

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

In the Matter of:

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

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: September 30, 2025

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1 **INTRODUCTION**

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

3 A. My name is Christopher M. Garrett. I am Vice President - Financial Strategy and Chief
4 Risk Officer for PPL Services Corporation, which provides services to Kentucky
5 Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”)
6 (collectively, the “Companies”). My business address is 2701 Eastpoint Parkway,
7 Louisville, Kentucky 40223.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. I respond to many of the concerns raised by the AG-KIUC witness Lane Kollen. I also
10 address AG-KIUC witness Randy Futral’s recommended disallowance of dues of
11 certain dues-requiring organizations.

12 **USE OF CAPITALIZATION AS A METHOD OF VALUATION**

13 **Q. Do any intervenors argue that the Companies’ use of capitalization as a method**
14 **of valuating the Companies’ property is inappropriate?**

15 A. Yes. Mr. Kollen argues the Commission should use rate base in calculating the return
16 on component of the base revenue requirement. He asserts that rate base is superior to
17 capitalization because it is more precise and accurate, more frequently used by other
18 utilities, allows the Commission to specifically review, assess, and quantify each of the
19 costs that will earn a return, and avoids the need to reconcile capitalization to rate base
20 as a reasonableness test.

21 **Q. Do the Companies agree with Mr. Kollen’s argument that rate base is the superior**
22 **valuation methodology?**

23 A. No. Capitalization appropriately and accurately reflects the extent to which the
24 Companies fund their utility operations. It is also more straightforward and eliminates

1 the need for theoretical arguments and adjustments to rate base for non-cash and other
2 items such as those called for by Mr. Kollen. Additionally, the Companies’
3 capitalization methodology is consistent with the overall balance sheet approach for
4 evaluating cash working capital in a revenue requirement calculation as discussed in
5 the Rate Case and Audit Manual prepared by NARUC Staff Subcommittee of
6 Accounting and Finance (Summer 2003).¹ Thus, it is the most complete valuation
7 methodology. Finally, if rate base is adjusted appropriately, there should be no material
8 difference between rate base and capitalization.

9 **Q. Has this Commission agreed with the Companies that capitalization is the better**
10 **valuation methodology for the Companies?**

11 A. Yes. The Commission has chosen capitalization as the appropriate valuation
12 methodology for LG&E and KU for decades. In LG&E’s Case No. 2000-00080, the
13 Commission specifically recognized that capitalization is “a better measure of the real
14 cost of providing service since it is the cost of debt and equity that is reflected in the
15 financial statements of the utility.”²

16 **Q. Is Mr. Kollen’s argument that the Commission now uses rate base for all large**
17 **investor-owned utilities subject to its ratemaking jurisdiction a justification for**
18 **changing this policy after decades of use?**

19 A. No. The fact that other investor-owned utilities use rate base in no way mandates the
20 Commission must select the rate base methodology for the Companies in these cases.

¹ Rate Case and Audit Manual Prepared by NARUC Staff, Subcommittee on Accounting and Finance (2003), available at: https://regulationbodyofknowledge.org/wp-content/uploads/2013/03/NARUC_Rate_Case_and.pdf

² *The Application of Louisville Gas & Electric Company to Adjust Its Gas Rates and to Increase Its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Case No. 2000-00080, Order at 11 (Ky. PSC Sept. 27, 2000).

1 These other investor-owned utilities operate in multiple jurisdictions that use rate base;
2 their Kentucky jurisdictional operations typically are among the smallest regulated
3 operations within their respective holding company systems. In contrast, the primary
4 if not exclusive regulatory jurisdiction for the Companies is Kentucky. Each of the two
5 other investor-owned electric utilities which have proposed or have been required to
6 use the rate base method of valuation in Kentucky also operate in multiple jurisdictions
7 where rate base is used.³

8 The Companies have used the capitalization valuation methodology for more
9 than 40 years.⁴ The Companies' historic use of capitalization is especially important
10 as KRS 278.290 and Commission precedent require the Commission to give due
11 consideration to a utility's historic method of property valuation when fixing the value
12 of property. The Commission has stated that it "will consider using an approach
13 different from that previously used"⁵ only if a justification exists. The use of rate base
14 by other investor-owned utilities is not sufficient justification to support an abrupt
15 departure from the valuation methodology used by the Companies for many decades.

³ Kentucky Power is a subsidiary of American Electric Power ("AEP"), which also operates in Texas, Michigan, Arkansas, Louisiana, and Ohio, among other states, and uses the rate base methodology. *Tex Utilities Code* 36.003; *Cities for Fair Util. Rates v. PUC*, 924 S.W.2d 933, 1996 Tex. LEXIS 88 (Tex. 1996); *Application of Indiana Michigan Power Company for Authority to Increase Its Rates for the Sale of Electric Energy and for Approval of Depreciation Accrual Rates and Other Related Matters*, Case No. U-18370, Order at 86 (MI PSC Apr. 12, 2018); *Application of Southwestern Electric Power Company for Approval of a General Change in Rates and Tariffs*, Docket No. 19-008-U, Order No. 12 (AR PSC Dec. 20, 2019); *Entergy Gulf States, Inc. v. Louisiana PSC*, 730 So. 2d 890 (LA. S.Ct. 1999); *Babbitt v. Public Utilities Com.*, 391 N.E.2d 1376 (Ohio 1979).

Duke Kentucky is a subsidiary of Duke Energy, which also operates in Indiana, North Carolina, and South Carolina, among other states, and uses the rate base methodology. *Petition of Duke Energy Indiana, LLC Pursuant to Ind. Code 8-1-2-42.7 and 8-1-2-61, for (1) Authority to Modify Its Rates and Charges for Electric Utility Service Through a Step-In of New Rates and Charges Using a Forecasted Test Period* [], Cause No. 45253, Order (IN URC June 29, 2020); *Application of Duke Energy Carolinas, LLC, for Adjustment of Rates and Charges Applicable to Electric Utility Service in North Carolina*, Docket No. E-7, Sub 1214, Order (NC UC Mar. 31, 2021); *Hamm v. South Carolina Public Service Com.*, 364 S.E.2d 455, 456 (S.C. 1988) ("The PSC's authority to determine rate base is set forth in Section 58-27-180, S. C. Code Ann. (1976)").

⁴ Direct Testimony of Andrea M. Fackler at 5.

⁵ Case No. 2000-00080, Order at 7 (Ky. PSC Sept. 27, 2000).

1 The valuation of a utility’s property in connection with setting rates is necessarily a
2 stand-alone analysis. Like the Companies’ long-standing use of CWIP for ratemaking
3 purposes,⁶ capitalization is a long-standing policy of this Commission for the
4 Companies.

