

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 LOUISVILLE GAS) CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH) 2018-00052
BILLING PERIOD ENDING OCTOBER 31, 2017)

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

Filed: March 14, 2018

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Controller for Kentucky Utilities Company and Louisville Gas and Electric Company and 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.


Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of March 2018.

 (SEAL)
Notary Public

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

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 LG&E’s environmental surcharge mechanism review (Case
11 No. 2015-00021), LG&E’s 2016 Environmental Cost Recovery (“ECR”)
12 Compliance Plan (Case No. 2016-00027), and LG&E’s most recent base rate case
13 (Case No. 2016-00372).

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. 2017-00267 as part of LG&E’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, LG&E committed to
14 proposing modifications to the ECR monthly ES Forms to allow for the return of
15 excess ADIT. Mr. Derek A. Rahn describes in his testimony, the proposed ES Form
16 changes to address this issue. LG&E will implement the form changes after
17 receiving 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)