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	)	

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

Filed: July 1, 2026

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INTRODUCTION

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

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

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address arguments made by Attorney General witness Lane Kollen concerning the Companies' request to defer merger-related costs for later review and recovery and concerning the Companies' proposed unified depreciation rates. I show there is a considerable amount of agreement between the Companies and Mr. Kollen concerning deferrals, but I also show why Mr. Kollen is incorrect in asking the Commission to disallow deferral of certain merger-related costs. I further show that Mr. Kollen's concerns about the Companies' proposed unified depreciation rates are easily addressed by a solution Mr. Kollen himself suggests, namely a regulatory liability to account for depreciation expense differences between the Companies' current base rates and those resulting from the proposed unified depreciation rates. I conclude by recommending the Commission approve the Companies' Joint Application as filed and to approve deferral accounting authority to establish a regulatory liability to account for the depreciation expense differences between the Companies' current base rates and those resulting from the Companies' proposed unified depreciation rates.

Q. Are you sponsoring any exhibits to your rebuttal testimony?

A. Yes, I am sponsoring Rebuttal Exhibit CMG-1, which shows the depreciation expense differences between current base rates and the Companies' proposed unified depreciation rates.

MERGER COST DEFERRALS

Q. Mr. Kollen's testimony generally agrees with the Companies' proposal to defer merger-related costs.[1] Please describe the areas of agreement among the Companies and Mr. Kollen.

A. The Companies agree that they should defer merger-related costs only if they otherwise would be expensed, not capitalized; the costs are incremental and would not have been incurred but for the merger; and are not subject to other authorizations for deferral accounting.

Also, as I further discuss below, the Companies agree with Mr. Kollen's suggested solution for the concern he raises concerning the Companies' proposed unified depreciation rates, namely to establish a regulatory liability for the difference between depreciation expense currently embedded in base rates and the base rate depreciation expense that would result from the merged depreciation rates.[2]

Q. Mr. Kollen argues that deferred merger costs should be offset by "actual merger savings that are achieved."[3] How do you respond?

A. The Companies do not oppose offsetting merger savings with associated merger costs. Savings associated with potential depreciation related savings can be tracked via the establishment of a regulatory liability, as I noted above and discuss at greater length below.

[1] Kollen at 9 ln. 14 – 11 ln. 3.
[2] *Id.* at 18 ln. 1 – 4.
[3] *Id.* at 10 ln. 3 – 8.

Other categories of merger savings are impracticable to track on an actual, as-realized basis, including headcount reductions, audit fees, bank fees, financing costs, and rate case expenses. Nonetheless, such savings will be embedded in future base rate cases and redound to customers' benefit. This will have the effect of offsetting any deferred merger costs with merger savings.

Q. Beyond these broad areas of agreement, Mr. Kollen argues the Commission should not allow the Companies to defer merger-related financing cost or rebranding cost.[4] Would it be appropriate for the Commission to permit deferring such costs for later review and inclusion in rates?

A. Yes. There are at least three reasons the Commission should allow the Companies to defer their full merger-related costs rather than excluding "rebranding costs, advertising and promotional costs, and debt restructuring and refinancing costs" as Mr. Kollen proposes.

First, Mr. Kollen provides no justification for excluding such costs from the requested deferral other than to assert they are costs "the Companies claim they cannot quantify at this time."[5] Mr. Kollen provides no citation for this assertion, which is easily explained; Mr. Kollen is incorrect, as his own exhibits show. Indeed, the Companies provided their current estimate of merger costs they anticipate deferring in response to Commission Staff's First Request for Information No. 12, which Mr. Kollen attached to his testimony as Exhibit LK-4. The only financing-related item the Companies have stated they cannot quantify at this time is the amount of financing-related *savings* the merger company will achieve—which will benefit customers—due to expected lower borrowing

[4] *Id.* at 5 ln. 18 – 6 ln. 3; *id.* at 10 ln. 17 – 11 ln. 2.
[5] *Id.*

costs.[6] Thus, the sole basis Mr. Kollen provides for excluding these costs proves to be baseless.