5 **Q. In addition to the long-standing precedent for the Companies’ use of**
6 **capitalization, are there other reasons why the Companies view capitalization as**
7 **a better measure of the value of their property than rate base?**

8 A. Yes. There are numerous reasons. First, capitalization is simpler and more transparent.
9 Second, rate base improperly excludes certain assets and liabilities, which deny the
10 Companies the ability to recover their cost of capital, thereby increasing regulatory lag
11 and financing risk. Third, there is a current mismatch for accumulated deferred income
12 taxes (“ADIT”) in rate base, which does not exist in capitalization. Fourth, the
13 Companies’ nonregulated activities are de minimus, which negates the concern that a
14 portion of the Companies’ capitalization has been used to finance non-regulated
15 activities and capital allocations from the Companies’ parent, LG&E and KU Energy,
16 are not in excess of that needed to finance its utility operations. Lastly, the Companies’
17 reconciliation of rate base and capitalization provides validation of reasonableness of
18 the Companies’ lead-lag study.

19 **Q. Why is capitalization a simpler and more transparent valuation methodology as**
20 **compared to rate base?**

⁶ *Jefferson County Fiscal Court v. Kentucky Public Service Commission*, Opinion and Order, 29 PUR 4th, pp. 143-144 (Franklin Circuit Court March 15, 1977) (“The commission was on sound ground when it allowed LG&E to include CWIP in the rate base. The evidence is uncontradicted that, for many years, LG&E (with commission approval) has included CWIP in its rate base, but it has not increased its earnings by an allowance for funds used during construction (AFUDC)”).

1 A. The rate base valuation methodology, including the performance of a theoretical lead-
2 lag study, requires a significant amount of judgment in determining the appropriate rate
3 base valuation. This is evidenced by Mr. Kollen's recommendation of multiple rate
4 base adjustments, which are also contested by the Companies. The capitalization
5 valuation methodology is simpler and more transparent because all balance sheet
6 amounts are included, with limited judgment required. The use of rate base is less
7 precise and less accurate as the lead-lag study component of rate base is an estimate,
8 whereas capitalization determines the true cost of capital based on amounts reflected
9 on the balance sheet. In short, rate base offers the opportunity for greater argument and
10 contention; capitalization is far more straightforward and less susceptible to debate.

11 **Q. What assets and liabilities are improperly excluded from rate base in this case?**

12 A. As the reconciliation between capitalization and rate base demonstrates, one of the
13 primary differences between rate base and capitalization results from the exclusion
14 from rate base of certain regulatory assets and liabilities established *in connection with*
15 *providing utility service*.⁷ These regulatory assets and liabilities are appropriately
16 included in capitalization as they involve capital outlays for prudent utility operating
17 costs including AMI investments, IT investments, generator outage expense, and storm
18 costs, which have lengthy amortization periods.⁸ The exclusion of these items from
19 rate base results in the Companies not recovering their associated carrying costs for
20 lengthy periods, i.e. 15 years for AMI and IT investments. Furthermore, the
21 Companies' reconciliation provides a transparent view into the differences between

⁷ See Rebuttal Exhibit CMG-1.

⁸ See Rebuttal Exhibit CMG-2, Tab: CMG-2 Detail, for a detailed breakdown of the regulatory asset and liability accounts included in capitalization.

1 capitalization and rate base and provides the opportunity for the Commission to review
2 these differences in detail to determine whether *specific* assets and liabilities should be
3 removed from capitalization rather than *theoretical* exclusions from rate base derived
4 from cash working capital calculations.

5 **Q. What amount of carrying costs will the Companies be denied under Mr. Kollen's**
6 **rate base proposal?**

7 A. The Companies would under-recover their cost of capital by \$13.2 million (KU \$9.1
8 million; LG&E Electric -\$0.5 million; and LG&E Gas \$4.6 million)⁹ if Mr. Kollen's
9 proposal is accepted.

10 **Q. Briefly describe the mismatch that currently exists for ADIT in rate base but not**
11 **in capitalization.**

12 A. The ADIT associated with the regulatory assets and liabilities excluded from rate base
13 discussed above has not been excluded, or was not proposed to be excluded, from rate
14 base, resulting in asymmetrical ratemaking via an improper mismatch in the tax
15 treatment and the underlying asset and liability treatment. Regardless of whether the
16 Commission decides regulatory assets should or should not be included in rate base,
17 the ADIT treatment should be consistent with the underlying regulatory asset and
18 liability treatment to avoid the current mismatch. This mismatch does not exist in
19 capitalization because all assets and liabilities are included in the capitalization
20 valuation.

21 **Q. Are there any concerns that the Companies' non-regulated activities are causing**
22 **its capitalization to be overstated?**

⁹ Direct Testimony of Lane Kollen ("Kollen Testimony") at 6.

1 A. None. While rate base and capitalization theoretically should be equal, it is rare that
2 this happens.¹⁰ When a utility's capitalization exceeds rate base, it raises concerns that
3 a portion of the capitalization has been used to finance non-regulated activities.¹¹ For
4 the Companies, though, that is not the case. This fact is confirmed by the Companies'
5 recent nonregulated operations annual filings submitted to the Commission on March
6 31, 2025.¹²

7 **Q. Are capital allocations from the Companies' parent company in excess of that**
8 **needed to finance the Companies' direct investment rate base?**

9 A. No. This was an issue in the Kentucky Power case Mr. Kollen cites in which the
10 Commission ordered Kentucky Power to use the rate base methodology rather than
11 capitalization.¹³ The Commission found that capitalization was not reasonable because
12 it "measures the capital allocations to Kentucky Power from its parent company, in
13 excess of that needed to finance Kentucky Power's direct investment rate base as
14 determined herein."¹⁴ Instead, the Commission stated rate base was a more accurate
15 method of measuring Kentucky Power's financial health because it "measures the
16 direct investment into Kentucky Power's system."¹⁵ There is no evidence that the
17 capital allocations from the Companies' parent company, LG&E and KU Energy LLC,

¹⁰ *Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rate and Service*, Case No. 1998-00426, Order at 3 (Ky. PSC June 1, 2000).

¹¹ Case No. 2000-00080, Order at 5 (Ky. PSC Sept. 27, 2000).

¹² See Rebuttal Exhibit CMG-3: KU's Annual Report of Nonregulated Activities required by 807 KAR 5:080 for calendar year 2024 shows no nonregulated revenues. LG&E's Annual Report of Nonregulated Activities required by 807 KAR 5:080 for calendar year 2024 shows that LG&E's nonregulated activities make up only .03050% of total revenue.

¹³ *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief*, Case No. 2020-00174, Order at 5 (Ky. PSC Jan. 13, 2021).

¹⁴ *Id.*

¹⁵ *Id.*

1 are in excess of what is needed to finance the Companies' direct regulated utility
2 operations as confirmed by its lack of nonregulated activities.

