

# OFFICIAL EXHIBITS

IURC  
PETITIONER'S  
EXHIBIT NO. 21-R  
DATE 9-23-15 REPORTER AT

**REBUTTAL TESTIMONY**

**OF**

**JOHN J. SPANOS**

**ON BEHALF OF**

**INDIANAPOLIS POWER & LIGHT COMPANY**

**IURC CAUSE NOS. 44576 / 44602**

**INCLUDING JJS ATTACHMENTS 1-R THROUGH 2-R**

004400

**REBUTTAL TESTIMONY OF JOHN J. SPANOS  
ON BEHALF OF  
INDIANAPOLIS POWER & LIGHT COMPANY**

1     **Q1.   Please state your name and business address.**

2     A1.   John J. Spanos, 207 Senate Avenue, Camp Hill, Pennsylvania, 17011.

3     **Q2.   Are you the same John J. Spanos who testified previously in this proceeding?**

4     A2.   Yes. I submitted direct testimony in December 2014.

5     **Q3.   What is the purpose of your rebuttal testimony?**

6     A3.   In my rebuttal testimony, I address the testimony of Indiana Office of Utility  
7           Consumer Counselor ("OUCC") witness Edward T. Rutter related to depreciation.  
8           Specifically, I address Mr. Rutter's testimony related to the original cost and  
9           accumulated depreciation for certain property groups (accounts, subaccounts or  
10          generating facilities) in which the accumulated depreciation exceeds the original cost.

11    **Q4.   Does Mr. Rutter or does any other witness propose any changes to depreciation**  
12       **expense or to your depreciation study?**

13    A4.   No. Neither Mr. Rutter nor any other party has proposed any changes to the  
14          recommendations in my study. Therefore, Mr. Rutter's testimony has no impact on  
15          the depreciation expense filed by the Company<sup>1</sup>. Instead, Mr. Rutter discusses  
16          "concerns"<sup>2</sup> he has regarding instances in which the accumulated depreciation  
17          exceeds the original cost for certain property groups. In this testimony, I will address  
18          his concerns and explain that these property groups do not represent fully depreciated

---

<sup>1</sup> On page 7 of Mr. Rutter's testimony he states that "OUCC recommends in this proceeding that the Commission approve the future accruals for those Accounts that have a negative net utility plan in service balance at December 31, 2013."

<sup>2</sup> Testimony of Edward T. Rutter, p. 2, line 11.

assets as he claims in his testimony. I will further explain that there are mechanisms in the depreciation study to ensure that depreciation does not recover more than the full service value of the Company's assets. Thus, any of his concerns related to these assets are already addressed in the depreciation rates which I have recommended in the depreciation study.

**Q5. Can you provide an example of a property group for which Mr. Rutter expresses "concern"?**

A5. Yes. One such property group is Account 364, Poles, Towers and Fixtures. Table 1 below sets forth as of December 31, 2013 the original cost of the assets included in this account; the accumulated depreciation; the future depreciation accruals; the composite remaining life; and the annual depreciation accrual and rate<sup>3</sup>.

**Table 1**

Original Cost (\$)	Accumulated Depreciation (\$)	Future Depreciation Accruals (\$)	Composite Remaining Life (years)	Annual Depreciation Accrual	
				Amount (\$)	Rate (%)
131,119,430.64	166,475,225	95,763,636	35.0	2,735,168	2.09

**Q6. Can you explain what each of the values in Table 1 represents?**

A6. Yes. The original cost is the total cost on the books for all of the assets in the account. The accumulated depreciation (also referred to as the "book reserve") is the sum of historical depreciation accruals for the account, less historical retirements and cost of removal, plus historical gross salvage. Effectively, this amount represents the depreciation that has already been recovered for the assets in the account.

1 The future depreciation accruals represent the amount that remains to be recovered  
2 through depreciation expense for the account. The future accrual amount is equal to  
3 the total depreciable base, or the total service value, of the assets in the account less  
4 the accumulated depreciation for the account. The total depreciable base includes the  
5 net salvage estimated in the depreciation study for this account. Because many  
6 accounts experience negative net salvage, the sum of the accumulated depreciation  
7 and the future depreciation accruals will often exceed the original cost. For instance,  
8 and as I will explain in more detail below, this particular account's accumulated  
9 depreciation plus future accruals must equal twice the original cost in order to fully  
10 recover the cost of the assets over their useful lives.

