² The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$218,525 for this six-month billing period.

RATE OF RETURN

For all approved plans for the March 2020 through August 2020 expense months, the WACC was based on the average daily balances for short- and long-term debt as of August 31, 2020, and the authorized 9.725 percent ROE.¹³

TWO YEAR BILLING PERIOD ENDING APRIL 30, 2021

In Case No. 2020-00060,¹⁴ the Commission approved KU's environmental compliance plan (ECP) which included the addition of two new projects (projects 43 and 44) and the associated operation and maintenance costs.¹⁵ KU stated that the projects were necessary due to the U.S. Environmental Protection Agency's (EPA) 2015 Effluent Limitations Guidelines Rule (2015 ELG Rule) to comply with selenium and nitrates/nitrites

¹¹ KU's ECR Report dated July 20, 2020.

¹² KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and_Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under.

¹³ Fackler Direct Testimony at 13.

¹⁴ Case No. 2020-00060, *Electronic Application of Kentucky Utilities Company for Approval of Its 2020 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC Sept. 29, 2020), Order at 21.

¹⁵ Fackler Direct Testimony at 4.

limits.¹⁶ The two projects had total capital cost of \$252.3 million of which KU sought and received approval to recover \$250.3 million through its Environmental Cost Recovery (ECR) mechanism. Anticipated operating and maintenance (O&M) cost ranged from \$1.0 million in 2023 to \$8.2 million in 2029 or approximately \$43.9 million total.¹⁷ KU began including the approved projects in its monthly environmental surcharge (ES) report commensurate with the September 2020 expense month with separate authorized rates of return for the Pre-2020 and 2020 ECR Compliance Plans.¹⁸ The Pre-2020 ECR Compliance Plan has a 9.725 percent return on equity (ROE).

In KU's October 2020 Environmental Surcharge Report, KU reported and corrected an error for the expense months December 2019 through August 2020. A retirement asset associated with the 2019 ECP was inadvertently excluded from the monthly filings. The exclusion resulted in an overstatement of the revenue requirement of \$275,704. KU stated this amount was reported as a prior period adjustment on line 12 of ES Form 1.10 for the September 2020 expense month.

In KU's December 2020 Environmental Surcharge Report, KU reported and corrected an error for expense months January 2020 through October 2020, which contained incorrect data on ES Form 2.10. Amounts placed into service for Projects 32 and 40 did not exclude the accrued amount of allowance for funds used during construction (AFUDC) from the environmental compliance rate base. This resulted in an

¹⁶ Case No. 2020-00060, Sept. 29, 2020 final Order at 4.

¹⁷ Case No. 2020-00060, Sept. 29, 2020 final Order at 5.

¹⁸ Fackler Direct Testimony at 4.

overstatement of the revenue requirement of \$ \$24,421. KU reported this amount on line 12 of ES Form 1.10 as a prior period adjustment for the November 2020 expense month.

Additionally, there was an issue relating to the Selective Catalytic Converter system on Brown Unit 3.¹⁹ In November 2020, two coolers were charged against the wrong project, which caused O&M expenses on ES Form 2.50 to be overstated. When the error was reversed in December 2020, the O&M expenses in ES Form 2.50 were understated. The impact on operating expenses and the cash working capital component of rate base of these three adjustments was reflected in KU's calculation of its under-/over-recovery for the review period.²⁰

SURCHARGE AMOUNT

For the final six-month period in the two-year review period (November 2020 through April 2021), KU determined that it had a net over-recovery of environmental costs for the six-month billing period ended April 30, 2021, of \$1,673,310. Over the two-year review period (May 2019 through April 2021), KU determined that it had a net over-recovery of \$2,535,137.²¹ The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$1,673,310 for the six-month billing period and for the net over-recovery of \$2,535,137 for the two-year billing period ending April 30, 2021.

¹⁹ See Fackler Direct Testimony at 11-12.

²⁰ KU's Response to Staff's First Request, Items 1-2.

²¹ KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and_Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under. Note that the two-year net over recovery amount is the sum of the net over-under recovery amounts in each of the three remaining six-month periods of this two-year review period. The net over recovery amount in the six-month review period ending October 31, 2019, has already been returned to customers in Case No. 2020-00170.

