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**

REBUTTAL TESTIMONY OF
ANDREA M. FACKLER
MANAGER, REVENUE REQUIREMENT/COST OF SERVICE
ON BEHALF OF
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY

Filed: September 30, 2025

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INTRODUCTION

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

A. My name is Andrea M. Fackler. I am the Manager of Revenue Requirement/Cost of Service for Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, "Companies") and an employee of LG&E and KU Services Company, which provides services to KU and LG&E. My business address is 2701 Eastpoint Parkway, Louisville, Kentucky 40223.

Q. What is the purpose of your rebuttal testimony?

A. I rebut two lines of argument advanced by Lane Kollen, who testified on behalf of the Attorney General ("AG") and Kentucky Industrial Utility Customers, Inc. ("KIUC"). First, I rebut certain of Mr. Kollen's assertions concerning cash working capital. Second, I rebut Mr. Kollen's assertion that the Companies' proposed Renewable Power Purchase Agreement adjustment clause (Adjustment Clause RPPA) is not ripe for decision. I argue that approving Adjustment Clause RPPA is indeed appropriate and would be consistent with the Commission's approval of the Retired Asset Recovery Rider in the Companies' 2020 base rate cases, which the AG and KIUC supported. I further observe that Mr. Kollen's arguments for the Commission to approve a new Adjustment Clause MC6 for the proposed Mill Creek 6 generating unit, which would not go in service until 2031, would be consistent with considering and approving, not rejecting, Adjustment Clause RPPA in these cases.

CASH WORKING CAPITAL ITEMS

Q. Mr. Kollen asserts that the Commission should exclude depreciation, amortization, and deferred income tax expenses from the Companies' cash working capital lead-lag component.[1] How do you respond?

A. Mr. Kollen observes that these items are "*non-cash* expenses,"[2] which on its face would appear to make them appropriate to exclude from calculations of *cash* working capital. But as I explained in my direct testimony, calling an item a "non-cash expense" does not mean it is not a true expense for the Companies. Indeed, using the term can be misleading, and I will explain why the Companies' approach to depreciation, amortization, and deferred income tax expenses for the Companies' cash working capital lead-lag component is both appropriate and necessary. I begin by explaining two fundamental principles to help clarify this challenging topic, and I then apply them to the Companies' treatment of these "non-cash" items to show why the Companies' approach, not Mr. Kollen's, is correct.

First, when investors and lenders provide cash to a business, they anticipate a return *of* and a return *on* the capital they supply. Importantly, the return *on* capital they require depends, at least in part, on the perceived risk of the investment, i.e., the risk they might not receive a return *of* their capital.[3] Part of that risk calculation is the overall capitalization and liquidity of the business, both current and long-term. Thus, if a business routinely decreases the value of its capital assets through depreciation and amortization, or incurs obligations like deferred taxes, without timely increases in other

[1] Kollen at 32-34.
[2] Kollen at 33 (emphasis added).
[3] This is an important reason why debt capital receives a lower return *on* investment than does equity capital.

assets (e.g., cash), its financial metrics worsen, leading to higher financing costs. Retaining additional cash in the business helps keep the business's financing costs from increasing. Retaining that cash, rather than otherwise investing or returning it to shareholders, must be compensated. For the Companies, that means including additional cash working capital in rate base to ensure adequate compensation; failing to do so could result in increased financing costs.

Second and relatedly, it is helpful to consider the full cash cycle for a capital asset. When a utility acquires a new capital asset, such as a new generating unit or a regulatory asset, it typically pays cash for it no later than when the asset goes into rate base. Therefore, there is no expense lead; neither the utility nor its creditors benefit from the capital asset before the cash outlay occurs. While the asset remains in rate base, investors receive a return *on*, not *of*, their invested capital; thus, they are compensated for the utility's use of their money. But as the capital asset depreciates or amortizes, i.e., value is consumed in providing service to customers*, a real expense occurs*. The expense occurs no later than when the utility records it because utilities record historical, not forecast, depreciation and amortization. The delay between when that depreciation or amortization expense occurs and when the utility collects the compensating cash from customers is a revenue lag that a complete lead-lag study must take into account; there must be compensation for the additional period the principal remains outstanding and cannot be returned to those who supplied it (or reinvested in the business). Thus, recognizing the delay in when a utility collects compensation for the expense from customers is a use of cash working capital that the utility's rate base must reflect.

