

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIRONMENTAL )  
SURCHARGE MECHANISM OF KENTUCKY )  
UTILITIES COMPANY FOR THE SIX-MONTH )  
BILLING PERIOD ENDING APRIL 30, 2016 )**

**CASE NO.  
2016-00214**

**DIRECT TESTIMONY OF**  
**CHRISTOPHER M. GARRETT**  
**DIRECTOR, RATES**  
**LG&E AND KU SERVICES COMPANY**

**Filed: July 28, 2016**

1 **Q. Please state your name, title, and business address.**

2 A. My name is Christopher M. Garrett. I am the Director of Rates for LG&E and KU  
3 Services Company, which provides services to Kentucky Utilities Company (“KU” or  
4 “Company”) and Louisville Gas and Electric Company (“LG&E”) (collectively “the  
5 Companies”). My business address is 220 West Main Street, Louisville, Kentucky,  
6 40202. A complete statement of my education and work experience is attached to this  
7 testimony as Appendix A.

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I have previously testified in KU’s environmental surcharge mechanism six-  
10 month review Case No. 2015-00020 and KU’s 2016 environmental compliance plan  
11 Case No. 2016-00026.

12 **Q. Are you sponsoring any exhibits?**

13 A. No.

14 **Q. What is the purpose of this proceeding?**

15 A. The purpose of this proceeding is to review the past operation of KU’s environmental  
16 surcharge during the six-month billing period ending April 30, 2016 and determine  
17 whether the surcharge amounts collected during the period are just and reasonable.

18 **Q. What is the purpose of your testimony?**

19 A. The purpose of my testimony is to summarize the operation of KU’s environmental  
20 surcharge during the billing period under review, demonstrate that the amount collected  
21 during the period was just and reasonable, present and discuss KU’s proposed  
22 adjustment to the Environmental Surcharge Revenue Requirement based on the

1 operation of the surcharge during the period and explain how the environmental  
2 surcharge factors were calculated during the period under review.

3 **Q. Please summarize the operation of the environmental surcharge for the billing**  
4 **period included in this review.**

5 A. KU billed an environmental surcharge to its customers from November 1, 2015 through  
6 April 30, 2016. For purposes of the Commission's examination in this case, the  
7 monthly KU environmental surcharges are considered as of the six-month billing  
8 period ending April 30, 2016. In each month of the six-month period under review in  
9 this proceeding, KU calculated the environmental surcharge factors in accordance with  
10 its ECR Tariff and the requirements of the Commission's previous orders concerning  
11 KU's environmental surcharge. The calculations were made in accordance with the  
12 Commission-approved monthly forms and filed with the Commission ten days before  
13 the new monthly charge was billed by the Company.

14 **Q. What costs were included in the calculation of the environmental surcharge**  
15 **factors for the billing period under review?**

16 A. The capital and operating costs included in the calculation of the environmental  
17 surcharge factors for the six-month billing period under review were the costs incurred  
18 each month by KU from September 2015 through February 2016, as detailed in the  
19 attachment in response to Question No. 2 of the Commission Staff's Request for  
20 Information, incorporating all required revisions.

21 The monthly environmental surcharge factors applied during the billing period  
22 under review were calculated consistent with the Commission's Orders in KU's  
23 previous applications to assess or amend its environmental surcharge mechanism and

1 plan, as well as, Orders issued in previous review cases. The monthly environmental  
2 surcharge reports filed with the Commission during this time reflect the various  
3 changes to the reporting forms ordered by the Commission from time to time.

4 **Q. Please describe the most recently approved changes to KU's ECR Compliance**  
5 **Plan.**

6 A. In Case No. 2011-00161, the Commission approved KU's 2011 ECR Compliance Plan  
7 that included two new projects and associated operation and maintenance costs,  
8 amended Project 29 (2009 Plan) to convert the Brown Main Ash Pond to a Landfill,  
9 and approved the reporting of operation and maintenance costs associated with sorbent  
10 injection approved with the 2006 Plan for Ghent Units 1, 3, and 4 as part of the 2011  
11 Plan. Pursuant to the Commission's December 15, 2011 Order approving the  
12 Settlement Agreement in Case No. 2011-00161, KU began including the approved  
13 projects in the monthly filing for the December 2011 expense month that was billed in  
14 February 2012. In addition, the Commission approved the use of net (non-fuel)  
15 revenues to calculate the jurisdictional revenue requirement for non-residential  
16 customers defined as Group 2 in the ECR Tariff. The use of net revenues for Group 2  
17 customers was implemented in Case No. 2011-00231 as discussed below.