11 The composite remaining life is based on the estimated average service life and  
12 survivor curve and represents the period of time over which the future depreciation  
13 accruals will be allocated. The annual depreciation accrual amount represents the  
14 annual depreciation accruals for the account, and the annual depreciation accrual rate  
15 is equal to the annual accrual amount divided by the original cost.

16 **Q7. What is Mr. Rutter's concern with this account?**

17 A7. Mr. Rutter is concerned because the accumulated depreciation for this account  
18 exceeds the original cost<sup>4</sup> (which can be seen in Table 1). He claims – incorrectly -  
19 that an account in which the accumulated depreciation exceeds the original cost is  
20 “fully depreciated”<sup>5</sup> or “fully recovered.”<sup>6</sup>

---

<sup>3</sup> The amounts listed in this table are based on Table 1 of the depreciation study, and can be found on page VI-6 of the study.

<sup>4</sup> Testimony of Edward T. Rutter, p. 2, lines 10-13.

<sup>5</sup> Testimony of Edward T. Rutter, p. 4, lines 11-13.

<sup>6</sup> Testimony of Edward T. Rutter, p. 4, line 15.

1       **Q8. Is this account “fully depreciated”?**

2       A8. No. In fact, there is still a significant amount of cost that remains to be recovered  
3       through depreciation expense for the account. This can be seen in Table 1, which  
4       shows approximately \$96 million in future depreciation accruals for the account.

5       **Q9. Why are there future accruals for this account if the accumulated depreciation is**  
6       **greater than the original cost?**

7       A9. There are future accruals for the account because this account (like many utility  
8       accounts) experiences negative net salvage. Net salvage is gross salvage less cost of  
9       removal, and negative net salvage therefore means that cost of removal is greater than  
10      any gross salvage. The total amount that must be recovered through depreciation  
11      expense is the original cost of assets in service less the net salvage for these assets.

12      The net salvage estimate for Account 364 is negative 100 percent<sup>7</sup>. This means that  
13      the total amount to recover through depreciation expense for this account is the  
14      original cost of \$131 million, less negative 100 percent times the original cost. That  
15      is, the total amount to recover through depreciation is \$131 million less negative \$131  
16      million, or \$262 million. This total amount exceeds the accumulated depreciation by  
17      approximately \$96 million, which is why there are future depreciation accruals for  
18      this account.

19      **Q10. Why is net salvage included in depreciation?**

20      A10. Net salvage is included in depreciation because the net salvage costs for an asset are  
21      part of the cost of that asset to provide service to customers. Customers who receive

1 service from an asset should pay rates that are calculated to recover the cost of the  
2 asset over its life, which includes any cost to retire the asset less any gross salvage  
3 value. If instead net salvage costs were recovered after the asset is retired, then future  
4 customers would have to pay higher rates to recover net salvage costs for an asset  
5 from which they are not receiving service. There are occasions where this can occur,  
6 but the objective of proper depreciation accrual should be to avoid it.

7 The National Association of Regulatory Utility Commissioners, in their publication  
8 *Public Utility Depreciation Practices*, explains this concept further:

9 Historically, most regulatory commissions have required that both  
10 gross salvage and cost of removal be reflected in depreciation rates.  
11 The theory behind this requirement is that, since most physical plant  
12 placed in service will have some residual value at the time of  
13 retirement, the original cost recovered through depreciation should be  
14 reduced by that amount. Closely associated with this reasoning is the  
15 accounting principle that revenues be matched with costs and the  
16 regulatory principle that utility customers who benefit from the  
17 consumption of plant pay for the cost of that plant, no more, no less.  
18 The application of the latter principle also requires that the estimated  
19 cost of removal of plant be recovered over its life.<sup>8</sup>

20 **Q11. Is the precedent of the Commission that net salvage is included in depreciation**  
21 **expense?**

22 A11. Yes. I have included net salvage in depreciation in every study that I have performed  
23 in Indiana. Further, to my knowledge the Commission has consistently approved  
24 depreciation rates that include a component of net salvage. Net salvage has been  
25 included both for distribution assets such as poles, as well as for the eventual  
26 decommissioning of assets such as power plants. The inclusion of net salvage is also

---

<sup>7</sup> I should note here that no party has disputed the negative 100 percent estimate made for this account. Nor has any party disputed the net salvage estimates for any other accounts. Thus, all parties have implicitly accepted that there are future depreciation accruals for this (and all other) accounts.

1 required by the Federal Energy Regulatory Commission's (FERC) Uniform System  
2 of Accounts.

