COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES AND APPROVAL OF CERTAIN REGULATORY AND ACCOUNTING TREATMENTS	))))))	**CASE NO. 2025-00113**

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES, AND APPROVAL OF CERTAIN REGULATORY AND ACCOUNTING TREATMENTS	))))))	**CASE NO. 2025-00114**

JOINT STIPULATION TESTIMONY OF
ROBERT M. CONROY
VICE PRESIDENT, STATE REGULATION AND RATES
AND
CHRISTOPHER M. GARRETT
VICE PRESIDENT, FINANCIAL STRATEGY AND CHIEF RISK OFFICER
ON BEHALF OF
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY

Dated: October 20, 2025

Q. Please state your names, positions, and business addresses.

A. We, Robert M. Conroy and Christopher M. Garrett, are jointly sponsoring this testimony. Mr. Conroy is the Vice President of State Regulation and Rates for LG&E and KU Services Company, which provides services to Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, the "Companies"). Mr. Garrett is the Vice President - Financial Strategy and Chief Risk Officer for PPL Services Corporation, which provides services to the Companies. Our business address is 2701 Eastpoint Parkway, Louisville, Kentucky 40223.

Q. What is the purpose of your testimony?

A. We will discuss generally why the Stipulation and Recommendation ("Stipulation") reached by the majority of the parties to these proceedings produces fair, just, and reasonable rates, terms, and conditions for all of the Companies' customers, and we recommend that the Commission approve the Stipulation. A complete copy of the Stipulation, including all exhibits, is attached to this testimony as Stipulation Testimony Exhibit 1.

Q. Please provide a list of all exhibits to your testimony.

A. We are sponsoring the following exhibits to our testimony. For completeness, we are also providing a list of all exhibits to the Stipulation itself.[1]

- Stipulation Testimony Exhibit 1: Stipulation and Recommendation
    - Stipulation Exhibit 1: KU Electric Revenue Allocation and Rate Design Schedules

[1] Please note that the complete redlined tariffs attached to the Stipulation as Stipulation Exhibits 4 (KU), 5 (LG&E electric), and 6 (LG&E gas) show changes only to account for the Stipulation's provisions relative to the proposed tariffs the Companies filed with their Applications in these proceedings. The redlines do not account for other changes that might be necessary to include with the final tariffs the Companies will file following the Commission's final orders in these cases.

- Stipulation Exhibit 2: LG&E Electric Revenue Allocation and Rate Design Schedules
- Stipulation Exhibit 3: LG&E Gas Revenue Allocation and Rate Design Schedules
- Stipulation Exhibit 4: KU Tariff Sheets
- Stipulation Exhibit 5: LG&E Electric Tariff Sheets
- Stipulation Exhibit 6: LG&E Gas Tariff Sheets
- Stipulation Exhibit 7: KU Adjustment Clause GCR
- Stipulation Exhibit 8: LG&E Adjustment Clause GCR
- Stipulation Exhibit 9: KU Adjustment Clause SM
- Stipulation Exhibit 10: LG&E Electric Adjustment Clause SM
- Stipulation Exhibit 11: LG&E Gas Adjustment Clause SM

- Stipulation Testimony Exhibit 2: Revised Depreciation Workpapers (Excel files)
- Stipulation Testimony Exhibit 3: Revised Depreciation Rates for KU and LG&E (Excel files)

<u>Overview of Procedural Matters and Stipulation Process</u>

Q. Please describe the procedural background and posture of these proceedings.

A. On May 30, 2025, the Companies filed their applications in Case Nos. 2025-00113 (KU) and 2025-00114 (LG&E) for increases in base rates for their electric and gas operations, as well as for other modifications of their electric and gas rates, terms, and conditions.

Numerous parties petitioned the Commission for intervention in one or both proceedings. Following the submission of intervenor testimony and the Companies' rebuttal testimony, all parties participated in a settlement conference on October 8 and 9, 2025 at the Commission., including the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention ("AG"); United States Department of Defense and All Other Federal Executive Agencies ("DoD"); Kentucky

Broadband and Cable Association ("KBCA"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); Kentucky Solar Industries Association, Inc. ("KYSEIA"); The Kroger Company ("Kroger"); Lexington-Fayette Urban County Government ("LFUCG"); Louisville/Jefferson County Metro Government ("Louisville Metro"); Sierra Club; Walmart Inc. ("Walmart"); and Kentuckians for the Commonwealth, Kentucky Solar Energy Society, Metropolitan Housing Coalition, and Mountain Association (collectively, the "Joint Intervenors"). We refer to the intervenors collectively herein as the "Parties."

Following two days of negotiation and discussion during the Settlement Conference and subsequent discussions over the next week, the following parties have now entered into the Stipulation with the Companies: AG, KIUC, DoD, Kroger, LFUCG, Louisville Metro, Sierra Club, and Walmart (together, the "Stipulating Parties"). Commission Staff also attended the settlement discussions on October 8 and 9, 2025.

