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INDIANA UTILITY
REGULATORY COMMISSION

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a CENTERPOINT ENERGY INDIANA SOUTH
(CENTERPOINT INDIANA SOUTH)

IURC CAUSE NO. 45564

DIRECT TESTIMONY
OF
KARA R. GOSTENHOFER
DIRECTOR & ASSISTANT CONTROLLER

ON

PROPOSED ACCOUNTING TREATMENT FOR THE TWO COMBUSTION TURBINES AND COMPLIANCE PROJECTS

SPONSORING PETITIONER'S EXHIBIT NO. 9
ATTACHMENT KRG-1

DIRECT TESTIMONY OF KARA R. GOSTENHOFER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kara R. Gostenhofer. My business address is 1111 Louisiana St, Houston, Texas 77002.

Q. On whose behalf are you submitting this direct testimony?

A. I am submitting testimony on behalf of Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("Petitioner", "CenterPoint Indiana South", "CEI South", or "Company"), which is an indirect subsidiary of CenterPoint Energy, Inc.

Q. What is your role with respect to Petitioner?

A. I am Director & Assistant Controller for CenterPoint Energy, Inc. CenterPoint Energy Service Company, LLC ("Service Company"), a wholly-owned subsidiary of CenterPoint Energy, Inc. and the company by which I am employed, provides centralized support services to CenterPoint Energy, Inc.'s operating units, of which Petitioner is one. I have the same role with two other utility subsidiaries of CenterPoint Energy, Inc. – Indiana Gas Company, Inc. d/b/a CenterPoint Energy Indiana North and Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio.

Q. Please describe your educational background.

A. I hold a Bachelor of Business Administration in Accounting and a Master of Science in Management Information Systems from Texas A&M University. I am also a Certified Public Accountant (CPA) in the State of Texas and a member of the American Institute of Certified Public Accountants (AICPA).

Q. Please describe your professional experience.

A. From 2006 to 2012, I was employed by Grant Thornton LLP, an international public accounting firm, serving as an auditor of Generally Accepted Accounting Principles ("GAAP") and Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") financial statements, with my last role being Audit Manager. During

2012 – 2013, I was the Supervisor of Technical Financial Reporting at Transocean Ltd. I joined CenterPoint Energy, Inc. in 2013 and held various leadership roles, including Accounting Research Manager and Regulatory Manager, prior to being promoted to my current position as Director & Assistant Controller in 2017.

Q. What are your present duties and responsibilities as Director & Assistant Controller?

A. I lead teams who are responsible for the utility accounting and regulatory reporting in Indiana and Ohio, as well as external reporting, accounting research and policy, employee benefits accounting, and financial controls compliance (i.e. "SOX") for CenterPoint Energy, Inc. My responsibilities in Indiana and Ohio include oversight of the preparation of accounting exhibits submitted in various regulatory proceedings for these operations, including CenterPoint Indiana South.

Q. Have you ever testified before any state regulatory commission?

A. No.

Q. Are you familiar with the books, records, and accounting procedures of Petitioner?

A. Yes, I am.

Q. Are Petitioner's books and records maintained in accordance with the FERC USOA and GAAP?

A. Yes.

II. <u>PURPOSE</u>

Q. What is the purpose of your testimony in this proceeding?

A. I will discuss CenterPoint Indiana South's proposed accounting treatment for the two proposed natural gas combustion turbine ("CT Project") generation assets, described more fully in the direct testimony of Petitioner's Witness Wayne D. Games. This treatment includes the deferral of depreciation expense and the accrual of post in-service carrying charges.

I will also discuss CenterPoint Indiana South's proposed accounting treatment pursuant to Ind. Code Ch. 8-1-8.4 ("Federal Mandate Statute") for the proposed environmental compliance costs incurred to complete the dry fly ash recycle project ("Dry Ash Project") and two Coal Combustion Residuals-compliant ponds (collectively the "Compliance Projects"), described more fully in the direct testimony of Petitioner's Witnesses Angila M. Retherford and Games. For recovery, the Compliance Projects costs will be reflected within the currently authorized Environmental Cost Adjustments ("ECA") Revenue Requirement calculation. Finally, I will discuss the proposed adjustment to the authorized return amount utilized in the Fuel Adjustment Clause ("FAC") net operating income ("NOI") earnings test (Ind. Code § 8-1-2-42(d) and § 8-1-2-42.3) because of the cost proposed to be recovered in the ECA, consistent with the Federal Mandate Statute.

