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March 10, 2023  
INDIANA UTILITY  
REGULATORY COMMISSION

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

**CAUSE NO. 45836**

IURC  
PETITIONER'S  
EXHIBIT NO. 4-R  
DATE 4-11-23 REPORTER LR

**REBUTTAL TESTIMONY  
OF  
CHRISSY M. BEHME  
MANAGER, REGULATORY REPORTING**

**ON**

**OFFICIAL  
EXHIBITS**

**PROPOSED ACCOUNTING TREATMENT RELATED TO OVERHEAD ALLOCATIONS,  
AFUDC, O&M ESTIMATES, AND PLANNING COSTS**

**PETITIONER'S EXHIBIT NO. 4-R (PUBLIC)**

## REBUTTAL TESTIMONY OF CHRISSY M. BEHME

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Chrissy M. Behme. My business address is 211 NW Riverside Drive,  
4 Evansville, Indiana 47708.

5 Q. BY WHOM ARE YOU EMPLOYED?

6 A. I am employed by CenterPoint Energy Service Company, LLC (“Service Company”),  
7 a wholly owned subsidiary of CenterPoint Energy, Inc. The Service Company provides  
8 centralized support services to CenterPoint Energy, Inc.’s operating units, one of  
9 which includes Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy  
10 Indiana South (“Petitioner”, “CEI South”, or “Company”), an indirect subsidiary of  
11 CenterPoint Energy, Inc.

12 Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS REBUTTAL TESTIMONY?

13 A. I am submitting testimony on behalf of CEI South.

14 Q. WHAT IS YOUR ROLE WITH RESPECT TO PETITIONER?

15 A. I am Manager of Regulatory Reporting.

16 Q. ARE YOU THE SAME CHRISSY M. BEHME WHO PRE-FILED DIRECT  
17 TESTIMONY IN THIS CAUSE?

18 A. Yes.

19 II. SUMMARY OF PRESENTATION20 Q. PLEASE DESCRIBE THE SCOPE AND PURPOSE OF YOUR REBUTTAL  
21 TESTIMONY.22 A. The purpose of my rebuttal testimony is to respond to the direct testimonies of the  
23 Indiana Office of Utility Consumer Counselor (“OUCC”) Witness Brian R. Latham and  
24 Citizens Action Coalition of Indiana (“CAC”) Witness Benjamin Inskeep concerning  
25 CEI South’s proposed Build Transfer Agreement (“BTA”) wind project (“Wind Project”  
26 or “the Project”). In particular, I am responding to arguments made by OUCC Witness  
27 Latham regarding his position on CEI South’s administrative and general (“A&G”)   
28 overhead allocation, his view on inclusion of Allowance for Other Funds Used During

1 Construction ("AFUDC"), and his suggestion of a reduced project amount. Additionally,  
2 I am responding to arguments made by CAC Witness Inskeep regarding operations  
3 and maintenance costs ("O&M") and generation transition asset allocation.

4 I have not attempted to respond to every argument made by OUCC and CAC  
5 (collectively "the Intervenor") witnesses. The fact that I may not have responded to  
6 any specific argument or statement made by the Intervenor does not indicate my  
7 agreement with that argument or statement.

8 **Q. ARE YOU SPONSORING ANY ATTACHMENTS TO YOUR REBUTTAL IN THIS**  
9 **PROCEEDING?**

10 A. No.

11 **III. ADMINISTRATIVE & GENERAL OVERHEAD ALLOCATION AND AFUDC**

12 **Q. WHAT IS MR. LATHAM'S GENERAL POSITION REGARDING A&G OVERHEAD?**

13 A. Mr. Latham's general position is that a one percent A&G application rate is not  
14 supported by evidence and that no line-item breakout was provided to support the  
15 amount contained within the total Wind Project cost estimate.<sup>1</sup> On this note, it doesn't  
16 appear that Mr. Latham disagrees entirely with the concept of A&G overhead or the  
17 reasonableness of A&G overhead costs in general. In fact, it is important to note that  
18 Mr. Latham's position seems to concede that some level of A&G overhead is indeed  
19 warranted.<sup>2</sup>