Q. Are there any overarching remarks you would like to make regarding the negotiations that resulted in the Stipulation?

A. Yes. Those negotiations produced a Stipulation that reflects a reasonable compromise concerning the revenue requirements and specific agreements with respect to other terms. It results in fair, just, and reasonable rates, terms, and conditions for all of the Companies' customers. The Stipulation provides a transparent calculation of the revenue requirements agreed upon and recommended by the Stipulating Parties in the total context of all matters addressed in the Stipulation. Because it is a settlement of issues between the Stipulating Parties and not an agreement about issues on their merits, the Stipulating Parties have agreed that the Stipulation should not constitute a precedent, either before the Commission or elsewhere;[2] rather, it is the product of compromise and negotiation between the Stipulating Parties' positions, all of which may reasonably be litigated in future base rate or other cases.

<u>Rate Case Stay-Out Commitment and Associated Tariff Mechanisms</u>

Q. Please describe the Companies' rate case stay-out commitment.

A. The Stipulation includes several significant items of consideration that support its reasonableness, beginning with the Companies' more than two-and-a-half-year rate case stay-out commitment. The Companies have committed not to seek to have new base rates put into effect prior to August 1, 2028 (though they may file base rate applications in calendar year 2028 if the rates will not go into effect prior to August 1, 2028).[3] This helps ensure greater rate stability for customers, and though it does present greater financial risk to the Companies, the Stipulating Parties considered that fact in negotiating the stipulated return on equity ("ROE") and new cost recovery and sharing mechanisms.

As is customary for stay-out commitments, there are caveats to account for extraordinary or unforeseen circumstances, as well as the ordinary operation of other cost recovery mechanisms that can affect base rates.[4] Specifically, the stay-out commitment does not preclude the Companies from seeking to defer recovery of certain kinds of costs, petitioning for emergency rate relief, continuing to have their cost-recovery surcharge mechanisms and riders operate as usual, or seeking rate relief due to statutory or regulatory changes that affect the Companies' cost recovery.[5]

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[2] Stipulation ¶ 10.12.
[3] Stipulation ¶ 1.1.
[4] Stipulation ¶ 1.2.
[5] Stipulation ¶ 1.2.

Those customary exceptions aside, the base rate stay-out commitment will benefit customers. It is valuable consideration that could not be achieved by litigating the issues in these cases.

Q. In addition to the customary exceptions, have the Stipulating Parties agreed to two tariff mechanisms that will aid in preventing erosion of the Companies' financial position during the stay-out while also providing benefits to customers?

A. Yes. The Companies will continue making significant capital expenditures during the stay-out period to reliably serve customers. These significant capital expenditures include prudent investments in generation, transmission, distribution, and information technology to enable the Companies to be able to continue to provide safe and reliable service at the lowest reasonable cost. Therefore, the Stipulating Parties recognized that two additional new tariff mechanisms are necessary to prevent erosion of the Companies' financial position and provide sharing with customers if the Companies over-earn during the stay-out period: (1) a Generation Cost Recovery Adjustment Clause ("Adjustment Clause GCR") and (2) a Sharing Mechanism Adjustment Clause ("Adjustment Clause SM"). These mechanisms will also provide both long- and short-term benefits to customers, and they are key elements of the Stipulation, which the Commission should approve as helping to ensure safe and reliable service at the lowest reasonable cost. Absent these mechanisms, the Companies could not maintain their financial health without filing another base rate case during the stay-out period, particularly with Mill Creek 5 anticipated to go in service in mid-2027 (in addition to other significant capital investments).

Q. Please provide a brief description of Adjustment Clause GCR and its benefits.

A. Adjustment Clause GCR is a permanent new tariff mechanism that will recover—for the life of included assets—all non-fuel costs of such assets and any incremental capital additions. In this case, the Stipulation asks the Commission to approve Adjustment Clause GCR itself and to approve including in it all new generation and energy storage assets approved by the Commission but not yet in service as of the date of the final order in these proceedings (excluding Mill Creek 6), i.e., Mill Creek 5, the E.W. Brown Battery Energy Storage System, Mercer County Solar, Marion County Solar, and Brown 12 (if approved).[6]

Adjustment Clause GCR will be materially identical in form and function to the proposed Adjustment Clause MC6, except Adjustment Clause GCR will not have an Offsetting Revenues component because, as explained below, Adjustment Clause SM makes such an adjustment unnecessary during the base-rate stay-out period.[7] More precisely, Adjustment Clause GCR will collect capital and non-fuel operating costs from customers over the life of included units on a percentage of revenue basis, allocated in the same way the Companies' current ECR mechanisms do and their proposed Adjustment Clause MC6 will.

