COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF RETIRED ASSET RECOVERY RIDER COST RECOVERY FOR THE RETIREMENT OF MILL CREEK UNIT 1 AND OF RETIRED ASSET RECOVERY RIDER TARIFF REVISIONS AND MONTHLY REPORTING FORMS	))))))))	CASE NO. 2024-00317

O R D E R

On October 4, 2024, Louisville Gas and Electric Company (LG&E) filed an application pursuant to KRS 278.030 and 278.040, and the Commission's June 30, 2021 Order in Case No. 2020-00350[1] approving LG&E's Retired Asset Recovery Rider (Rider RAR), requesting approval of its cost recovery for Mill Creek Unit 1 (MC1) and approval of its proposed Rider RAR tariff revisions and monthly reporting forms.

BACKGROUND

In Case No. 2020-00350, LG&E entered into, and the Commission approved, a stipulation that proposed Rider RAR (Stipulation). The Stipulation recognized that using the depreciation rates for Mill Creek Units 1 and 2 could result in significant remaining net book value and uncollected decommissioning costs (Retirement Costs) when LG&E

[1] Case No. 2020-00350, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas 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), Order at 69.

retired the units.[2] The Stipulation authorized LG&E and Kentucky Utilities (KU) (jointly LG&E/KU) to recover the Retirement Costs of the retired assets and other site-related assets that would not continue in use through a Retired Asset Recovery Rider until the Retirement Costs were fully recovered.[3] The Stipulation contained language on what items should be included in "Retirement Costs" such as the net book value, materials, and supplies that cannot be used economically at other plants owned by LG&E/KU, and decommissioning or removal costs and salvage credits, net of related accumulated deferred income tax (ADIT).[4]

Under the Stipulation, the Retirement Costs exclusive of ADIT would be recorded as regulatory assets. The Retirement Costs inclusive of ADIT would be recovered on a levelized basis, over ten years from the retirement date of the unit, including a weighted average cost of capital carrying cost using the most recently approved base rate return on equity.[5] Additionally, under the Stipulation, the proposed Rider RAR would include a credit for the depreciation expense and rate of return component for each retired unit embedded in base rates at that time, but no credit for any other expense embedded in base rates.[6] LG&E also committed to use best efforts to minimize the cost of dismantling each retired unit and to maximize salvage credits.[7]

[2] Case No. 2020-00350, June 30, 2021 Order, Appendix A at 13.

[3] Case No. 2020-00350, June 30, 2021 Order, Appendix A at 13.

[4] Case No. 2020-00350, June 30, 2021 Order, Appendix A at 13.

[5] Case No. 2020-00350, June 30, 2021 Order, Appendix A at 13.

[6] Case No. 2020-00350, June 30, 2021 Order, Appendix A at 13.

[7] Case No. 2020-00350, June 30, 2021 Order, Appendix A at 13.

The Stipulation also proposed that Rider RAR would use the same Group 1 and Group 2 methodology for revenue allocation used in LG&E's Environmental Cost Recovery Surcharge.[8] The Stipulation contained Tariff Sheets reflecting the agreement as well.[9]

In Case No. 2022-00402, the Commission approved LG&E's request under KRS 278.264 to retire MC1 by the end of 2024.[10]

LEGAL STANDARD

KRS 278.030 provides that a utility may collect and received fair, just and reasonable rates for services rendered.

APPLICATION

LG&E retired MC1 on December 31, 2024.[11] LG&E requested the Commission's approval to implement cost recovery for MC1 under Rider RAR beginning in January 2025.[12] LG&E stated that its proposed Rider RAR cost recovery would result in net bill decreases, initially, for all affected LG&E customer classes because the amounts to be recovered under the Rider RAR methodology are less than the MC1-related costs embedded in LG&E's current base rates.[13] LG&E estimated that Group 1 customers' initial billing factor would be -0.28 percent and Group 2 customers' billing factor would be

[8] Case No. 2020-00350, June 30, 2021 Order, Appendix A at 14.