3 **Q12. What is the Uniform System of Accounts?**

4 A12. The FERC Uniform System of Accounts is the standard set of definitions, rules and  
5 instructions established by the FERC that provides consistency in accounting for  
6 utilities under its jurisdiction. Most jurisdictions, including Indiana, have adopted the  
7 Uniform System of Accounts for the utilities they regulate. A review of the  
8 definitions and instructions in the Uniform System of Accounts confirms that net  
9 salvage must be included in depreciation expense, as is the longstanding practice in  
10 Indiana.

11 **Q13. You have previously used the term "service value." Does the Uniform System of**  
12 **Accounts define "service value"?**

13 A13. Yes. Service value is a term used in the field of depreciation to describe the full cost  
14 to be recovered through depreciation expense over an assets useful life. The Uniform  
15 System of Accounts defines service value as "the difference between original cost and  
16 net salvage value of electric plant."<sup>9</sup>

17 **Q14. Does the Uniform System of Accounts define "net salvage"?**

18 A14. Yes. The Uniform System of Accounts defines net salvage as "the salvage value of  
19 property retired less the cost of removal."<sup>10</sup> Net salvage is described as "positive net  
20 salvage" if the salvage value exceeds removal costs, and described as "negative net

---

<sup>8</sup> National Association of Regulatory Utility Commissioners, *Public Utility Depreciation Practices*, 1996, p. 157.

<sup>9</sup> FERC Uniform System of Accounts, definition 37

<sup>10</sup> FERC Uniform System of Accounts, definition 19.

1 salvage” (i.e., a net cost) if removal costs exceed the salvage value. It is common for  
2 utility property to experience negative net salvage, as cost of removal for most  
3 accounts typically exceeds any gross salvage.

4 **Q15. Does the Uniform System of Accounts require that net salvage be included in**  
5 **depreciation?**

6 A15. Yes. General Instruction 22, “Depreciation Accounting,” states that:

7 Utilities must use a method of depreciation that allocates in a  
8 systematic and rational manner the service value of depreciable  
9 property over the service life of the property. (Emphasis added)

10 Because the service value is defined as the original cost of property less its net  
11 salvage value, this instruction requires that net salvage is included in depreciation.

12 **Q16. Does the OUCC dispute these depreciation concepts?**

13 A16. No. First, the OUCC has not raised any issues with my depreciation study. In  
14 addition, IPL asked in discovery whether the FERC has defined “service value,” how  
15 the FERC requires net salvage to be incorporated into depreciation, and what is the  
16 representative recovery pattern for depreciation expressed as an equation. The  
17 responses are set forth in IPL Witness JJS Attachment 1-R. The responses cite to and  
18 quote from the two FERC Definitions which I just cited and agree to the following  
19 recovery pattern for depreciable assets:

20 Annual Accrual Rate, Percent = (100% - Net Salvage Percent)/Average Service Life.



1       **Q17. Mr. Rutter claims that some of the Company's asset groups are "fully**  
2       **depreciated"**<sup>11</sup> **because the accumulated depreciation exceeds the original cost.**

3       **Is this claim correct?**

4       A17. No. Mr. Rutter's claim that assets are "fully depreciated" is based on only comparing  
5       the accumulated depreciation to the original cost. This is an incorrect comparison  
6       from a depreciation perspective. As I have explained, depreciation must include net  
7       salvage, and therefore any assessment of whether an account is fully depreciated must  
8       include net salvage. For example, as I have demonstrated previously with Account  
9       364, while the accumulated depreciation exceeds the original cost for the account,  
10      there are still significant future accruals because the account experiences negative net  
11      salvage. An account with approximately \$96 million of future accruals is not "fully  
12      depreciated."

13      **Q18. Are there any mechanisms incorporated into your depreciation study to ensure**  
14      **that customers will not pay more than the full service value of the Company's**  
15      **assets currently in service?**

16      A18. Yes, there are. For the depreciation study I have proposed the remaining life  
17      technique, which is a longstanding practice in Indiana. For the remaining life  
18      technique, depreciation is calculated by allocating the future depreciation accruals  
19      over the remaining lives of the assets in service. Effectively, depreciation rates are  
20      adjusted higher or lower depending on the level of accumulated depreciation for each  
21      property group. The remaining life technique therefore incorporates a self-correcting

---

<sup>11</sup> For example, on page 4, lines 13-15 of his testimony Mr. Rutter states that "[b]y including depreciation expense on fully depreciated assets in its revenue requirement, IPL is asking current ratepayers to keep paying for the value of assets IPL has already fully recovered."