3 **Q. Does the Companies' reconciliation between rate base and capitalization provide**
4 **the Commission with any other insights into the appropriateness of the**
5 **Companies' valuation?**

6 A. Yes, the reconciliation provides assurance to the Commission that the Companies'
7 capitalization valuation is reasonable because a properly performed lead-lag study
8 should result in a similar rate base and capitalization valuation. As demonstrated in
9 Table 1 below, there is only a 1.15% difference on a total basis between rate base and
10 capitalization valuations.¹⁶ Additionally, the reconciliation shown in Table 1 confirms
11 that rate base will not always result in a lower valuation than capitalization.

Table 1

	KU	LG&E Electric	LG&E Gas	Total
Capitalization	6,186,150,159	3,738,940,515	1,414,828,027	11,339,918,702
Rate Base	6,096,079,612	3,744,343,984	1,368,784,876	11,209,208,472
Difference	90,070,548	(5,403,469)	46,043,151	130,710,230
% of Capitalization	1.46%	-0.14%	3.25%	1.15%
% of Rate Base	1.48%	-0.14%	3.36%	1.17%

13
14 **Q. Do you agree with Mr. Kollen's assertion that the use of rate base avoids the need**
15 **to reconcile rate base and capitalization?**

16 A. No. KRS 278.290 requires the Commission to consider both capitalization and rate
17 base in every case and determine which methodology to use based on the record.
18 Furthermore, in connection with this valuation, the Commission by regulation has

¹⁶ Amounts provided in the table are based on the Companies' errata filing on August 25, 2025, Supplemental Response to PSC 1-54.

1 required the reconciliation be provided in the application. 807 KAR 5:001 Section
2 16(6)(f) states that in its application for a general rate adjustment, a utility “shall
3 provide a reconciliation of the rate base and capital used to determine its revenue
4 requirements.”

5 **Q. Do the Companies have any recommendations for the Commission should it**
6 **decide to order the Companies to use the rate base methodology?**

7 A. Yes. The Commission should include all regulatory assets and regulatory liabilities
8 established *in connection with providing utility service* in rate base to appropriately
9 compensate both the Companies and customers for the deferrals. As shown in Rebuttal
10 Exhibit CMG-2, the inclusion of regulatory assets and liabilities would reduce Mr.
11 Kollen’s proposed KU revenue requirement reduction from \$9.1 million to \$1.5
12 million; increase LG&E’s electric revenue requirement addition from \$0.5 million to
13 \$2.7 million; and reduce LG&E’s gas revenue requirement reduction from \$4.6 million
14 to \$3.5 million.¹⁷ Again, however, for the reasons previously stated, there is no
15 justification for making such a radical change in property valuation methodologies in
16 these cases.

17 **PENSION ASSETS AND LIABILITIES**

18 **Q. Does Mr. Kollen take exception to the Companies’ inclusion of pension and OPEB**
19 **related assets and liabilities in the calculation of its cost of service?**

¹⁷ Amounts inclusive of corrections to rate base.

1 A. Yes. Mr. Kollen recommends that the Commission reject the Companies' request to
2 include pension and OPEB¹⁸ related assets and liabilities in rate base via the
3 Companies' cash working capital adjustment.

4 **Q. Please describe Mr. Kollen's assertion for excluding the pension and OPEB**
5 **related assets and liabilities from rate base?**

6 A. The primary argument appears to be centered around fundamental misunderstandings
7 on whether these assets and liabilities represent non-cash items and whether there are
8 applicable financing costs. A similar argument was made in the Companies' previous
9 base rate cases to no avail, so it is surprising to see this adjustment being proposed yet
10 again.

11 **Q. Can you present the Companies' position against these arguments?**

12 A. Yes, the Companies' pension and OPEB related assets should be included in rate base
13 and capitalization for several reasons. First, these assets and liabilities are cash
14 financed and have been cash financed in a prudent manner. Second, the Companies'
15 customers are receiving the benefit of these cash financings in the form of lower
16 pension and OPEB expense. Third, at the request of Mr. Kollen and the intervenors in
17 the 2014 rate case proceedings, the Companies agreed to amortize actuarial gains and
18 losses for pensions over a 15-year period.¹⁹ The Companies agreed to this treatment
19 even though it defers pension costs beyond the period required by Generally Accepted
20 Accounting Principles ("GAAP").²⁰ This extended amortization period goes beyond

¹⁸ For consistency with Mr. Kollen's testimony, the Companies are using "OPEB." As it relates to pension assets and liabilities, "OPEB" includes other post-retirement benefits.

¹⁹ *Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates*, Case No. 2014-00371, Order at 4-5 (Ky. PSC June 30, 2015); *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates*, Case No. 2014-00372, Order at 5 (Ky. PSC June 30, 2015).

²⁰ Case No. 2014-00371, Order at 4-5 (Ky. PSC June 30, 2015); Case No. 2014-00372, Order at 5 (Ky. PSC June 30, 2015).

1 what is required under GAAP, effectively deferring recovery of costs that would
2 otherwise be recognized sooner. Given this extended recovery timeline, it is reasonable
3 and equitable for the Companies to earn a return on the deferred balances. Denying
4 recovery of the associated carrying costs would penalize the Companies for agreeing
5 to a compromised structure that benefits customers.

6 **Q. Do the Companies’ pension and OPEB related assets and liabilities represent non-**
7 **cash items?**

8 A. No, they represent cash items. As shown in Rebuttal Exhibit CMG-4, the sum of the
9 pension and OPEB related assets and liabilities represents the amount by which pension
10 and OPEB contributions exceed net periodic pension and OPEB costs. The
11 rollforwards provide evidence that the pension liability turned into a prepaid pension
12 asset in 2019 largely as a result of the 2018 pension contributions. These 2018
13 contributions brought the Companies’ allocations of the pension plans to a fully-funded
14 status, which is consistent with the Commission’s direction to eliminate underfunding
15 expressed in the final orders in the Companies’ 2003 base rate proceedings and sound
16 pension management.²¹ Notably, this exhibit was simply updated from the previous
17 rate case to rollforward the balances to those utilized in the current proceeding.

²¹ *An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433, Order at 37, 78 (Ky. PSC June 30, 2004) (“The Commission does have concerns about the underfunded status of LG&E’s pension and post-retirement plans. LG&E should develop and implement a plan that eliminates the underfunding within a reasonable time ... In addition, LG&E should file progress reports describing the progress made in eliminating the underfunding of its pension and post-retirement plans.”); *An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Order at 33-34, 68 (Ky. PSC June 30, 2004) (“The Commission does have concerns about the underfunded status of KU’s pension and post-retirement plans. KU should develop and implement a plan that eliminates the underfunding within a reasonable time ... In addition, KU should file progress reports describing the progress made in eliminating the underfunding of its pension and post-retirement plans.”).

