COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF	**)**	
KENTUCKY UTILITIES COMPANY AND	**)**	**CASE NO. 2026-00077**
LOUISVILLE GAS AND ELECTRIC	**)**	
COMPANY FOR APPROVAL OF MERGER	**)**	

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: July 2, 2026

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. The purpose of our testimony is to sponsor and describe the unopposed Stipulation and Recommendation ("Stipulation"), explain how it reasonably resolves all issues in this proceeding for the benefit of customers, intervenors, and the Commission, and to recommend that the Commission approve the Stipulation. A complete copy of the Stipulation is attached to this testimony as Stipulation Testimony Exhibit 1.

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

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

A. On March 31, 2026, the Companies filed with the Commission their verified joint application in this proceeding seeking: (1) approval under KRS 278.020(6) to merge the Companies; (2) authority under KRS 278.300 for LG&E to assume KU's existing debt and debt-issuance authority (in addition to LG&E retaining its existing debt issuance authority); (3) authority for LG&E to provide service to KU customers under KU's existing tariff and assume KU's certified service territory; (4) a declaration that unifying the Companies' Fuel Adjustment Clause ("FAC") and Off-System Sales ("OSS") mechanisms would not constitute a rate change, require tariff revisions or require publishing customer notice (as well as other relief in the alternative); (5) approval for unified depreciation rates; (6) approval for regulatory asset accounting authority to account for all merger costs; and (7) all other relief to which the Companies are entitled.

Six parties sought and received intervention in this case: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention ("AG"); Kentucky Broadband and Cable Association ("KBCA"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); Lexington-Fayette Urban County Government ("LFUCG"); Louisville/Jefferson County Metro Government ("Louisville Metro"); and Walmart Inc. ("Walmart").

After submission of intervenor testimony, all parties and Commission Staff participated in a settlement conference at the Commission's offices on June 24, 2026. Following the negotiations and discussions that day, a majority of the parties to this proceeding entered into the Stipulation: the Companies, AG, KIUC, and Walmart (together, the "Stipulating Parties"). The remaining parties (KBCA, LFUCG, and Louisville Metro) have represented they do not oppose the Stipulation and have signed the Stipulation solely to indicate their lack of opposition.

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

A. Yes. The Stipulation is a reasonable compromise that addresses the contested issues in this case, and it provides a reasonable resolution of all issues in this case. Because the Stipulation 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;[1] rather, it is the product of compromise and negotiation between the Stipulating Parties' positions, all of which may reasonably be litigated in future cases.

Applicable Statutory Standard

Q. Please describe the provision concerning the applicable statutory standard.[2]

A. The Stipulation states that KRS 278.020(6), not KRS 278.020(7), applies to the Companies' proposed merger; because LG&E and KU are affiliated utilities owned by the same parent company, KRS 278.020(8)(b) precludes applying KRS 278.020(7) to the proposed merger.[3] That is consistent with the Companies' filed position, and no party has contested it. Under KRS 278.020(6), the "[C]ommission shall grant its approval if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service."

Consistent with their response to PSC 4-7, the Companies respectfully note that KRS 278.020(6) does not expressly provide the Commission authority to attach its own conditions to approval of the proposed merger. The Companies further submit that even if the Commission possesses discretion to attach its own conditions to the merger, the record demonstrates that no such conditions are necessary or appropriate on the facts of this case. Moreover, the Commission not adding its own conditions would be consistent with the Stipulation's request that the Commission approve the Stipulation as submitted.[4]

[1] Stipulation ¶ 6.12.
[2] Stipulation ¶ 1.1. The Attorney General and Walmart did not join in this provision of the Stipulation: "The Attorney General and Walmart do not believe it is necessary for the purposes of stipulation for the parties to reach a conclusion on the applicable legal standard clearly in the purview of the Commission and therefore do not join Article I of the Stipulation." Stipulation at 3 n. 1.
[3] Because LG&E and KU are affiliated utilities owned by the same parent company, KRS 278.020(8)(b) precludes applying KRS 278.020(7) to the proposed merger.
[4] Stipulation at 2 ("[T]he Parties believe sufficient and adequate data and information in the record of this proceeding supports this Stipulation, and further believe the Commission should approve it without modifications or conditions").

Merger Cost Deferral

Q. How have the Stipulating Parties addressed the Companies' proposal to defer merger-related costs for later Commission review and recovery?

A. Article II of the Stipulation addresses that issue. The provisions of Article II reflect negotiation and compromise among the Stipulating Parties; those provisions benefit customers while enabling reasonable cost recovery for the Companies.

