SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.

A CENTERPOINT ENERGY COMPANY

(VECTREN SOUTH)

IURC CAUSE NO. 45447

DIRECT TESTIMONY

OF

MS. BRENDA L. MUSSER

DIRECTOR OF TAX

ON

FEDERAL AND STATE INCOME TAXES

SPONSORING PETITIONER'S EXHIBIT NO. 11,

ATTACHMENT BLM-1

Glossary of Acronyms

ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance for Funds Used During Construction
ARAM	Average Rate Assumption Method
ASC 740	Accounting Standards Codification Topic No. 740
CenterPoint	CenterPoint Energy, Inc.
CSIA	Compliance System Improvement Adjustment
EDIT	Excess Deferred Income Tax
GAAP	Generally Accepted Accounting Principles
IRC	Internal Revenue Code
ITC	Investment Tax Credits
IURC or Commission	Indiana Utility Regulatory Commission
Petitioner or Vectren South or The Company	Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc.
Service Company	CenterPoint Energy Service Company, LLC
TCJA	Tax Cut and Jobs Act
Vectren	Vectren Corporation
Vectren North	Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc.
Vectren Ohio	Vectren Energy Delivery of Ohio, Inc.

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DIRECT TESTIMONY OF BRENDA L. MUSSER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Brenda L. Musser. My business address is 1111 Louisiana Street, Houston, Texas 77002.

Q. By whom are you employed?

A. I am employed by CenterPoint Energy Service Company, LLC ("Service Company"), a wholly-owned subsidiary of CenterPoint Energy, Inc. ("CenterPoint"). The Service Company provides centralized support services to CenterPoint's operating units, which includes Vectren Corporation ("Vectren"), a wholly-owned subsidiary of CenterPoint.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner", "Vectren South" or "the Company"), which is a subsidiary of Vectren.

Q. What is your role with respect to Petitioner Vectren South?

A. I am Director of Tax for the Service Company, which, as explained above, provides centralized support services to Vectren, which is the parent company for Petitioner as well as two other utility subsidiaries – Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") and Vectren Energy Delivery of Ohio, Inc.

("Vectren Ohio").

Q. Please describe your educational background.

A. I hold a Masters of Science degree in Accounting and a Bachelors of Business Administration degree in Finance from the University of Houston.

Q. Please describe your professional experience.

A. From 1998 through 2001, I was employed by Deloitte & Touche LLP providing tax services to a wide range of clients. My clients were predominately in the energy industry and were a combination of private companies and multinational publicly traded companies. I provided tax services including tax compliance, income tax provision assistance, and tax consulting services on a wide range of projects. From 2001 through 2009, I was employed by Calpine Corporation working in the Corporate Tax department. My primary responsibility included managing the federal and state income tax compliance process, as well as, reviewing the calculation of the quarterly income tax provision under Accounting Standards Codification Topic No. 740 ("ASC 740"). ASC 740 is a set of financial accounting and reporting standards for the effects of income taxes that result from a company's activities during the current and preceding years. Its primary objective is to recognize the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities relating to the future tax consequences of events that have been recognized in a company's financial statements of tax returns. In 2009, I joined Service Company as the State Tax Supervisor primarily responsible for the state income tax compliance and state tax provision. In 2011, I was promoted to Tax Manager overseeing the federal and state income tax compliance process as well as the state tax provision process. In February

2019, I was promoted to Director, Tax.

Q. What are your present duties and responsibilities to the Company as Director of Tax?

A. My primary responsibilities include leading the income tax function that is responsible for accurately and efficiently reporting the federal and state income taxes of CenterPoint and its subsidiaries and business units.

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

A. Yes. I have testified before the Minnesota Public Utilities Commission on behalf of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota in Docket No. G-008/GR-19-524.

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

A. My direct testimony addresses three topics. First, I support the computation of the pro-forma income tax expense included in the Company's test year revenue requirement determination. Second, I support the pro-forma accumulated deferred income taxes ("ADIT"), excess deferred income tax ("EDIT") regulatory liability balances and the investment tax credits ("ITC") included in the Company's cost of capital calculation. Finally, I discuss the amortization of EDIT created by the Tax Cut and Jobs Act ("TCJA") and how that amortization is reflected in rates. Currently, the amortization of TCJA EDIT is reflected in the Company's Compliance System Improvement Adjustment ("CSIA") mechanism. The Company proposes to continue to refund the TCJA EDIT outside of base rates following approval of rates in this proceeding. Petitioner's Witness Katie J. Tieken outlines the proposed methodology for refunding the remaining TCJA EDIT in her direct testimony.