1 **Q. Are there applicable carrying costs associated with the pension and OPEB related**
2 **assets and liabilities?**

3 A. Yes. The *net* pension and OPEB related asset and liability is financed no different than
4 utility plant.

5 **Q. Are customers compensated in any manner for the financing costs associated with**
6 **pension and OPEB related assets and liabilities?**

7 A. Yes. The Companies agree with Mr. Kollen that customers should be compensated for
8 the associated benefits of the trust fund contributions and earnings and have done so
9 accordingly in this proceeding. Customers have been and will continue to be
10 compensated for those financing costs in the form of reduced pension and OPEB
11 expenses along with reduced income tax expense for the cash contributions in excess
12 of net periodic pension and OPEB costs.

13 **Q. How have the Companies demonstrated that customers have received this**
14 **compensation?**

15 A. The Companies have included all pension and OPEB balance sheet accounts along with
16 the associated pension and OPEB expense accounts. This ensures equitable treatment
17 via an all-inclusive approach whereby earnings associated with pension trust fund
18 assets are included in net periodic pension and benefit costs used to determine pension
19 and OPEB expense included in the test year and pension and OPEB assets are included
20 in capitalization in the test year. This is in stark contrast to Mr. Kollen's inconsistent
21 and asymmetrical approach to remove pension and OPEB assets and liabilities from
22 rate base and not make an adjustment to pension and OPEB expense.

1 **Q. Is Mr. Kollen’s proposal consistent with the Final Order in Case Nos. 2020-00174**
2 **and the stipulation agreement reached in 2023-00159?**

3 A. No. In both proceedings, Mr. Kollen’s recommended exclusion from rate base of all
4 pension and OPEB assets and liabilities, net of related ADIT, was subject to the
5 exclusion from the utility’s base rates of the current annual level of cost savings related
6 to pension and OPEB originally included in the utility’s cost of service.²² The settling
7 parties agreed to this approach in 2023-00159.²³

8 **Q. Is the Companies’ approach consistent with FERC guidance?**

9 A. Yes. In *Southern Company Services, Inc.*, the Federal Energy Regulatory Commission
10 (“FERC”) explained:

11 As a general matter, it is appropriate to include prepayments in
12 rate base when they represent amounts that a utility has paid for
13 costs that are allowed to be collected in rates in the future
14 This is because the utility is out-of-pocket for such costs until
15 they are recovered from ratepayers and is therefore entitled to
16 recover its cost of financing such prepaid expenses.²⁴

17 The FERC further stated that “when a utility’s rates have been reduced by pension
18 income [i.e., the return on assets in the pension trust], but the utility has not received
19 such income from the external trust, it will have to finance such amount, and is entitled
20 to include the pension income in rate base.”²⁵

²² *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) All Other Required Approvals and Relief*, Case No. 2023-00159, Order at 20-21 (Ky. PSC Jan. 19, 2024); *see also Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief*, Case No. 2020-00174, Settlement Testimony of Brian West at 12 (Ky. PSC Nov. 20, 2023).

²³ *Id.*

²⁴ *Southern Co. Servs., Inc.*, 122 FERC ¶ 61,218, at P 21 (2008).

²⁵ *Id.* at 21.

1 **Q. Should Mr. Kollen’s adjustment regarding pension and OPEB related assets and**
2 **liabilities be denied?**

3 A. Yes. For the reasons cited above, most notably the equitable treatment provided by the
4 Companies’ approach whereby the benefits of the lower pension expense are being
5 provided to customers in exchange for the inclusion of the assets and liabilities in rate
6 base and capitalization, this adjustment should be denied. However, if this adjustment
7 is accepted, it should be updated to reflect the impact of the Companies’ corrections
8 shown in Rebuttal Exhibit CMG-2.²⁶

9 **PENSION AND OPEB EXPENSE**

10 **Q. Mr. Kollen also takes issue with the level of pension expense included in the**
11 **forecasted test year. Do the Companies agree with Mr. Kollen’s position that the**
12 **pension expense calculations are fundamentally flawed?**

13 A. No, the Companies developed the forecasted test year expense levels consistent with
14 their annual business planning process. The Companies’ actuary, Willis Towers
15 Watson (“WTW”), provides 5-year calendar pension and OPEB projections each year
16 for the Companies to complete their business plans. The Companies pension and
17 OPEB expenses for the 2026 test year were calculated using the 2025 business plan
18 information provided by WTW which utilized asset values and discount rates as of
19 August 21, 2024. This information was provided in response to AG-KIUC 1-74 and
20 1-75.

²⁶ As shown in Rebuttal Exhibit CMG-2, the corrections would reduce Mr. Kollen’s proposed KU revenue requirement reduction from \$10.9 million to \$10.7 million, LG&E’s electric revenue requirement reduction from \$9.9 million to \$8.9 million and LG&E’s gas revenue requirement reduction from \$5.6 million to \$5.1 million.

1 **Q. Do the Companies agree with Mr. Kollen’s position that pension expense should**
2 **be updated to reflect more current market conditions?**

3 **A.** Yes. The Companies have provided updated pension expense projections in response
4 to AG-KIUC 2-25(c). Consistent with previous rate cases, the Companies agree that
5 pension expense figures should be updated to reflect more recent information so long
6 as it is readily available. Because the Companies had received their 2026 business plan
7 projections on June 18, 2025, the Companies were able to provide updated test year
8 pension expense amounts in their responses to AG-KIUC 2-25(c) based on asset
9 valuations as of April 30, 2025. The Companies were not dismissive of Mr. Kollen’s
10 request to update the pension expense amounts using updated asset values as of June
11 30, 2025 because the information was simply not available. Pension expense
12 calculations are complex, expensive and require actuarial consultation. In fact, the
13 Companies reached out to WTW to determine the cost of performing an additional set
14 of calculations as of June 30, 2025, and WTW informed the Companies it would take
15 three weeks to complete at an estimated cost of \$30,000 - \$35,000.