Applying these fundamental principles to Mr. Kollen's testimony, I do not disagree with Mr. Kollen that when the Companies acquire an asset, they typically make a cash outlay to do so, and they do not have to subsequently re-outlay cash to obtain the same asset.[4] But if depreciation and amortization mean anything, it is that the value of an asset declines over time, e.g., a piece of machinery wears out over time as it is used to provide a desired output. Such value consumption is no less real an expense for being non-cash, and it occurs *before* the Companies record it,[5] not after (e.g., when the Companies issue bills to customers). Therefore, using zero expense lead days for these non-cash items is entirely appropriate, just as it is appropriate to recognize the associated revenue lag between when the Companies incur the expense and collect the corresponding revenue.

Similarly, when an entity defers income taxes, it acquires an obligation that will come due. Of course it does not pay the tax in cash at that moment; if it did, there would be no income tax deferral at all. But that does not make it any less an expense for which the entity must receive cash in compensation.

Relatedly, contrary to Mr. Kollen's characterization, including these expenses and using zero expense lead days does not "assume[] that the depreciation, amortization, and deferred income tax expenses actually are paid in cash *and* paid in cash instantaneously at the beginning of the month in which the expenses are recorded."[6] The Companies have made no such representation, and their response to AG-KIUC 1-92(a) presents the correct interpretation of including these non-cash

[4] Kollen at 33.
[5] The underlying facts driving the recording of depreciation and amortization occur *before* the Companies record the expenses; the Companies record historical, not forecast, depreciation and amortization, each month.
[6] Kollen at 33 (emphasis original).

expenses and using zero expense lead days, which is consistent with my testimony above:

> For depreciation and amortization of regulatory assets and liabilities, 0 (lead)/lag days are used because these expenses are non-cash with respect to the amounts included in the Company's test year in this case. Cash was outlaid at different points in time (e.g., when a capital asset was being constructed, when storm restoration from a major storm was incurred and costs were paid, etc.). *Therefore, the Company does not need to recognize a cash outlay for these items <u>but does need to recognize the lag in when the expense will be collected from customers</u>*, which is reflected in the Revenue Lag Days column on Tab B-5.2.1 F.[7]

Moreover, these non-cash expenses have cash components, as the Companies observed in response to AG-KIUC 1-92(b):

> For example, lead days for depreciation and amortization expenses are zero to reflect the expenses are deducted from rate base when the expenses are recorded. This represents the non-cash component. However, depreciation and amortization expenses are included in the cash working capital to reflect the Companies must wait to receive the return of the invested capital by the length of the revenue lag. This is the cash component.

In sum, to accept Mr. Kollen's view that these non-cash expenses are not real, genuine decreases of asset values (depreciation and amortization) or acquisitions of obligations (deferred income taxes), which occur no later than when recorded (i.e., with zero expense lead days), would be to accept a fiction. Consider that the Companies' rates consist in large part of compensation for just such real, genuine non-cash expenses; if the Companies did not receive compensation for them, they would quickly go out of business.

[7] Emphases added.

In fairness to Mr. Kollen, I do not think he disputes this. But if these non-cash expenses are real—and they clearly are—then accurately accounting for when they occur, including in cash working capital lead-lag accounting, is vitally important. And there can be no serious dispute that these real, albeit non-cash, expenses occur no later than when the Companies record them, making zero expense lead days appropriate, just as it is appropriate to recognize the associated lag between when the Companies incur these expenses and when they receive the corresponding revenue. This, in turn, makes Mr. Kollen's proposed rate base adjustments for these items inappropriate.

Q. In a similar vein, Mr. Kollen asserts, "The fuel-coal expense is a non-cash expense and is not properly included in the CWC (lead/lag) regardless of the claimed expense lag days."[8] Why is he incorrect?

