STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY FOR APPROVAL OF IPL'S TDSIC PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENTS PURSUANT TO IND. CODE § 8-1-39-10	))))))	**CAUSE NO. 45264**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

TESTIMONY OF

WES R. BLAKLEY – PUBLIC'S EXHIBIT NO. 1

OCTOBER 7, 2019

Respectfully submitted,

Jeffrey M. Reed
Attorney No. 11651-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 45264
INDIANAPOLIS POWER AND LIGHT COMPANY

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Wes R. Blakley and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204.

Q: By whom are you employed and in what capacity?

A: I am a Senior Utility Analyst for the Office of Utility Consumer Counselor ("OUCC").

Q: What is the purpose of your testimony?

A: My testimony addresses the accounting and ratemaking treatment proposed by Indianapolis Power and Light Company ("IPL") for its 7-Year Plan pursuant to Ind. Code ch. 8-1-39 (the Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") statute). I will address the calculation of IPL's TDSIC revenue requirement as proposed and shown in IPL witness Chad Rogers' Attachment CAR-1. Specifically, I address three issues:

1) IPL's proposed method of calculating the 20% deferred TDSIC revenue requirement and the gross-up of federal income taxes on the deferred return;

2) IPL's request for a three year amortization period for its TDSIC plan development costs; and

3) IPL not recognizing plant retirements of replaced TDSIC embedded in base rates, which affects the calculation of depreciation expense in its proposed TDSIC tracker.

If the Indiana Utility Regulatory Commission ("Commission") approves IPL's proposed TDSIC Plan, I recommend:

1) Federal income taxes that have been included in the 20% TDSIC deferral not be grossed up for taxes again at the time of IPL's next base rate case;

2) The amortization of IPL's TDSIC plan development costs of $2.3 million be over the life of the asset according to its particular plant account, not an accelerated period of 3 years; and

3) IPL be required to recognize the retirement of replaced assets as a reduction in depreciation expenses in its TDSIC tracker.

Q: Please describe the review and analysis you conducted in order to prepare your testimony.

A: I reviewed IPL's petition, testimony, workpapers, and exhibits filed in this Cause. I reviewed IPL's responses to OUCC data requests. I also reviewed pertinent parts of the Commission's Orders in Cause Nos. 44182 and 44371, as well as the Settlement Agreement in Cause No. 44910, related to retirement of plant in replacement tracker proceedings.

II. IPL'S TDSIC PROPOSAL PURSUANT TO IND. CODE 8-1-39 ("TDSIC STATUTE")

Q: Under IPL's proposal, how are TDSIC costs going to be recovered through its revenue requirements?

A: At page 8 of his testimony, IPL witness Mr. Rogers provides his explanation of IPL's TDSIC request for cost recovery pursuant to Ind. Code § 8-1-39-9, stating:

> IPL plans to file an annual request for a TDSIC Rider under Section 9 in order to timely recover eighty percent (80%) of the TDSIC Plan capital expenditures and costs, which includes depreciation expense, property taxes, and pretax returns. IPL proposes to defer 20% of the TDSIC Rider revenue requirement with carrying costs pursuant to I.C. 8-1-39-9 until such costs are reflected in the Company's retail electric rates. Company Witness

Shields explains that the Company will update its TDSIC Plan on an annual basis through the Section 9 filings.

IPL calculates its revenue requirement for its transmission and distribution investment by including a return on new plant investment grossed up for taxes, depreciation expense, property taxes and amortization of plan development costs as shown of Witness Rogers Attachment CAR-1 page 2 of 3. IPL then proposes to recover 80% of the revenue requirement through the proposed TDSIC tracker and to defer the remaining 20% of the revenue requirement until its next rate case.

Q: Do you have any concerns with IPL's proposal to recover 80% of its TDSIC costs through the TDSIC tracker and deferring the remaining 20% to a future rate case?

A: I do not have concern's with IPL's proposal to recover 80% of its TDSIC costs through the TDSIC tracker and defer the remaining 20% of the costs until the time of its next base rate case, as this is consistent with the TDSIC statute. However, I do have concerns regarding IPL's gross up of federal income taxes on the deferred costs and the impact this gross up will have on IPL's next base rate case.

If IPL includes federal income taxes in the calculation of its 20% deferred TDSIC revenue requirement, and if federal income taxes get applied to the 20% TDSIC deferral again when these costs are included in IPL's rate base at the time of its next base rate case, then IPL will recover a portion of its federal income tax twice. To remedy this problem, I recommend that federal income taxes that have been included in the 20% TDSIC deferral not be grossed up for taxes again at the time of IPL's next base rate case.

III. PLAN DEVELOPMENT COSTS

Q: Has IPL incurred any TDSIC plan development costs?

A: Yes. At page 13 of his testimony, IPL witness James Shield states, "The total amount of reasonably-incurred Plan development and case support costs is approximately $2.3 million as of the date of this filing." IPL proposes to amortize and recover this deferred balance through the TDSIC over a period of three (3) years.