Q. Are you sponsoring any attachments in this proceeding?

A. Yes. I am sponsoring the following attachment in this proceeding:

- <u>Petitioner's Exhibit No. 9</u>, **Attachment KRG-1**: (Illustrative) Revenue Requirement Schedule 1 for the ECA

Q. Were these attachments prepared by you or under your supervision?

A. Yes, they were.

III. <u>COMBUSTION TURBINE (CT PROJECT)</u>

Q. Please generally explain the proposed accounting authorization CenterPoint Indiana South seeks with respect to the CT Project.

A. As summarized in greater detail in the testimony of Petitioner's Witness Games, CenterPoint Indiana South is requesting a certificate of public convenience and necessity ("CPCN") for the CT Project, consisting of two combustion turbines, providing approximately 460 MW of capacity. CenterPoint Indiana South is not seeking to adjust customers' rates to recover the costs of the CT Project until after the CTs have been placed in-service and included in rate base in a future general rate case. CenterPoint Indiana South is requesting deferral authority from completion of the CT Project until Petitioner receives recovery of the costs of the CT Project through base rates. CenterPoint

Indiana South is requesting accounting authority, starting with the month after the in-service date of each individual CT Project asset, for the deferral of depreciation and post in-service carrying costs ("PISCC") related to the new capital investments until such time as these costs and the investments are reflected in CenterPoint Indiana South's base rates. Finally, CenterPoint Indiana South seeks certain deferral authority related to planning costs described by Petitioner's Witness Matthew A. Rice for recovery in the event the CT Project assets are not placed in-service.

Q. Please explain what is meant by "new capital investments" as it relates to the CT Project.

A. New capital investments for the CT Project include the capital costs described by Petitioner's Witness Games.

Q. What procedures exist regarding the allowance for funds used during construction ("AFUDC") and depreciation as of the in-service date for the CT Project?

A. Under FERC USOA requirements, the accrual of AFUDC on capital projects will cease and depreciation expense will begin in the month after the investment is used and useful and placed in-service, in accordance with accounting policy.

Q. Will CenterPoint Indiana South continue to incur capital costs on a construction project after its in-service date?

A. Yes, it will. The cost of capital continues throughout the life of utility plant. This cost is recognized during the construction period by the inclusion of AFUDC as a component of construction costs. After new plant is placed in-service, AFUDC ceases. CenterPoint Indiana South continues to incur the capital cost but ceases to recover such costs until the new plant is included in rate base in a general rate case. At that point, this cost is recovered through the opportunity to earn a fair return on the value of that plant investment. Moreover, once the project is placed in-service, depreciation will commence. The depreciation relating to the project qualifies for inclusion in the utility's recoverable operating expenses for ratemaking purposes, but this recovery will begin only after a general rate case when the new plant is in rate base.

Q. What specific relief is CenterPoint Indiana South seeking with respect to the accrual of PISCC and deferral of depreciation for the CT Project?

A. CenterPoint Indiana South requests that the Commission authorize the Company:

- To accrue PISCC, at the Company's current approved WACC, beginning with the month after the in-service date of each individual CT Project asset until the date CenterPoint Indiana South's base rates include a return on the CT Project;
- To record the depreciation expense on each individual CT Project asset beginning with the month after its in-service date;
- To defer PISCC and depreciation expense on each individual CT Project asset as a regulatory asset in Account 182.3 Other Regulatory Assets through the date CenterPoint Indiana South's base rates include a return on the CT Project and recovery of the depreciation expense;
- To begin amortization of such regulatory asset as a recoverable expense for ratemaking purposes over the estimated life of each CT Project asset commencing on the date CenterPoint Indiana South's base rates include a return on the CT Project and recovery the depreciation expense; and
- To include the unamortized portion of the regulatory asset in CenterPoint Indiana South's rate base upon which it is permitted to earn a return.

Q. Why is CenterPoint Indiana South requesting that the Commission authorize the proposed accounting treatment with respect to the deferral of PISCC and depreciation on the CT Project?

A. The request is necessary because of the magnitude of the CT Project. Unless the requested authorization is obtained, the Company will suffer a severe negative impact on its earnings during the period between the in-service date of the CT Project and the implementation of rates that include the recovery in CenterPoint Indiana South's rates of a return on the CT Project and depreciation expense. Without authority to recover PISCC, the Company will continue to incur capital costs that would not be eligible for future recovery.