20 **Q. HOW DOES THE COMPANY APPLY A&G OVERHEAD TO A CAPITAL PROJECT**  
21 **IN GENERAL, AND HOW WOULD THIS OCCUR FOR THE WIND PROJECT?**

22 A. Consistent with Company policy, A&G costs associated with supporting capital  
23 projects are segregated in CEI South's books and records before being applied to  
24 capital projects in the form of an A&G overhead. As described in my direct testimony<sup>3</sup>,  
25 A&G overheads are applied for general oversight, management, and administrative  
26 costs, consistent with Company policy. These overhead costs include accounting,  
27 legal services, human resource management, insurance, and other similar costs. Each

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<sup>1</sup> Direct Testimony of Brian R. Latham at page 3, lines 9-13.

<sup>2</sup> *Id.*

<sup>3</sup> Direct Testimony of Chrissy M. Behme at page 6, lines 6-16.

capital project has an A&G overhead rate associated with it, which is then applied to that capital project. A&G overhead rates are developed based on the relationship between A&G functions supporting capital projects and ongoing capital spend associated with those same projects. A&G overhead is applied to a capital project using the total project's costs as a basis for the A&G costs allocable to that project. The nature of A&G costs recorded to any given capital project in the form of A&G overhead does not change what they are. They are separate, distinct A&G costs, which are representative of the overall general oversight, management, and administrative activities associated with the project.

For the Wind Project, the application of A&G overhead would occur as described above with one notable exception. Per the Company's construction overhead policy, major projects – such as the Wind Project, for example – have a flat, fixed A&G overhead rate of 1.0%. This fixed rate acts to limit variability in A&G overhead costs that are applied to the Wind Project, as even minor fluctuations in the A&G overhead rate could lead to large allocations of A&G costs to the Project. As an example, the most recent A&G overhead rate experienced for CEI South's capital projects was a rate of 1.39% as of February 2023. A small fluctuation in the A&G overhead rate of less than half of one percent such as this would lead to an increase in A&G overhead over the life of the Project of nearly \$ [REDACTED].

**Q. MR. LATHAM DISCUSSES THE TYPE OF INFORMATION THAT OUCC EXPECTS CEI SOUTH TO PROVIDE TO SUPPORT ITS ONE PERCENT A&G ALLOCATION. DO YOU AGREE?**

**A.** No. Mr. Latham's expectation is that CEI South provide a budget containing detailed information such as the staff expected to spend time working on the Wind Project in an A&G capacity, the amount of time expected to be spent, and the hourly rate for each staff person.<sup>4</sup> Moreover, he also expresses the expectation that a breakout of costs with A&G overhead amounts attributable to each would be provided. These expectations show a clear misunderstanding of how A&G overhead costs are determined and applied to capital projects. As I've stated previously, while A&G overhead amounts are derived as a function of A&G costs in support of capital projects and the ongoing activities of those same capital projects, the nature of the A&G costs

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<sup>4</sup> Direct Testimony of Brian R. Latham at page 5, starting at line 16 and continuing to page 6, line 5.

1 remains just that. Furthermore, the level of detail that Mr. Latham expects completely  
2 contravenes the purpose of an A&G overhead.

3 **Q. DOES THE FEDERAL ENERGY REGULATORY COMMISSION'S UNIFORM**  
4 **SYSTEM OF ACCOUNTS PROVIDE FOR CAPITALIZATION OF A&G**  
5 **OVERHEAD?**

6 A. Yes. The Company's practice is in accordance with Federal Energy Regulatory  
7 Commission ("FERC") 18 CFR Part 101 – Uniform System of Accounts ("USOA")  
8 Prescribed for Utilities and Licensees Subject to the Provisions of the Federal Power  
9 Act, Electric Plant Instructions Nos. 3 and 4. Section 3 (Components of Construction  
10 Cost), which states that, "the cost of construction properly includible in electric plant  
11 accounts shall include, where applicable, the direct and overhead cost as listed and  
12 defined hereunder." Section 4 (Overhead Construction Costs) goes on to discuss  
13 overheads specifically and authorizes a utility to include overhead costs, such as  
14 general office salaries and expenses, applicable to construction as a part of its assets.  
15 The Company's allocation of A&G overhead charges to the Wind Project is not only  
16 consistent with Company policy but is also in accordance with this guidance under the  
17 FERC USOA.