16 **Q. What is the impact of the updated pension and OPEB expense figures using the**
17 **updated information from WTW?**

1 A. The impact is an increase in pension and OPEB expense which is shown in Table 2
2 below.

Table 2			
	KU	LGEE	LGEG
Pension and OPEB expense FTY 2026			
Pension expense - updated as of 4/30/2025 [AG-KIUC 2-25(c)]	2,328,772	2,832,528	1,047,648
Pension expense - as filed (AG-KIUC 1-74)	1,311,173	2,242,939	829,580
Difference	1,017,599	589,590	218,067
KY Jurisdictional Factor	94.3457%		
Difference (KY Jurisdictional)	960,061		
OPEB expense - updated as of 4/30/2025	834,407	1,362,189	503,823
OPEB expense - as filed (AG-KIUC 1-75)	(36,987)	1,234,750	456,688
Difference	871,394	127,439	47,135
KY Jurisdictional Factor	94.3457%		
Difference (KY Jurisdictional)	822,123		

3
4 **Q. Do the Companies agree with Mr. Kollen’s assertion that the Expected Return on**
5 **Assets (“EROA”) is understated?**

6 A. No. As discussed in the response to data request AG-KIUC 2-19(e) the Companies
7 lowered the EROA from 8.25% to 7.25% based on capital market assumptions
8 provided by their investment consultant indicating increased market volatility and
9 lower projected returns. Furthermore, the Companies explained that the approaches
10 for setting the discount rate and EROA assumptions are set in different ways, and as
11 such are not expected to move in tandem as Mr. Kollen indicates in his testimony.

12 **Q. Do you agree with Mr. Kollen’s recommendation to reduce pension and OPEB**
13 **expense levels to 2024?**

14 A. No, this is completely arbitrary and counter to the use of a forecasted test year for
15 ratemaking purposes. The Companies believe the appropriate pension and OPEB
16 expense levels to use for determining the revenue requirement are reflected in Table 2
17 above based on asset values as of April 30, 2025.

1 **Q. Would the Companies be willing to accept the deferral accounting proposal**
2 **suggested by Mr. Kollen as it relates to pensions and OPEBs?**

3 A. Yes, the Companies are open to a true-up to ensure customers pay no more and no less
4 than the actual expenses incurred for pensions and OPEBs given the associated
5 volatility described by Mr. Kollen.

6 TERMINAL NET SALVAGE

7 **Q. Do you agree with Mr. Kollen's assertion that the use of estimated costs for**
8 **decommissioning costs is not necessary and imposes a permanent nominal and**
9 **present value penalty on customers?**

A. No. Customers are being provided a return on the inclusion of estimated terminal net salvage costs in depreciation rates, which serves to lower both rate base and capitalization. Although Mr. Spanos' rebuttal testimony addresses the bulk of Mr. Kollen's recommendations regarding depreciation, I would add that the Companies disagree with Mr. Kollen's recommendation to remove terminal net salvage amounts (decommissioning costs) from depreciation rates. Mr. Kollen is critical of the Companies for including those amounts in the proposed depreciation rates, because, he argues, the Commission has indicated that such amounts must be excluded from depreciation rates under the Commission's interpretation of KRS 278.264(2). While we recognize the Commission's decision in Case No. 2022-00372,²⁷ we disagree with the Commission's interpretation of KRS 278.264(2) in that case and we also understand

²⁷ *Electronic Application of Duke Energy Kentucky, Inc. for (1) An Adjustment of the Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief*, Case No. 2022-00372, (Ky. PSC Oct. 12, 2023).

1 the issue is again under consideration in Case No. 2024-00354.²⁸ We ask the
2 Commission to reconsider its interpretation of KRS 278.264(2) in this matter for the
3 Companies and will submit legal argument in support of our position in briefing these
4 cases. The fact of the matter is that excluding terminal net salvage from depreciation
5 rates creates intergenerational subsidies whereby future customers will pay for the
6 decommissioning costs of existing units instead of the current customers who are being
7 served by those units.

8 **OTHER CASH WORKING CAPITAL ADJUSTMENTS**

9 **Q. Do the Companies agree with Mr. Kollen's other adjustments to cash working**
10 **capital?**

11 A. No. Because Mr. Kollen argues that the Companies should use rate base in lieu of
12 capitalization, he recommends several corrections to the Companies' current
13 calculation of rate base contained in its reconciliation, in addition to the correction to
14 non-cash pension and OPEB related assets and liabilities discussed above. Ms. Fackler
15 addresses the non-cash expense adjustments, and I address the clearing account
16 adjustment below.

17 **Q. What activity is included in the clearing accounts on Schedule B-5.2 F?**

18 A. The balances in Account 184 as of February 2025 reflected two months (January
19 through February 2025) of net credits for service cost, interest cost, and estimated
20 return on assets recorded for pensions and OPEBs.

²⁸ *Electronic Application of Duke Energy Kentucky, Inc. for (1) An Adjustment of the Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief*, Case No. 2024-00354.

1 **Q. Why did the Companies choose not to clear these balances for forecasting**
2 **purposes?**

3 A. The Companies chose not to clear or reclassify the February 2025 pension and OPEB
4 balances recorded to Account 184 as a matter of administrative efficiency and good
5 practice. The additional step to clear or reclassify the balances in Account 184 to the
6 respective pension and OPEB balance sheet accounts which occurs annually each year
7 in December for actuals would have no impact on total rate base and was therefore
8 unnecessary from a forecasting standpoint.

9 **Q. Do the Companies agree with Mr. Kollen's assertion that the clearing accounts**
10 **should be set to zero or removed from rate base?**

11 A. No, the Companies decision not to set the accounts to zero or reclassify the clearing
12 account balances in the forecasted test year had no effect on the revenue requirement.
13 Additionally, given the clearing account represents expense activity for two months of
14 2025, Mr. Kollen's adjustment should incorporate the effects of ADIT which have been
15 omitted.

16 **Q. Should the Commission deny Mr. Kollen's adjustment regarding clearing**
17 **accounts?**

18 A. Yes. For the reasons cited above, Mr. Kollen's adjustment regarding clearing accounts
19 should be rejected. However, if the adjustment is accepted, it should be updated to
20 include the impact of Mr. Kollen's ADIT omission and LG&E's corrections shown in
21 Rebuttal Exhibit CMG-2.²⁹

²⁹ As shown in Rebuttal Exhibit CMG-2, the corrections would: reduce Mr. Kollen's proposed KU revenue requirement reduction from \$0.21 million to \$0.16 million; increase LG&E's electric revenue requirement

1 **EXCESS ADIT ISSUES RELATING TO MR. KOLLEN’S PROPOSED**
2 **ADJUSTMENTS**

3 **Q. Has Mr. Kollen addressed the excess ADIT impacts associated with his proposed**
4 **adjustments?**

5 A. No. Mr. Kollen simply ignored the excess ADIT impacts for the reduction in
6 depreciation rates for generation plant.