[9] Case No. 2020-00350, June 30, 2021 Order; Stipulation, Exhibit 8 (filed Apr. 19, 2021).

[10] Case No. 2022-00402, *Electronic Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Site Compatibility Certificates and Approval of a Demand Side Management Plan and Approval of Fossil Fuel-Fired Generating Unit Retirements* (Ky. PSC Nov. 26, 2023), Order at 178.

[11] Application at 5.

[12] Application, Direct Testimony of Andrea Fackler (Fackler Direct Testimony) at 4.

[13] Application at 6.

-.039 percent.[14] However, LG&E further stated that the billing factors would remain negative until LG&E's base rates are reset in the next base rate case.[15] Additionally, LG&E requested a number of clarifying revisions to Rider RAR to more accurately reflect how it would implement the rider and approval of the revised Rider RAR tariff sheets.[16] LG&E also requested approval of proposed monthly reporting forms and the calculations.[17] Finally, LG&E requested that the Commission find that it had met its burden of proof regarding the proper level of MC1's Retirement Costs, ADIT, and MC1-related base rate depreciation and return components.[18]

<u>Proposed Rider RAR Tariff Revisions</u>

LG&E made numerous changes to the original Rider RAR Tariff. The first section LG&E proposed to change was the Rate section. The original Rate section of the Rider RAR tariff stated:

> The monthly billing amount under each of the schedules to which this rider is applicable, shall be increased or decreased by a percentage factor calculated in accordance with the following formula.
>
> Group RAR Billing Factor= Group E(m) / Group R(m)
>
> As set forth below, Group E(m) is the sum of Jurisdictional E(m) of each approved retirement-related regulatory asset revenue requirement for the current expense month allocated to each of Group 1 and Group 2. Group R(m) for Group 1 is the twelve (12) month average revenue for the current

[14] Application at 6.

[15] LG&E's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Dec. 20, 2024), Item 1.

[16] Application at 5.

[17] Fackler Direct Testimony at 5.

[18] Fackler Direct Testimony at 5.

> expense month and for Group 2 is the twelve (12) month average non-fuel revenue for the current expense month.[19]

LG&E proposed to remove a comma after the word "applicable" in the first sentence and to remove the phrase "the sum of Jurisdictional E(m) of each approved retirement-related regulatory asset revenue requirement" and replaced it with "Adjusted E(m)."[20] The Rate section would then read as follows:

> The monthly billing amount under each of the schedules to which this rider is applicable shall be increased or decreased by a percentage factor calculated in accordance with the following formula.
>
> Group RAR Billing Factor= Group E(m) / Group R(m)
>
> As set forth below, Group E(m) is Adjusted E(m) for the current expense month allocated to each of Group 1 and Group 2. Group R(m) for Group 1 is the twelve (12) month average revenue for the current expense month and for Group 2 is the twelve (12) month average non-fuel revenue for the current expense month.[21]

The next changes proposed by LG&E affected the Definition section of the Rider RAR tariff. Paragraph 1 of the Definitions section originally stated:

> Retirement Assets are the regulatory assets and associated ADIT created after the date of the Commission's Final Order in Case No. 2020-00350 for the Retirement Costs of generating assets retired and other site-related assets that will not continue in use.[22]

LG&E proposed to replace all of Paragraph 1 with the following language:

> For a retired generating unit and its other site-related assets that will not continue in use, Retirement Costs are the

[19] P.S.C Electric No. 13, Original Sheet No. 77(issued July 20, 2021), effective July 1, 2021.

[20] Application, Exhibit AMF-2.

[21] Application, Exhibit AMF-1.

[22] P.S.C Electric No. 13, Original Sheet No. 77 (issued July 20, 2021), effective July 1, 2021.