A. He is incorrect for the same reasons I set out above. Mr. Kollen characterizes this issue as merely "an allocation of the balance sheet fuel-coal inventory amounts recorded to expense for accounting purposes as the fuel-coal inventory is consumed," with no additional cash disbursement.[9] But the underlying reality is this: the Companies must purchase and then burn coal to produce electricity for their customers; nothing about the intervening step of recording and then removing coal to and from inventory changes this. When the Companies receive coal, they record it to inventory before they expend funds to pay for it; this creates an expense lead. The Companies then burn that coal (removing it from inventory) to generate electricity before they receive payment for it; this creates a revenue lag. The intermediate steps of recording coal to, and removing coal from, inventory on the Companies' balance sheet does not negate the need for, or

[8] Kollen at 35.
[9] Kollen at 35.

make it inappropriate to, address the lead-lag associated with fuel-coal expense; it is fundamentally no different from the fuel-gas lead-lag with which Mr. Kollen does not take issue.[10] Thus, contrary to Mr. Kollen's assertions, it is appropriate for the Companies to reflect the net revenue lag and its resulting cash working capital impact, just as they did in Schedule B-5.2.1 F.

<u>IT IS APPROPRIATE TO CONSIDER AND APPROVE ADJUSTMENT CLAUSE RPPA IN THIS PROCEEDING</u>

Q. How do you respond to Mr. Kollen's assertion that the Companies' request for the Commission to approve Adjustment Clause RPPA is "premature" because "there are no pending RPPAs that require an [Adjustment Clause] RPPA at this time"?[11]

A. The Companies have three executed, Commission-approved solar PPAs in place today. That none is immediately poised to advance to completion does not make it "premature" to address the appropriate cost recovery mechanism in these proceedings. As Mr. Kollen observes, the Commission did state in its final order in Case No. 2022-00402 that it was premature *at that time* to "address the specific method of cost recovery of the Solar PPAs,"[12] but it went on to state, "LG&E/KU's request to recover the costs of the Solar PPAs through the FAC or a PPA rider should be denied, with leave to subsequently file an application for cost recovery of the Solar PPAs in the

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[10] *See* Kollen AG-KIUC_Recommendation_-_KU_Rev_Requirement_-_After_8.25.25_Revision.xlsx at Tab CWC Adj #2, rows 12-13 (Sept. 9, 2025), available at https://psc.ky.gov/pscecf/2025-00113/rateintervention%40ky.gov/09092025022742/AG-KIUC_Recommendation_-_KU_Rev_Requirement_-_After_8.25.25_Revision.xlsx.

[11] Kollen at 94.

[12] *Electronic Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Site Compatibility Certificates and Approval of a Demand Side Management Plan and Approval of Fossil Fuel-Fired Generation Unit Retirements*, Case No. 2022-00402, Order at 131-32 (Ky. PSC Nov. 6, 2023).

future."[13] These base rates cases, in which the entirety of the Companies' tariffs are under review, are appropriate subsequent application proceedings in which to consider the proposed cost recovery. Indeed, not addressing Adjustment Clause RPPA in these proceedings would be administratively inefficient, potentially requiring additional proceedings before the Commission that could be avoided by addressing the proposal now.

Moreover, not having the urgency of current or imminent solar PPA charges the Companies must recover in short order is a feature, not a flaw, of considering Adjustment Clause RPPAs in these proceedings; having such an immediate need would not improve the deliberative process. But neither is the prospect of needing to address such cost recovery merely hypothetical; as I noted above, the Companies have three executed, Commission-approved solar PPAs in place today, and if the Commission approves the proposed Stipulation in the Companies' pending CPCN case, additional renewable PPAs might result from the Stipulation-required renewable RFP the Companies would conduct next year.[14] Therefore, the purpose of proposing Adjustment Clause RPPA in these cases was to get in front of the issue and establish the appropriate cost-recovery framework before it became an urgently pressing need. Exercising reasonable foresight—and addressing this issue in "an application for cost recovery of the Solar PPAs in the future" as the Commission proposed in Case No.

[13] *Id.* at 172 and 179.

[14] *Electronic Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Site Compatibility Certificates*, Case No. 2025-00045, Joint Stipulation Testimony of Lonnie E. Bellar and Robert M. Conroy, Stipulation Testimony Exhibit 1, Stipulation and Recommendation at 9-10 (July 29, 2025).

2022-00402—does not make it premature to consider and decide upon Adjustment Clause RPPA in these proceedings.