First, the Stipulation would allow the Companies to defer for later Commission prudence review and recovery all merger-related costs except rebranding, advertising, and promotional costs associated with the merger the Companies requested in this specific case.[5]

Second, the Stipulation reflects the Parties' agreement that all deferred costs must meet the following criteria:

- The costs would otherwise be expensed (not capitalized) under applicable accounting standards;
- The costs are incremental and the Companies would not have incurred those costs but for the merger; and
- The costs are not otherwise authorized for deferral under existing Commission orders or regulatory mechanisms.[6]

These criteria are drawn largely from AG witness Lane Kollen's testimony,[7] which criteria the Companies agreed to follow in their rebuttal testimony.[8]

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[5] Stipulation 2.1
[6] Stipulation ¶ 2.1.
[7] Kollen Testimony at 9 – 10.
[8] Garrett Rebuttal at 2.

Third, to promote timely and tangible customer benefits, the Companies agree to amortize merger costs in a manner designed so that, in each year of cost recovery, any savings resulting from the merger will be reasonably expected to offset or exceed the associated cost recovery.[9]

Depreciation Rates and Related Regulatory Liability

Q. Does the Stipulation address the Companies' request to implement unified depreciation rates upon merger?

A. Yes. The Stipulation would, upon merger, allow the merged entity to implement for accounting purposes the unified depreciation rates the Companies filed with the Commission in this case.[10] As noted in the Companies' responses to data requests in this case, implementing such depreciation rates for accounting purposes would result in their flowing through to the formulas used for the merged entity's mechanism filings as a matter of course.[11]

To address the difference between depreciation expense embedded in the Companies' current base rates and that resulting from the unified depreciation rates, the Stipulation would require the merged entity to record a regulatory liability to compensate for that difference.[12] More precisely, the Stipulation provides that the annualized amount of such difference for these purposes should be $5,164,000, the amount calculated in Rebuttal Exhibit CMG-1 to the Rebuttal Testimony of Mr. Garrett. Thus, beginning on the effective date of merger, each month the merged entity will record to the regulatory liability account 1/12 of that amount ($430,333). The Stipulation further provides that all such

[9] Stipulation ¶ 2.2.
[10] Stipulation ¶ 3.1.
[11] Companies' Response to PSC 3-5.
[12] Stipulation ¶ 3.2.

deferred amounts will begin to be returned to customers in a future base rate proceeding corresponding with the regulatory asset associated with merger costs.

Finally, this article of the Stipulation provides that, with regard to the proposed regulatory asset and regulatory liability, all sums included therein shall be subject to a return based on the weighted average cost of capital,[13] which would begin to apply as the amounts are deferred. This provision enables an appropriate compensatory symmetry, by providing the Companies a return of and on the regulatory asset and by providing customers a return of and on the regulatory liability.

Gradualism Commitment

Q. Please explain how the Stipulation addresses the issue of gradualism related to the proposed merger.

A. The Companies have long considered principles of gradualism in their rate cases,[14] and they have stated in this case that they anticipate that certain base rates may take more than one base rate case to harmonize.[15] Consistent with their historical practice and their stated expectation concerning post-merger rate harmonization, the Companies commit in the Stipulation that in future base rate filings they will consider gradualism and possible rate impact mitigation measures, including considering phased implementation of any rate harmonization and customer class impacts.[16] This will allow the merged entity and customers to achieve the efficiency of fully harmonized rates over time while also helping to prevent the moving to harmonized rates from unduly affecting any customer or set of customers in a single rate case.

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[13] Stipulation ¶ 3.3.
[14] Conroy Rebuttal at 8 – 9.
[15] *See, e.g.*, Companies' Response to PSC 4-5.
[16] Stipulation ¶ 4.1.

<u>All Other Relief Requested to Be Approved as Filed</u>

Q. Does the Stipulation contain a catchall provision regarding all other relief requested by the Companies?

A. Yes. The Stipulation recommends that, except as modified in the Stipulation, the Commission approve all other relief requested in the Companies' filings in this case as filed or as later corrected or amended by the Companies in their responses to data requests. With that provision, the Stipulation is indeed a global resolution of all issues in this case.

<u>Recommendation and Conclusion</u>

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 as a fair, just, and reasonable resolution of all issues in this case and request that the Commission approve the Stipulation by July 29, 2026.

Q. Does this conclude 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 2nd day of July 2026.

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 of Financial Strategy and 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 2nd day of July 2026.

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