Q. What is the anticipated magnitude of the CT Project?

A. As noted by Petitioner's Witness Games, the estimated capital costs for the CT Project are approximately $323 million. As of December 31, 2020, CenterPoint Indiana South's estimated electric rate base as reported in its annual Indiana Utility Regulatory Commission ("IURC") Report, Form PR, was approximately $1,597 million. The CT Project capital costs are approximately 20 percent of CenterPoint Indiana South's December 31, 2020 authorized electric rate base.

Q. Please identify the depreciation rates CenterPoint Indiana South will reflect in its proposed treatment of the CT Project.

A. CenterPoint Indiana South initially proposes to apply its approved depreciation rate for combustion turbines of thirty (30) years on the CT Project, which would result in a 3.44 percent annual depreciation rate, including cost of removal. CenterPoint Indiana South may evaluate adjustments to this depreciation rate in the next applicable base rate case as part of a formal depreciation study.

Q. What will be the financial effect if the accounting treatment proposed by the Company is not approved by the Commission?

A. On an annual basis, the approximate $323 million investment in the CT Project will result in approximately $11.1 million of annual depreciation expense and approximately $20.7 million of annual incremental financing costs, based on the rate of 6.4% used by Petitioner in Cause No. 45052 ECA-2. These are the costs the Company will incur and will not be recovering when the asset is placed in-service; and the accrual of AFUDC ceases and depreciation begins. The total annual amount would result in a negative impact to CenterPoint Indiana South each year until such time as CenterPoint Indiana South would be able to adjust its rates to include the recovery of the CT Project and associated costs. The CT Project's estimated annual depreciation expense and financing costs of $31.8 million are approximately 37.2% of CenterPoint Indiana South's 2020 electric net operating income of $85.5 million, which is significant earnings erosion.

Q. Will the Company's requested accounting treatment allow the Company to mitigate the negative impact?

A. Yes. The requested treatment would allow CenterPoint Indiana South the opportunity to immediately offset the erosion to monthly pre-tax earnings by approximately $2.65 million (due to the deferral of the $11.1 million of depreciation expense and the continuation of $20.7 million of financing costs previously deferred through AFUDC).

Q. Why is the Company's proposed accounting treatment on the CT Project so important?

A. In addition to the new capital investments made in the CT Project, CenterPoint Indiana South is making other large investments to comply with environmental regulations, as described by other Company witnesses. The proposed accounting treatment helps mitigate the negative impact on income the CT Project would have between the period it is placed in-service and until it is recovered in rates. Deferral and recovery of PISCC and depreciation expense helps the Company manage its increased carrying costs during a period of increased investments.

Q. Please explain how the CT Project planning costs will be treated in the event the CT Project assets are not placed in-service.

A. As Petitioner's Witness Rice describes, the Company has incurred significant costs that are required to conduct the planning resulting in the proposed CTs and then has incurred additional significant costs to develop the materials that are required to be submitted in this case. Certain of these costs may be capitalized to the cost of the CTs when they are placed in-service and are included in the total estimated cost presented by Witness Games. CenterPoint Indiana South requests deferral authority for the capitalized CT Project planning costs in the event that the requested CPCN is not granted or CT Project assets are otherwise not placed in-service. Any capitalized costs associated with the CT Project will be reclassed to FERC account 182.3, Other Regulatory Assets. The recovery of the costs would be sought in a future general rate case or capitalized as a part of an alternative generation project.

IV. <u>COMPLIANCE PROJECTS</u>

Q. Please summarize CenterPoint Indiana South's accounting proposals specific to the Compliance Projects and the statutory authority supporting these proposals.

A. As summarized in the testimony of Petitioner's Witnesses Games and Retherford, CenterPoint Indiana South is requesting a CPCN for the construction of certain federally mandated Compliance Projects, including dry ash handling facilities and the construction of two Coal Combustion Residuals-compliant ponds. Petitioner's Witness Retherford describes the federal mandate; and Petitioner's Witness Games describes the projects and costs in detail. The Federal Mandate Statute allows for timely recovery of eighty percent (80%) of the revenue requirement associated with approved federally mandated costs through a periodic retail rate adjustment mechanism (Ind. Code § 8-1-8.4-7(c)(1)). As such, CenterPoint Indiana South is proposing to include eighty percent (80%) of the revenue requirement associated with these costs within the ECA, as described further below, with the remaining twenty percent (20%) of the revenue requirement deferred and recovered by the Company as part of the Company's next general base rate case (Ind. Code § 8-1-8.4-7(c)(2)).