Finally, from a timing perspective, considering and deciding upon Adjustment Clause RPPA in these proceedings would be consistent with the Commission's consideration and approval of the Retirement Asset Recovery Rider first proposed in the Stipulation and Recommendation—which the AG and KIUC signed and supported—in the Companies' 2020 base rate cases.[15] The Companies only recently began using the approved mechanism for cost recovery, and then only for LG&E; KU has not used the mechanism, notwithstanding the Commission's approval of it in 2021. To be clear, it was entirely appropriate for the Commission to have approved the Retirement Asset Recovery Rider in the 2020 rate cases; it appropriately streamlined the eventual retirement and related cost recovery for Mill Creek Unit 1. Similarly, Mr. Kollen argues in these cases for the Commission to approve a new Adjustment Clause MC6 to recover the costs of the proposed Mill Creek 6 generating unit, notwithstanding that Mill Creek 6, if the Commission grants the requested CPCN, will not go in service until 2031.[16] I believe Mr. Kollen is right to argue for Adjustment Clause MC6; exercising the same foresight and proactivity here for renewable PPA cost recovery is equally appropriate.

[15] *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit*, Case No. 2020-00349, Order at 18-19, 62, and Appx. A (June 30, 2021); *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit*, Case No. 2020-00350, Order at 21, 69, and Appx. A (June 30, 2021).
[16] Kollen at 94-97.

Q. Mr. Kollen says Adjustment Clause RPPA is unreasonable because it would recover renewable PPA expense on a per-kWh basis, whereas the underlying costs are fixed, regardless of how the Companies pay renewable energy providers under such PPAs.[17] How do you respond?

A. Notably, Mr. Kollen argued for a separate cost recovery mechanism for renewable PPAs in Case No. 2022-00402 as part of his argument against the Companies' proposal to recover solar PPA costs through their FAC mechanisms:

> [T]he FAC does not allow recovery of take or pay PPA purchased power expenses. PPA purchased power expenses may be recovered through base revenues or through a separate rider approved for that purpose.
>
> …
>
> I recommend that the Commission authorize separate PPA riders for each Company and that it adopt the Group 1/Group 2 methodology to recover the purchased power expense.
>
> A rider form of recovery is appropriate for these expenses, which are significant and dependent upon the generation due to the pricing terms of the PPA contracts.[18]

It therefore appears from Mr. Kollen's testimony less than two years ago that, consistent with his current testimony, his concern is not having a separate recovery mechanism like Adjustment Clause RPPA per se. Rather, he would prefer it be calculated and billed using the Group 1 and Group 2 methodology that currently applies to the Companies' ECR and RAR cost recovery.[19] The Companies do not oppose

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[17] Kollen at 94.
[18] Case No. 2022-00402, Direct Testimony of Lane Kollen at 20-22 (July 14, 2023).
[19] *Id* at 21-22. As Mr. Kollen described it there, "In this methodology, Group 1 consists solely of the residential class and Group 2 consists of all other classes (non-residential classes). The cost first is allocated between Group 1 and Group 2 on a total retail revenue basis. The revenue requirement for Group 1 is divided by total retail

revising Adjustment Clause RPPA to implement this methodology if the Commission believes it is appropriate to do so. But addressing and deciding that issue does not need to wait for later proceedings; the Commission has all the information and authority it needs to decide this issue and all of Adjustment Clause RPPA in these proceedings.

Q. Does this conclude your testimony?

A. Yes, it does.

revenues for Group 1 to develop the monthly percentage factor, which then is applied to total retail revenues. The revenue requirement for Group 2 is divided by non-fuel revenues for Group 2 to develop the monthly percentage factor, which then is applied to non-fuel revenues."

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Andrea M. Fackler**, being duly sworn, deposes and says that she is Manager - Revenue Requirement/Cost of Service for LG&E and KU Services Company, that she 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 her information, knowledge, and belief.

Andrea M. Fackler
Andrea M. Fackler

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 17th day of September 2025.

Caroline J. Davison
Notary Public

Notary Public ID No. KYNP63286

My Commission Expires:

January 22, 2027

CAROLINE J. DAVISON
COMM EXPIRES 01/22/2027
NOTARY PUBLIC
ID # KYNP63286
STATE AT LARGE, KENTUCKY