COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	**)**	
UTILITIES COMPANY AND LOUISVILLE GAS	**)**	
AND ELECTRIC COMPANY FOR CERTIFICATES	**)**	**CASE NO.**
OF PUBLIC CONVENIENCE AND NECESSITY	**)**	**2025-00045**
AND SITE COMPATIBILITY CERTIFICATES	**)**	

REBUTTAL TESTIMONY OF
CHRISTOPHER M. GARRETT
VICE PRESIDENT, FINANCIAL STRATEGY AND CHIEF RISK OFFICER
ON BEHALF OF
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: July 18, 2025

TABLE OF CONTENTS

INTRODUCTION

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

A. My name is Christopher M. Garrett. I am Vice President - Financial Strategy and Chief Risk Officer for PPL Services Corporation, which provides services to Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, the "Companies"). My business address is 2701 Eastpoint Parkway, Louisville, Kentucky 40223. A complete statement of my education and work experience is attached to this testimony as Appendix A.

Q. Have you previously testified before this Commission?

A. Yes, I have testified before this Commission numerous times, including in the Companies' recently filed base rate cases, Case Nos. 2025-00113 and 2025-00114.

Q. What is the purpose of your rebuttal testimony?

A. I respond to portions of the Direct Testimonies of Lane Kollen on behalf of the Attorney General and Kentucky Industrial Utility Customers and Stacy L. Sherwood on behalf of Sierra Club. Specifically, I address (1) Allowance for Funds Used During Construction ("AFUDC") related items, (2) Post-In-Service Carrying Costs ("PISCC") criticisms, and (3) Battery Energy Storage Systems ("BESS") Investment Tax Credit ("ITC") normalization.

AFUDC

Q. Describe Mr. Kollen's recommendations regarding the calculation of AFUDC.

A. Mr. Kollen generally agrees with the Companies' request to calculate AFUDC during the construction of the resources at the Companies' weighted average cost of capital ("WACC") using the authorized return on equity. He recommends four clarifications and conditions: (1) limit AFUDC base to construction work in progress ("CWIP") amounts actually paid; (2) limit equity ratio in weighted average cost of capital ("WACC") to equity ratio authorized in the Companies' most recent base rate cases; (3) maximize short-term debt if lower cost than long-term debt; and (4) use average daily balance of short-term debt, not month-end balance.[1] While the Companies do not take issue with Mr. Kollen's first two recommendations, the Companies do disagree with the final two recommendations.

Q. Why do the Companies disagree with Mr. Kollen's recommendation to maximize short-term debt?

A. The Companies will continue to finance investments in a prudent and economical manner for customers, which may require the Companies to maximize short-term debt or go to the market to issue long-term debt if appropriate. The Companies disagree with Mr. Kollen's recommendation, which would lessen flexibility to finance investments in the most prudent, long-term manner for customers.

Q. Are the Companies proposing an alternative to Mr. Kollen's recommendation?

A. Yes. The Companies recommend using the WACC as of December 31, updated annually to accrue AFUDC. The Companies are agreeable to using the average daily balance of short-term debt as part of this calculation. This approach will avoid having to update AFUDC rates on a monthly basis.

PISCC

Q. Mr. Kollen and Ms. Sherwood raise concerns regarding the Companies' proposal to accrue carrying costs on certain capital investments through the use of PISCC.[2] How do the Companies respond?

[1] Kollen Testimony at 6-7.
[2] *Id.* at 8-9; Sherwood Testimony at 6-8.

A. The Companies respectfully disagree that a debt-only return should be applied to PISCC deferrals. Although generally accepted accounting principles ("GAAP"), specifically Accounting Standards Codification ("ASC") 980, do not permit the accrual of the equity component of carrying costs as part of a regulatory asset, there is no such limitation under FERC accounting standards. As provided under FERC Account 182.3, "Other Regulatory Assets," a regulatory asset may be recorded where it results from the ratemaking actions of a regulatory agency. That is precisely why the Companies clarified in their response to AG-KIUC 2-2—referenced in Mr. Kollen's testimony as Exhibit LK-2—that recognition of carrying costs under FERC accounting would lead to a difference between the regulatory and GAAP sets of books.

Q. How does this accounting treatment affect the Commission's role in rate recovery?

A. The Commission retains full authority to review the Companies' deferrals, including carrying costs, operations and maintenance expenses, depreciation, property taxes, and ITC amortization associated with the subject investments. Any amounts recorded for regulatory purposes are subject to Commission scrutiny before being included in base rates. The Commission also has discretion to determine whether a regulatory liability should be established to account for incremental revenues associated with the anticipated load growth, as the Companies addressed in response to PSC 2-44.