Q. Please generally describe the investments and costs expected with the Compliance Projects, and how CenterPoint Indiana South proposes to account for these costs.

A. The testimony of Petitioner's Witness Games describes the estimated cost to complete these federally mandated Compliance Projects. These capital costs, along with the other costs authorized under the Federal Mandate Statute, will consist of 80% included within the annual ECA mechanism filing and 20% deferred until the Company's next general rate case.

Q. How does the Federal Mandate Statute define federally mandated costs?

A. The Federal Mandate Statute defines federally mandated costs as those "costs that an energy utility incurs in connection with a compliance project, including capital, operating, maintenance, depreciation, tax, or financing costs." (Ind. Code § 8-1-8.4-4(a)).

Q. Will the costs you just described be incurred as a result of a compliance project implemented to address federally mandated requirements, as defined in Ind. Code. Ch. 8-1-8.4?

A. Yes. Witness Retherford explains in greater detail how these investments ensure that CenterPoint Indiana South can continue to stay in compliance with Federally Mandated Statute.

Q. Please explain the specific accounting treatment CenterPoint Indiana South is requesting on its Compliance Projects.

A. CenterPoint Indiana South is proposing to calculate a full revenue requirement prescribed by the ECA in Schedule 1 in accordance with the Federal Mandate Statute, and will seek:

1. Recovery of 80% of the eligible revenue requirement, which is comprised of approved federally mandated costs, via the ECA; and
2. Deferral of 20% of the eligible revenue requirement, which is comprised of the approved federally mandated costs, for subsequent recovery in CenterPoint Indiana South's next electric base rate case.

Q. How will CenterPoint Indiana South capture the eligible costs associated with the Compliance Projects for recovery within the annual ECA filings?

A. Consistent with these definitions and to effectuate the authorized recovery, CenterPoint Indiana South will prepare in each annual filing a revenue requirement calculation which will accumulate all eligible costs under the Federal Mandated Statute incurred through December 31 of the previous calendar year. Those eligible costs will include the "Return on New Capital Investments" calculated as the new capital investments in plant related to the Compliance Projects, multiplied by the applicable rate of return for the ECA, plus "Incremental Expenses" which will include depreciation, O&M, property tax expenses, and other costs associated with the Compliance Projects. The revenue requirement on these Compliance Projects will represent the basis for the recovery of 80% of the eligible revenue requirement requested in each annual ECA filing and deferral of 20% of the eligible revenue requirement for future recovery.

Q. Please explain what is meant by "new capital investments" as it relates to the Compliance Projects.

A. New capital investments for the Compliance Projects include the capital costs for the Compliance Projects as described by Petitioner's Witnesses Retherford and Games. As stated within the Federal Mandate Statute, a "compliance project" includes "an addition, or an integrity, enhancement, or a replacement project undertaken by an energy utility to comply with a federal mandated requirement." (Ind. Code § 8-1-8.4-2(b)).

Q. What costs are included in "new capital investment"?

A. CenterPoint Indiana South proposes to include the gross plant specific to the new capital investments for the Compliance Projects, both in service and Construction Work in

Progress ("CWIP") in the revenue requirement. The project costs for these new capital investments will include various direct and indirect costs, and financing costs incurred during construction, commonly referred to as AFUDC. The accumulating of the eligible project costs and the request for CWIP ratemaking treatment will be discussed later in my testimony.

The depreciation that accumulates on these new capital investments once they go in-service will also be reflected as a reduction to the gross plant. The accumulated depreciation will capture all depreciation expense on new capital investments starting with the month following in-service date, consistent with CEI South's accounting policy. This results in an updated "net plant" amount related to the new capital investments in each ECA filing.

Q. Please explain how the depreciation expense proposed for recovery will be calculated.

A. CenterPoint Indiana South will include for recovery within the revenue requirement the depreciation expense associated with the new capital investments for the Compliance Projects. These investments will utilize the current applicable depreciation rate for the asset class. To the extent that the new investment associated with the Compliance Projects results in a retirement of an existing asset, depreciation expense included in the revenue requirement will be reduced by the depreciation expense attributed to those retired assets. CenterPoint Indiana South may evaluate adjustments to current depreciation rates in its next applicable base rate case as part of a formal depreciation study.