1 mechanism that ensures that the full service values of the Company's assets are  
2 recovered through depreciation expense – no more, no less.

3 **Q19. Does the use of the remaining life technique address the concerns raised by Mr.**  
4 **Rutter regarding the level of accumulated depreciation for certain property**  
5 **groups?**

6 A19. Yes, it does. Because the accumulated depreciation is incorporated into the  
7 calculation of remaining life depreciation rates, the depreciation study already  
8 addresses any of the concerns that Mr. Rutter sets forth in his testimony for accounts  
9 in which the accumulated depreciation exceeds the original cost.

10 **Q20. Mr. Rutter also discusses the fact that the current depreciation rates have**  
11 **remained unchanged since 1986<sup>12</sup>. Is this concern also addressed in the**  
12 **depreciation study?**

13 A20. Yes. To the extent the use of depreciation rates for close to thirty years has resulted  
14 in a higher level of accumulated depreciation, this is already incorporated into the  
15 remaining life depreciation rates recommended in the depreciation study

16 **Q21. Do you have a response to Mr. Rutter's recommendation at p. 21, lines 7-11 that**  
17 **IPL "[u]tilize the \$77,634,282 . . . of net negative plant in service balances" to**  
18 **cover other expenditures?**

19 A21. Yes. First, and as I have already explained, the net negative plant balance does not  
20 imply that this account is fully depreciated or that too much depreciation has been  
21 recorded. Further, I was confused by his recommendation, so IPL asked in discovery

---

<sup>12</sup> Testimony of Edward T. Rutter, p. 4, lines 16-21.

1 what the journal entry would be to record it. The response received is set forth as IPL  
2 Witness JJS Attachment 2-R. The proposed journal entry would be to debit Account  
3 No. 108 (accumulated depreciation) and credit Account No. 594 (maintenance of  
4 underground lines). Initially I would note that the effect of this journal entry would  
5 be to increase IPL's net original cost rate base by decreasing the depreciation reserve.  
6 More importantly, however, this journal entry would violate the FERC Uniform  
7 System of Accounts. In rejecting a similar request by the OUCC to debit account No.  
8 108 in Northern Indiana Public Service Company's electric rate case in Cause No.  
9 43526, the Commission found: "The USOA provides: 'The utility is restricted in its  
10 use of the accumulated provision for depreciation to the purposes set forth above. It  
11 shall not transfer any portion of this account to retained earnings or make any other  
12 use thereof without authorization by the Commission.'" USOA, Electric Plant  
13 Account 108(E); 170 I.A.C. 4-2-1.1(a). NIPSCO, Cause No. 43526 (IURC  
14 8/25/2010), p. 54.

15 **Q22. Do you have any other portions of Mr. Rutter's testimony you would like to**  
16 **address?**

17 A22. Yes. Mr. Rutter discusses the 18 year life used for the depreciation of Qualified  
18 Pollution Control Equipment and speculates that the recovery of these assets could  
19 have contributed to accumulated depreciation balances that exceed the original cost  
20 for some steam plants.<sup>13</sup> He compares this 18 year life to what he claims is "the  
21 composite remaining useful life of 35 years implicit in IPL's approved depreciation  
22 rates."<sup>14</sup> This is not a reasonable comparison. First, as stated previously, developing

---

<sup>13</sup> Testimony of Edward T. Rutter, p. 6, line 14 through p. 7, line 2.

<sup>14</sup> Testimony of Edward T. Rutter, p. 7, lines 1-2.

1 a remaining life by dividing 1 by the composite rate is not accurate. Second, the  
2 assets with an 18 year life cannot have a remaining life that is almost twice as long.  
3 The overall composite remaining life implied by the depreciation study is 13.4  
4 years<sup>15</sup>. The overall composite remaining life for steam production plant is 10.9  
5 years<sup>16</sup>. A recovery period of 18 years for Qualified Pollution Control Equipment is  
6 reasonable in light of the expected remaining life for the property in steam production  
7 plant.

8 **Q23. What can you conclude regarding the concerns Mr. Rutter sets forth in his**  
9 **testimony regarding property groups for which the accumulated depreciation**  
10 **exceeds the original cost?**

11 A23. I should first be clear that these property groups are not "fully depreciated," as each  
12 still has future accruals due to the need to recover net salvage in depreciation.  
13 Further, any concerns about the level of accumulated depreciation are already  
14 addressed in the depreciation study through the use of remaining life depreciation  
15 rates. For these reasons, no further actions are required to address the concerns raised  
16 by Mr. Rutter.