Recovering the capital costs of generating units through Adjustment Clause GCR rather than base rates will provide customers at least two important benefits. First, because Adjustment Clause GCR will recover the costs of thoroughly Commission-reviewed and CPCN-approved assets as they go in service, it provides the benefit of gradualism relative to having base rate cases to address such costs. Second, Adjustment Clause GCR will benefit customers over time as declining capital balances for each capital investment result in declining return on capital expenditures over time. This second benefit will be valuable

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[6] Stipulation ⁋ 6.1.
[7] *Id.*

to customers over the lives of the assets included in Adjustment Clause GCR. Moreover, as explained at greater length later in this testimony, the customer benefit of a declining return on capital expenditures over time is also a reason it is appropriate for Adjustment Clause GCR to use the stipulated base rate ROE of 9.90%.

There will also be ample opportunities for the Commission to review amounts billed to and collected from customers under Adjustment Clause GCR, providing more frequent and more focused review than would occur if the same assets were recovered through base rates and reviewed only during wide-ranging base rate cases. Just as with the Companies' ECR mechanisms, the Companies will file their proposed GCR cost recovery factors with the Commission in the month before they bill the factor, with expenses based on the previous month (e.g., January expenses will appear in the February report and be billed in March). The Stipulation also recommends annual review proceedings for the Commission to review costs recovered under Adjustment Clause GCR, just as there would be annual review proceedings for cost recovery under Adjustment Clause MC6. These focused annual review proceedings, as well as monthly GCR filings, will provide the Commission frequent review opportunities and ensure all costs the Companies recover are prudent and reasonable, which is a benefit to customers. The Commission should therefore approve Adjustment Clause GCR and the entire Stipulation as filed.

Q. Please provide a brief description of Adjustment Clause SM and its benefits.

A. The Stipulating Parties have agreed to a time-limited Sharing Mechanism ("Adjustment Clause SM") that will be in effect from and including July 1, 2027, for thirteen months (i.e., through and including July 31, 2028) to account for any base rate revenue deficiency or surplus during that portion of the base-rate stay-out relative to an ROE deadband of

9.40% to 10.15%.[8] That means any earned revenue deficiency below the 9.40% bottom end of the ROE deadband would later be collected from customers, and any earned revenue surplus above the 10.15% top end of the ROE deadband would later be distributed to customers.

Notably, the ROE deadband is asymmetrical relative to the stipulated 9.90% ROE; the top end of the deadband is just 25 basis points above the stipulated ROE, but the bottom end of the deadband is 50 basis points below the stipulated ROE. That means the Companies have less opportunity to over-earn relative to the stipulated ROE than they have to under-earn; it is a deadband favorable to customers relative to the stipulated ROE.

In calculating actual adjusted earnings and the adjusted earnings for the top and bottom ends of the ROE deadband, Adjustment Clause SM will exclude all revenue, expenses, and capital addressed by other non-base-rate mechanisms, and it will appropriately account for any approved expense deferrals addressed to ensure there is no over- or under-recovery of such expenses.[9] The calculations will also include ratemaking adjustments consistent with the Companies' Applications in these cases as modified by the Stipulation, ensuring comparability of calculations under Adjustment Clause SM compared to the stipulated revenue requirement calculations in these cases. To account for the potentially distorting effect of having two July months in the Adjustment Clause SM reporting period, for July 2028, the Companies will adjust revenues and expenses to account for the prior 12-month average usage scaled to the July 2028 month-end number of customers.

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[8] Stipulation ⁋ 7.2 & 7.3.
[9] Stipulation ⁋ 7.2.

After the 13-month Reporting Period (July 2027 through and including July 2028), the Companies will make a filing with the Commission by October 1, 2028, showing the Companies' calculations of their actual adjusted earned returns, the adjusted returns for the top and bottom ends of the ROE deadband, and the resulting revenue deficiency or surplus for each utility (if any).[10] This filing would allow the Commission to review any collection or distribution to be made through Adjustment Clause SM and open any appropriate review proceeding. Any collection or distribution would begin appearing on customers' bills during the November 2028 billing cycle and continue through and including the November 2029 billing cycle (called the "Adjustment Period").[11] In addition, the Companies would make a true-up filing on February 1, 2030.[12] The true-up would account only for any over- or under- collection or -distribution from or to customers of the revenue deficiency or surplus that Adjustment Clause SM was supposed to have achieved during the Adjustment Period. For example, if one of the utilities had a surplus of $10 million during the 13-month Reporting Period (July 2027 – July 2028), Adjustment Clause SM would attempt to distribute exactly $10 million to customers during the 13-month Adjustment Period (November 2028 – November 2029). If actual distributions under Adjustment Clause SM were $9 million during the Adjustment Period, the true-up would distribute the remaining $1 million to customers. The true-up adjustment would appear on customers' bills during the March 2030 billing cycle.[13] The Companies would make only one true-up filing, and Adjustment Clause SM would then self-terminate.[14]

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[10] Stipulation ⁋ 7.5.
[11] *Id.*
[12] *Id.*
[13] *Id.*
[14] *Id.*

This adjustment mechanism will ensure that the Companies' financial position is not unduly eroded during the stay-out period—a period during which the Companies will continue to make significant generation, transmission, distribution, and other capital investments to serve customers—while also providing a credit to customers if the Companies earn an ROE above the 10.15% top end of the deadband and holding customers harmless if the Companies under-earn the stipulated ROE by as much as 50 basis points. Thus, this mechanism provides protection to both the Companies and their customers while allowing for an extended stay-out period that benefits customers.