RATE OF RETURN

In the Commission's September 29, 2020 Order in Case No. 2020-00060, it approved a new ROE of 9.20 percent in KU's 2020 ECR Compliance Plan.²² For all approved plans for the September 2020 through October 2020 expense months, the WACC was based on the average daily balances for short- and long-term debt as of February 28, 2021 and the authorized 9.725 percent ROE for all Pre-2020 ECR plans and 9.2 percent ROE for the approved 2020 ECR Plan.²³ For all approved ECR plans for the November 2020 through February 2021 expense months, the WACC was based on the average daily balances for short- and long-term debt as of February 28, 2021, the authorized 9.725 percent ROE for all Pre-2020 ECR plans, and the authorized 9.2 percent ROE for the approved 2020 ECR Plan.²⁴

SIX MONTH BILLING PERIOD ENDING OCTOBER 31, 2021

On November 25, 2020, KU filed a base rate case in Case No. 2020-00349.²⁵ KU sought to eliminate all the Eligible Pollution Control capital costs and related O&M associated with Projects 28-31 and 34-38 from the ECR mechanism effective July 1, 2021. In addition, KU sought to update its ROE for its environmental Surcharge from 9.20 percent to 10.0 percent.²⁶ On April 19, 2021, KU filed a stipulation and recommendation,

²² Case No. 2020-00060, Sept. 29, 2020 final Order at 21.

²³ Fackler Direct Testimony at 13-14.

²⁴ Fackler Direct Testimony at 13-14.

²⁵ Case No 2020-00349, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC June 30, 2021).

²⁶ Case No. 2020-00349, Application at 19 and Direct Testimony of Adrian McKenzie at 6. Order (Ky. PSC June 30, 2021) at 62.

which included a recommended ROE of 9.35 percent applied to the Environmental Surcharge.²⁷ The Commission approved KU's proposal regarding Projects 28-31 and 34-38 and the stipulated 9.35 percent ROE in its June 30, 2021 Order.²⁸

In KU's May 2021 Environmental Surcharge Report, KU reported and corrected an error for expense months November 2020 through March 2021, which contained incorrect data on ES Form 2.10. Project 30 insurance proceeds received in November and December 2020 related to damaged ECR assets that had been retired previously, were recorded in FERC account 107 instead of FERC account 108, and subsequently placed into service in FERC account 101 in February 2021. This resulted in an understatement in ECR revenue requirement of \$101,379 and was reflected as a prior period adjustment on line 12 of ES Form 1.10 for the April 2021 expense month.

In KU's August 2021 Environmental Surcharge Report, KU reported that pursuant to the Commission's Order in Case No. 2020-00349, all Eligible Pollution Control capital costs and related O&M associated with Projects 28-31 and Projects 34-38 (from KU's 2009, 2011 and 2016 ECR Plans) had been removed from the ECR monthly filing. Coal Combustion Residual (CCR) Closure costs were not included in the proposed ECR project eliminations and continue to be recovered through the monthly ECR mechanism. Previous months' O&M expenses were also revised accordingly. In addition, Form 2.10 was adjusted to continue to reflect an exclusion of costs for Projects 28-31 that were recovered in base rates and not the ECR. The exclusion was not reflected in Case No.

²⁷ Case No. 2020-00349, Kent W. Blake Stipulation Testimony, Exhibit KWB-1 at 6.

²⁸ Fackler Direct Testimony at 5 and Case No 2020-00349, June 30, 2021 Order at 20 and 62.

2020-00349 and continues to be reflected as a reduction to ECR Eligible Pollution Control Plant.

In March 2021 a dewatering belt at Brown Unit 3 was charged against the wrong project and subsequently reversed in April 2021.²⁹ The error caused the March 2021 O&M expenses on ES Form 2.50 to be overstated and understated in the following April 2021 ES Report. The impact on operating expenses and the cash working capital component of rate base of these three adjustments was reflected in KU's calculation of its under-/over-recovery for the review period.³⁰

SURCHARGE AMOUNT

KU determined that it had a net over-recovery of environmental costs for the six-month billing period ended October 31, 2021, of \$459,033.³¹ The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$459,033 for this six-month billing period.

RATE OF RETURN

For the March 2021 through April 2021 expense months, the WACC was based on the average daily balances for short- and long-term debt as of April 30, 2021, and the authorized 9.725 percent ROE for all Pre-2020 ECR plans and 9.2 percent ROE for the approved 2020 ECR Plan.³² For the May 2021 through June 2021 expense months, the WACC was based on the average daily balances for short- and long- term debt as of June

²⁹ See Fackler Direct Testimony at 11-12.