Q. Are there assets currently in utility plant in-service that are being retired as part of the projects?

A. Yes, in certain situations, existing assets may be replaced, and will be retired against the accumulated provision for depreciation, net of removal costs, or salvage recoveries. Actual retirements will be reflected in the filings, impacting the gross plant balance used to determine the recoverable depreciation expense.

Q. Please explain the accounting of the retirements within utility plant in-service.

A. In accordance with "Electric Plant Instruction" 10(B)(2) of the USOA, the retirements of utility plant should be recorded against the accumulated depreciation applicable to such property. Any incremental cost of removal and any salvage proceeds shall be charged or credited to the same account. The accounting treatment results in no change to overall rate base.

Q. Please explain the Company's proposal to defer 20% of the eligible revenue requirement amounts not recovered in the ECA.

A. As provided for in the Federal Mandate Statute, 20% of eligible revenue requirement amounts shall be deferred for recovery as part of the Company's next base rate proceeding. The revenue requirement calculation discussed above in my testimony will be used to derive 20% of the revenue requirement that will be deferred for future recovery.

Q. Please explain the deferral of depreciation expense associated with the Compliance Projects on an interim basis prior to recovery of the asset in the ECA.

A. CenterPoint Indiana South proposed to defer depreciation expense on the Compliance Projects, from the month following each project's in-service date until depreciation expense is included for recovery in ECA rates. Commencing in the month after each project is placed in-service, the depreciation expense would be debited to FERC Account 403, Depreciation Expense, with a corresponding credit to FERC Account 108, Accumulated Provision for Depreciation of Electric Utility Plant consistent with CenterPoint Indiana South's accounting policies. Concurrently, the deferral of depreciation would be recorded as a debit to FERC Account 182.3, Other Regulatory Assets, and a credit to FERC Account 407.4, Regulatory Credits, each month until the assets are recovered in ECA rates. This proposed accounting for the deferral of depreciation is in accordance with GAAP and, specifically, FASB ASC 980-340-25-1 specifies that, subject to the approval of a regulatory agency and the probability of collection from customers at a future date, the Company may establish a regulatory asset for future recovery in lieu of recording expense.

Q. How does CenterPoint Indiana South propose recovering the deferred Compliance Projects depreciation expense that is captured within the regulatory assts in FERC Account 182.3?

A. CenterPoint Indiana South will amortize the cumulative deferred balances in the regulatory asset and include the amortization amount in the ECA revenue requirements. Specific to deferred depreciation expense, CenterPoint Indiana South proposes to amortize the deferred balance through the ECA over the remaining life of the assets that generated the depreciation expense.

Q. Please explain the proposal to defer and subsequently recover costs associated with the Compliance Projects development.

A. CenterPoint Indiana South has incurred and will continue to incur costs associated with the development of the solutions which generated the design and implementation of the Compliance Projects. These costs were and will continue to be debited to FERC Account 107, Construction Work in Progress, and included for recovery within the ECA.

Q. How will the O&M expense associated with the Compliance Projects be calculated?

A. The Compliance Projects will result in O&M expense annually. These will be reflected in the revenue requirement that we submit through the ECA. Until such costs are reflected in the ECA, the Company proposes to defer these costs by debiting FERC Account 182.3, Other Regulatory Assets, and include the balance of these costs in the ECA each year. Anticipated O&M costs include, but are not limited to, ash transportation to terminal, equipment maintenance, and additional operations costs. These costs are discussed further in Petitioner's Witness Games testimony.

Q. How will the depreciation expense included for recovery be calculated?

A. Depreciation expense included for recovery in the ECA will reflect an annualized level of expense related to the gross new capital investments as of the cut-off date of the ECA filing. As the investment is placed in-service, it will be classified in the appropriate FERC Plant Account. These investments will be depreciated using its current approved depreciation rate. Subsequent to inclusion in the ECA and recovered in rates, depreciation will be debited to FERC Account 403, Depreciation Expense without further deferral of interim depreciation expense, described in my testimony above.

Q. How will the property tax expense included for recovery be calculated?

A. Property tax expense included for recovery in the ECA will reflect an annualized level expense related to the gross new capital investment in service along with the CWIP balance as of the cut-off date of the filing. The annualized property tax expenses will be calculated by multiplying the plant investment balances by the tax rate for the projected period.