> unrecovered amounts of net book value, materials and supplies that cannot be used economically at other plants owned by Company, and costs of removal (i.e., decommissioning and demolition costs net of salvage credits).[23]

Paragraph 2 of Definitions originally stated:

> Retirement Costs include the net book value, materials and supplies that cannot be used economically at other plants owned by Company, and removal costs and salvage credits, net of related accumulated deferred income tax ("ADIT"). Related ADIT shall include the tax benefits from tax losses.[24]

LG&E proposed to change the first sentence in Paragraph 2. Paragraph 2 would then state:

> A Retirement Asset is a retired generating unit's Retirement Costs net of related accumulated deferred income tax ("ADIT"). Related ADIT shall include the tax benefits from tax losses.[25]

LG&E requested multiple changes in Paragraph 3. Paragraph 3 originally stated:

> For each Retirement Asset, E(m) is the monthly levelized expense required to amortize the Retirement Asset over a 10-year amortization period beginning with the month in which the Retirement Asset is created. E(m) includes a weighted average cost of capital component using the most recently approved base rate return on equity and adjusted for the Company's composite federal and state income tax rate.[26]

LG&E added additional language to Paragraph 3. The proposed Paragraph 3 would state:

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[23] Application, Exhibit AMF-1.

[24] P.S.C Electric No. 13, Original Sheet No. 77.1 (issued July 20, 2021), effective July 1, 2021.

[25] Application, Exhibit AMF-1.

[26] P.S.C Electric No. 13, Original Sheet No. 77.1 (issued July 20, 2021), effective July 1, 2021.

> E(m) is (a) the sum of the monthly levelized expense required to amortize each retired generating unit's Retirement Costs over a 10-year amortization period beginning with the month after the month in which the related generating unit retires less (b) the sum of the depreciation expense and return component embedded in base rates for each retired generating unit. E(m) includes a weighted average cost of capital component applied to the Retired Asset using the most recently approved base rate return on equity and adjusted for the Company's composite federal state income tax rate.[27]

Additional changes were requested in Paragraph 4. Paragraph 4 originally stated:

> Total E(m) (sum of each approved Retirement Asset revenue requirement) is multiplied by the Jurisdictional Allocation Factor. Jurisdictional E(m) is adjusted for any (Over)/Under collection or prior period adjustment and by the subtraction of the Revenue Collected through Base Rates for the Current Expense month to arrive at Adjusted Net Jurisdictional E(m). Adjusted Net Jurisdictional E(m) is allocated to Group 1 and Group 2 on the basis of Revenue as a Percentage of Total Revenue for the twelve (12) months ending with the Current Month to arrive at Group 1 E(m) and Group 2 E(m).[28]

LG&E removed part of the language in the original paragraph 4 and proposed the following language:

> E(m) is adjusted for any (Over)/Under collection or prior period adjustment to arrive at Adjusted E(m). Adjusted E(m) is allocated to Group 1 and Group 2 on the basis of Revenue as a Percentage of Total Revenue for the twelve (12) months ending with the Current Month to arrive at Group 1 E(m) and Group 2 E(m).[29]

[27] Application, Exhibit AMF-1.

[28] P.S.C Electric No. 13, Original Sheet No. 77.1 (issued July 20, 2021), effective July 1, 2021.

[29] Application, Exhibit AMF-1.

Lastly, in Paragraph 6, LG&E added an additional phrase. Paragraph 6 originally stated:

> The Group 2 R(m) is the average of total Group 2 monthly base non-fuel revenue for the twelve (12) months ending with the current expense month. Base non-fuel revenue includes customer, non-fuel energy, and demand charges for each rate schedule included in Group 2 to which this rider is applicable and automatic adjustment clause revenues for the Demand-Side Management Cost Recovery Mechanism as applicable for each rate schedule in Group 2. Non-fuel energy is equal to the tariff energy rate for each rate schedule included in Group 2 less the base fuel factor as defined on Sheet No. 85.1, Paragraph 6.[30]

LG&E proposed Paragraph 6 to read as follows:

> The Group 2 R(m) is the average of total Group 2 monthly base non-fuel revenue for the twelve (12) months ending with the current expense month. Base non-fuel revenue includes customer, non-fuel energy, and demand charges for each rate schedule included in Group 2 to which this rider is applicable and automatic adjustment clause revenues for the Environmental Cost Recovery Surcharge and the Demand-Side Management Cost Recovery Mechanism as applicable for each rate schedule in Group 2. Non-fuel energy is equal to the tariff energy rate for each rate schedule included in Group 2 less the base fuel factor as defined on Sheet No. 85.1, Paragraph 6.[31]

LG&E argued that it thought certain tariff revisions were necessary to reflect more accurately how it would implement Rider RAR cost recovery for MC1 and subsequent retired units.[32] LG&E further argued that the revised tariff sheets were intended to clarify

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[30] P.S.C Electric No. 13, Original Sheet No. 77.1 (issued July 20, 2021), effective July 1, 2021.

[31] Application, Exhibit AMF-1.

[32] Fackler Direct Testimony at 5.

and give effect to the Rider RAR-related substance of the Stipulation in Case No. 2020-00350.[33]

Proposed Monthly Rider RAR Reporting Forms

LG&E proposed to file with the Commission Rider RAR monthly reporting forms beginning with the month after a generating unit retires and continuing monthly for ten years until all costs have been collected from customers.[34] LG&E also proposed filing the Rider RAR monthly reporting forms with the Commission ten days prior to the effective date of the Rider RAR billing factors via electronic mail to the Executive Director.[35] LG&E proposed to file with the Commission for each expense month the following forms: RAR Form 2.20, RAR Form 2.00, RAR Form 2.10, RAR Form 1.10, and RAR Form 1.00.[36]

RAR Form 2.20 calculates (including the calculation of ADIT) the retired generating unit's Retirement Costs based on actual data available at the time of retirement and estimated data for any remaining items.[37] RAR Form 2.20 is also a summary of the retired generating unit's costs embedded in base rates at the time of retirement, including net book value, ADIT, and depreciation expense.[38] Additionally, RAR Form 2.20 calculates the over- and under- collection from the second prior expense month by calculating the

[33] Fackler Direct Testimony at 6.

[34] Fackler Direct Testimony at 8.

[35] Fackler Direct Testimony at 8.

[36] Fackler Direct Testimony at 9-11.

[37] Fackler Direct Testimony at 9.

[38] Fackler Direct Testimony at 9.

difference between the second prior expense month's revenue requirement and the Rider RAR revenues in the current month.[39]

RAR Form 2.00 would provide the monthly levelized amount necessary to recover the retired generating unit's unrecovered Retirement Costs over ten years, including a return component.[40] The levelized expense would remain constant until LG&E experienced a change in its weighted average cost of capital, corporate tax rates, or estimated costs for actual costs.[41] When a change occurred, LG&E would recalculate the remaining months' levelized expense using the updated information.[42] The process would be repeated when a new generating unit retires and is included for recovery through Rider RAR, and the sum of the monthly levelized expense for each retired generating unit calculated of RAR Form 2.00 would be reported on RAR Form 1.10.[43]

RAR Form 2.10 calculates the monthly revenue requirement embedded in base rates for the retired generating unit using the data on RAR Form 2.20 and the weighted average cost of capital (WACC) approved in LG&E's most recent base rate case.[44]

RAR Form 1.10 provides the total monthly amount to be recovered or refunded through Rider RAR (E(m)) for all applicable retired generating units.[45] This total monthly amount is calculated by subtracting the monthly revenue requirement recovered through

[39] Fackler Direct Testimony at 9.

[40] Fackler Direct Testimony at 9.

[41] Fackler Direct Testimony at 9.

[42] Fackler Direct Testimony at 9-10.

[43] Fackler Direct Testimony at 10.

[44] Fackler Direct Testimony at 10.