³⁰ KU's Response to Staff's First Request, Item 1-2.

³¹ KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under.

³² Fackler Direct Testimony at 14.

30, 2021, and the authorized 9.725 percent ROE for all Pre-2020 ECR plans and 9.2 percent ROE for the approved 2020 ECR Plan.³³ For the July 2021 through August 2021 expense months, the WACC was based on the average daily balances for short- and long-term debt as of August 31, 2021, and the authorized 9.35 percent ROE for all approved ECR Plan projects.³⁴

SIX MONTH BILLING PERIOD ENDING APRIL 30, 2022

SURCHARGE AMOUNT

KU determined that it had a net over-recovery of environmental costs for the six-month billing period ended April 30, 2022, of \$1,824,883.³⁵ The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$1,824,883 for this six-month billing period.

RATE OF RETURN

For the September 2021 through February 2022 expense months, the WACC was based on the average daily balances for short- and long-term debt as of February 28, 2022, and the authorized 9.35 percent ROE for all approved ECR Plan projects.³⁶

SIX MONTH BILLING PERIOD ENDING OCTOBER 31, 2022

In KU's August 2021 Environmental Surcharge Report, KU reported that for the expense month of August 2022, ES Form 2.01 contained incorrect data. For Project 40, groundwater monitoring well costs related to the Ghent landfill were included in the

³³ Fackler Direct Testimony at 14.

³⁴ Fackler Direct Testimony at 14.

³⁵ KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and_Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under.

³⁶ Fackler Direct Testimony at 14.

accumulated CCR closure costs resulting in a \$655 overstatement in ECR jurisdictional revenue requirement. The \$655 amount was reflected as a prior period adjustment on line 12 on ES Form 1.10. The Environmental Surcharge billing factors were not impacted by the adjustment.

SURCHARGE AMOUNT

KU determined that it had a net over-recovery of environmental costs for the six-month billing period ended October 31, 2022, of \$1,037,909.³⁷ The Commission has reviewed and finds reasonable KU's calculation of a net over-recovery of \$1,037,909 for this six-month billing period.

RATE OF RETURN

For the March 2022 through August 2022 expense months, the WACC was based on the average daily balances for short- and long-term debt as of August 31, 2022, and the authorized 9.35 percent ROE for all approved ECR Plan projects.³⁸

TWO YEAR BILLING PERIOD ENDING APRIL 30, 2023

SURCHARGE AMOUNT

KU determined that it had a net under-recovery of environmental costs for the six-month billing period ended April 30, 2023, of \$433,003. For the two-year billing period, KU determined that it had a net over-recovery of \$2,888,822.³⁹ The Commission has reviewed and finds reasonable KU's calculation of a net under-recovery of \$433,003 for

³⁷ KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under.

³⁸ Fackler Direct Testimony at 14.

³⁹ KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under.

the six-month billing period and the net over-recovery of \$2,888,822 for the two-year billing period ending April 30, 2023.

RATE OF RETURN

For the September 2022 through February 2023 expense months, the WACC was based on the average daily balances for short- and long-term debt as of February 28, 2023, and the authorized 9.35 percent ROE for all approved ECR Plan projects.⁴⁰

SIX MONTH BILLING PERIOD ENDING OCTOBER 31, 2023

SURCHARGE AMOUNT

KU determined that it had a net under-recovery of environmental costs for the six-month billing period ended April 30, 2023, of \$850,001.⁴¹ The Commission has reviewed and finds reasonable KU's calculation of a net under-recovery of \$850,001 for this six-month billing period.

RATE OF RETURN

For the March 2023 through August 2023 expense months, the WACC was based on the average daily balances for short- and long-term debt as of August 31, 2023, and the authorized 9.35 percent ROE for all approved ECR Plan projects.⁴²

⁴⁰ Fackler Direct Testimony at 14.

⁴¹ KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and Q2.xlsx, Tab Q2 p.2 – Detailed Over-Under.

⁴² Fackler Direct Testimony at 14.

SURCHARGE AMOUNT DURING ALL REVIEW PERIODS

KU determined that cumulatively during all billing periods under review, it had a net over-recovery of \$4,573,958.⁴³ KU recommended that the Commission approve a decrease to the jurisdictional environmental surcharge revenue requirement beginning in the second full billing month following the Commission's final Order in this proceeding of \$762,326 for four months and \$762,327 for two months. The six-month decrease in the jurisdictional environmental surcharge revenue requirement would decrease KU's environmental cost recovery billing factor for those months.