Q: Do you have any concerns regarding IPL's proposed ratemaking treatment for its Plan development costs?

A: Yes. IPL's proposed TDSIC 7-Year Plan development costs should be amortized over the life of the assets and not over an accelerated period of 3 years. It is appropriate to tie the amortization period of an expense with the life of the asset to which that expense is related. Aligning the amortization period and the depreciable life of the assets also mitigates the rate impact for IPL's customers. For costs associated with transmission and distribution investments, the amortization rate should be at the depreciation rate approved from IPL's last rate case for the particular plant account.

IV. PLANT RETIREMENTS

Q: Is IPL introducing retirement accounting in its TDSIC tracker to account for costs already embedded in IPL's base rates to support its transmission and distribution system?

A: No.

Q: Should retirements of assets being replaced in the TDSIC tracker be reflected in IPL's TDSIC tracker?

A: Yes. The use of retirement accounting affects revenue requirement in the TDSIC by reducing the plant account at retirement. To the extent the addition of new investment results in a retirement of an existing asset, depreciation expense included in the revenue requirement will be reduced by the depreciation expenses amount attributed to those retired assets. If retirement accounting is not used, IPL will receive a return of the new replacement assets while at the same time continuing to receive a return of the retired assets that are no longer used and useful.

Q: In other capital tracker cases, has the Commission provided guidance on the accounting effects on plant and rate base related to the retirement of replaced assets?

A: Yes. On page 59 of its Final Order in Cause No. 44182, the Commission addressed the accounting effects on plant and rate base related to the retirement of replaced assets stating:

> Further, we agree with Mr. Krawec that when the replaced item is retired, the remaining original cost is transferred to the accumulated depreciation reserve account. This causes depreciation expense to decrease but there is no effect on net plant balances and accordingly, no effect on rate base.

The Commission's Order in Cause No. 44182 confirms that the appropriate accounting treatment of plant retirements is to debit the original cost of the replaced asset to the accumulated depreciation account and to credit that amount to the plant account. Thus, as the Commission stated, this "has no effect on rate base," therefore the new investment does not need to be lowered in the calculation of return in the tracker. The same retirement accounting treatment does affect or lower depreciation expense because the plant account credited lowers the overall plant balance on which depreciation expense is calculated.

V. RECOMMENDATIONS

Q: What do you recommend?

A: As provided in the testimony of OUCC witness Brien R. Krieger, the OUCC recommends the Commission deny IPL's proposed TDSIC Plan as presented. However, should the Commission approve IPL's proposed TDSIC Plan, I recommend the following accounting and ratemaking treatment:

1) Federal income taxes that have been included in the 20% TDSIC deferral not be grossed up for taxes again at the time of IPL's next base rate case;

2) The amortization of IPL's TDSIC plan development costs of $2.3 million be over the life of the asset according to its particular plant account, not an accelerated period of 3 years; and

3) IPL be required to recognize the retirement of replaced assets as a reduction in depreciation expenses in its TDSIC tracker.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I received a Bachelor of Science Degree in Business with a major in Accounting from Eastern Illinois University in 1987 and worked for Illinois Consolidated Telephone Company until joining the OUCC in April 1991 as a staff accountant. Since that time I have reviewed and testified in hundreds of tracker, rate cases and other proceedings before the Commission. I have attended the Annual Regulatory Studies Program sponsored by NARUC at Michigan State University in East Lansing, Michigan as well as the Wisconsin Public Utility Institute at the University of Wisconsin-Madison Energy Basics Program.

Q: Have you previously testified before the Commission?

A: Yes.

AFFIRMATION

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

Wes R. Blakley
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor
Cause No. 45264 IPL

October 7, 2019
Date

CERTIFICATE OF SERVICE

The undersigned counsel hereby certifies that a copy of the foregoing document was served via electronic mail, on October 7, 2019, upon the following:

IPL
Teresa Morton Nyhart
Lauren M. Box
BARNES & THORNBURG, LLP
Teresa.Nyhart@btlaw.com
Lauren.Box@btlaw.com

Industrial Group
Joseph P. Rompala
Todd A. Richardson
LEWIS KAPPES, P.C.
JRompala@Lewis-Kappes.com
TRichardson@Lewis-Kappes.com

City of Indpls.
Anne E. Becker
Bette J. Dodd
LEWIS KAPPES, P.C.
ABecker@Lewis-Kappes.com
BDodd@Lewis-Kappes.com

CAC & ELPC
Jennifer A. Washburn
Margo Tucker
CITIZENS ACTION COALITION
jwashburn@citact.org
mtucker@citact.org

Nikhil Vijaykar
Adrienne Dunham
Environmental Law & Policy Center
35 E. Wacker Drive, Suite 1600
Chicago, Illinois 60601
nvijaykar@elpc.org
adunham@elpc.org

Respectfully submitted,

Jeffrey M. Reed
Deputy Consumer Counselor

Indiana Office of Utility Consumer Counselor
PNC Center
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317/232-2494 – Telephone
317/232-5923 – Facsimile