[45] Fackler Direct Testimony at 10. E(m) is the term used in the tariff provisions for the total monthly amount to be recovered or refunded through Rider RAR.

base rates from the monthly levelized amount described in step two.[46] Any over- or under-collection from the second previous expense month[47] is added to or subtracted from this amount and any prior period adjustments can also be accounted for as an adjustment to arrive at Adjusted E(m).[48] Then, the Adjusted E(m) to be recovered or refunded is allocated among two groups of customers, Group 1[49] and Group 2,[50] based on their respective share of 12-month average total revenue ending with the current expense month and calculated on RAR Form 3.00[51] Lastly, the Rider RAR billing factors for each group are calculated to recover or refund that group's share of the total monthly Rider RAR amount.[52] The billing factor for Group 1 is based on 12-month average revenue including fuel revenues.[53] The Billing factor for Group 2 is based on the 12-month average revenue excluding fuel revenues.[54] The bills of customers in each group would be adjusted by an amount determined by multiplying the applicable group billing factor by the customer's current total revenues if a Group 1 customer or by the customer's current non-fuel revenues if a Group 2 customer.[55]

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[46] Fackler Direct Testimony at 10.

[47] Two calendar months prior to the current expense month.

[48] Fackler Direct Testimony at 10.

[49] Group 1 customers are those taking service under Rates RS, RTOD-Energy, RTOD-Demand, VFD, LS, RLS, LE, and TE.

[50] Group 2 customers are those taking service under Rates GS, GTOD-Energy, GTOD-Demand, PS, TODS, TODP, RTS, FLS, EVSE, EVC-L2, EVC-FAST, and OSL.

[51] Fackler Direct Testimony at 10-11.

[52] Fackler Direct Testimony at 11.

[53] Fackler Direct Testimony at 11.

[54] Fackler Direct Testimony at 11.

[55] Fackler Direct Testimony at 11.

RAR Form 1.00 summarizes each group's E(m) and Rider RAR billing factor and states the effective date for the billing factors.[56]

DISCUSSION AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission makes the following findings. The Commission finds that LG&E's cost recovery for MC1 under Rider RAR should be granted. The recovery was contemplated in the Stipulation and in the subsequent Order granting retirement of MC1. The Commission also finds that the tariff revision in Paragraph 6 under Definitions that adds the "Environmental Cost Recovery Surcharge" to Group 2 should be granted. The Environmental Cost Recovery Surcharge was inadvertently left out of the calculation formula for Group 2. Without including the Environmental Cost Recovery Surcharge in Group 2 revenues, the calculation would not be based on all non-fuel revenues, which would be in contradiction of the text and intent of the tariff.

The Commission further finds that all other tariff revisions and the monthly reporting forms proposed by LG&E should be denied. LG&E failed to provide notice, of the proposed tariff revisions and monthly reporting forms, to the other parties to the Stipulation entered into in Case No. 2020-00350. While notice to those specific parties may not have been required, without their participation the Commission was unable to properly evaluate whether the proposed changes were material or not. The Stipulation was binding once accepted by the Commission, and LG&E's proposals change that agreement as well as the corresponding tariff sheets.

[56] Fackler Direct Testimony at 11.

LG&E should file revised monthly reporting forms within 30 days of the date of service of this Order in accordance with the findings in this Order.

Additionally, should LG&E propose to address the Rider RAR in another case, LG&E should give notice to all signatories of the Stipulation Agreement in Case No. 2020-00350.

IT IS THEREFORE ORDERED that:

1. LG&E's cost recovery for MC1 under Rider RAR is approved.

2. LG&E's tariff revision in Paragraph 6 under Definitions that adds "Environmental Cost Recovery Surcharge" to Group 2 is approved.

3. All other tariff revisions are denied.

4. LG&E's proposed monthly reporting forms are denied.

5. LG&E shall file revised monthly reporting forms within 30 days of the date of service of this Order in post-case correspondence, referencing this case number.

6. In the next application or filing addressing Rider RAR, LG&E shall give notice to all parties to the Stipulation in Case No. 2020-00350.

7. Within 20 days of the date of service of this Order, LG&E shall file with this Commission, using the Commission's electronic Tariff Filing System, the Rider RAR tariff sheet as approved herein and reflecting that it was approved pursuant to this Order.

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

PUBLIC SERVICE COMMISSION

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