Second, the proposed merger—if executed *now*, during the brief timeframe in which IT-related cost is not a barrier—will be net beneficial for customers in the form of reduced administrative and financing costs over time. It will also be beneficial for the Commission and all parties to the Companies' cases in the form of reduced regulatory burden and cost, as the Commission itself has observed,[7] as well as Walmart witness Samuel C. Patton.[8] It is reasonable for the Companies to defer for later Commission review and rate recovery *all* costs the Companies incur to achieve these benefits, which are costs the Companies would not otherwise have incurred and do not otherwise redound to the Companies' benefit.

Third, as with all deferrals, the Companies are not seeking rate recovery of such costs now; rather, the Commission will be able to review all deferred amounts in future proceedings, including reviewing such amounts for possible disallowance for imprudence or unreasonableness. Therefore, there is no need or justification effectively to predetermine that all such costs are impermissible; certainly Mr. Kollen has provided no such justification, whereas the Companies have shown they are necessary to achieve a merger that will be both net beneficial—if executed *now*—and consistent with the Commission's long-expressed interest.

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[6] Companies' Response to PSC 1-34 (attached to Mr. Kollen's testimony as Exh. LK-5).
[7] *See, e.g., Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates*, Case No. 2018-00294, and *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates*, Case No. 2018-00295, Order at 3 – 5 (Ky. PSC Aug. 22, 2023). *See also* Companies' Response to PSC 4-7.
[8] *See* Patton at 5.

Q. Are the Companies requesting "open-ended" authorization to defer merger costs as Mr. Kollen alleges?[9]

A. No, the Companies are not requesting uncapped or "open-ended" authorization with respect to deferral costs; rather, the Companies are requesting to defer the one-time costs that are necessary to complete the merger,[10] and they have provided updated, good-faith estimates of those costs in this case.[11] Moreover, as Mr. Kollen acknowledges, all deferred costs would be subject to Commission review and potential disallowance in future proceedings.[12] Importantly, the Companies are not seeking cost recovery in this proceeding.

Q. Is the Companies' request for regulatory asset accounting authority abnormal?

A. No. As the Companies have previously explained, their request for regulatory accounting authority for these one-time merger costs is wholly consistent with Commission precedent.[13] These are non-recurring expenses that will be offset by the savings they produce over time. Therefore, there is no merit to Mr. Kollen's assertions about "open-ended" deferral authority, and he has provided no reason to exclude whole categories of prudent costs necessary to execute the merger.

Q. Mr. Kollen also attacks the Companies' previous merger cost-benefit analyses and asserts the Commission should deny any future recovery of deferred merger-related costs unless and only to the extent that the merged company provides additional cost-

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[9] Kollen at 7.
[10] Companies' Response to AG 1-37.
[11] Companies' Response to PSC 3-20; Companies' Response to PSC 2-12, Confidential Attachment.
[12] Kollen at 7.
[13] Conroy Direct at 15-16; Companies' Response to AG Request No. 1-37; Companies' Response to PSC 2-34.

benefit evidence showing the merger will be beneficial.[14] **Should the Commission reject Mr. Kollen's proposal?**

A. Yes, the Commission should reject Mr. Kollen's proposal. Mr. Kollen appears to believe the savings the Companies' previous merger studies and cost-benefit analyses have insufficiently supported merger benefits, but that is the *opposite* of the Commission's stated position. The Commission's comment on the 2022 PWC merger study showing annual merger savings of $2.3 million was not that it overestimated savings but rather that it *under*estimated them:

> Although LG&E/KU obtained a potential legal merger study from PWC, the Commission remains concerned that LG&E/KU is not fully considering … savings from a legal merger.
>
> …
>
> [PWC] overlooks the impact on the duplication of costs to ratepayers and stress on regulators' resources.[15]

Thus, there is no need for the Commission to impose an additional merger cost-benefit analysis requirement as a hurdle to future recovery of prudent merger-related costs.

Moreover, Mr. Kollen's criticism of the primary merger savings quantified in the Companies' previous merger analyses, i.e., reduced headcount due to accounting and regulatory efficiencies, is that they are difficult to track and largely illusory because current employees tend to be reassigned rather than terminated.[16] But this overlooks savings that result from not filling currently open positions or not replacing those employees when they leave employment. Such savings may be challenging to track, but that does not make them less real or less beneficial to customers. Importantly, Mr. Kollen provides no evidence that

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[14] Kollen at 10 ln. 9 – 16.
[15] Case Nos. 2018-00294 and 2018-00295, Order at 3 (Ky. PSC Aug. 22, 2023).
[16] Kollen at 8 – 9.

the Companies' savings estimates are faulty or provide any estimates of his own. The Companies respectfully submit that the savings estimate remains reasonable and is a sufficient foundation for the Commission to find that the proposed merger will be net beneficial. The Commission should therefore reject Mr. Kollen's proposal to impose a future, post-merger cost-benefit analysis prerequisite for merger cost recovery.