Q. Please explain the CWIP accounting treatment being requested for the Compliance Projects.

A. CenterPoint Indiana South proposes to implement CWIP ratemaking treatment related to the recovery of financing costs incurred during construction of eligible Compliance Projects investments. Under CWIP ratemaking treatment, CenterPoint Indiana South will recover, through the ECA, financing costs incurred during the construction period attributable to eligible capital investments. CWIP ratemaking treatment allows a utility to recover its costs in a timely manner and avoid the impacts of regulatory lag by recovering financing costs as the capital costs are being incurred. In connection with CWIP ratemaking treatment, CenterPoint Indiana South will remove from the AFUDC-eligible balance the amount of investment included in the revenue requirement for the ECA, such that only the amount of Compliance Projects investment not currently being recovered in ECA rates or deferred in a regulatory asset for future recovery in base rates would be eligible for AFUDC.

Q. Please explain further how the AFUDC calculation will be adjusted to remove the investments that are currently recovered in the ECA.

A. AFUDC captures the financing costs incurred on a project during its construction period. By utilizing CWIP ratemaking treatment, AFUDC is replaced by actual recovery of financing costs from customers via the ECA. Using a hypothetical example, assume that the ECA currently includes $100 of investment in CWIP as of the cut-off date of the filing. The AFUDC calculation on this project, starting with the effective date of the ECA rates, will capture the total investment made on the project through the end of the current period – assume $150 – less the $100 currently included in the ECA, or $50 in this example.

Q. Please explain the PISCC accounting treatment being requested.

A. CenterPoint Indiana South proposes to accrue PISCC on all eligible new capital investment beginning with the month after the investment is placed in-service until the date when the investment is included in rates for recovery. The deferred PISCC balance accumulating in the regulatory asset will be included as new capital investment and will be multiplied by the pre-tax rate of return within the ECA revenue requirement.

Q. What rates will be used to calculate PISCC on projects placed in-service but not yet recovered in the ECA?

A. The PISCC rate used is the WACC required by the ECA revenue requirement.

Q. Please describe the accounting associated with the PISCC accruals.

A. In the month following placing the work order in service, and prior to its inclusion for recovery in ECA rates, PISCC will be accrued by multiplying the applicable WACC by the new capital investment, net of retirements. This accrual will be recorded as a debit to regulatory asset under FERC Account 182.3, with corresponding credit to income under FERC Account 419.1, Allowance for Other Funds Used During Construction ("AFUDC-Equity") for the equity specific component of the PISCC, and FERC Account 432, Allowance for Borrowed Funds Used During Construction ("AFUDC-Debt") for the debt specific component of the PISCC.

Q. How will the amortization of the PISCC deferred balance be calculated?

A. CenterPoint Indiana South proposes to amortize the deferred balance accumulated in a regulatory asset through the ECA over the life of the underlying assets that generated the deferred PISCC, using the current approved depreciation rate for the asset.

Q. Is CenterPoint Indiana South requesting to accrue and subsequently recover PISCC on the 20% deferred regulatory asset balance?

A. No, CenterPoint Indiana South is not seeking the authority to accrue and subsequently recover in the next base rate case PISCC on the balance of the 20% deferred revenue requirement included in the regulatory asset discussed previously.

Q. Will the requirements of the FERC USOA be followed in the recording of the project construction costs?

A. Yes. Costs incurred for new plant investments during the construction phase will be reflected in FERC Account 107, CWIP. When each project is completed, meaning the assets are now used and useful in providing utility service, the costs will be moved to FERC Account 106, Completed Construction Not Classified ("CCNC") and depreciation expense will begin the following month. At the point where the final project costs are captured and the project manager formally defines the assets installed and removed, the costs will be transferred to FERC Account 101, Electric Plant In Service. Any existing assets retired as a result of the projects will create a reduction to FERC Account 101, with an offsetting entry to FERC Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

Q. What capitalized overheads will be included in the construction costs?

A. An allocation for general oversight, management and administrative costs will be included, consistent with Company policy. Costs associated with accounting, legal services, human resource management, insurance and other similar costs are included as overhead costs that are allocated to construction projects.

Q. Will AFUDC be recorded on the project construction costs?

A. Yes, CenterPoint Indiana South proposes to record AFUDC in accordance with GAAP. As explained previously in my testimony, AFUDC will cease on the earlier of the date the project is placed in-service or the date that the capital projects costs are recovered in ECA rates.

Q. What AFUDC rate will be used?

A. CenterPoint Indiana South will use the same AFUDC rate it uses for all other construction projects. This AFUDC rate is calculated annually and represents the weighted cost of investor-supplied capital adjusted to include short-term debt, as provided by FERC accounting procedures. The periodic AFUDC rate is based on the actual cost rates for long-term debt during a particular period and the actual cost rate of short-term debt for the same period. The cost rates for common equity are the cost of common equity determined in the order in CEI South's last electric rate case (Cause No. 43839).