Revenue Requirements

Q. What revenue requirement does the Stipulation establish for the Companies' electric and gas utility operations?

A. The Stipulation reduces KU's proposed revenue requirement increase by $87.9 million relative to KU's adjusted filed position,[15] for a stipulated increase of $132.0 million;[16] it reduces the proposed revenue requirement increase for LG&E's electric operations by $49.0 million relative to LG&E's adjusted filed position,[17] for a stipulated increase of $57.8 million;[18] and it reduces the proposed revenue requirement increase for LG&E's gas operations by $15.5 million relative to LG&E's adjusted filed position,[19] for a stipulated increase of $44.8 million.[20] The Stipulating Parties agree that these increases in annual revenues for LG&E electric operations and for KU operations should be effective for service rendered on and after January 1, 2026.

[15] Case No. 2025-00113, KU's Updated Response to PSC 1-54 (Aug. 25, 2025).
[16] Stipulation ⁋ 2.3.
[17] Case No. 2025-00114, LG&E's Updated Response to PSC 1-54 (Aug. 25, 2025).
[18] Stipulation ⁋ 2.3.
[19] Case No. 2025-00114, LG&E's Updated Response to PSC 1-54 (Aug. 25, 2025).
[20] Stipulation ⁋ 3.3.

Although the Companies filed their base rate applications with the objective of increasing their base rates to recover the calculated revenue deficiencies for their respective utility operations, considering the complexity of the issues and uncertainty in the outcome, they believe the compromises the Stipulating Parties reached on revenue requirements and all other issues in these proceedings are fair, just, and reasonable, and deserve Commission approval, particularly in light of the more than two-and-a-half-year base rate stay-out commitment.

Electric Revenue Increases

Q. Please summarize how the Stipulation calculates the proposed electric revenue requirement increases.

A. The Stipulation's proposed electric revenue requirement increases are calculated as shown in the table below. Please note that the calculations begin with the Companies' adjusted proposed revenue requirements and make adjustments as shown to arrive at the final stipulated increases:[21]

Item	KU ($M)	LG&E Electric ($M)
Filed electric revenue requirement increases as adjusted	219.9	106.8
9.90% return on equity	(45.9)	(27.8)
Reduce long-term debt rate for August 2025 issuance	(4.4)	(3.4)
Reduce depreciation expense to remove terminal net salvage	(16.1)	(6.8)
Reduce vegetation management expense	(8.8)	(4.8)
Reduce de-pancaking expense	(6.3)	(3.5)

[21] Stipulation ⁋ 2.3.

Remove EEI and related dues	(0.5)	(0.4)
Remove 401(k) matching for employees in defined benefit plan	(0.9)	(0.7)
Reduce pension and OPEB expense	(1.3)	(1.4)
Depreciation error	(3.8)	(0.2)
Electric revenue requirement increases after stipulated adjustments	132.0	57.8

Q. Please explain the "9.90% return on equity" entry in the table above.

A. The Stipulating Parties agreed for the purposes of these proceedings that a return on equity of 9.90% is reasonable for the Companies' electric operations, and the agreed stipulated revenue requirement increases for the Companies' electric operations reflect that return on equity as applied to the Companies' capitalizations and capital structures.[22] The Stipulation also states that the agreed-upon 9.90% return on equity will apply to recovery under all mechanisms.[23] Use of a 9.90% return on equity reduces the Companies' adjusted proposed electric revenue requirement increases by $45.9 million for KU and $27.8 million for LG&E.

This return on equity is consistent with the record evidence in these proceedings. For example, the Companies presented evidence supporting a recommended return on equity ("ROE") of 10.95%.[24] AG-KIUC witness Baudino provided ROE testimony recommending a 9.6% ROE.[25] The DoD provided ROE testimony supporting a 9.5% ROE.[26] Also, Walmart submitted ROE testimony recommending that the Commission approve an ROE no higher than the Companies' currently authorized ROE of 9.425%

[22] Stipulation ⁋ 2.2(A).
[23] *Id.*
[24] Case Nos. 2025-0013 and 2025-00114, Direct Testimony of Dylan W. D'Ascendis at Exhibit DWD-1.
[25] Case Nos. 2025-0013 and 2025-00114, Direct Testimony of Richard A. Baudino at 8.
[26] Case Nos. 2025-0013 and 2025-00114, Direct Testimony of Michael P. Gorman at 3.

unless the Commission determines that a higher ROE is warranted due to changes in circumstances since the last rate proceedings.[27] The stipulated ROE fits squarely within this range of recommendations.