Q. How do you respond to Mr. Kollen's observation that the Companies' 2025 rate case merger analysis discussed potential financing-related savings but your direct testimony in this case did not?[17]

A. There is no inconsistency between them. The 2025 merger analysis correctly observed the merger would create potential financing-related savings but did not attempt to quantify those savings. My direct testimony in this case focused on quantifiable savings and showed merger would be economical even accounting for just those savings. But that does not mean the Companies no longer believe merger will create potential financing-related savings; indeed, the Companies said merger would do exactly that in response to a Commission Staff data request, which response Mr. Kollen attached as an exhibit to his testimony but failed to mention in this section of his text.[18] Thus, the Companies' position has not changed, and Mr. Kollen's implicit claim of inconsistency is mistaken.

[17] Kollen at 8 ln. 3 – 9.

[18] Kollen Exh. LK-4, Companies' Response to PSC 1-34 ("The primary benefit of the merger is not the associated cost savings. It is the regulatory and administrative efficiencies that are discussed in the Direct Testimonies of Mr. Garrett and Mr. Conroy. However, the Company expects the savings will outweigh the costs in 5 years should savings of $2.3 million be achieved annually as projected in the previous merger study. *Additionally, the merger is projected to result in financing savings through lower future borrowing costs*, but this is not readily quantifiable.") (emphasis added).

APPROVING THE PROPOSED UNIFIED DEPRECIATION RATES WOULD HELP CREATE THE KINDS OF EFFICIENCIES THE COMMISSION HAS PREVIOSULY CITED AS SUPPORTING MERGER

Q. Mr. Kollen asks the Commission to deny the Companies' request to implement a set of unified depreciation rates upon merger, requiring the merged entity to maintain two sets of depreciation rates until obtaining approval for a single set of depreciation rates in a later rate case.[19] How do you respond?

A. There is no reason for the Commission to follow Mr. Kollen's recommendation, which would result in higher costs to customers due to increased IT costs and implementation delays to effectively maintain two sets of books to accommodate two sets of depreciation rates.

Mr. Kollen's assertion that the Companies' unified depreciation rate request is unnecessary and premature is incorrect. Maintaining separate depreciation rates post-merger requires structural separation across systems and integrations, reverses current ERP design direction, and introduces material delay, cost, and operational complexity as further detailed below.[20]

- **Scope of System Impact**
  Maintaining separate accounting would require continued segregation of assets and transactions across the full capital project lifecycle, affecting:

  - PowerPlan (FA subledger and depreciation processing)
  - SAP (system of record for capital projects and downstream postings)
  - Work management systems (e.g., WOMS), as well as other upstream/downstream systems involved in asset creation and tracking
  - Planning, forecasting, and UI/reporting models tied to depreciation

  This introduces cross-system dependencies requiring coordinated redesign across multiple integrations, rather than isolated changes within a single platform.

- **Design & Integration Implications**

[19] Kollen at 4 – 5 and 13 – 19.
[20] *See* Companies' Response to PSC 4-2.

Our current design is intentionally structured around a **consolidated asset and depreciation model**. Reverting to a segregated structure would require:

- Re-architecting the PowerPlan subledger to reintroduce legacy utility separation
- Modifying PowerPlan-to-SAP integrations to carry separate depreciation and asset data streams
- Potential rework to upstream integrations (e.g., work management →PowerPlan) that feed asset data
- Updates to forecasting and planning models that currently assume a unified structure
- Importantly, this would reverse design decisions that are already nearing completion and introduce rework across multiple RICEFW components.