The Commission has reviewed and finds reasonable KU's calculation of a net under-recovery of \$4,573,958 for all periods 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 \$762,326 for four months and \$762,327 for two months beginning in the second full billing month following the Commission's final Order in this proceeding. KU stated that the actual average residential customer's usage for the 12-month period ended October 2023 is 1,060 kilowatt-hours (kWh) per month.⁴⁴ KU calculated that for a residential customer using 1,060 kWh per month, the impact of its proposed decrease in the environmental cost recovery-billing factor would be a decrease of approximately \$0.65 per month, using rates and adjustment clause factors in effect for the February 2024 billing month, the most recent information available when the response was filed.⁴⁵

⁴³ Fackler Direct Testimony at 14 and KU's Response to Staff's First Request, Item 2, Attachment 04_-_CN2023-00376_-_KU_ECR_DR1_Attach_to_Q1_and_Q2.xlsx, Tab Q2 p.3 – Summary Over-Under.

⁴⁴ Fackler Direct Testimony at 18.

⁴⁵ Fackler Direct Testimony at 18.

RATE OF RETURN DURING ALL REVIEW PERIODS

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, 2023, the last expense month of the review period. KU also provided the overall WACC reflecting the tax gross-up approach.⁴⁶ KU recommended an overall rate of return on capital of 8.73 percent.⁴⁷ This is based on the adjusted capitalization as of August 31, 2023, the currently authorized 9.35 percent ROE for all ECR plans, and federal and Kentucky state corporate income tax rates to be used to calculate the environmental surcharge.⁴⁸

The Commission has reviewed KU's calculation of the tax gross-up factor and it is consistent with the approach approved in Case No. 2004-00426.⁴⁹ The Commission finds that the WACC for all of KU's ECR Plans of 7.05 percent and the income tax gross-up factor of 0.7505, which produces an overall grossed-up return of 8.73 percent, should be used in all KU monthly environmental surcharge filings beginning in the second full billing month following the date of this Order.

⁴⁶ Fackler Direct Testimony at 20 and KU's Response to Staff's First Request, Item 5, Attachment 14_-_CN2023_00376_-_KU_ECR_DR1_Attach_to_Q5.xlsx, Tab Q5-KU ROR Aug23 and Tab Q5-Tax Rate.

⁴⁷ Fackler Direct Testimony at 20.

⁴⁸ Fackler Direct Testimony at 20 and KU's Response to Staff's First Request, Item 5, Attachment 14_-_CN2023_00376_-_KU_ECR_DR1_Attach_to_Q5.xlsx, Tab Q5-Tax Rate.

⁴⁹ 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).

SURCHARGE ROLL-IN

KU proposed that based upon its most recent two-year period under review ended February 28, 2023, \$42,304,190 be incorporated into base rates at the conclusion of this proceeding.⁵⁰ KU determined this incremental roll-in amount using the environmental surcharge rate base as of February 28, 2023, and environmental surcharge operating expenses for the 12-month period ending February 28, 2023. KU stated that if approved, the total amount of environmental surcharge included in base rates will be \$74,085,745. The change in base rates would take effect with bills rendered beginning with the first billing cycle in the second month following the month of the Commission's Order in this proceeding.⁵¹ The Commission has reviewed and finds reasonable that \$42,304,190 from the surcharge should be rolled into KU's existing base rates incrementally, resulting in total environmental surcharge revenues in base rates of \$74,085,745.

MONTHLY REPORTING FORMS

KU did not propose any changes to its Environmental Cost Recovery Surcharge tariff, but it did propose multiple changes to its approved Environmental Surcharge Forms.⁵² Proposed changes are listed below.

- As a result of the synchronization of the ROE for the Pre-2020 and 2020 ECR Plans, the separate columns reflecting the two different authorized rates of return are not needed on ES Form 1.10 – Jurisdictional Surcharge Billing Factor, ES Form 2.00 – Revenue Requirements of Environmental Compliance Costs, and ES Form 2.40 – O&M Expenses and Determination of Cash Working Capital Allowances.

⁵⁰ Fackler Direct Testimony at 19.

⁵¹ Fackler Direct Testimony at 19.