Therefore, the Stipulating Parties' proposed 9.90% return on equity represents a compromise from each party's litigation position but is nonetheless supported by evidence in the record of these proceedings. The Companies respectfully submit the Commission should accept it in the overall context of the Stipulation, particularly in the context of the increased risk the Companies are assuming due to their more than two-and-a-half-year base rate stay-out commitment.

Q. Why would it be beneficial to customers to use the same ROE for other cost-recovery mechanisms as is authorized for base rates?

A. There are several reasons it is appropriate to apply the stipulated base-rate ROE to other cost-recovery mechanisms. First, the Stipulating Parties negotiated the stipulated ROE in the context of the Companies' Application request to apply the base-rate ROE to other mechanisms; it is part of the total consideration among the Stipulating Parties. Therefore, the reasonableness of the total Stipulation overall rests, at least in part, on applying the stipulated base-rate ROE to other mechanisms.

Second, applying the base-rate ROE to other mechanisms is particularly appropriate when the Companies have agreed to a more than two-and-a-half-year base rate stay-out. The stay-out ensures other mechanism ROEs also cannot change during the stay-out, increasing the risk associated with those mechanisms relative to possible upward movement in market ROEs. Moreover, as explained in the section above concerning

[27] Case Nos. 2025-0013 and 2025-00114, Direct Testimony of Lisa V. Perry at 4.

Adjustment Clause SM, the Companies are likely to under-earn the stipulated 9.90% ROE, particularly during the 13-month Adjustment Clause SM Reporting Period (July 2027 through July 2028). Having the stipulated ROE for other mechanisms will help the Companies remain financially strong throughout the stay-out period and therefore be able to attract the capital necessary to fund investments required to serve customers safely and reliably.

Third, it is particularly appropriate for the GCR mechanism to use the stipulated base-rate ROE because it is designed to recover costs over the full life of each generation asset, not just temporarily or until the next base rate case. This long-term recovery structure benefits customers through a declining rate base as assets depreciate. This means that even without a new rate case, the revenue requirement associated with each capital investment included in Adjustment Clause GCR will decline over time, directly benefiting customers. As an example, consider a $100 million generating asset recovered over 45 years. In year one, the revenue requirement difference of a 10 basis point reduction to ROE is approximately $50,000. Under GCR, as the rate base declines annually, the revenue requirement naturally decreases—without any change to the ROE. Over the 45-year life of the asset, the cumulative benefit from the declining rate base will likely far exceed the marginal savings from a 10 basis point ROE reduction. Thus, maintaining the 9.90% authorized ROE for the GCR mechanism is not only consistent with the Stipulation, but also ensures meaningful long-term customer benefits through the structure of the mechanism itself.

Q. Please explain the "Reduce long-term debt rate for August 2025 issuance" item in the table above.

A. When the Companies filed their Applications, the long-term debt in their proposed capital structures included issuances with an assumed coupon rate of 6.50%.[28] But when LG&E and KU issued the new long-term debt in August 2025, they were able to issue long-term debt with a coupon rate of 5.85%.[29] The entry in the table reflects the actual coupon rate of 5.85%. This adjustment reduces the Companies' adjusted proposed electric revenue requirement increases by $4.4 million for KU and $3.4 million for LG&E.

Q. Please explain the "Reduce depreciation expense to remove terminal net salvage" item in the table above.

A. The Stipulating Parties have agreed to reduce the Companies' revenue requirements to remove terminal net salvage for thermal units, including Mill Creek 2 and Brown 3.[30] This adjustment, which includes the associated impact on the Companies' capitalization, reduces the Companies' proposed electric revenue requirement increases by $16.0 million for KU and $6.8 million for LG&E. Other than this adjustment and including a 45-year service life for Mill Creek 5, the Stipulation provides that the proposed depreciation rates as filed in the Companies' applications shall be approved for ratemaking purposes.[31]

Q. Please explain the "Reduce vegetation management expense," "Reduce de-pancaking expense," and "Reduce pension and OPEB expense" entries in the table above.

A. The Stipulating Parties negotiated adjustments to these expenses to be included in the stipulated rates. They are not commitments to expend exactly the adjusted amounts; rather, as explained at greater length herein, the Stipulating Parties agreed the Companies should use regulatory deferral accounting to record the amounts of such expenses above or below

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[28] Case Nos. 2025-0013 and 2025-00114, Direct Testimony of Julissa Burgos at 9.
[29] Stipulation ⁋ 2.2(B).
[30] Stipulation ⁋ 2.2(C).
[31] *Id.*

the amounts proposed to be included in base rates for later annual review and recovery from or distribution to customers as appropriate. This will result in only prudently incurred expenses for these items ultimately being recovered from customers, no more and no less.

