## VERIFICATION

**COMMONWEALTH OF KENTUCKY** )
) **SS:**
**COUNTY OF JEFFERSON** )

The undersigned **Christopher M. Garrett**, being duly sworn, deposes and says he is Director – Accounting and Regulatory Reporting for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

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**CHRISTOPHER M. GARRETT**

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

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(SEAL)
Notary Public

My Commission Expires:

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

**Q. What was the impact on the rate of return as a result of the increase in the effective income tax rate?**

A. LG&E recommends an overall rate of return on capital of 10.65% to be applied to the January through February 2014 expense months and 10.61% to be applied to the March through August 2014 expense months. Prior to the increase in the effective income tax rate, the overall rates of return on capital were 10.23% for the January through February 2014 expense months and 10.19% for the March through August 2014 expense months.

**Q. Should LG&E elect to take bonus tax depreciation in 2014 given the resulting increase in the ECR revenue requirement in 2014?**

A. Yes, the increase in the deferred income tax liability associated with the bonus tax depreciation deduction in 2014 will continue to reduce the environmental rate base thus lowering the ECR revenue requirement in 2015 and beyond. Additionally, the election to take bonus tax depreciation in 2014 will serve to further reduce base rates as discussed in data response AG 1-26 in the current base rate case proceeding, Case No. 2014-00372.

**Q. What effective income tax rate is LG&E recommending for use in the gross-up revenue factor for 2015?**

A. LG&E recommends using an effective income tax rate of 35.6937% for the gross-up revenue factor in the rate of return calculation for 2015 billing periods. This includes the benefits associated with receiving the §199 manufacturing tax deduction. The use of this lower effective income tax rate results in a rate of return of 10.07%, thereby, lowering the ECR revenue requirement. Given that the impact of deciding whether to