18 **Q. HAS CEI SOUTH RECEIVED APPROVAL OF CAPITALIZED A&G OVERHEAD**  
19 **FOR SIMILAR PROJECTS?**

20 A. Yes. CEI South recently received approval of A&G overhead as part of its capital  
21 projects in Cause No. 45564.<sup>5</sup> In that case, CEI South similarly included within its  
22 cost estimate an allocation for general oversight, management and administrative  
23 costs.<sup>6</sup> CEI South's A&G overhead allocation was uncontested in the case, and the  
24 Commission found that CEI South had "submitted extensive evidence supporting its  
25 cost estimate, and the other parties' evidence addressing the best cost estimate does  
26 not call CEI South's estimate into question."<sup>7</sup> Additionally, CEI South has applied an  
27 A&G overhead to capital projects dating back to CEI South's last base rate proceeding,  
28 Cause No. 43839.

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<sup>5</sup> Order Cause No. 45564 (IURC 6/28/22), p. 15, paragraph 3.

<sup>6</sup> Direct Testimony of Kara Gostenhofer in Cause No. 45564, p. 15, lines 13-16.

<sup>7</sup> Order Cause No. 45564 (IURC 6/28/22), p. 15, paragraph 3.

1 Q. CONSIDERING THE APPLICATION OF A&G OVERHEAD EXISTED AT THE TIME  
2 OF CEI SOUTH'S LAST BASE RATE PROCEEDING, SHOULD THERE BE ANY  
3 CONCERNS OF DOUBLE RECOVERY?

4 A. Absolutely not. In that base rate proceeding, a portion of CEI South's A&G costs  
5 attributable to support of capital projects would have been included in capital as part  
6 of A&G overhead, and therefore would not have been expense. Thus, the revenue  
7 requirement developed in that Cause would not have contemplated the full level of  
8 A&G costs in expense, with some portion included in capital. Given the practice of  
9 applying an A&G overhead to capital projects has persisted from that time and into the  
10 present day, I cannot see how any double recovery would be possible.

11 Q. MR. LATHAM SUGGESTS THAT ANY ALLOCATION OF A&G TO PROJECT  
12 DEVELOPMENT IS DUPLICATIVE AND UNNECESSARY. DO YOU AGREE WITH  
13 THIS SUGGESTION?

14 A. No. A&G overhead costs for general, management and administrative functions are  
15 necessary costs to support the development of each of CEI South's capital projects.  
16 These costs are not duplicative and are typically included in the costs of capital  
17 projects given these capital projects are supported by personnel, facilities, and  
18 systems in supporting roles not directly involved in the project. The Project, despite  
19 being a BTA, is no different in this regard, as it will still be supported by CEI South's  
20 management and administrative functions. Accordingly, A&G overhead costs for the  
21 Wind Project are reasonable and necessary costs and are not duplicative.

22 Q. SPEAKING OF DUPLICATIVE, DO YOU HAVE ANY CONCERNS WITH THE  
23 TOTAL A&G OVERHEAD DISALLOWANCE AMOUNT PROPOSED BY MR.  
24 LATHAM?

25 A. Yes. Mr. Latham proposes through various adjustments a total reduction to the total  
26 Wind Project cost estimate related to A&G overhead of [REDACTED]. However, as  
27 seen within Petitioner's Exhibit No. 2, Workpaper (CONFIDENTIAL) FSB-1, A&G  
28 overhead comprises only [REDACTED] of the total project cost of approximately \$636.0  
29 million. Contrary to Mr. Latham's assertion<sup>8</sup>, the amount in this workpaper is shown on  
30 its own separate line and is unmistakable as a result. Despite this, OUCC's proposed

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<sup>8</sup> Direct Testimony of Brian R. Latham at page 3, lines 12-13.

total disallowance is more than double the total amount of A&G overhead for the Wind Project, not to mention that Mr. Latham has seemingly admitted that some level of A&G overhead is appropriate.<sup>9</sup> Therefore, if the Commission decides that a reduction to the total Wind Project cost estimate for A&G overhead is appropriate, the disallowances proposed by OUCC for A&G overhead cannot be relied upon in developing the overall total cost for the Wind Project.

