

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH)	2018-00051
BILLING PERIOD ENDING OCTOBER 31, 2017)	

DIRECT TESTIMONY OF
CHRISTOPHER M. GARRETT
CONTROLLER
LG&E AND KU SERVICES COMPANY

Filed: March 14, 2018

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

2 A. My name is Christopher M. Garrett. I am the Controller for LG&E and KU
3 Services Company, which provides services to Kentucky Utilities Company
4 (“KU”) 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 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 submitted testimony to the Kentucky Public Service Commission
10 (“Commission”) in KU’s environmental surcharge mechanism review (Case No.
11 2015-00020), KU’s 2016 Environmental Cost Recovery (“ECR”) Compliance Plan
12 (Case No. 2016-00026), and KU’s most recent base rate case (Case No. 2016-
13 00371).

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

15 A. The purpose of my testimony is to explain the changes required to incorporate the
16 effects of the Tax Cuts and Jobs Act (“TCJA”) in the monthly ECR surcharge
17 filings for expense months occurring after December 2017.

18 **Q. Please summarize the changes resulting from the enactment of the TCJA on
19 the ECR mechanism?**

20 A. There are three changes required to incorporate the effects of the TCJA on the ECR
21 mechanism.

22 First, the gross-up rate used in the rate of return calculation must be
23 modified to reflect the new lower federal corporate income tax rate of 21% effective

1 January 1, 2018. This change was approved by the Commission in the most recent
2 ECR 2-year review in Case No. 2017-00266 as part of KU's Motion for
3 Reconsideration.

4 Second, accumulated deferred income taxes ("ADIT") included as a
5 reduction to ECR rate base should be increased to include the regulatory liability
6 recognized for excess ADIT. This change was implemented effective with the
7 January 2018 expense month. No ES Form changes were required as the ADIT
8 shown on ES Form 2.01 and the Deferred Tax Balance on ES Form 2.10 have been
9 adjusted accordingly effective with the January 2018 expense month.

10 Third, the deferred tax expense reduction associated with the amortization
11 of excess ADIT should be grossed-up and included as a reduction to the operating
12 expense component of the ECR mechanism. As part of the settlement agreement
13 in the recent Tax Complaint in Case No. 2018-00034, KU committed to proposing
14 modifications to the ECR monthly ES Forms to allow for the return of excess ADIT.
15 Mr. Derek A. Rahn describes in his testimony, the proposed ES Form changes to
16 address this issue. KU will implement the form changes after receiving
17 Commission approval in this case.

18 **Q. Please explain why the deferred tax expense reduction associated with the**
19 **amortization of the excess ADIT is grossed-up.**

20 **A.** Because income taxes paid are not a tax-deductible expense, a gross-up factor is
21 applied to return the full amount of excess ADIT savings to customers. The gross-
22 up accounts for the reduction in income tax expense associated with the lower
23 revenues from the excess ADIT amortization.

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

2 **A. Yes.**

APPENDIX A

Christopher M. Garrett

Controller
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3328

Previous Positions:

Director, Rates	Feb 2016 – Dec 2017
Director, Accounting and Regulatory Reporting	Dec 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 (Chair)