Against the backdrop of such regulatory deferral accounting and Commission review, the Stipulating Parties agreed to the following adjustments to expense levels in the test year:

- Adjusting the stipulated vegetation management expense to reduce the proposed electric revenue requirement increases by $8.8 million for KU and $4.8 million for LG&E.[32]
- Adjusting the stipulated de-pancaking expense to reduce KU's proposed electric revenue requirement increases by $6.3 million and $3.5 million for LG&E.[33]
- Adjusting the stipulated pension and OPEB expense to reduce the Companies' proposed electric revenue requirement increases by $1.3 million for KU and $1.4 million for LG&E.[34]

Q. Please explain the "Remove EEI and related dues" item in the table above.

A. The Stipulating Parties have agreed to remove from the revenue requirement the dues attributable to Edison Electric Institute ("EEI"), Utility Solid Waste Activities Group, Utilities Technology Council, and Waterways Council.[35] This adjustment reduces the Companies' adjusted proposed electric revenue requirement increases by $0.5 million for KU and $0.4 million for LG&E.

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[32] Stipulation ¶ 2.2(D).
[33] Stipulation ¶ 2.2(E).
[34] Stipulation ¶ 2.2(H).
[35] Stipulation ¶ 2.2(F).

Q. Please explain the "Remove 401(k) matching for employees in defined benefit plan" adjustment in the table.

A. This adjustment removes from the Companies' revenue requirement the amount incurred in 401(k) matching expense for employees that also participate in a defined benefit plan.[36] This adjustment reduces the Companies' adjusted proposed electric revenue requirement increases by $0.9 million for KU and $0.7 million for LG&E.

Q. Please explain the "depreciation error" entry in the table.

A. In the course of preparing the various stipulation exhibits, the Companies discovered depreciation calculation errors in the revenue requirements for KU and LG&E.[37] Correcting these errors reduces the Companies' proposed electric revenue requirement increases by $3.8 million for KU and $0.2 million for LG&E. The Excel files being submitted with this testimony show the calculations for these depreciation errors, which are Stipulation Testimony Exhibit 2.

Gas Revenue Increase

Q. Please summarize how the Stipulation calculates the proposed LG&E gas revenue requirement increase.

A. The Stipulation's proposed LG&E gas revenue requirement increase is calculated as shown in the table below. Please note that the calculations begin with LG&E's adjusted proposed gas revenue requirement and make adjustments as shown to arrive at the final stipulated increase. The Stipulation provides that the annual increase in base rates will be effective for service on and after January 1, 2026.[38]

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[36] Stipulation ⁋ 2.2(G).
[37] Stipulation ⁋ 2.2(I).
[38] Stipulation ⁋ 3.1.

Item	LG&E Gas ($M)
Filed gas revenue requirement increase as adjusted	60.3
9.90% return on equity	(10.5)
Reduce long-term debt rate for August 2025 issuance	(1.3)
Reduce inline inspection and well logging expense	(4.5)
Remove AGA and related dues	(0.3)
Remove 401(k) matching for employees in defined benefit plan	(0.3)
Reduce pension and OPEB expense	(0.5)
Depreciation error	1.9
Gas revenue requirement increase after stipulated adjustments	44.8

Q. Several of the adjustments for gas operations are also set forth in the electric adjustments. Are the explanations and reasoning for those adjustments the same?

A. Yes. These adjustments are common to both electric and gas operations in the Stipulation: (1) 9.90% return on equity; (2) reduce long-term debt rate for August 2025 issuance; (3) remove 401(k) matching for employees in defined benefit plan; (4) reduce pension and OPEB expense and (5) depreciation error. The explanation for those adjustments, which we describe in the preceding section of our testimony, are the same for both electric and gas operations. The specific impact of each adjustment on the revenue requirement for gas operations is set forth in the table above. We discuss the adjustments that are specific to gas operations below.

Q. Please explain the "Reduce inline inspection and well logging expense" entry in the table above.

A. As with the adjustments to vegetation management expense, de-pancaking expense, and pension and OPEB expense discussed above concerning electric revenue requirements, the Stipulating Parties negotiated this adjustment to the inline inspection and well logging expense to be included in the stipulated rates. It too is not a commitment to expend exactly the adjusted expense amount; rather, the Stipulating Parties agreed LG&E should use regulatory deferral accounting to record the actual amounts of such expense for later annual review and recovery from or distribution to customers as appropriate. This will result in only prudently incurred expenses for this item ultimately being recovered from customers, no more and no less.

Against the backdrop of such regulatory deferral accounting and Commission review, the Stipulating Parties agreed to adjust the inline inspection and well logging expense to reduce the proposed revenue requirement increase for LG&E's gas operations by $4.5 million..[39]

Q. Please explain the "Remove AGA and related dues" entry in the table above.

A. The Stipulating Parties have agreed to remove from the revenue requirement the dues attributable to the American Gas Association.[40] This adjustment reduces the proposed revenue requirement increase for LG&E's gas operations by $0.3 million.