⁵² Fackler Direct Testimony at 5-8 and at Exhibits AMF-1 and AMF-2 for current and updated Forms reflecting the proposed changes.

- ES Form 1.10 – Update the definition of Beneficial Reuse to align with definition currently listed in the Environmental Compliance Surcharge tariff and remove case number reference on Line 11.
- ES Form 2.00 – Remove references to specific ES forms for all Emission Allowance lines for consistency. Consolidation of the existing Determination of Beneficial Reuse operating Expenses section lines into a single line, net Monthly Beneficial Reuse Operation Expenses/(Revenues). Also, update Note 1 to remove the reference to an “amount in base rates.”
- ES Form 2.10 – Updates to form name to “Capital and Related Costs by ECR Plan and Project,” updates to columns 6 and 7 to remove specific date reference, removal of Projects 29, 34, and 35 of the 2011 ECR Plan and Projects 36-38 of the 2016 ECR Plan previously eliminated from recovery through the ECR through Case No. 2020-00349, update to Note 1 indicating that it is applicable to the 2016 ECR Plan, and removal of the reference to the 2011 ECR Plan in Note 2.
- ES Form 2.50 – Removal of O&M Expense Accounts applicable to ECR Projects in the 2009, 2011, and 2016 Plans previously eliminated from recovery through the ECR through Case No. 2020-00349, removal of the Adjustments for CCP Disposal in Base Rates (ES Form 2.51) since there are no 2009 ECR Plan CCP Disposal Facilities Operation and Maintenance Expenses recovered in KU’s base rates.
- ES Form – 2.51 – Complete removal of the Form due to the removal of expenses from KU’s base rates.
- ES Form 2.60 – Addition of “/Revenues” to form name, update the “Total Monthly Beneficial Reuse Expense” and “Adjustment for Beneficial Reuse in Base Rates (from ES Form 2.61)” lines, update of the “Net Beneficial Reuse O&M Expense” line to “Net Monthly Beneficial Reuse operations Expense/(Revenues)” to sum all current expense month expenses and revenues.
- ES Form 2.61 – Complete removal of the Form since there are currently no beneficial reuse expenses or revenues included in base rates.
- ES Form 3.10 – Addition of a new Line 7 for “Business and Community Solar” to break out the fixed monthly charge revenues associated with these programs, removal of Line 8 “Tennessee Retail” due to KU’s withdrawing operations in its Tennessee service territory in 2019, and update other line references as needed, and removal of Note 1 due to the addition of Line 7 Business and Community Solar.

The Commission has reviewed KU’s proposed amendments to its Environmental Surcharge Forms and finds that the proposed amendments are reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The amounts billed to customers by KU through its environmental surcharge for the six-month billing periods ending April 30, 2020; October 31, 2020; October 31, 2021; April 30, 2022; October 31, 2022; and October 31, 2023, and the two-year billing periods ending April 30, 2021, and April 30, 2023, 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 \$762,326 for four months and then by \$762,327 for two months.

3. Beginning in the second full billing month following the date of this Order, KU shall use a WACC of 7.05 percent, a tax gross-up factor of 0.7505, a ROE of 9.35 percent, and an overall grossed up return of 8.73 percent for all its ECR Plans in all future monthly environmental surcharge filings unless directed otherwise by the Commission.

4. KU's proposed amendments to its Environmental Surcharge Forms are approved as filed.

5. KU's proposal to incorporate \$42,304,190 into base rates for a total rate base ECR component of \$74,085,745 to be included in base rates following the methodology previously approved by the Commission and implemented by KU as of the date of this Order is approved.

6. Within 20 days of the date of service of this Order, KU shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariffs reflecting the changes to its base rates as a result of the roll-in of environmental surcharge

amounts described herein; the same type of supporting documentation it filed in Case No. 2011-00231,⁵³ and a red-lined version of its tariffs.

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

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⁵³ Case No. 2011-00231, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Two-Year Billing Period Ending April 30, 2011* (Ky. PSC Feb. 29, 2012).

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner



Mary Pat Regan

ENTERED
AUG 30 2024
rCS
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

 for
Executive Director

*Andrea M. Fackler
Manager, Revenue Requirement
LG&E and KU Energy LLC
220 West Main Street
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*Honorable Allyson K Sturgeon
Vice President and Deputy General Counsel-
LG&E and KU Energy LLC
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