7 **Q. Is this appropriate?**

8 A. No. This adjustment has significant excess ADIT implications which must be
9 addressed.

10 **Q. Why should excess ADIT impacts be considered as it relates to Mr. Kollen’s**
11 **proposal to reduce the depreciation expense for generation plant?**

12 A. When book depreciation expense is decreased as a result of using longer depreciable
13 lives, the revenue requirement is increased by the lower excess ADIT amortization.
14 “Protected” excess ADIT is reduced and refunded to customers over the remaining
15 book lives of property that gave rise to the deferred taxes using the Average Rate
16 Assumption Method (“ARAM”). For any change made to extend the book lives of
17 property, an adjustment is required to reduce the excess ADIT amortization to avoid a
18 potential normalization violation. The corresponding rate base and excess ADIT
19 adjustments were not included as part of Mr. Kollen’s proposed adjustments. The
20 Companies have utilized a quarterly proration for the ADIT rate base adjustment
21 calculations (including excess ADIT regulatory liability) consistent with the

reduction from \$0.00 to \$0.12 million; and reduce LG&E’s gas revenue requirement reduction from \$0.14 million to \$X.05 million.

1 Companies' filed position and normalization requirements.³⁰ The impact of these
2 corrections to the revenue requirement are shown in Rebuttal Exhibit CMG-5: KU
3 \$3.6 million and LG&E Electric \$0.4 million.

4 **REMOVAL OF CWIP AND CAPITALIZATION OF**
5 **CONSTRUCTION FINANCING COSTS USING AFUDC**

6 **Q. Please explain Mr. Kollen's recommendation regarding the Companies'**
7 **Construction Work in Progress ("CWIP").**

8 A. Mr. Kollen recommends the Commission exclude CWIP from rate base or
9 capitalization, depending on the methodology adopted by the Commission for the
10 valuation of the Companies' properties for ratemaking, and direct the Companies to
11 accrue AFUDC starting with the date when base rates are reset in this proceeding. In
12 support of his argument, he asserts that the Companies will fully recover construction
13 financing costs under the AFUDC approach. He recommends that the Commission
14 exclude CWIP from rate base (if the AG/KIUC recommendation to use rate base is
15 adopted) or capitalization (if the AG/KIUC recommendation to use rate base is not
16 adopted) and direct the Companies to accrue AFUDC starting with the date when base
17 rates are reset in this proceeding.

18 **Q. Has Mr. Kollen recommended this before?**

19 A. Yes. Mr. Kollen submitted nearly identical testimony on this issue during the
20 Companies' last base rate proceedings in 2018 and 2020.

21 **Q. As a result of the 2018 and 2020 rate cases, were the Companies required to**
22 **deviate from their longstanding practice of including CWIP in rate base?**

³⁰ 26 CFR 1.167(l)-1(h).

1 A. No. The Companies have continued using the CWIP methodology, which allows the
2 carrying costs on capital investments in projects under construction to be recovered
3 through current rates.

4 **Q. Please explain the benefits of CWIP compared to AFUDC for construction**
5 **financing costs.**

6 A. Many benefits exist, including lower capitalized costs, stable cash flows, and improved
7 quality of cash earnings. The *Accounting for Public Utilities* treatise identifies the
8 following benefits:

- 9 • Because CWIP has the lower capitalized costs, the inclusion of CWIP
10 in rate base actually reduces the total cost to the utility and its customers
11 over the life of the plant.³¹
- 12 • Inclusion of CWIP in rate base also causes increased cash flows and
13 allows the utilities to avoid a certain amount of outside financing, which
14 is advantageous whenever incremental borrowing costs exceed
15 embedded costs.³²
- 16 • Increased cash flows and less outside financing lead to an improved
17 quality of actual cash earnings. Because securities analysts and bond
18 rating agencies focus on cash flow and cost deferrals, the improved
19 quality of cash earnings may allow required financings at relatively
20 lower costs.³³
- 21 • The greater risk associated with higher levels of non-cash earnings, such
22 as AFUDC, would ultimately be reflected in higher rates of return
23 required by investors.³⁴
- 24 • Investors recognize that including CWIP in rate base is an important
25 tool that supports the utility's financial integrity and attenuates some of
26 the financial risks associated with new infrastructure investment.³⁵

27 **Q. Please review the Companies' historical use of CWIP.**

³¹ See Rebuttal Exhibit CMG-6: Accounting for Public Utilities, § 4.04[4].

³² *Id.*

³³ *See id.*

³⁴ *See id.*

³⁵ *See id.*

1 A. The Commission has authorized the use of CWIP for ratemaking since at least the
2 1970s to address the impact of construction costs on utilities' financial integrity. Like
3 the long-standing use of capitalization as the valuation policy for the Companies'
4 property for ratemaking discussed earlier in this testimony, both CWIP and
5 capitalization are long-standing policies of this Commission for the Companies.

6 Indeed, in LG&E's 1983 rate case, the Commission noted in its final order,
7 "LG&E had never accrued AFUDC."³⁶ The Commission further observed, "[t]his
8 means that the present ratepayers are paying less because of financing costs paid by
9 prior ratepayers."³⁷ In rejecting the argument by intervenors to adopt the AFUDC
10 approach, the Commission further remarked that it was "painfully aware that a switch
11 to the accrual of AFUDC could lead to grave difficulties later" and expressly held that
12 the historical treatment of CWIP should continue.³⁸

13 In the course of denying the Attorney General and other intervenors' petitions
14 for rehearing on the CWIP issue, the Commission stated:

15 LG&E's electric rates are lower now, due to the current CWIP
16 policy, than if AFUDC had been accrued on prior construction
17 projects. These lower rates result from a lower rate base, lower
18 return requirement and lower depreciation expense. A cash
19 return on CWIP also benefits ratepayers through lower financing
20 costs due to improved financial ratios and reduction in risk as
21 perceived by the investment community.³⁹

³⁶ *General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company*, Case No. 8924, Order at 28-29 (Ky. PSC May 16, 1984).

³⁷ *Id.* at 28-29.

³⁸ *Id.* at 36.

³⁹ Case No. 8924, Order at 2 (Ky. PSC June 25, 1984).

1 In addition, the Kentucky courts have also upheld the Commission’s decision to allow
2 CWIP accounting for LG&E.⁴⁰

3 Because the Commission has never directed the Companies to change their
4 CWIP methodology, the Companies’ rate bases are much lower than they otherwise
5 would be and their embedded cost of debt is relatively low. These two factors have
6 helped the Companies over time to have some of the lowest rates per kWh in the
7 nation.⁴¹

8 **Q. Are the Companies utilizing or proposing the use of AFUDC in these and other**
9 **proceedings?**

10 A. Yes, as Mr. Kollen acknowledges in his testimony. However, the use of AFUDC by
11 the Companies is limited and for a specific purpose. The Companies are utilizing or
12 proposing to utilize AFUDC for the capital and financing costs incurred during the
13 implementation of the AMI project and the construction of new generating units: Mill
14 Creek 5, Mill Creek 6, Brown 12, Mercer solar, and Brown BESS. These projects are
15 unique in that they represent significant investments requiring a CPCN, they include
16 long lead times, and they entail lengthy construction periods thus necessitating the need
17 to accrue AFUDC to ensure the Companies recover the significant financing costs for
18 these assets.