Q. Do CenterPoint Indiana South's AFUDC accrual procedures comply with the USOA?

A. Yes.

V. ECA REVENUE REQUIREMENT

Q. Please generally explain how the Compliance Projects will be included in the ECA revenue requirement calculation.

A. In each annual ECA filing, CenterPoint Indiana South will calculate a revenue requirement for the ECA mechanism. The revenue requirement will be shown on Schedule 1 and will include the return on new capital investments, property tax, depreciation, and O&M associated with the Compliance Projects, by category of investment, as well as recovery of the regulatory assets recorded through the interim deferral of depreciation expense, plan development expense, and PISCC. CenterPoint Indiana South will then multiply the annual revenue requirement by 80% to achieve the recoverable portion of the revenue requirement for approved investments in the ECA. Per the Federal Mandate Statute, 80% of approved costs are to be recovered through a periodic rate adjustment mechanism. As such, the recoverable amounts for the approved investments will be aggregated and included in CenterPoint Indiana South's annual ECA rates and charges based on annualized billing determinants.

Q. Is CenterPoint Indiana South proposing an ECA Revenue Requirement amount for recovery in this proceeding?

A. No. The schedule presented reflects an illustrative schedule only to demonstrate how the Compliance Projects investments and costs will be reflected in future ECA filings. The Company expects to include the Compliance Projects within the next ECA filing following the issuance of a CPCN.

Q. Please describe Schedule 1 (Illustrative) Revenue Requirement of the ECA included in Petitioner's Exhibit No. 9, Attachment KRG-1.

A. This schedule illustrates the calculation of the proposed revenue requirement by category investment through which CenterPoint Indiana South will seek to recover the Compliance Projects in its ECA filing. The figures in this exemplar are purely illustrative. The aggregated revenue requirement calculation is divided on this schedule between the

"Return on New Capital Investment", which calculates the pre-tax return on total net new investment (lines 1 through 8), and the "Incremental Expenses", which calculates the recoverable expenses, both projected and amortized from previously deferred balances (lines 9 through 16). All items to be included on this schedule are recoverable as eligible costs under the Federal Mandate Statute and will be supported by the schedules that follow as outlined below.

Q. Please describe the schedules that support the overall ECA revenue requirement.

A. The following schedules support the overall revenue requirement for the ECA:

i) Schedule 2 supports the Gross New Capital Investment, Accumulated Depreciation attributed to the new capital investment, and CWIP balances related to new capital investments as of the filing date.

ii) Schedule 3 summarizes the calculation of the PISCC balance on investments placed in-service, but not yet captured for recovery under ECA.

iii) Schedule 4 calculates both the pre-tax and after-tax return used in the PISCC calculation on eligible investments applicable to the approved projects prior to the first filing date.

iv) Schedule 5 supports the annualized depreciation expense. The annualized depreciation expense is calculated by multiplying the gross new capital investment balance as of the filing by the approved depreciation rate applicable to the respective classes of plant.

v) Schedule 6 calculates the annualized level of deferred amortization of plan development expense included for recovery. This schedule reflects both the balance to be recovered in the current filing as well as the remaining balance that will be recovered in future ECA filings.

vi) Schedule 7 reflects the deferred incremental O&M, which are the expenses incurred as of the filing cut-off date, but not yet recovered or approved to be recovered in the ECA.

vii) Schedule 8 is not applicable to the Compliance Projects, as it includes the amortization of deferred balances for other projects within the ECA filing.

viii) Schedule 9 calculates the annualized level of deferred depreciation amortization expense. It is calculated by multiplying the cumulative deferred depreciation balance by the annual depreciation rate applicable to the respective classes of plant.

ix) Schedule 10 captures a summary of the amounts which have been deferred in accordance with the Federal Mandate Statute. This represents the 20% of the revenue requirement deferred until the costs can be recovered as part of CEI South's general base rate case.

x) Schedule 11 calculates the NOI adjustment for the FAC Earnings Test.

Attachment KRG-1 is being provided for illustrative purposes in this case and therefore does not include the supporting schedules. But these are the schedules that would be included in the revenue requirement model presented in a future ECA proceeding.

IV. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes, at the present time.