18 In Case No. 2014-00371, KU's most recently approved rate case, the  
19 Commission reset the return on equity to be used in the monthly environmental  
20 surcharge filings. Pursuant to the Commission's June 30, 2015 Order in that case, the  
21 changes were implemented with the July 2015 expense month. The approved return  
22 on equity is used in this proceeding to establish the overall rate of return on capital to  
23 be used to calculate the environmental surcharge as discussed later in this testimony.

1 **Q. Please describe the most recently approved changes to the environmental**  
2 **surcharge mechanism and the monthly ES forms.**

3 A. In Case No. 2011-00231, the Commission implemented the use of net revenues to  
4 calculate the jurisdictional revenue requirement for non-residential customers defined  
5 as Group 2 in the ECR Tariff in conjunction with the ECR Roll-in and revisions to the  
6 monthly reporting forms to reflect the implementation of Group 1 and Group 2 billing  
7 factors. Pursuant to the Commission's January 31, 2012 Order in that case, the changes  
8 were implemented with the January 2012 expense month that was billed in March 2012.

9 In Case No. 2015-00221, KU's most recent ECR two-year review, the  
10 Commission approved the ECR Roll-in. Pursuant to the Commission's December 7,  
11 2015 Order in that case, the change was implemented with the December 2015 expense  
12 month and billed in February 2016.

13 **Q. Are there any changes or adjustments in Rate Base from the originally filed**  
14 **expense months?**

15 A. No. During the period under review, there were no changes to Rate Base from the  
16 originally filed billing months as summarized in KU's response to the Commission  
17 Staff's Request for Information, Question No. 1. In addition, there were no changes  
18 identified as a result of preparing responses to the requests for information in this  
19 review.

20 **Q. Are there any changes necessary to the jurisdictional revenue requirement**  
21 **(E(m))?**

22 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's Order  
23 in Case No. 2000-00439 to reflect the actual changes in the overall rate of return on

1 capitalization that is used in the determination of the return on environmental rate base.  
2 Pursuant to the terms of the Settlement Agreement approving the 2011 ECR Plan, KU  
3 calculated the short- and long-term debt rate using average daily balances and daily  
4 interest rates in the calculation of the overall rate of return true-up adjustment for the  
5 six-month period ending February 29, 2016. For the expense months of September  
6 2015 through February 2016, the weighted average cost of capital was based on the  
7 balances as of February 29, 2016 and the 10.00% return on equity. The details of and  
8 support for this calculation are shown in KU's response to Question No. 1 of the  
9 Commission Staff's Request for Information.

10 **Q. Are there corrections to information provided in the monthly filings during the**  
11 **billing period under review?**

12 A. No.

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

15 A. Yes. KU experienced an over-recovery of \$561,550 for the billing period ending April  
16 30, 2016. KU's response to Question No. 2 of the Commission Staff's Request for  
17 Information shows the calculation of the over-recovery. An adjustment to the revenue  
18 requirement is necessary to reconcile the collection of past surcharge revenues with  
19 actual costs for the billing period under review.

20 **Q. Has KU identified the causes of the over-recovery during the billing period under**  
21 **review?**

22 A. Yes. KU has identified the components that make up the over-recovery during the  
23 billing period under review. The components are: (1) changes in overall rate of return

1 as previously discussed, and (2) the use of 12-month average revenues to determine the  
 2 billing factor. The details and support of the components that make up the over-  
 3 recovery during the billing period under review are shown in KU's response to  
 4 Question No. 2 of the Commission Staff's Request for Information.

5 **Q. Please explain how the function of the ECR mechanism contributes to the**  
 6 **recovery position in the billing period under review.**

7 A. The use of 12-month average revenues to calculate the monthly billing factors and then  
 8 applying those same billing factors to the actual monthly revenues will result in an  
 9 over- or under-collection of ECR revenues. The table below shows a comparison of  
 10 the 12-month average revenues used in the monthly filings to determine the ECR billing  
 11 factors and the actual revenues to which the ECR billing factors were applied in the  
 12 billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
September 2015	\$ 92,721,398	November 2015	\$ 79,817,535
October 2015	93,239,191	December 2015	89,458,315
November 2015	93,775,692	January 2016	103,460,332
December 2015	92,962,611	February 2016	113,850,206
January 2016	92,375,850	March 2016	101,205,246
February 2016	92,834,791	April 2016	87,244,398
*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Group 2.			

