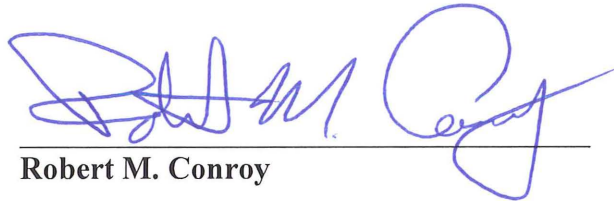


VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for Louisville Gas and Electric Company and Kentucky Utilities Company, an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.


Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 3/31st day of March 2015.


Notary Public (SEAL)

My Commission Expires:
JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

1 up revenue factor. The details of and support for this calculation are shown in
2 LG&E's response to Question No. 1 of the Commission Staff's Request for
3 Information.

4 **Q. Please explain why LG&E is using different gross-up revenue factors for the**
5 **expense months in 2013 and 2014.**

6 A. As discussed in the testimony of Mr. Garrett, LG&E has elected to take the bonus tax
7 depreciation deduction for 2014. As a result of the bonus tax depreciation deduction,
8 LG&E will incur a tax loss in 2014 and will be unable to take the Internal Revenue
9 Code §199 manufacturing tax deduction. Because the §199 manufacturing tax
10 deduction is a component of the gross-up revenue factor calculation, it is necessary to
11 recognize the impact of this difference for the expense months in calendar year 2014.
12 This is consistent with the Commission's past practices of recognizing changes to the
13 gross-up revenue factor calculations due to changes in the tax laws.

14 **Q. Are there corrections to information provided in the monthly filings during the**
15 **billing periods under review?**

16 A. No.

17 **Q. As a result of the operation of the environmental surcharge during the billing**
18 **periods under review, is an adjustment to the revenue requirement necessary?**

19 A. Yes. For the expense periods ending February 28, 2014 and August 31, 2014, LG&E
20 experienced a net over-recovery of \$326,442. LG&E's response to Question No. 2 of
21 the Commission Staff's Request for Information shows the calculation of the over-
22 recovery as of the end of each six-month expense period, representing a change from
23 previous review cases where the adjustment to the revenue requirement was

1 A. LG&E is proposing that the over-recovery be distributed in one month following the
2 Commission's Order in this proceeding. Specifically, LG&E recommends that the
3 Commission approve a decrease to the Environmental Surcharge Revenue
4 Requirement of \$326,442 for one month, beginning in the second full billing month
5 following the Commission's Order in this proceeding. This method is consistent with
6 the method of implementing previous over- or under-recovery positions in prior ECR
7 review cases.

8 **Q. What is the bill impact on a residential customer for the proposed distribution of**
9 **the over-recovery?**

10 A. The inclusion of the distribution reflecting the over-recovery position in the
11 determination of the ECR billing factor will decrease the billing factor by
12 approximately 0.39%. For a residential customer using an average of 984 kWh per
13 month, the impact of the adjusted ECR billing factor would be a decrease of
14 approximately \$0.37 per month for one month (using rates and adjustment clause
15 factors in effect for the December 2014 billing month). The details of and support for
16 this calculation are shown in LG&E's response to Question No. 6 of the Commission
17 Staff's Request for Information.

18 **Q. What rate of return is LG&E proposing to use for all ECR Plans upon the**
19 **Commission's Order in this proceeding?**

20 A. LG&E is recommending an overall rate of return on capital of 10.07%, including the
21 currently approved 10.25% return on equity and adjusted capitalization, to be used to
22 calculate the environmental surcharge. This is based on capitalization as of August
23 31, 2014, the Commission's Order of December 20, 2012 in Case No. 2012-00222

1 and use of the 2015 gross-up revenue factor that includes the §199 manufacturing tax
2 deduction as discussed in Mr. Garrett’s testimony. Please see the response and
3 attachment to Commission Staff’s Request for Information Question No. 5 following
4 this testimony.

5 **Q. What is your recommendation to the Commission in this case?**

6 A. LG&E makes the following recommendations to the Commission in this case:

7 a) The Commission should approve the proposed decrease to the Environmental
8 Surcharge Revenue Requirement of \$326,442 for one month beginning in the
9 second full billing month following the Commission’s Order in this
10 proceeding;

11 b) The Commission should determine the environmental surcharge amount for
12 the six-month billing periods ending April 30, 2014 and October 31, 2014 to
13 be just and reasonable;

14 c) The Commission should approve the use of an overall rate of return on capital
15 of 10.07%, using a return on equity of 10.25%, beginning in the second full
16 billing month following the Commission’s Order in this proceeding;

17 **Q. Does this conclude your testimony?**

18 A. Yes.