**Q. DO YOU AGREE WITH MR. LATHAM'S SUGGESTION TO ELIMINATE THE A&G ALLOCATION FOR SPARE PARTS FROM THE PROJECT ESTIMATE?**

A. No. Mr. Latham suggests that ordering spare parts is a normal cost of business. However, it is normal for a utility to capitalize spare parts that are critical to the nature of the operation of the asset and because of the long lead time to acquire new parts. Since these spare parts will be part of the original construction cost of the asset, the associated cost should receive an allocated portion of A&G costs.

**Q. DO YOU AGREE WITH MR. LATHAM'S SUGGESTION TO ELIMINATE THE A&G ALLOCATION FOR STUDY / PREWORK FROM THE PROJECT ESTIMATE?**

A. No. It is requested these costs be included for recovery as part of the total construction cost and should include a portion of A&G in the total amount to accurately represent the project cost.

**Q. DO YOU AGREE WITH MR. LATHAM'S RECOMMENDATION TO REDUCE OWNER'S COSTS BY \$44M?**

A. No. Mr. Latham is suggesting basing a reduction of Owner Costs / Overheads on what he perceives to be an arbitrary amount of \$[REDACTED] in Witness Bradford's testimony Table FSB-1. The amounts Mr. Latham reported in Table BRL-2 do not represent an accurate breakdown of the estimated cost and does not recognize Owner Contingency as part of the submitted Owner Costs / Overheads. Mr. Latham "understand[s] that there may be some costs applied to the Wind Project,"<sup>10</sup> but his recommended disallowance of all of our applied costs suggests otherwise.

**Q. MR. LATHAM STATES THAT CEI SOUTH DOES NOT BREAK OUT THE AFUDC AMOUNT.<sup>11</sup> IS THIS STATEMENT ACCURATE?**

<sup>9</sup> Pub. Ex. No. 2, p 3, lines 9-13.

<sup>10</sup> Pub. Ex. No. 2, p. 3, line 10.

<sup>11</sup> Pub. Ex. No. 2, p. 6, lines 14-15.

1 A. No. This statement is incorrect. While I do not directly identify the AFUDC amount in  
2 my direct testimony, nor in the illustrative attachment, Petitioner's Exhibit No. 4,  
3 Attachment CMB-1 (CONFIDENTIAL), the de minimis amount estimated for AFUDC  
4 can be found in Petitioner's Exhibit No. 2, Workpaper FSB-1 (Confidential), tab "Capex  
5 Assumptions". This amount is [REDACTED] and makes up less than [REDACTED] of the total  
6 project cost estimate.

7 **IV. OPERATIONS AND MAINTENANCE ESTIMATES**

8 **Q. HOW DID MR. INSKEEP ARRIVE AT THE [REDACTED] O&M FIGURE STATED**  
9 **IN HIS TESTIMONY?**

10 A. This estimate was calculated using amounts from CEI South's Workpaper FSB-1, tab  
11 "O&M"<sup>12</sup>. This calculation was derived using the estimated cost of [REDACTED] per year  
12 along with [REDACTED] MW per year, resulting in \$ [REDACTED].<sup>13</sup>

13 **Q. HOW IS THE O&M CALCULATED IN CEI SOUTH'S ATTACHMENT CMB-1**  
14 **(CONFIDENTIAL) ILLUSTRATIVE CECA TOTAL ANNUAL REVENUE**  
15 **REQUIREMENT?**

16 A. The calculation for the illustrative schedule starts with the same estimated cost per  
17 year and the same assumed capacity per year. However, the results vary due to the  
18 escalation factor that was used within the illustrative schedule. The illustrative  
19 schedule assumes a 2% escalation on the Project's Owner's Engineer's costs, not  
20 including the lease costs, over the life of the project. Use of the escalation factor over  
21 the 30-year project life results in an average of approximately [REDACTED] in annual  
22 O&M.