Q. Are you sponsoring any attachments in this proceeding?

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

- Petitioner’s Exhibit No. 11, **Attachment BLM-1**: Calculation of the Consolidated Tax Return Interest Benefit under the “Muncie Remand” Method.

Q. Was this attachment prepared by you or under your supervision?

A. Yes, it was.

II. INCOME TAX EXPENSE

Q. Please explain how Petitioner’s income tax expense for the test year was calculated.

A. As discussed in the direct testimony of Petitioner’s Witness Angie M. Bell, the Company’s historic base period is the twelve months ended December 31, 2019, and the forward-looking test year is the Company’s budget for the twelve months ended December 31, 2021. In general, a company such as Vectren South incurs federal and state income tax expense on the profits it earns; and, as part of this rate proceeding, the Company is including those tax expenses in the revenue requirement. I have calculated the test year state and federal income tax expense which are included on Petitioner's Exhibit No. 18, Schedules C-4 and C-5, respectively.

Q. How is current state income tax expense determined?

A. The calculation of current state income tax expense begins with operating income as determined in the cost of service. Operating income is adjusted for interest expense, book/tax temporary and permanent differences. This calculation results in the determination of taxable income or loss, which is then multiplied by the Indiana corporate income tax rate in effect in the test period to arrive at pro-forma Indiana income tax expense at present rates. Beginning on July 1, 2013, the Indiana corporate income tax rate decreased from 8.5% to 8%. The legislature approved under Indiana House Enrolled Act 1004 an annual series of decreases which will end in July 2021 when the rate will be 4.9%. Given the anticipated date of a final decision in this proceeding is not expected before July 2021, I have used 4.9% as the Indiana corporate income tax rate for the pro-forma adjusted test year which will be effective for both Phase 1 and Phase 2 rates.

Q. How is current federal income tax expense determined?

A. Current federal income tax expense is calculated by starting with operating income as outlined above. It is then reduced by the total current state income tax expense and Indiana utility receipts tax to arrive at the operating income before federal taxes, which is then adjusted for book/tax temporary and permanent differences to arrive at federal taxable income. Taxable income is then multiplied by the federal income tax rate of 21% to determine total current federal income tax.

Q. How is the deferred state income tax determined?

A. As discussed further below, the deferred state income tax expense represents a future tax liability to the state of Indiana based on current period income. Deferred state income tax is calculated by multiplying the temporary book/tax differences by the

Indiana corporate tax rate in order to determine the Company's future state tax liability resulting from current period income.

Q. Was a regulatory liability established for the change in the state tax rate?

A. Yes. The state excess deferred income tax is $2,022,216 before gross-up. An adjustment has been made to the deferred state income tax calculation to reflect amortization of the state excess deferred income tax. The Company is proposing to refund the state EDIT liability over five (5) years. The amortization of the state EDIT of $404,443 is included on Petitioner's Exhibit No. 18, Schedule C-4.

Q. How is the deferred federal income tax determined?

A. Deferred federal income tax is calculated by subtracting the deferred state income tax expense from the temporary book/tax differences and multiplying the result by the federal income tax rate of 21% in order to determine the Company's future federal income tax liability resulting from current period income. The deferred federal income tax expense is then reduced by the amount of ITC amortization associated with Vectren South.

Q. How is Federal EDIT resulting from the TCJA reflected in this filing?

A. As discussed in detail in the direct testimony of Petitioner's Witness Tieken, the Company is proposing to continue to refund the federal EDIT regulatory liability resulting from the TCJA outside of base rates. Currently, the federal EDIT regulatory liability is being refunded through the Company's CSIA mechanism. Petitioner's Witness Tieken proposes a new mechanism for refunding the remaining federal EDIT regulatory liability.

Q. Does the method of refund that is being proposed comply with the Settlement Agreement from Cause No. 45032-S21?

A. Yes. Vectren South will continue to refund the protected EDIT over the Average Rate Assumption Method ("ARAM") and the unprotected EDIT over a period of ten years as agreed to in the approved Stipulation and Settlement Agreement in Cause No. 45032-S21 dated August 29, 2018.

Q. Is the Petitioner part of a consolidated group for purposes of filing an income tax return?

A. Yes. Vectren South is a member of the CenterPoint consolidated group. CenterPoint files its tax return on behalf of all members in the consolidated group.

Q. How has the Indiana Utility Regulatory Commission ("Commission") determined a utility in a consolidated group should recognize the benefits of filing a consolidated return in a rate filing package?

