

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED JOINT PETITION OF NORTHERN INDIANA)
PUBLIC SERVICE COMPANY LLC (“NIPSCO”) AND)
INDIANA CROSSROADS WIND GENERATION LLC (THE)
“JOINT VENTURE”) FOR (1) ISSUANCE TO NIPSCO OF A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY FOR THE PURCHASE AND ACQUISITION OF A)
302 MW WIND FARM (“THE CROSSROADS PROJECT”); (2))
APPROVAL OF THE CROSSROADS PROJECT AS A CLEAN)
ENERGY PROJECT UNDER IND. CODE § 8-1-8.8-11; (3))
APPROVAL OF RATEMAKING AND ACCOUNTING)
TREATMENT ASSOCIATED WITH THE CROSSROADS)
PROJECT; (4) AUTHORITY TO ESTABLISH)
AMORTIZATION RATES FOR NIPSCO’S INVESTMENT IN)
THE JOINT VENTURE; (5) APPROVAL PURSUANT TO IND.)
CODE § 8-1-2.5-6 OF AN ALTERNATIVE REGULATORY)
PLAN INCLUDING ESTABLISHMENT OF JOINT VENTURE)
THROUGH WHICH THE CROSSROADS PROJECT WILL)
SUPPORT NIPSCO’S GENERATION FLEET AND THE)
REFLECTION IN NIPSCO’S NET ORIGINAL COST RATE)
BASE OF ITS INVESTMENT IN JOINT VENTURE; (6))
APPROVAL OF PURCHASED POWER AGREEMENTS)
THROUGH WHICH NIPSCO WILL RECEIVE THE ENERGY)
GENERATED BY THE CROSSROADS PROJECT,)
INCLUDING TIMELY COST RECOVERY PURSUANT TO)
IND. CODE § 8-1-8.8-11 THROUGH NIPSCO’S FUEL)
ADJUSTMENT CLAUSE; (7) AUTHORITY TO DEFER)
AMORTIZATION CLAUSE; (7) AUTHORITY TO DEFER)
AMORTIZATION AND TO ACCRUE POST-IN SERVICE)
CARRYING CHARGES ON NIPSCO’S INVESTMENT IN)
JOINT VENTURE; (8) TO THE EXTENT GENERALLY)
ACCEPTED ACCOUNTING PRINCIPLES WOULD TREAT)
ANY ASPECT OF JOINT VENTURE AS DEBT ON NIPSCO’S)
FINANCIAL STATEMENTS, APPROVAL OF FINANCING; (9))
APPROVAL OF AN ALTERNATIVE REGULATORY PLAN)
FOR NIPSCO IN ORDER TO FACILITATE THE)
IMPLEMENTATION OF THE CROSSROADS PROJECT;)
AND (10) TO THE EXTENT NECESSARY, ISSUANCE OF AN)
ORDER PURSUANT TO IND. CODE § 8-1-2.5-5 DECLINING)
TO EXERCISE JURISDICTION OVER JOINT VENTURE AS)
A PUBLIC UTILITY.)

CAUSE NO. 45310

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

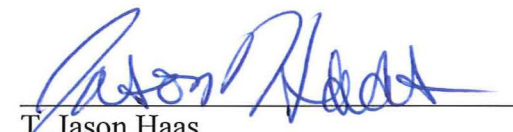
PUBLIC'S EXHIBIT NO. 3

REVISED REDACTED TESTIMONY OF OUCC WITNESS

WES R. BLAKLEY

January 3, 2020

Respectfully submitted,



T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 45310
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC AND
INDIANA CROSSROADS WIND GENERATION LLC ("JOINT VENTURE")

I. INTRODUCTION

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

2 A: My name is Wes R. Blakley and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204. I am a Senior Utility Analyst in the
4 Electric Division for the Office of Utility Consumer Counselor ("OUCC"). My
5 qualifications are attached to this testimony as Appendix A.

6 **Q: What is the purpose of your testimony?**

7 A: The purpose of my testimony is to provide analysis and make recommendations on
8 Northern Indiana Public Service Company LLC's ("NIPSCO") proposal to
9 purchase and acquire a wind farm (hereafter "Crossroads Project" or "Project")
10 indirectly through a joint venture arrangement ("Joint Venture") with Indiana
11 Crossroads Wind Generation LLC (together "Joint Petitioners"). I specifically
12 address the accounting and ratemaking treatment for the Crossroads Project
13 proposed by NIPSCO witness Angela Camp.

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

16 A: I read NIPSCO's prefiled case-in-chief testimony, exhibits, schedules and
17 workpapers in this Cause. I also reviewed testimony, exhibits and the Indiana
18 Utility Regulatory Commission's ("Commission") Final Order in Cause No.
19 45194, dated August 7, 2019 regarding NIPSCO's first Joint Venture wind farm
20 project ("Rosewater Project").

II. STRUCTURE OF THE JOINT VENTURE

1 **Q: Please briefly explain the structure of, and NIPSCO's interest in, the Joint**
2 **Venture, which involves other parties.**