17 **Q24. Mr. Rutter recommends that "a new depreciation study be provided at the time**  
18 **of the next rate case."**<sup>17</sup> **Do you agree?**

19 A24. As noted in the depreciation study, I am generally of the opinion that depreciation  
20 studies should be conducted every three to five years.<sup>18</sup> However, if the Company

---

<sup>15</sup> This is equal to the total future accrual amount of all depreciable property of \$2,688,997,102 divided by the total annual accrual amount of \$199,245,654. These amounts are shown on page VI-7 of the depreciation study.

<sup>16</sup> This is equal to the total future accrual amount of all depreciable steam plant property of \$1,579,896,990 divided by the total annual accrual amount for steam plant of \$144,838,973. These amounts are shown on page VI-7 of the depreciation study.

1 files a rate case sooner than this time period, I do not agree with Mr. Rutter that a new  
2 depreciation study will be required. Typically service life and net salvage estimates  
3 for long-lived utility property do not change significantly in a short period of time,  
4 therefore, a study performed one or two years later will likely produce very similar  
5 results. Further, as previously stated the depreciation study filed in this proceeding  
6 uses remaining life depreciation rates which addresses the concerns Mr. Rutter has  
7 raised in his testimony. A new depreciation study is therefore not necessary to  
8 address his concerns. Instead, the adoption of the depreciation rates I have  
9 recommended in this proceeding should already alleviate any concerns about the  
10 levels of accumulated depreciation for certain property groups.

11 **Q25. Does this conclude your rebuttal testimony?**

12 **A25. Yes, it does.**

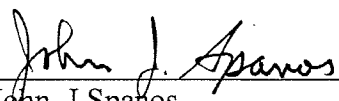
---

<sup>17</sup> Testimony of Edward T. Rutter, p. 8, lines 2-3.

<sup>18</sup> Depreciation Study, p. VI-2.

**VERIFICATION**

I, John J. Spanos, Senior Vice President, for Gannett Fleming Valuation and Rate Consultants, LLC, affirm under penalties of perjury that the forgoing representations are true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
John. J Spanos

Dated: September 1, 2015

004413



## INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

August 13, 2015

### VIA ELECTRONIC MAIL

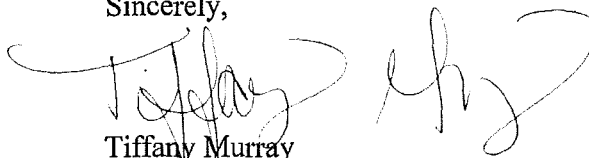
Teresa Nyhart  
Nicholas Kile  
Jeffrey Peabody  
T. Joseph Wendt  
Barnes & Thornburg  
11 S. Meridian St.  
Indianapolis, IN 46204  
[Teresa.Nyhart@btlaw.com](mailto:Teresa.Nyhart@btlaw.com)  
[Nicholas.kile@btlaw.com](mailto:Nicholas.kile@btlaw.com)  
[Jeffrey.peabody@btlaw.com](mailto:Jeffrey.peabody@btlaw.com)  
[Joe.wendt@btlaw.com](mailto:Joe.wendt@btlaw.com)

Re: IURC Cause No. 44576/44602  
IPL  
OUCC Data Response Set No. 5

Dear Counsel:

Enclosed please find the OUCC's response to Indianapolis Power & Light Co. ("IPL") Data Request Set No. 5. Please contact me by phone at (317) 232-2494 or by email at [timurray@oucc.in.gov](mailto:timurray@oucc.in.gov) if you have any questions.

Sincerely,



Tiffany Murray  
Deputy Consumer Counselor

TTM/tmd  
Enclosure

115 West Washington St. • Suite 1500 South • Indianapolis, Indiana 46204  
Toll Free: 1.888.441.2494 • Office: 317.232.2494 • Fax: 317.232.5923  
[www.IN.GOV/OUCC](http://www.IN.GOV/OUCC)