Q. How should the Commission weigh the concerns raised by Mr. Kollen and Ms. Sherwood regarding the magnitude of potential deferrals?

A. Regulatory asset treatment at a WACC return level remains a more efficient and equitable alternative to more frequent general rate cases—each of which would inherently apply a full WACC return. Limiting recovery to a debt-only return, as Mr. Kollen and Ms. Sherwood suggest, would disincentivize prudent investment in infrastructure that is required to meet future load growth and customer needs.

Q. Has the Commission granted regulatory asset treatment for items beyond the four categories identified by Ms. Sherwood?

A. Yes. The Commission recently clarified that the four categories Mr. Sherwood identifies are "not determinative," but "illustrative."[3] This is consistent with long-standing Commission precedent, in which the Commission approved deferral accounting for items that do not squarely fit within one of the four categories, like normalization deferrals and over- and under-recoveries associated with regulatory mechanisms.[4]

Q. Ms. Sherwood suggests that the requested deferral accounting would cause customers to pay "carrying costs on the regulatory asset in the amount of $406 million" instead of the costs for one rate case.[5] Do you agree with this premise?

A. No. Absent deferral treatment, the Companies may have no option but to file a rate case proceeding when each asset is placed in service. In these rate cases, the Companies would be seeking not only immediate recovery of the carrying costs Ms.

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[3] *Electronic Application of Kentucky Utilities Company and Louisville Gas and Electric Company for an Order Approving the Establishment of Regulatory Assets*, Case No. 2024-00181, Order at 3 (Ky. PSC Nov. 21, 2024).
[4] *Electronic Application of East Kentucky Power Cooperative, Inc. for a General Adjustment of Rates, Approval of Depreciation Study, Amortization of Certain Regulatory Assets, and other General Relief*, Case No. 2021-00103, Order at 3-4 (Ky. PSC Sep. 30, 2021) (regarding normalization deferrals); *Electronic Application of Atmos Energy Corporation for a Demand Side Management Program*, Case No. 2022-00343, Order at 4 (Ky. PSC Feb. 23, 2023); *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief*, Case No. 2017-00321, Order at 70, 82 (Ky. PSC Apr. 13, 2018); *Electronic Purchased Gas Adjustment Filing of Delta Natural Gas Company, Inc.*, Case No. 2022-00422, Order at 6 (Ky. PSC Jan. 24, 2023) (regarding over- and under-recoveries associated with regulatory mechanisms).
[5] Sherwood Testimony at 4.

Sherwood mentions, but also the incremental rate case expenses incurred in those proceedings. Thus, the Companies' proposal serves to not only reduce the number of rate case filings, but also to defer the recovery of the associated costs from customers to a future date.

BESS ITC NORMALIZATION

Q. Mr. Kollen recommends the Commission direct the Companies to elect out of the ITC normalization rules for the proposed Cane Run BESS.[6] How do the Companies respond to this recommendation?

A. The Companies have modeled the opt-out election for the battery ITC when performing NPVRR calculations and are generally supportive of making this election. As the Companies expressly stated in response to AG 1-11(e), they would consider making such an election, provided that timely and reliable cost recovery is available. The extent to which the ITC amortization should be accelerated through a shortened life would be the subject of a future rate case proceeding.

CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.

[6] Kollen at 5.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Vice President – Financial Strategy & Chief Risk Officer for PPL Services Corporation and he provides services to Kentucky Utilities Company and Louisville Gas and Electric Company, 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

Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10th day of July 2025.

Tammy J. Elzy

Notary Public

Notary Public ID No. KYNP61560

My Commission Expires:

November 9, 2026

TAMMY J. ELZY COMM EXPIRES 11/09/2026 NOTARY PUBLIC ID # KYNP61560 STATE AT LARGE, KENTUCKY

APPENDIX A

Christopher M. Garrett
Vice President – Financial Strategy and Chief Risk Officer
PPL Services Corporation
Vice President – Finance and Accounting
LG&E and KU Energy LLC
2701 Eastpoint Parkway
Louisville, Kentucky 40223
Telephone: (502) 627-3328

Previous Positions:

Vice President, Financial Strategy and Chief Risk Officer	Mar 2024 – present
Vice President, Finance and Accounting	Apr 2022 – present
Controller	Jan 2018 – Apr 2022
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 (KYCPA)
Edison Electric Institute

Civic Activities:

The Louisville Free Public Library Foundation, Immediate Past Board Chair
Saint Joseph School, Past Board Chair
Leadership Louisville, Bingham Fellows 2021