23 **Q. SHOULD THERE BE CONCERN OVER THIS DIFFERENCE?**

24 A. No. There should not be concern over the difference in Mr. Inskeep's calculated  
25 average annual O&M costs and the average annual O&M costs illustrated on CEI  
26 South's attachment. The actual annual O&M costs for this product are not known at  
27 this time and what CEI South provided in the illustrative schedule is for illustrative  
28 purposes only using the best known estimates at the given time. If the CPCN is granted  
29 in this request there will be actual known values of O&M included at the time of filing,

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<sup>12</sup> CEI South Ex. No. 2, Workpaper FSB-1, tab "O&M"

<sup>13</sup> CAC Exhibit 1, p. 24, footnote 33



whether in the next general base rate case or through the CECA mechanism. Any incremental deferred O&M amounts will continue to be recovered through the CECA mechanism in the annual filings or a future general base rate case.

**V. GENERATION TRANSITION ASSETS ALLOCATION AND PLANNING COSTS**

**Q. SHOULD CEI SOUTH BE ABLE TO INCLUDE THE [REDACTED] IN GENERATION TRANSITION ASSET (“GTA”) ALLOCATION AND [REDACTED] IN PLANNING COSTS FOR THIS PROJECT?**

A. Yes. All planning costs incurred, and expected to be incurred, are incremental costs required to develop what CEI Witness Matthew Rice has described as CEI South’s Preferred Portfolio, the same portfolio that CAC identifies as “reasonable and prudent”.<sup>14</sup> This amount has been deferred pursuant to the FERC USOA, which this Commission has promulgated as a rule. CEI South is allocating the appropriate portion of the deferred planning costs associated with the Wind Project. CEI South has requested and received approval from the Commission for projects that included similar allocated deferred planning costs and GTA allocated amounts.<sup>15</sup>

**Q. MR. INSKEEP SUGGESTS THAT GTA ALLOCATION AND PLANNING COSTS BE DENIED. DOES HIS SUGGESTION HAVE MERIT?**

A. No. CEI South has incurred and will continue to incur certain planning costs, such as preliminary survey or research and development costs to develop its Integrated Resource Plan (“IRP”) strategy and specific generation asset selection under the IRP in accordance with directives of the Commission. These costs are initially deferred on the balance sheet, typically to either the asset account FERC Account 183 – Preliminary Survey and Investigation Charges, or the asset account FERC Account 107 – Construction Work in Progress in lieu of being charged to operating expense, depending on the nature of the costs and stage of construction.

The USOA defines the use of FERC 183, in relevant part, as follows:

A. This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation. If construction results, this account shall be

<sup>14</sup> CAC Exhibit 1, p. 6, line 5.

<sup>15</sup> See Order Cause No. 45564 (IURC 6/28/22) and Order Cause No. 45754 (IURC 1/11/23).

1 credited and the appropriate utility plant account charged. If the  
2 work is abandoned, the charge shall be made to account 426.5,  
3 Other Deductions, or to the appropriate operating expense  
4 account.

5 B. This account shall also include costs of studies and analyses  
6 mandated by regulated bodies related to plant in service. If  
7 construction results from such studies, this account shall be  
8 credited and the appropriate utility plant account charged with  
9 an equitable portion of such study costs directly attributable to  
10 new construction. The portion of such study costs not  
11 attributable to new construction or the entire cost if construction  
12 does not result shall be charged to account 182.2 Unrecovered  
13 Plant and Regulatory Costs, or the appropriate operating  
14 expense account. The costs of such studies relative to plant  
15 under construction shall be included directly in account 107,  
16 Construction Work in Progress-Electric.

17 (Remainder of the definition has been truncated).

18 The USOA defines the use of FERC 107, in relevant part, as follows:

19 A. This account shall include the total of the balances of work  
20 orders for electric plant in process of construction.

21 ...  
22 C. Expenditures on research, development, and demonstration  
23 projects for construction of utility facilities are to be included in  
24 a separate subdivision in this account. Records must be  
25 maintained to show separately each project along with complete  
26 detail of the nature and purpose of the research, development,  
27 and demonstration project together with the related costs.

