

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 LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2016-00215
BILLING PERIOD ENDING APRIL 30, 2016)	

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 LG&E’s environmental surcharge mechanism six-
10 month review Case No. 2015-00021 and LG&E’s 2016 environmental compliance plan
11 Case No. 2016-00027.

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 LG&E’s
16 environmental surcharge during the six-month billing period ending April 30, 2016 and
17 determine whether the surcharge amounts collected during the period are just and
18 reasonable.

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

20 A. The purpose of my testimony is to summarize the operation of LG&E’s environmental
21 surcharge during the billing period under review, demonstrate that the amount collected
22 during the period was just and reasonable, present and discuss LG&E’s proposed
23 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. LG&E billed an environmental surcharge to its customers from November 1, 2015
6 through April 30, 2016. For purposes of the Commission's examination (in this case),
7 the monthly LG&E 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, LG&E calculated the environmental surcharge factors in accordance
10 with its ECR Tariff and the requirements of the Commission's previous orders
11 concerning LG&E's environmental surcharge. The calculations were made in
12 accordance with the Commission-approved monthly forms and filed with the
13 Commission ten days before 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 LG&E 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 LG&E'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 LG&E's ECR Compliance**
5 **Plan.**

6 A. In Case No. 2011-00162, the Commission approved LG&E's 2011 ECR Compliance
7 Plan that included two new projects and associated operation and maintenance costs
8 and approved the reporting of operation and maintenance costs associated with sorbent
9 injection approved with the 2006 Plan for Mill Creek Units 3 and 4 and Trimble County
10 Unit 1 as part of the 2011 Plan. Pursuant to the Commission's December 15, 2011
11 Order approving the Settlement Agreement in Case No. 2011-00162, LG&E began
12 including the approved projects in the monthly filing for the December 2011 expense
13 month that was billed in February 2012. In addition, the Commission approved the use
14 of net (non-fuel) revenues to calculate the jurisdictional revenue requirement for non-
15 residential customers defined as Group 2 in the ECR Tariff. The use of net revenues
16 for Group 2 customers was implemented in Case No. 2011-00232 as discussed below.

17 In Case No. 2014-00372, LG&E's most recently approved rate case, the
18 Commission reset the return on equity to be used in the monthly environmental
19 surcharge filings. Pursuant to the Commission's June 30, 2015 Order in that case, the
20 changes were implemented with the July 2015 expense month. The approved return
21 on equity is used in this proceeding to establish the overall rate of return on capital to
22 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. 2011-00232, 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. 2015-00222, LG&E'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 to be 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 LG&E'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. 2000-00386, 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,
3 LG&E calculated the short- and long-term debt rate using average daily balances and
4 daily interest rates in the calculation of the overall rate of return true-up adjustment for
5 the 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 LG&E'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. LG&E experienced an under-recovery of \$4,702,532 for the billing period ending
16 April 30, 2016. LG&E's response to Question No. 2 of the Commission Staff's
17 Request for Information shows the calculation of the under-recovery. An adjustment
18 to the revenue requirement is necessary to reconcile the collection of past surcharge
19 revenues with actual costs for the billing period under review.

20 **Q. Has LG&E identified the causes of the under-recovery during the billing period**
21 **under review?**

22 A. Yes. LG&E has identified the components that make up the under-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 under-
 3 recovery during the billing period under review are shown in LG&E'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	\$ 66,469,456	November 2015	\$ 52,049,099
October 2015	66,366,573	December 2015	59,306,348
November 2015	66,354,012	January 2016	62,503,795
December 2015	65,929,111	February 2016	66,577,678
January 2016	65,395,498	March 2016	62,325,693
February 2016	65,633,839	April 2016	58,429,612
*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 LG&E proposing in this case as a result of the**
2 **operation of the environmental surcharge during the billing period?**

3 A. LG&E is proposing that the under-recovery be distributed over six months following
4 the Commission's Order in this proceeding. Specifically, LG&E recommends that the
5 Commission approve an increase to the Environmental Surcharge Revenue
6 Requirement of \$783,755 per month for four months and \$783,756 for two months,
7 beginning in the second full billing month following the Commission's Order in this
8 proceeding. This method is consistent with the method of implementing previous over-
9 or under-recovery positions in prior ECR review cases.

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

12 A. The inclusion of the collection reflecting the under-recovery position in the
13 determination of the ECR billing factor will increase the billing factor by
14 approximately 0.95% per month for six months. For a residential customer using an
15 average of 943 kWh per month, the impact of the adjusted ECR billing factor would be
16 an increase of approximately \$0.88 per month for six months (using rates and
17 adjustment clause factors in effect for the June 2016 billing month).

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 10.38%, 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. 2015-00412 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. LG&E makes the following recommendations to the Commission in this case:

6 a) The Commission should approve the proposed increase to the Environmental
7 Surcharge Revenue Requirement of \$783,755 per month for four months and
8 \$783,756 per month for two months beginning in the second full billing month
9 following the Commission's Order in this proceeding;

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

12 c) The Commission should approve the use of an overall rate of return on capital
13 of 10.38%, using a return on equity of 10.00%, beginning in the second full
14 billing month following the Commission's Order in this proceeding.

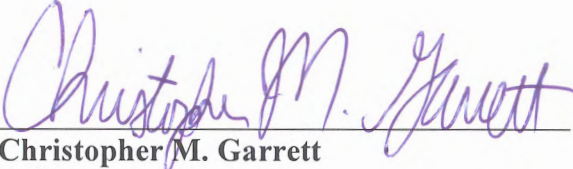
15 **Q. Does this conclude your testimony?**

16 A. Yes.

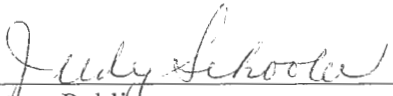
VERIFICATION

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 25th 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