FILED
August 24, 2020
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF RICHMOND, INDIANA, BY AND THROUGH ITS MUNICIPAL ELECTRIC UTILITY, RICHMOND POWER AND LIGHT, FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR ELECTRIC SERVICE AND APPROVAL OF AN AMENDMENT TO ITS ENERGY COST ADJUSTMENT PROCEDURES	)	**CAUSE NO. 45361**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 8

SETTLEMENT TESTIMONY OF OUCC WITNESS

KALEB G. LANTRIP

AUGUST 24, 2020

Respectfully submitted,

Tiffany Murray
Attorney No. 28916-49
Deputy Consumer Counselor

SETTLEMENT TESTIMONY OF OUCC WITNESS KALEB G. LANTRIP
CAUSE NO. 45361
RICHMOND POWER AND LIGHT

I. INTRODUCTION

Q: Please state your name, business address, and employment capacity.

A: My name is Kaleb G. Lantrip and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204. I am employed as a Utility Analyst in the Indiana Office of Utility Consumer Counselor's ("OUCC") Electric Division.

Q: Are you same Kaleb Lantrip who provided direct testimony in this Cause?

A: Yes.

Q: What is the purpose of your testimony?

A: I describe the OUCC's support for the Stipulation and Settlement Agreement ("Settlement"), entered into and filed on August 24, 2020, between Richmond Power and Light ("RP&L" or "Petitioner") and the OUCC (collectively the "Settling Parties" and individually "Settling Party"). Specifically, I address the agreed upon rate of return ("ROR"), plant investment, and expense adjustments. If approved, the Settlement will provide certainty regarding critical issues, including revenue requirements, authorized return, and the allocation of RP&L's revenue requirements among its various rate classes. OUCC witness Dr. Peter Boerger describes the cost allocation and rate design terms of the Settlement and describes why those terms are a reasonable resolution of those contested issues.

Q: Does the Settlement balance the interests of RP&L and ratepayers?

A: Yes. The Settlement is a product of thorough negotiations, with each Settling Party offering compromise to challenging issues. While the Settlement represents a balance

of all interests, given the number of benefits provided to ratepayers as outlined in the Settlement and described below, the OUCC, as the statutory representative of all ratepayers, believes the Settlement is a fair resolution, supported by evidence and should be approved.

II. RATEPAYER BENEFITS OF SETTLEMENT AGREEMENT

Q: As a result of the Settlement, will RP&L's base rates be designed to reflect a lower revenue requirement than RP&L proposed in its case-in-chief filing?

A: Yes. The Settling Parties agreed to an annual base rates revenue requirement increase of approximately $5.834 million, which is an approximate $1.902 million reduction from RP&L's as-filed requested base rates revenue requirement increase of $7.736 million (or 9.59%). The Settlement results in a 7.23% system-wide revenue increase. This Settlement provision reduces the rate impact for most major rate classes from RP&L's original proposal, which is addressed in Dr. Boerger's settlement testimony.

Q: What ratepayer benefits are included in the Settlement?

A: Consumer benefits include: 1) a 4.59% authorized ROR compared to Petitioner's 6.59% ROR proposal, resulting in a $1.846 million reduction to revenue requirement; 2) a 3% increase to RP&L's labor expense compared to its requested 4.63% increase – a $186,520 revenue requirement reduction; 3) an annual amortization expense of $2,321,930, which is a $358,070 revenue requirement reduction compared to Petitioner's requested $2,680,000 annual amortization expense; and 4) additional benefits negotiated by the Settling Parties. Consumer benefits are provided in more detail in my testimony below.

III. RATE OF RETURN

Q: Please explain the ROR component of the Settlement.

A: RP&L proposed a 6.59% return on rate base based on the average cost of debt of long-term investment grade municipal bonds in its operating region with an upward basis point adjustment. The OUCC objected to the basis point adjustment made and proposed to use the base cost of debt of 4.59%. The OUCC and RP&L agreed to a 4.59% ROR, taking into consideration both RP&L's suggested cash flow need and the impact on ratepayers' bills and negotiating adjustments to other areas of the revenue requirement.

Q: Does the OUCC find the negotiated ROR reasonable and in the interest of ratepayers?

A: Yes. The lower rate benefits ratepayers by reducing the return on net plant reflected in the rates ratepayers must pay for the service they receive from its utility's net plant assets.

IV. PLANT INVESTMENT

Q: Are there ratepayer benefits in the Settlement associated with the capital structure?

A: Yes. RP&L agreed to base its ROR upon $54,131,072 net plant rather than its original calculated rate base of $65,714,525. This basis of calculation is consistent with Ind. Code § 8-1.5-3-8(e), which states, "The board may recommend to the municipal legislative body rates and charges sufficient to include a reasonable return on the *utility plant* of the municipality." (emphasis added). The recalculated basis results in a $2,484,616 return, a reduction of $1,845,971 from Petitioner's proposed $4,330,587 return.

V. EXPENSE ADJUSTMENTS

Q: Are there ratepayer benefits in the Settlement associated with expense adjustments?

A: Yes. The Settling Parties agreed to adjust: 1) wages and benefits; 2) the amortization of environmental remediation expense; 3) depreciation expense; and 4) interest expense.

Wages and Benefits

The Settlement reflects agreement that wages and benefits expenses will be reduced by $189,015, based in part upon an agreed escalation of labor expenses of 3% rather than 4.63%.

Amortization of Environmental Remediation Expense

The Settlement reflects agreement that the amortization expense for environmental remediation will be lowered to $2,321,930 over six years rather than Petitioner's proposal of $2,680,000 over five years, a reduction of $358,070.

Depreciation Expense

The Settlement reflects agreement that the depreciation expense will be set at the test year balance level of $4,584,845, reinstating $528,849 of adjustments made in the Petitioner's case-in-chief. This return of RP&L's investment serves to smooth out the three-phase rate increase for the purposes of RP&L's sources and uses of cash flows.

Interest Expense

The Settlement reflects agreement to include $50,311 interest income from Parallax in other income rather than adjusting out to a zero account balance, in that the $50,311

was Parallax's interest expense from the loan RP&L supplied to its affiliate. This results in a $50,311 revenue requirement reduction from RP&L's proposed amount.

VI. OTHER CONSUMER BENEFITS

Q: What other consumer benefits have been negotiated into the Settlement?

A: RP&L agreed to file its next rate case petition no later than January 1, 2026, in which it will provide a new evaluation of the sufficiency of its funding of restricted accounts and adjust its depreciation and amortization account balances used in determining rates.

VII. RECOMMENDATION

Q: What is the OUCC recommendation to the Commission?

A: The OUCC recommends the Commission find the Settlement Agreement to be in the public interest and approve it in its entirety.

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Kaleb G. Lantrip

Kaleb G. Lantrip
Utility Analyst II
Indiana Office of Utility Consumer Counselor
Cause No. 45361
Richmond Power and Light

Date: August 24, 2020

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Counselor Public's Exhibit No. 8_Settlement Testimony of OUCC Witness Kaleb G. Lantrip*** has been served upon the following parties of record in the captioned proceeding by electronic service on, August 24, 2020.

Attorneys for City of Richmond
Kristina Kern Wheeler
Nikki Gray Shoultz
BOSE MCKINNEY & EVANS LLP
kwheeler@boselaw.com
nshoultz@boselaw.com

Tiffany Murray
Deputy Consumer Counselor

Office of Utility Consumer Counselor
115 W. Washington Street
Suite 1500 South
Indianapolis, IN 46204
317.232.2494 Phone
317.232.5923 Fax