004414

**STATE OF INDIANA  
INDIANA UTILITY REGULATORY COMMISSION**

PETITION OF INDIANAPOLIS POWER & LIGHT )  
COMPANY ("IPL") FOR AUTHORITY TO INCREASE )  
RATES AND CHARGES FOR ELECTRIC UTILITY )  
SERVICE AND FOR APPROVAL OF: (1) ACCOUNTING )  
RELIEF, INCLUDING IMPLEMENTATION OF MAJOR )  
STORM DAMAGE RESTORATION RESERVE ACCOUNT; )  
(2) REVISED DEPRECIATION RATES; (3) THE )  
INCLUSION IN BASIC RATES AND CHARGES OF THE )  
COSTS OF CERTAIN PREVIOUSLY APPROVED ) **CAUSE NO. 44576**  
QUALIFIED POLLUTION CONTROL PROPERTY; (4) )  
IMPLEMENTATION OF NEW OR MODIFIED RATE )  
ADJUSTMENT MECHANISMS TO TIMELY RECOGNIZE )  
FOR RATEMAKING PURPOSES LOST REVENUES FROM )  
DEMAND-SIDE MANAGEMENT PROGRAMS AND )  
CHANGES IN (A) CAPACITY PURCHASE COSTS; (B) )  
REGIONAL TRANSMISSION ORGANIZATION COSTS; )  
AND (C) OFF SYSTEM SALES MARGINS; AND (5) NEW )  
SCHEDULES OF RATES, RULES AND REGULATIONS )  
FOR SERVICE. )

IN THE MATTER OF THE INDIANA UTILITY )  
REGULATORY COMMISSION'S INVESTIGATION INTO )  
INDIANAPOLIS POWER & LIGHT COMPANY'S ) **CAUSE NO. 44602**  
ONGOING INVESTMENT IN, AND OPERATION AND )  
MAINTENANCE OF, ITS NETWORK FACILITIES )

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S  
OBJECTIONS AND RESPONSES TO 44576 AND 44602  
DATA REQUEST SET 5**

**GENERAL OBJECTIONS**

1. The OUCC objects generally to the Data Requests to the extent that they seek to discover information or the production of documents covered by the attorney-client privilege or the work product doctrine and any other applicable privileges. If privileged information or documents are inadvertently produced, the OUCC does not waive or intend to waive any privilege pertaining to such information or documents or to any other information or documents.
2. In responding to the Data Requests, the OUCC does not waive or intend to waive:
  - (a) Objections to competency, relevancy, materiality and admissibility;

004415



- (b) Rights to object on any ground to the use of any of the material provided or responses made pursuant to the Data Requests in any subsequent proceedings, including the litigation of this or any other action;
  - (c) Objections as to vagueness and ambiguity; and
  - (d) Rights to object further on any ground to these or any other data requests in this proceeding.
3. The OUCC objects generally to the Data Requests to the extent that certain individual requests may purport to require the OUCC to perform a study, analysis; or statistical summary in order to supply the requested information.
  4. The OUCC objects generally to the Data Requests to the extent terms such as "any," "each," "every," "all," "complete," and similar terms are overly broad and unduly burdensome.
  5. The OUCC objects generally to the Data Requests to the extent that they require the OUCC to produce voluminous documents on the ground that such production is unduly burdensome.
  6. The OUCC objects to the Data Requests to the extent that they purport to require the OUCC to supply information in a computer format other than the format in which the OUCC keeps such information.
  7. The responses provided to these Requests have been prepared pursuant to a reasonable and diligent investigation and search for information requested. The responses reflect the information obtained before this date by the OUCC's representatives pursuant to a reasonable and diligent search and investigation conducted in connection with these Data requests in those areas where information is expected to be found. To the extent that the requests purport to require more than a reasonable and diligent search and investigation, the OUCC objects on grounds that include an undue burden or unreasonable expense.
  8. The OUCC objects to any attempt by IPL, by way of its preliminary instruction, to require the OUCC to supplement its responses to these Data Requests in any manner other than that set forth in Rule 26(E) of the Indiana Rules of Trial Procedure. The OUCC's duty to supplement its responses is governed exclusively by that Rule.
  9. The OUCC objects to the Data Requests to the extent they seek documents or information which is not relevant to the subject matter of this proceeding and which are not reasonably calculated to lead to the discovery of admissible evidence.
  10. The OUCC objects to the Data Requests to the extent the discovery sought is unreasonably cumulative or duplicative, or is obtainable from some other source that is more convenient, less burdensome, or less expensive.
  11. The OUCC objects to the Data Requests to the extent they are vague and ambiguous and provide no basis from which the OUCC can determine what information is sought.

Without waiving these objections, the OUCC responds to the Data Requests in the manner set forth below.