28 All the planning costs to be included in the Wind Project are incremental expenditures  
29 to the capital project and must be incurred as part of the construction of this generation  
30 asset. These costs initially meet the criteria to be deferred on the balance sheet, in  
31 accordance with FERC 183 or FERC 107, as applicable, and are therefore not  
32 considered operating costs of the Company in accordance with the FERC USOA.

33 Q. **ARE THERE ANY OTHER REASONS WHY MR. INSKEEPS' POSITION SHOULD**  
34 **BE DENIED REGARDING THE PLANNING COSTS?**

35 A. Yes. Disallowing the planning costs that ultimately result in the selection of a wind  
36 project would disincentivize the development of clean energy projects. I understand

1 that the Commission is directed to “encourage clean energy projects by creating”  
2 financial incentives.<sup>16</sup>

3 **Q. WHAT IS THE COMPANY SEEKING IN THE EVENT THE CPCN FOR THE WIND**  
4 **PROJECT WERE TO BE DENIED?**

5 A. The Company is seeking authority to defer any planning costs associated with the  
6 Wind Project that would otherwise be charged to expense if the CPCN were denied.  
7 As the Company's IRP is a mandated process and study, the Company applies bullet  
8 B under the definition of the USOA FERC 183 to planning costs capitalized as part of  
9 the IRP generation planning pool or a specific asset developed under the IRP. Per that  
10 FERC guidance, when the Company defers planning costs under these guidelines and  
11 construction does not result from the study, these costs may be charged to a regulatory  
12 asset such as FERC 182.2 Unrecovered Plant and Regulatory Costs or an appropriate  
13 operating expense account. To determine if the costs should be included in FERC  
14 182.2, or another regulatory asset account such as FERC 182.3 Other Regulatory  
15 Assets, or charged to expense, we evaluate the criteria in the Generally Accepted  
16 Accounting Principles (“GAAP”) Accounting Standards Codification (“ASC”) Regulated  
17 Operations 980-340-25-1 which states that costs may be deferred in a regulatory asset  
18 if both of the following criteria are met:

- 19 1. It is probable (as defined in ASC 450 or “future events are likely to  
20 occur”) that future revenue in an amount at least equal to the capitalized  
21 cost will result from inclusion of that cost in allowable costs for rate-  
22 making purposes.
- 23 2. Based on available evidence, the future revenue will be provided to  
24 permit recovery of the previously incurred cost rather than to provide  
25 for expected levels of similar future costs. If the revenue will be provided  
26 through an automatic rate-adjustment clause, this criterion requires that  
27 the regulator's intent clearly be to permit recovery of the previously  
28 incurred cost.

29 If the CPCN for the Wind Project were to be denied and the Commission granted the  
30 Company deferral authority for the Wind planning costs, the Company would evaluate  
31 the planning costs incurred under the required IRP and determine if the costs are  
32 probable of recovery in a future filing before charging a regulatory asset. An  
33 assessment of probability of future recovery would include confirming the costs were

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<sup>16</sup> “The commission shall encourage clean energy projects by creating the following financial incentives for clean energy projects . . . (5) Other financial incentives the commission considers appropriate.” IC 8-1-8.8-11.

1 “just and reasonable” and review of authority to defer the charges or past precedents  
2 where the Commission authorized or denied recovery of similar expenses, among  
3 other factors. An order from the Commission to defer these costs, such as the request  
4 in this filing, may provide support for ASC 980-340-25-1(B), indicating that it is the  
5 Commission’s intent to allow future recovery of these costs, subject to further review  
6 during a general rate case. Granting deferral authority would not necessarily grant  
7 approval for the recovery of these costs, and the Company would be required to  
8 support the prudence of these costs in its next base rate proceeding.

9 VI. **CONCLUSION**

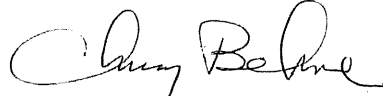
10 Q. DOES THIS CONCLUDE YOUR PREPARED REBUTTAL TESTIMONY?

11 A. Yes, it does.

## VERIFICATION

I affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

SOUTHERN INDIANA GAS AND ELECTRIC  
COMPANY D/B/A CENTERPOINT ENERGY  
INDIANA SOUTH



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Chrissy M. Behme  
Manager, Regulatory Accounting

3/10/2023

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Date