VERIFICATION

I, Kara R. Gostenhofer, Director & Assistant Controller for CenterPoint Energy Service Company, LLC, under the penalty of perjury, affirm that the answers in the foregoing Direct Testimony are true to the best of my knowledge, information and belief.

Kara R. Gostenhofer
Director & Assistant Controller for CenterPoint Energy Service Company, LLC

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a CENTERPOINT ENERGY INDIANA SOUTH
CEI SOUTH
ENVIRONMENTAL COST ADJUSTMENT
ILLUSTRATIVE ANNUAL REVENUE REQUIREMENT THROUGH DECEMBER 31, 20XX

		A	**B**	**C**	**D**	**E**	**F**
Line	Description	Culley 3 Project **(B)**	MATS Projects **(B)**	Brown Pond Project **(B)**	Compliance Projects **(C)**	Total Generation Plant	Reference
	<u>Return on New Capital Investment</u>						
1	Gross New Capital Investment - As of End of Period	$ 53,500,802	$ 67,279,123	$ -	$ -	$ 120,779,926	Schedule 2, Line 12, Col. M
2	Accumulated Depreciation - As of End of Period	$ (110,953)	$ (14,205,467)	$ -	$ -	$ (14,316,420)	Schedule 2, Line 28, Col. M
3	Net New Capital Investment - As of End of Period	$ 53,389,849	$ 53,073,656	$ -		$ 106,463,506	Line 1 + Line 2
4	New Capital Investment CWIP - As of End of Period	$ 1,608,097	$ -	$ 30,960,422	25,000,000	$ 57,568,519	Schedule 2, Line 32, Col. M
5	PISCC Deferred Balance - As of End of Period	$ 176,058	$ -	$ -	$ -	$ 176,058	Schedule 3, Line 23, Col. M
6	Total New Capital Investment - As of End of Period	$ 55,174,004	$ 53,073,656	$ 30,960,422	25,000,000	$ 164,208,083	Line 3 + Line 4 + Line 5
7	Pre-Tax Rate of Return	8.07%	8 07%	8.07%	8.07%	8.07%	Schedule 4, Page 1, Line 17
8	Annualized Return on New Capital Investment	$ 4,452,542	$ 4,283,044	$ 2,498,506	$ 2,017,500	$ 13,251,592	Line 6 x Line 7
	<u>Incremental Expenses</u>						
9	Property Tax Expense - Annualized	$ -	$ -	$ -	$ 50,000	$ 50,000	**(A)**
10	Depreciation Expense - Annualized	$ 2,662,879	$ 2,604,356	$ -	$ -	$ 5,267,235	Schedule 5, Line 11
11	Operations and Maintenance Expense - Annualized	$ 285,000	$ 2,456,117	$ (1,086,307)	$ 1,000,000	$ 2,654,810	Schedule 7, Line 7
12	Amortization Expense - Plan Development Costs	$ 1,869,733	$ -	$ 1,223,267	$ 1,000,000	$ 4,093,000	Schedule 6, Line 6
13	Amortization Expense - MATS Deferral	$ -	$ 2,624,623	$ -	$ -	$ 2,624,623	Schedule 8, Line 3
14	Amortization Expense - Deferred Depreciation	$ 5,548	$ -	$ -	$ -	$ 5,548	Schedule 9, Line 15
15	Amortization Expense - Deferred PISCC	$ 8,803	$ -	$ -	$ -	$ 8,803	Schedule 3, Line 27
16	Total Incremental Expenses	$ 4,831,963	$ 7,685,096	$ 136,960	$ 2,050,000	$ 14,704,018	Sum Lines 9 - 15
17	**Annual Revenue Requirement - ECA**	$ 9,284,505	$ 11,968,140	$ 2,635,466	$ 4,067,500	**$ 27,955,610**	Line 8 + Line 16
18	**Recoverable ECA (80%)**	$ 7,427,604	$ 9,574,512	$ 2,108,373	$ 3,254,000	**$ 22,364,488**	Line 17 x 80%
19	**To Be Deferred (20%)**	$ 1,856,901	$ 2,393,628	$ 527,093	$ 813,500	**$ 5,591,122**	Line 17 x 20%

<u>Notes</u>

(A) The annualized level of property taxes is calculated using an estimated CEI South rate, multiplied by the tax basis of the: (1) the gross new capital investment amount excluding land investments, and (2) CWIP of the new capital investment CWIP amount.

(B) Amounts are representative of the ECA-2 filing

(C) Amounts are for illustrative purposes only