**Questions for Witness Rutter**

**Request No. 5-1:**

Has FERC in the Uniform System of Accounts defined "service value"? Please explain your response.

**Response:**

Yes. See Definition No. 37 of the Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act, which defines "service value" as "the difference between the original cost and net salvage value of electric plant."

004417

**Request No. 5-2:**

Has FERC in the Uniform System of Accounts explained how net salvage is to be incorporated into depreciation? Please explain your response.

**Response:**

Yes. See Definition No. 19 of the Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act, which defines "net salvage" as "the salvage value of property retired less the cost of removal." The Uniform System of Accounts further prescribes guidance for Account 403, Depreciation expense, including a requirement that a utility "keep such records of property and property retirements as will reflect the service life of property which has been retired" and such records "will reflect the percentage of salvage and costs of removal for property retired from each account, or subdivision thereof, for depreciable electric plant."

004418

**Request No. 5-4:**

Is the following equation representative of the recovery pattern for depreciable assets for utility companies?

$$\text{Annual Accrual rate, Percent} = \frac{(100\% - \text{Net salvage, Percent})}{\text{Average Service Life}}$$

**Response:**

Yes.



## INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

August 10, 2015

### VIA ELECTRONIC MAIL

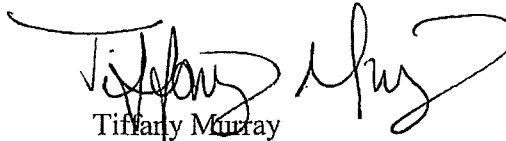
Teresa Nyhart  
Nicholas Kile  
Jeffrey Peabody  
T. Joseph Wendt  
Barnes & Thornburg  
11 S. Meridian St.  
Indianapolis, IN 46204  
[Teresa.Nyhart@btlaw.com](mailto:Teresa.Nyhart@btlaw.com)  
[Nicholas.kile@btlaw.com](mailto:Nicholas.kile@btlaw.com)  
[Jeffrey.peabody@btlaw.com](mailto:Jeffrey.peabody@btlaw.com)  
[Joe.wendt@btlaw.com](mailto:Joe.wendt@btlaw.com)

Re: IURC Cause No. 44576/44602  
IPL  
OUCC Data Response Set No. 4

Dear Counsel:

Enclosed please find the OUCC's response to Indianapolis Power & Light Co. ("IPL") Data Request Set No. 4. Please contact me by phone at (317) 232-2494 or by email at [timurray@oucc.in.gov](mailto:timurray@oucc.in.gov) if you have any questions.

Sincerely,

  
Tiffany Murray  
Deputy Consumer Counselor

TTM/tmd  
Enclosure

115 West Washington St. • Suite 1500 South • Indianapolis, Indiana 46204  
Toll Free: 1.888.441.2494 • Office: 317.232.2494 • Fax: 317.232.5923  
[www.IN.GOV/OUCC](http://www.IN.GOV/OUCC)

004420

**STATE OF INDIANA**  
**INDIANA UTILITY REGULATORY COMMISSION**

PETITION OF INDIANAPOLIS POWER & LIGHT )  
COMPANY ("IPL") FOR AUTHORITY TO INCREASE )  
RATES AND CHARGES FOR ELECTRIC UTILITY )  
SERVICE AND FOR APPROVAL OF: (1) ACCOUNTING )  
RELIEF, INCLUDING IMPLEMENTATION OF MAJOR )  
STORM DAMAGE RESTORATION RESERVE ACCOUNT; )  
(2) REVISED DEPRECIATION RATES; (3) THE )  
INCLUSION IN BASIC RATES AND CHARGES OF THE )  
COSTS OF CERTAIN PREVIOUSLY APPROVED ) CAUSE NO. 44576  
QUALIFIED POLLUTION CONTROL PROPERTY; (4) )  
IMPLEMENTATION OF NEW OR MODIFIED RATE )  
ADJUSTMENT MECHANISMS TO TIMELY RECOGNIZE )  
FOR RATEMAKING PURPOSES LOST REVENUES FROM )  
DEMAND-SIDE MANAGEMENT PROGRAMS AND )  
CHANGES IN (A) CAPACITY PURCHASE COSTS; (B) )  
REGIONAL TRANSMISSION ORGANIZATION COSTS; )  
AND (C) OFF SYSTEM SALES MARGINS; AND (5) NEW )  
SCHEDULES OF RATES, RULES AND REGULATIONS )  
FOR SERVICE. )