<u>Deferral Accounting</u>

Q. Does the Stipulation address deferral accounting for certain expense categories.

A. Yes, it does. The Stipulation recommends that the Commission should approve deferral accounting treatment for LG&E and KU for any actual expense amounts above or below the expense levels in base rates for: (1) Pension and OPEB Expense; (2) Storm Restoration

[39] Stipulation ⁋ 3.2(C).
[40] Stipulation ⁋ 3.2(D).

Expense; (3) Vegetation Management Expense; (4) De-Pancaking Expense; and (5) Inline Inspection and Well Logging Expense.[41] For these five expenses, the Companies will establish a regulatory asset for amounts exceeding the base rate level and a regulatory liability for amounts below the base rate level.[42] The Companies will address recovery of any regulatory assets or liabilities in their next base rate cases.[43] Additionally, the Companies will make an annual filing with the Commission within 90 days of the end of each calendar year to report on and have Commission review of the deferred storm restoration and vegetation management amounts.[44] Additionally, the Companies will report on pension and OPEB expense, de-pancaking, and inline inspection and well logging expense in this annual filing.[45]

<u>Residential Basic Service Charge</u>

Q. Please explain the portion of the Stipulation regarding the Residential Basic Service Charge.

A. The Companies presented cost-of-service evidence in these proceedings to support increasing their current residential Basic Service Charges.[46] Other parties that addressed residential Basic Service Charges argued against increasing residential Basic Service Charges to the Companies' proposed amounts.[47] In the interest of reaching agreement on all of the issues in these proceedings, the Stipulating Parties have agreed the Utilities'

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[41] Stipulation ⁋4.1.
[42] Stipulation ⁋4.2.
[43] Stipulation ⁋4.3.
[44] Stipulation ⁋4.4.
[45] *Id.*
[46] *See*, *e.g.*, Direct Testimony of Timothy S. Lyons.
[47] See, e.g., Direct Testimony of Stephen J. Baron.

overall residential rate increase percentage and the residential Basic Service Charge increase percentage will be the system average increase percentage.[48]

Q. Are certain class subsidy reductions addressed in the Stipulation?

A. Yes. The Stipulating Parties have agreed to subsidy reductions for Rate FLS,[49] Rate RTS,[50] Rate TODP,[51] and Rate TODS.[52]

<u>Modifications to the Proposed Rate EHLF (Extremely High Load Factor)</u>

Q. Please describe the proposed Rate EHLF modifications set forth in the Stipulation.

A. As described fully in Michael E. Hornung's Direct Testimony, the Companies recognize that customers with large demands and very high load factors have sufficiently different service characteristics and potential financial impacts to the Companies and their other customers to require a separate rate schedule and terms and conditions of service.[53] Rate EHLF addresses all of these items to provide reasonable protections for the Companies and their customers while also providing average embedded cost rate service to all customers. As originally proposed, Rate EHLF would apply to all customers with very large demands and very high load factors, and it would require of Rate EHLF customers: (1) an increased minimum demand charge ratchet; (2) an extended contract term requirement and capacity change and termination provisions that ensure recovery of at least fifteen years of non-fuel revenues based on the original contract capacity requirement; and (3) a collateral posting obligation for at least a full year of non-fuel revenue, which must be posted at the time of

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[48] Stipulation ⁋5.3.
[49] Stipulation ⁋5.4. KU Rate FLS: $382,665.
[50] Stipulation ⁋5.4. KU Rate RTS: $2,518,169; LG&E Rate RTS: $2,219,333.
[51] Stipulation ⁋5.4. KU Rate TODP: $7,910,739; LG&E Rate TODP: $4,695,334.
[52] Stipulation ⁋5.4. KU Rate TODS: $1,201,286; LG&E Rate TODS: $768,296.
[53] Direct Testimony of Michael E. Hornung at 4.

service contract signing. These provisions ensure adequate protections for all customers while also equitably treating Rate EHLF customers.

The Stipulating Parties have agreed to modifications to the Companies' proposed Rate EHLF. First, the Stipulating Parties agree that the proposed minimum contract capacity threshold should be reduced from 100 to 50 MVA.[54] Second, the Stipulation provides that clarifying language should be included to reflect that Rate EHLF only applies to new customers and if a customer attempts to circumvent the minimum capacity threshold of Rate EHLF by siting multiple smaller facilities, the customer will nonetheless be served under Rate EHLF.[55] Finally, the Companies commit to work with Rate EHLF customers to reach any necessary agreements to reasonably accommodate their renewable energy goals.[56] Such an agreement could also address the customer's use of distributed energy resources such as demand-side management, energy efficiency, and battery storage. The Companies further commit to not place any limitations on the size of resource considered or brought forward by the customer.[57]