13  
 14 Generally, an under-recovery will occur when actual revenues for the billing month are  
 15 less than the 12-month average revenues used for the expense month. Likewise, an  
 16 over-recovery will usually occur when actual revenues for the billing month are greater  
 17 than the 12-month average revenues used for the expense month.

1 **Q. What kind of adjustment is KU proposing in this case as a result of the operation**  
2 **of the environmental surcharge during the billing period?**

3 A. KU is proposing that the over-recovery be distributed in one month following the  
4 Commission's Order in this proceeding. Specifically, KU recommends that the  
5 Commission approve a decrease to the Environmental Surcharge Revenue  
6 Requirement of \$561,550 for one month, to occur in the second full billing month  
7 following the Commission's Order in this proceeding. This method is consistent with  
8 the method of implementing previous over- or under- recovery positions in prior ECR  
9 review cases.

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

12 A. The inclusion of the distribution reflecting the over-recovery position in the  
13 determination of the ECR billing factor will decrease the billing factor by  
14 approximately 0.48% for one month. For a residential customer using an average of  
15 1,119 kWh per month, the impact of the adjusted ECR billing factor would be a  
16 decrease of approximately \$0.51 for one month (using rates and adjustment clause  
17 factors in effect for the June 2016 billing month).

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

20 A. KU is recommending an overall rate of return on capital of 10.54%, including the  
21 currently approved 10.00% return on equity and adjusted capitalization, to be used to  
22 calculate the environmental surcharge. This is based on capitalization as of February  
23 29, 2016 and the Commission's Order of March 16, 2016 in Case No. 2015-00411 and



1 use of the 2016 gross-up revenue factor that excludes the §199 manufacturing tax  
2 deduction. Please see the response and attachment to Commission Staff's Request for  
3 Information Question No. 5 following this testimony.

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

5 A. KU makes the following recommendations to the Commission in this case:

6 a) The Commission should approve the proposed decrease to the Environmental  
7 Surcharge Revenue Requirement of \$561,550 for one month to occur in the  
8 second full billing month following the Commission's Order in this proceeding;

9 b) The Commission should determine the environmental surcharge amount for the  
10 six-month billing period ending April 30, 2016 to be just and reasonable;

11 c) The Commission should approve the use of an overall rate of return on capital  
12 of 10.54%, using a return on equity of 10.00%, beginning in the second full  
13 billing month following the Commission's Order in this proceeding.

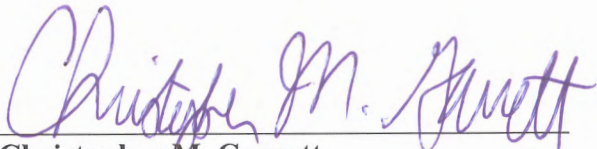
14 **Q. Does this conclude your testimony?**

15 A. Yes.

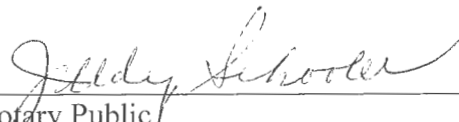
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Director – Rates for 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.

  
Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 28<sup>th</sup> day of July 2016.

  
Notary Public (SEAL)

My Commission Expires:

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

## APPENDIX A

### **Christopher M. Garrett**

Director, Rates

LG&E and KU Services Company

220 West Main Street

Louisville, Kentucky 40202

(502) 627-3328

### **Previous Positions:**

Director, Accounting and Regulatory Reporting	Nov 2012 – Jan 2016
Director, Financial Planning & Controlling	Feb 2010 – Nov 2012
Manager, Financial Planning	Nov 2007 – Feb 2010
Manager, Corporate Accounting	Jan 2006 – Oct 2007
Manager, Utility Tax	May 2002 – Jan 2006
Tax Analyst, various positions	Aug 1995 – May 2002

### **Education:**

Eastern Kentucky University, Bachelor of Business Administration - Accounting, 1995

Graduated Magna Cum Laude

Certified Public Accountant, Kentucky, 1999

### **Professional Memberships:**

American Institute of Certified Public Accountants (AICPA)

Kentucky Society of Certified Public Accountants (KSCPA)

### **Civic Activities:**

St. Joseph School Board Member