IN THE MATTER OF THE INDIANA UTILITY )  
REGULATORY COMMISSION'S INVESTIGATION INTO )  
INDIANAPOLIS POWER & LIGHT COMPANY'S ) CAUSE NO. 44602  
ONGOING INVESTMENT IN, AND OPERATION AND )  
MAINTENANCE OF, ITS NETWORK FACILITIES )

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S**  
**OBJECTIONS AND RESPONSES TO 44576 AND 44602**  
**DATA REQUEST SET 4**

**GENERAL OBJECTIONS**

1. The OUCC objects generally to the Data Requests to the extent that they seek to discover information or the production of documents covered by the attorney-client privilege or the work product doctrine and any other applicable privileges. If privileged information or documents are inadvertently produced, the OUCC does not waive or intend to waive any privilege pertaining to such information or documents or to any other information or documents.
2. In responding to the Data Requests, the OUCC does not waive or intend to waive:
  - (a) Objections to competency, relevancy, materiality and admissibility;

004421

- (b) Rights to object on any ground to the use of any of the material provided or responses made pursuant to the Data Requests in any subsequent proceedings, including the litigation of this or any other action;
  - (c) Objections as to vagueness and ambiguity; and
  - (d) Rights to object further on any ground to these or any other data requests in this proceeding.
3. The OUCC objects generally to the Data Requests to the extent that certain individual requests may purport to require the OUCC to perform a study, analysis; or statistical summary in order to supply the requested information.
  4. The OUCC objects generally to the Data Requests to the extent terms such as "any," "each," "every," "all," "complete," and similar terms are overly broad and unduly burdensome.
  5. The OUCC objects generally to the Data Requests to the extent that they require the OUCC to produce voluminous documents on the ground that such production is unduly burdensome.
  6. The OUCC objects to the Data Requests to the extent that they purport to require the OUCC to supply information in a computer format other than the format in which the OUCC keeps such information.
  7. The responses provided to these Requests have been prepared pursuant to a reasonable and diligent investigation and search for information requested. The responses reflect the information obtained before this date by the OUCC's representatives pursuant to a reasonable and diligent search and investigation conducted in connection with these Data requests in those areas where information is expected to be found. To the extent that the requests purport to require more than a reasonable and diligent search and investigation, the OUCC objects on grounds that include an undue burden or unreasonable expense.
  8. The OUCC objects to any attempt by IPL, by way of its preliminary instruction, to require the OUCC to supplement its responses to these Data Requests in any manner other than that set forth in Rule 26(E) of the Indiana Rules of Trial Procedure. The OUCC's duty to supplement its responses is governed exclusively by that Rule.
  9. The OUCC objects to the Data Requests to the extent they seek documents or information which is not relevant to the subject matter of this proceeding and which are not reasonably calculated to lead to the discovery of admissible evidence.
  10. The OUCC objects to the Data Requests to the extent the discovery sought is unreasonably cumulative or duplicative, or is obtainable from some other source that is more convenient, less burdensome, or less expensive.
  11. The OUCC objects to the Data Requests to the extent they are vague and ambiguous and provide no basis from which the OUCC can determine what information is sought.

004422

Without waiving these objections, the OUCC responds to the Data Requests in the manner set forth below.

004423



**Request No. 4-3:**

What would the journal entry be to record the recommendation at p. 21, lines 7-11 of Rutter's direct testimony. What would the impact on rate base, capital structure, and/or revenue requirement be to implement this recommendation in this or future rate cases? Note that these questions are directed to the OUCC and not simply witness Rutter.

**Objection:**

The OUCC objects to this request to the extent it seeks an analysis of the impact of recommendations in "future rate cases," as the OUCC has not performed such an analysis and would object to doing so. The OUCC further objects as performing an analysis of the "impact on rate base, capital structure, and/or revenue requirement" in IPL's future rate cases would be unduly burdensome. Notwithstanding these objections, the OUCC responds as follows.

**Response:**

The journal entry to reflect the position proposed would be to debit Account No. 108 "Accumulated provision for Depreciation of Electric Utility Plant" and credit Account No. 594 "Maintenance of Underground Lines."

The impact on IPL's rate base is unknown at this time. Determining such an impact would depend on the results of the next depreciation study when historical data from 2013 forward and newly determined net salvage values are reflected. If the new study indicated a change to depreciation rates and the level of the debit to account No. 108, IPL's rate base could change and there may be an impact to the revenue requirement. IPL's capital structure would likely not be impacted by such a change.

004424