<u>**Additional Customer Benefits and Stipulation Terms**</u>

Q. Does the Stipulation contain other customer benefits and address additional specific issues?

A. Yes, Article IX of the Stipulation sets forth additional issues the Stipulating Parties addressed in negotiation that benefit customers. Each provision set forth in Article IX of the Stipulation was integral to resolving all of the issues in the proceeding among the Stipulating Parties. They are:

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[54] Stipulation ⁋8.1.
[55] Stipulation ⁋8.2.
[56] Stipulation ⁋8.3.
[57] *Id.*

- **Depreciation Rates for Future Units.** The Stipulating Parties agree the Companies will update the depreciation lives for Mill Creek 5, Mill Creek 6, and Brown 12 to 45 years.[58]

- **Rate Base Calculations in Future Rate Cases.** In their next base rate cases, the Companies will present their rate base calculations with regulatory assets and liabilities included.[59]

- **Seasonal Residential Rates.** The Companies agree to study seasonal residential rates and present the results of such study in their next base rate cases.[60]

- **EV Charger Rate**. The Companies agree to work with Walmart to propose an EV fast charger rate in their next base rate cases.[61]

- **Green Tariff**. The Stipulating Parties agree the Companies will modify their tariffs to make Green Tariff Option #3 available to customers served under Rate PS so long as the rate design proposed by the Stipulation is approved by the Commission.[62]

- **Rate PSA (Pole and Structure Attachment Charges).** The Stipulating Parties agree the following Rate PSA rates are appropriate for the Companies to reflect the stipulated return on equity and updated long-term debt rate: Two-user wireline pole attachment rate will be $9.79; Three-user wireline pole attachment rate will be $10.12; Linear foot of duct will be $1.16; and Wireless facility on top of pole will be $49.76.[63]

- **Rate LS (Lighting Service).** The Stipulating Parties agree Rate LS rates will be reduced to reflect the stipulated reduction in cost of capital.[64]

- **Rates RTS (Retail Transmission Service) and TODP (Time-of-Day Primary Service).** The Stipulating Parties agree the Utilities will propose a modification to Rate RTS and TODP to a revenue-neutral rate design to lower energy charges and increase demand charges. The stipulated rate increase will be applied to demand charges.[65]

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[58] Stipulation ¶9.1. See Stipulation Testimony Exhibit 3, which shows the revised depreciation rates reflecting this update.
[59] Stipulation ¶9.2.
[60] Stipulation ¶9.3.
[61] Stipulation ¶9.4.
[62] Stipulation ¶9.5.
[63] Stipulation ¶9.6.
[64] Stipulation ¶9.7.
[65] Stipulation ¶9.8.

- **Rate CGS (Firm Commercial Gas Service).** The Stipulating Parties agree LG&E will increase the basic service charge for Rate CGS by 25%.[66]

- **Rates PS (Power Service) and GS (General Service) Grandfathering.** As the Companies proposed in Mr. Hornung's Direct Testimony, the Stipulating Parties agree the Companies will remove grandfathered status from the grandfathered customers that meet the availability requirements of their rate schedules on the date new rates go into effect from these proceedings.[67]

- **Riders CSR-1 (Curtailable Service Rider-1) and CSR-2 (Curtailable Service Rider-2).** The Stipulating Parties agree the Companies will increase all CSR-1 and CSR-2 rates and penalties by 40%.[68]

- **Liability Provisions in Tariffs.** The Stipulating Parties agree the Companies will withdraw their requested changes in these proceedings to the liability provisions in their tariffs.[69]

- **Net Metering.** The Companies agree they will not close their NMS-2 rates to new participants earlier than the effective date of new rates resulting from their next base rate cases. The Companies will leave the NMS-2 rates at their current level.[70]

- **Streetlight Issues.** The Companies commit to continue their proactive streetlight inspections and smart streetlight efforts for LFUCG and Louisville Metro and provide additional reporting to LFUCG and Louisville Metro.[71]

Conclusion

Q. Have the Stipulating Parties agreed that the Commission should approve the Companies' Applications in these proceedings, as modified by the Stipulation, including all of its exhibits?

A. Yes, the Stipulating Parties have agreed that, except as modified by the Stipulation (including its exhibits), the Commission should approve the Companies' proposed rates,

[66] Stipulation ⁋9.9.
[67] Stipulation ⁋9.10.
[68] Stipulation ⁋9.11.
[69] Stipulation ⁋9.12.
[70] Stipulation ⁋9.13.
[71] Stipulation ⁋9.14.

terms, and conditions as requested in their Applications in these proceedings. The Stipulating Parties believe the Stipulation is a fair, just, and reasonable resolution of all issues in these proceedings.

Q. Do you have a recommendation?

A. Yes. LG&E, KU, and the other parties to the Stipulation recommend the Commission approve the Stipulation in its entirety so that the change in base rates can occur for service rendered on and after January 1, 2026.

Q. Does this include your testimony?

A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services 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.

Robert M. Conroy

Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20th day of October 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

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 20th day of October 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
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STATE AT LARGE, KENTUCKY