⁴⁰ *Jefferson County Fiscal Court v Kentucky Public Service Commission*, Opinion and Order, 29 PUR4th, pp. 143-144 (Franklin Circuit Court March 15, 1977) (“The commission was on ground when it allowed LG&E to include CWIP in rate base. The evidence is uncontradicted that, for many years, LG&E (with commission approval) has included CWIP in its rate base, but it has not increased its earnings by allowance for funds used during construction (AFUDC). Therefore, LG&E’s rate base is smaller, and its revenue requirements are less than that they would have been had its rate base included an AFUDC component. There is respectable authority for the proposition that the policy of including CWIP in rate base, and of paying construction costs currently, instead of mortgaging the future, is the sounder approach because it costs consumers less in the long run.”).

⁴¹ *The Treatment of CWIP*, Eugene F. Brigham, *Public Utility Research Center Working Paper* 5-81 (October 1981), available at: https://bear.warrington.ufl.edu/centers/purc/docs/papers/8111_Brigham_The_Treatment_of.pdf

1 **Q. Does the use of AFUDC for these specific projects present a problem when**
2 **compared to the inclusion of CWIP in rate base for all other projects?**

3 A. No. The use of AFUDC for these specific projects is logical, easily quantifiable and
4 does not present an issue with ratemaking as Mr. Kollen suggests. However, Mr.
5 Kollen's proposal to exclude all CWIP for generation, transmission and gas storage
6 assets does present a problem. First, his approach fails to recognize that not all
7 generation, transmission and gas storage investments will qualify for AFUDC
8 treatment. Per the Companies' AFUDC accounting policy, projects less than \$100,000
9 or projects that do not have construction periods comprising three consecutive months
10 do not qualify for AFUDC treatment. Mr. Kollen appears to be aware that not all
11 projects qualify for AFUDC given his decision to exclude AFUDC treatment for
12 distribution and general plant assets. Second, this exclusion by Mr. Kollen does
13 nothing to prevent the hybrid approach of AFUDC and CWIP he claims is not rational
14 or logical.⁴² It only serves to complicate the ratemaking even further and deny the
15 Companies the ability to recover their financing costs.⁴³

16 **Q. Have other regulators recognized the potential benefits associated with including**
17 **CWIP in rate base?**

18 A. Yes. Investors recognize that it is not uncommon for regulators to include CWIP in
19 rate base when establishing rates. Studies prepared by Pacific Economics Group

⁴² Kollen Testimony at 19.

⁴³ AFUDC accruals must cease once a project goes in-service resulting in the denial of the recovery of carrying costs from the in-service date until base rates are reset.

1 Research LLC and Edison Electric Institute show that many states have electric utility
2 precedents for CWIP in rate base.⁴⁴

3 **Q. Mr. Kollen suggests that the AFUDC approach “provides the Companies dollar**
4 **for dollar recovery of their actual construction financing costs, no more and no**
5 **less” at page 18 of his testimony. Do you agree with this statement?**

6 A. No. Mr. Kollen appropriately notes that the methodology of the FERC requires the
7 Companies to first assign its short-term debt balance to CWIP and applies the weighted
8 average of long-term debt and common equity only to any residual amount of financing
9 costs. In addition, the FERC methodology also only allows a calculation of the
10 weighted cost of capital as of the beginning of the year to be applied for the entire
11 calendar year with adjustments to that calculation only being made in limited
12 circumstances. Rebuttal Exhibit CMG-8 shows that the weighted average cost of
13 capital that the Companies would use to accrue AFUDC under this methodology for
14 the forecasted test period would be 5.30% for KU, 6.38% for LG&E Electric, and
15 5.99% for LG&E Gas or 280, 174, and 213 basis points lower than the requested
16 weighted average cost of capital for KU, LG&E Electric, and LG&E Gas operations.
17 The FERC methodology also contains rules as to the eligibility and timing of these
18 calculations discussed above, which were not used in Rebuttal Exhibit CMG-8 in order
19 to simplify the calculations and limit them to data already contained in the record of
20 these proceedings. Interestingly, despite Mr. Kollen’s understanding of the FERC
21 methodology, he calculated the revenue requirement impact of removing CWIP from

⁴⁴ See Rebuttal Exhibit CMG-7: Pacific Economics Group Research LLC, *Alternative Regulation for Evolving Utility Challenges: An Updated Survey* (January 2013); Edison Electric Institute, *Forward Test Years for US Electric Utilities* (August 2010).

1 the Companies' revenue requirement using their weighted average cost of capital,
2 rather than removing it from short-term debt first and then allocating any remaining
3 balance on a pro rata basis between long-term debt and equity. This difference between
4 the Companies' actual weighted average cost of capital and the FERC AFUDC
5 methodology would not provide the Companies a full recovery of its actual
6 construction financing costs. And lastly, the Companies would be required to make
7 the switch to the AFUDC methodology for generation, transmission, and gas storage
8 assets prospectively. This would result in the denial *of over four years* of AFUDC
9 accruals since the Companies last base rate case proceedings as it relates to these assets.

10 **Q. If the Commission were to consider Mr. Kollen's recommendation to require the**
11 **Companies to switch from CWIP in capitalization and rate base to use of AFUDC,**
12 **do Mr. Kollen's calculations produce an accurate revenue requirement impact of**
13 **this?**

14 A. No. As noted above, the revenue requirement impact of removing CWIP from
15 capitalization would have to employ the same FERC weighted average cost of capital
16 methodology used to accrue AFUDC in order to provide the Companies an opportunity
17 to recover their construction financing costs. In addition, Mr. Kollen removed the
18 incorrect CWIP balance because he failed to account for CWIP accruals for generation,
19 transmission and gas storage plant accounts which were removed by the Companies in
20 their cash working capital calculations. Rebuttal Exhibit CMG-8 includes a revised
21 calculation of the revenue requirement impact of this change in methodology. As
22 shown in that exhibit, these two adjustments reduce Mr. Kollen's proposed KU revenue
23 requirement reduction from \$25.0 million to \$13.2 million, LG&E's electric revenue

1 requirement reduction from \$11.3 million to \$7.6 million, and LG&E's gas revenue
2 requirement reduction from \$3.4 million to \$2.2 million.

3 **Q. Do you agree with Mr. Kollen's recommendations?**

4 A. No. For the reasons noted above the Commission should not deviate from its long-
5 established support for including CWIP in the Companies' capitalization and rate base.
6 In addition to the reasons noted above, the Companies would have to leave behind
7 decades of CWIP accounting and create completely new accounting protocols to
8 conform to AFUDC accounting on a much larger scale. Even more important than the
9 administrative burden, if the Commission were to direct the Companies to accrue
10 AFUDC instead of allowing CWIP, the cash flow and quality of earnings impacts
11 would negatively affect the Companies.