A. In the Commission's Supplemental Order on Remand in Cause No. 34571 dated September 16, 1981, the Commission outlines what is commonly referred to as the Muncie Remand Method. The methodology from that order has been followed in this proceeding and pushes down a portion of the parent company's interest expense deduction to Vectren South. The Muncie Remand Method outlines a specific four-step process for calculating this adjustment. This calculation determines the tax savings from Vectren South's participation in a consolidated income tax return. The four-step process is as follows:

a. Compute the debt ratio of the parent company by dividing its outstanding long-term debt by its entire capital structure, including the retained earnings of its subsidiaries;

b. Multiply the Indiana utility's[1] equity account by the results of step a. above;

c. Calculate the parent company's average net cost of long-term debt by dividing its annualized interest expense by its total outstanding long-term debt; and

d. Multiple the result in step b above by the result in step c above.

This calculation is shown on Petitioner's Exhibit No. 11, Attachment BLM-1 and the associated interest is included in the tax expense calculation on Petitioner's Exhibit No. 18, Schedule C-5.

Q. You mentioned temporary and permanent differences above. Please explain each type of difference.

A. A temporary difference occurs between the tax basis of an asset or liability under the Internal Revenue Code ("IRC") and its reported amount in the financial statements based on Generally Accepted Accounting Principles ("GAAP") that will result in taxable income or deductions upon the reversal of the difference in future periods.[2] The gross basis of temporary differences are generally the same for book and tax. However, they are recovered over different time periods. Permanent differences, on the other hand, are treated differently for financial statement purposes and income tax purposes and will never reverse. An example are meals that can be recognized in book income

[1] Vectren South

[2] See ASC 740-10-20

in full but certain meals can only be deducted at 50% on the income tax return.

Q. Please discuss the allowance for funds used during construction ("AFUDC") equity book/tax difference and its impact on depreciation expense.

A. AFUDC equity is the equity portion of financing utility capital construction projects and is added to the cost of the project while it is in construction work in process. It is capitalized to plant in service as part of the underlying asset. The cumulative gross book balance of AFUDC equity has book depreciation that is included in the cost of service. While AFUDC equity has book basis it has no corresponding tax basis or associated tax depreciation. Because there is no tax depreciation expense, the book depreciation expense is not deductible for tax purposes. The book depreciation expense needs to be added back to taxable income to compute the proper income tax expense. That adjustment is included in Non-Deductible Expenses as shown on Schedules C4, for state income tax expense, and C5, for federal income tax expense.

Q. Have other adjustments been made to depreciation expense in the test year?

A. Yes. Book depreciation expense in the test year has been adjusted by the new depreciation rates calculated by Petitioner's Witness John J. Spanos in his depreciation study. Both the depreciation tax expense temporary difference and ADIT have been adjusted for this change in depreciation in the test year.

III. <u>ACCUMULATED DEFERRED INCOME TAX</u>

Q. What is ADIT?

A. ADIT represents income taxes that will be required to be paid in the future, that is, it represents a net deferred tax liability for the estimated future tax effects attributable to temporary differences based on the provisions of enacted tax law. The effects of possible, but not yet enacted, future changes in tax laws or rates are not contemplated as part of the calculation of ADIT. ADIT arises from the interaction of the IRC, the Company's accounting practices under GAAP, and the Company's operations.

Q. Please describe the budgeting process used to determine the pro-forma ADIT balance included in this proceeding.

A. The pro-forma ADIT starts with the 2019 year-end balance. Book to tax basis differences are then forecasted out using historical averages for 2020 and 2021. ADIT is calculated on that activity and the resulting change in ADIT is then added to the 2019 actual amount to get balances for 2020 and 2021.

Q. Are there any new forecasted components of ADIT that were not included in the historical base year?

A. Yes. With the filing of the 2019 income tax return, the Company is proposing to change its income tax method of accounting for mixed service costs under IRC Section 263(A). This is an automatic method change under IRS rules. By adopting this new method, the Company will be accelerating the deduction for certain mixed service costs that were previously capitalized. The book-tax difference generated by this method change is a temporary difference that will result in an ADIT liability. The ADIT liability associated with this deduction is included as an increase to the cost-free capital ADIT in this current proceeding.

Q. Were any adjustments made to the ADIT balance?

A. Yes. ASC 740 requires deferred income taxes to be recorded on the difference between the tax basis of assets and liabilities and the book basis at which they are carried in the financial statements. ASC 980-740-25 requires regulated enterprises to recognize deferred taxes on temporary differences that are, at the direction of regulatory authorities, flowed through to the customers' benefit for ratemaking purposes and for the equity component of the allowance for funds used during construction. Regulated enterprises are also required to recognize regulatory assets and liabilities for the effect of future revenues expected to be realized as the tax effects of these temporary differences reverse. Consistent with prior rate cases and for simplicity of presentation, these regulatory assets and liabilities have been netted against the deferred income tax liability. The result is a deferred income tax balance included in the capitalization, which is on the same basis as that recognized in previous cases.