- **Program Impact (Timeline & Cost)**
  While isolated PowerPlan changes may appear manageable, the broader, cross-system impact materially changes the outlook:
  - Coordinated redesign across systems along with changes to data conversions and integrations drives, at a minimum, a six-month delay in the ERP project.
  - Alignment and onboarding across impacted platforms (particularly work management systems) adds complexity and potential resourcing challenges
  - The need to establish and track additional projects and associated accounting delays administrative savings
  - The temporary delay and subsequent consolidation introduce a structural inefficiency:
    - We would not only incur incremental costs to **segregate now**, we would also incur incremental costs to **reconsolidate later** once depreciation rates are harmonized.
    - This effectively results in duplicative costs for customers.

Although the Companies have not developed a formal estimate of the associated costs at this time of Mr. Kollen's proposal, we anticipate the associated costs of such proposal to exceed the previous \$17-\$20 million estimate for the entire IT reconfiguration work provided in the 2025 merger study.[21] Accordingly, this proposal would make merging the legal entities uneconomical and would require the Companies to reconsider whether to proceed with merger, resulting in foregone benefits for customers, intervenors, and the Commission. The Companies therefore respectfully submit that, *contra* Mr. Kollen, these

[21] *See* Companies' Response to PSC 3-17.

significant added costs and their potential to make the merger economically impracticable are indeed a "compelling reason to change depreciation rates" when the Companies merge.[22]

The Companies would also respectfully observe that maintaining separate depreciation rates would be inconsistent with achieving the administrative and regulatory efficiencies the Commission has cited in directing the Companies to study merging.[23]

But even more fundamentally, the Commission should reject Mr. Kollen's recommendation because there is a simple solution that avoids such needless cost and inefficiency. Indeed, Mr. Kollen himself suggests the solution: a regulatory liability to account for the depreciation expense differences between current base rates and the proposed unified depreciation rates.[24] (Rebuttal Exhibit CMG-1 provides a calculation of the annual depreciation-related regulatory liability based on the 2026 forecasted test year.) The Companies fully support such an approach, which would avoid incurring the unnecessary IT cost and delay Mr. Kollen's proposal would require while keeping customers whole concerning depreciation expense. Therefore, the Companies ask the Commission to include approval for such a deferral in its final order approving the proposed merger.

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[22] *See* AG Response to Companies DR 1-3 ("There still is no compelling reason to change depreciation rates between base rate proceedings.").

[23] *See, e.g.,* Case Nos. 2018-00294 and 2018-00295, Order at 3 – 5 (Ky. PSC Aug. 22, 2023).

[24] Kollen at 18 ln. 1 – 4. In the Companies' DR 1-3 to the AG, the Companies asked Mr. Kollen, "If the Commission authorized the Companies to use regulatory deferral accounting to account for base-rate-related reduced depreciation expense resulting from the proposed unified depreciation rates, would Mr. Kollen agree the Commission should approve the proposed unified depreciation rates? If your response is anything other than an unqualified yes, please provide a detailed explanation of your response." Mr. Kollen's response was no, and the only explanation he provided was, "There still is no compelling reason to change depreciation rates between base rate proceedings." As shown above, there is indeed a "compelling reason" to change depreciation rates upon merger, namely saving millions of dollars and helping ensure merger can proceed for the benefit of customers, intervenors, and the Commission.

Q. How do you respond to Mr. Kollen's criticisms of the proposed depreciation rates themselves and the timing of providing the depreciation study?[25]

A. The rebuttal testimony of the Companies' witness John J. Spanos addresses Mr. Kollen's criticisms of the depreciation study and the proposed depreciation rates. Mr. Spanos's rebuttal testimony shows there are no "missing rates" or "discrepancies" in the unified depreciation rates the Companies have proposed; rather, he explains the differences between depreciation expense amounts calculated on a combined-Companies basis versus a separate-Companies basis are due to legitimate calculation differences one should reasonably expect, not errors. Thus, Mr. Kollen's testimony provides no basis for denying the Companies' proposed unified depreciation rates.

CONCLUSION

Q. Do you have a final recommendation for the Commission?

A. Yes. In addition to approving all the relief requested in the Companies' Joint Application, I recommend the Commission approve deferral accounting authority to establish a regulatory liability to account for the depreciation expense differences between the Companies' current base rates and those resulting from the Companies' proposed unified depreciation rates.

Q. Does this conclude your testimony?

A. Yes, it does.

[25] Kollen at 16 – 17. *See also* AG Response to Companies' 1-4.

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 29th day of June 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