12 In response to DOD 1-4, the Companies provided reports by Moody's affirming
13 the current stable ratings of the Companies and noting the Companies' inclusion of
14 CWIP in base rates as credit positive.⁴⁵ The report further notes that the stable outlook
15 for KU and LG&E reflects Moody's "expectation that the regulatory environment will
16 remain consistent and supportive. The stable outlook also incorporates our view that
17 the company will continue to generate CFO pre-WC⁴⁶ to debt ratios in the low 20%
18 range over the next 2-3 years."⁴⁷ An Order directing the Companies to switch from a
19 ratemaking methodology in place for decades to one that adversely impacts funds from
20 operations ("FFO") and calls into question the quality of earnings would *not* be viewed
21 favorably by credit rating agencies. The elimination of cash recovery of construction

⁴⁵ KU Response to DOD 1-4, Attachment 13 at 5; LG&E Response to DOD 1-4, Attachment 12 at 5.

⁴⁶ FFO minus changes in working capital and other non-recurring or non-operational items (e.g. pension and OPEB contributions in excess of service cost)

⁴⁷ KU Response to DOD 1-4, Attachment 13 at 2; LG&E Response to DOD 1-4, Attachment 12 at 2.

1 financing costs replaced by non-cash AFUDC earnings for the forecasted test period,
2 as recommended by Mr. Kollen, would adversely impact the Companies' cash flow
3 credit metrics.

4 **DUES-PAYING ORGANIZATIONS**

5 **Q. Mr. Futral recommends disallowing recovery of dues paid to the Edison Electric**
6 **Institute ("EEI"), American Gas Association ("AGA"), and other similar**
7 **organizations. Do you agree with his recommendation?**

8 A. No, I wholeheartedly disagree. The dues paid to EEI, AGA, and similar organizations
9 are legitimate business expenses that support the Companies' ability to operate
10 efficiently, stay informed on industry developments, and engage in collaborative efforts
11 that benefit customers and the broader utility sector. These organizations provide
12 technical expertise, operational collaboration, benchmarking data, safety standards, and
13 regulatory insights that directly support utility operations and customer service.

14 **Q. Have the Companies excluded from the revenue requirement any portion of these**
15 **dues?**

16 A. Yes. Tax-exempt trade organizations like EEI are required to notify members of the
17 portion of dues that are non-deductible because they are used for lobbying or political
18 activities. The Companies have excluded from the revenue requirement and do not
19 seek to recover these amounts identified on invoices as used for lobbying or political
20 activities.

21 **Q. What specific benefits do KU and LG&E receive from EEI membership that**
22 **justify inclusion of dues in the revenue requirements?**

23 A. EEI membership provides a wide array of services that benefit customers. These
24 include:

- 1 • **Mutual Assistance:** EEI coordinates industry-wide mutual assistance efforts,
2 enabling utilities to share resources during major outages caused by severe
3 weather or other emergencies. EEI facilitates the National Response Event
4 playbook and conducts annual drills to ensure readiness.
- 5 • **Cyber and Physical Security:** EEI partners with the Electricity Subsector
6 Coordinating Council and other agencies to conduct drills and develop best
7 practices for grid security.
- 8 • **Resilience Programs:** EEI supports initiatives related to spare equipment, grid
9 hardening, and business continuity planning, which are all critical for
10 maintaining service during disruptions.
- 11 • **National Key Accounts Program:** EEI facilitates engagement with
12 commercial and industrial customers on topics like energy management and
13 sustainability.
- 14 • **Industry Collaboration and Benchmarking:** EEI enables utilities to
15 collaborate on emerging issues. For example, following the Maui wildfires,
16 EEI hosted a learning series on wildfire mitigation. The Companies accessed
17 expert insights and whitepapers that directly informed our mitigation strategies.
- 18 • **Regulatory Foresight:** EEI provides insight into regulatory trends. For
19 instance, EEI issued guidance and projections ahead of the DOE's service
20 transformer energy efficiency requirements, allowing the Companies to prepare
21 proactively and avoid reactive compliance costs.

- **Clean Energy Initiatives:** EEI helps members navigate the clean energy transition by promoting best practices and facilitating collaboration on sustainable solutions.

AGA provides similar benefits to EEI for the gas business.

Q. Please address the Commission’s recent decision in Case No. 2024-00276.

A. As Mr. Futral notes, in Case No. 2024-00276, the Commission excluded dues paid to AGA. The Commission stated that “[w]ithout knowing how the AGA . . . determine[s] the percentage of dues attributable to lobbying noted on [its] invoice[], the Commission cannot find that these percentages are based on actual lobbying spending.”⁴⁸ It further concluded that the utility had not established that the dues provided benefits to ratepayers. While the Companies understand the Commission’s concern for transparency, we respectfully ask the Commission to reconsider as this position overlooks two critical facts.

First, organizations like EEI and AGA are subject to the Internal Revenue Code, which requires them to accurately report the portion of dues used for lobbying and political activities. These allocations are not arbitrary; they are determined through formal accounting processes and are disclosed to members for tax compliance purposes. Utilities rely on these IRS-compliant disclosures to make appropriate adjustments in their regulatory filings. Historically, the Commission has accepted these reported percentages as a reasonable basis for excluding lobbying-related costs from rate recovery. There has been no evidence presented that EEI or AGA have misrepresented these amounts or failed to comply with federal reporting obligations.

⁴⁸ *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates; Approval of Tariff Revisions; and Other General Relief*, Case No. 2024-00276, Order at 27 (Ky. PSC Aug. 11, 2025).

1 To now disregard these IRS-certified figures without contrary evidence imposes an
2 unreasonable burden on utilities to justify the expenditures of external organizations
3 and undermines long-standing practice.

4 Second, the Companies have provided extensive evidence of the benefits of EEI
5 and AGA. Outside of the context of rationalizing EEI dues, the Companies have
6 provided numerous examples of EEI data used in the normal course of business.⁴⁹ If
7 this information is insufficient, it raises the question of what information would be
8 sufficient.

9 **Q. What is your recommendation to the Commission regarding recovery of these**
10 **dues?**

11 A. I recommend that the Commission allow recovery of the dues paid to EEI, AGA, and
12 related organizations to the extent they are not associated with lobbying, advertising,
13 or other non-recoverable activities. The Companies have removed the portion of such
14 dues attributable to lobbying, and the remaining dues support essential utility functions
15 that benefit customers.

16 **CONCLUSION**

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

18 A. Yes, it does.

⁴⁹ See, e.g., Direct Testimony of Peter Waldrab at 32

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

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of September 2025.


Notary Public

Notary Public ID No. KYNP61560

My Commission Expires:

November 9, 2026