Q. How is ADIT reflected in filing schedules of this proceeding?

A. The pro-forma ADIT balance has been incorporated as a component of cost-free capital on <u>Petitioner's Exhibit No. 18</u>, Schedule D-5 sponsored by Petitioner's Witness Robert B. McRae.

IV. <u>OTHER INCOME TAX RELATED COST OF CAPITAL ITEMS</u>

Q. Please discuss the EDIT included in cost free capital.

A. As I previously stated, federal EDIT is currently being refunded in the Company's CSIA mechanism. The refund of protected and unprotected EDIT has been forecasted through the end of the 2021 test period. The pro-forma balance of the EDIT regulatory liability, as well as the associated ADIT deferred tax asset, has been included as cost free capital on Petitioner's Exhibit No. 18, Schedule D-5.

Q. Is the federal EDIT balance in this filing subject to change?

A. Yes. Future events such as IRS audit adjustments to the Company's previously filed income tax returns, future IRS rulings and/or clarifications to the normalization rules, and changes in federal tax laws or rates could change the federal EDIT balance.

Q. How is the Company proposing to take into account future changes to the federal EDIT balance?

A. Petitioner's Witness Tieken discusses the mechanism for considering future changes to the federal EDIT balance.

Q. Please discuss the ITC included in the capital structure.

A. The pro-forma unamortized ITC balance is included in the capital structure at the overall weighted cost of investor-provided capital Petitioner's Exhibit No. 18, Schedule D-5. This presentation is consistent with Petitioner's prior rate cases.

V. CONCLUSION

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

VERIFICATION

I, Brenda L. Musser, affirm under the penalties of perjury that the forgoing representations of fact in my Direct Testimony are true to the best of my knowledge, information and belief.

Brenda Musser

Brenda L. Musser

Dated: October 30, 2020

Vectren South
Calculation of the Consolidated Tax Return Interest Benefit - Muncie Remand Method
As of June 30, 2020

Line	Description (A)	Reference		Amount
1	(a) Compute the debt ratio of the parent company by dividing its outstanding long-term debt by its entire capital structure, including the retained earnings of its subsidiaries			
2	CenterPoint Energy, Inc. Long-Term Debt		$	4,274,673,078
3	CenterPoint Energy, Inc. Equity		$	5,951,641,955
4	CenterPoint Energy, Inc. Preferred Stock		$	2,441,054,298
5	CenterPoint Energy, Inc. Total Capital	Sum of Lines 2 - 4	$	12,667,369,331
6	CenterPoint Energy, Inc. Debt Ratio	Line 2 / Line 5		33.75%
7	(b) Multiply the utility's equity account by the debt ratio of parent as determined by (a) above			
8	Vectren South Equity		$	1,162,598,139
9	CenterPoint Energy, Inc. Debt Ratio	Line 6		33.75%
10	Parent Investment supported by Debt	Line 8 x Line 9	$	392,325,102
11	(c) Calculate the parent company's average net cost of long-term debt by dividing its annualized interest expense by its total outstanding long-term debt			
12	CenterPoint Energy, Inc. Annualized Interest Expense		$	239,125,254
13	CenterPoint Energy, Inc. Long-Term Debt	Line 2	$	4,274,673,078
14	Net Cost of Long-Term Debt	Line 12 / Line 13		5.59%
15	(d) Multiply the portion of parent's investment supported by debt by the average net cost of parent's debt			
16	Parent Investment supported by Debt	Line 10	$	392,325,102
17	Net Cost of Long-Term Debt	Line 14		5.59%
18	Interest Expense	Line 16 x Line 17	$	21,946,670
19	*Tax Benefit of Interest Expense*			
20	Federal Income Tax Rate			21%
21	Interest Expense	Line 18	$	21,946,670
22	Reduction in Federal Income Tax by Debt Tax Benefit	Line 20 x Line 21	$	4,608,801
23	Surtax Exemption			-
24	Federal Income Tax Expense Reduction	Line 22 - Line 23	$	4,608,801
25	Gas Allocation of Rate Base			19%
26	Federal Consolidated Return Benefit of Interest Expense	Line 24 x Line 25	$	875,672

(A) Re Muncie Water Works Company, Indiana Public Service Commission, Published 9/16/2020, Income Tax Expense Allowance for Affiliated Utilities Filing Consolidated Return