3 A: NIPSCO requests a certificate of public convenience and necessity ("CPCN") to
4 purchase indirectly through a Joint Venture, the Crossroads Project, which is a
5 wind farm that will have an approximate capacity of 302 megawatt ("MW"). The
6 Joint Venture members consist of (1) a Tax Equity Partner ("TEP") that will be an
7 investor and put a large amount of capital in the project, but will not be responsible
8 for any of its operation; (2) EDP Renewables North America, LLC ("EDPRNA"),
9 which is the Developer that will construct the Crossroads Project; and (3)
10 NIPSCO, which will be the Managing Member and will operate the facility.
11 EDPRNA will build and initially own the Crossroads Project before it is sold to the
12 Joint Venture. EDPRNA, through a Build Transfer Agreement ("BTA"), will
13 transfer 100% of the Crossroads Project to the Joint Venture when the Project
14 begins operating in late 2021. Just prior to the transfer, EDPRNA will invest a
15 portion of the proceeds to be paid by Joint Venture in return for an ownership
16 share of the Joint Venture, which it will hold until 2023. The TEP will also invest
17 an amount needed to pay the Joint Venture's obligation under the BTA. In 2021 at
18 the Project's completion, NIPSCO will invest approximately 1% of the cost of the
19 Project in return for its share of the Joint Venture. In 2023, NIPSCO will purchase
20 EDPRNA's interest in the Joint Venture for cash. The TEP's interest in the Joint
21 Venture will enable it to receive 99% of the Production Tax Credits ("PTC") plus
22 tax losses generated by the Crossroad Project, along with excess cash distributions

1 of up to 30% generated by the Project. The TEP anticipates it will attain its
2 required internal rate of return, as specified by the Joint Venture Operating
3 Agreement, around 2031. At this point, the allocation of taxable income, loss, gain
4 and deductions drops to 5%. NIPSCO will then have the option to acquire the
5 TEP interest for fair market value, as defined in the Joint Venture Operating
6 Agreement.

III. ACCOUNTING AND RATEMAKING TREATMENT OF THE JOINT VENTURE

7 **Q: Please explain the basic accounting and ratemaking treatment and recovery**
8 **of costs between NIPSCO and the other involved parties.**

9 A: Regarding investment, NIPSCO will initially own 1% of the Joint Venture at the
10 time the Crossroads Project becomes operational in 2021. The estimated cost of
11 the Crossroads Project is [REDACTED]¹ million, thus NIPSCO's investment at the time of
12 the Project's completion will be approximately \$ [REDACTED] million.² NIPSCO seeks to
13 have its 1% ownership interest in the Joint Venture treated as a regulatory asset
14 and accrue carrying charges until it is included in base rate at the time of
15 NIPSCO's next base rate case in approximately 2023. At 2023, NIPSCO will
16 purchase Developer's (EDPRNA) interest in the [REDACTED] million Joint Venture. At
17 this point NIPSCO will have invested approximately [REDACTED] million for its share in
18 the Joint Venture.³ Of that amount, approximately \$ [REDACTED] million is interest, which

¹ Joint Petitioner's Confidential Exhibit No. 2, Verified Direct Testimony of Michael D. McCuen, page 10, line 13 (October 22, 2019).

² [REDACTED]

³ McCuen Direct, page 12, line 14.

1 is calculated by applying a [REDACTED] carrying charge to EDPRNA's share of the Joint
2 Venture it held for [REDACTED] years. The \$ [REDACTED] million, which represents NIPSCO's
3 approximate total maximum investment at 2023, will be included in base rates as a
4 regulatory asset to earn a return on and amortized for a return of over 30 years –
5 the life of the asset at the time of NIPSCO's anticipated 2023 base rate case.
6 NIPSCO has the option to purchase the ownership interest the TEP has in the Joint
7 Venture at fair value of the discounted future cash flows of the project for the
8 remaining [REDACTED] interest.

9 **Q: Is it important that NIPSCO's investment in the Joint Venture remain as a**
10 **regulatory asset?**

11 **A:** Yes, because if it is transferred to plant investment, it will be depreciated. The
12 depreciation expenses will then be included as a deduction in NIPSCO's tax
13 returns. Transferring the investment to plant investment should not be permitted
14 because depreciation on the Crossroads Project will already have been included as
15 a deduction on the TEP's tax returns. If NIPSCO included depreciation, for tax
16 purposes, it would be a form of double counting depreciation. Because of this risk,
17 the OUCC's position is that all Joint Venture assets (Crossroads Project), should
18 be treated as a regulatory asset -- booking amortization instead of depreciation.
19 Amortization is not deductible for federal income taxes.

20 **Q: What is NIPSCO's estimated cost of the discounted future cash flows of**
21 **TEP's ownership interest in the Joint Venture?**

1 A: The estimated cost NIPSCO will pay for the TEP's share in the Joint Venture in
2 2031 is \$ [REDACTED] million.

3 **Q: What is the approximate total cost of all the investments that NIPSCO will**
4 **pay for the Crossroads Project?**

5 A: The total cost of the Crossroads Project is \$ [REDACTED] million. In 2023, NIPSCO will
6 pay EDPRNA [REDACTED], which includes the \$ [REDACTED] million carrying
7 charge payment to EDPRNA at the time of purchase. The TEP will own
8 approximately [REDACTED] of the Crossroads Project at this time. NIPSCO will
9 amortize its \$ [REDACTED] million investment in the Joint Venture as a regulatory asset over
10 30 years and will receive a return on its investment, which it will include in its next
11 rate case following its purchase. NIPSCO will amortize its investment in the Joint
12 Venture until the time of the TEP buyout (in approximately 8 years), leaving a net
13 book value of approximately \$ [REDACTED] million. In 2031, NIPSCO will have the option
14 to purchase the TEP's interest in the Joint Venture for about \$ [REDACTED] million. Thus,
15 the net cost of NIPSCO's investment in the Crossroads Project, after its purchase
16 of the TEP's interest in 2031, will be approximately \$ [REDACTED] million.

17 **Q: Will NIPSCO request recovery of this approximate cost in a potential rate**
18 **case around 2031?**

19 A: No. This is NIPSCO's approximate net cost at 2031. With the purchase of
20 EDPRNA's interest in 2023 and the purchase of the TEP's interest in 2031,
21 NIPSCO will have full ownership of the Crossroads Project. In OUCC Data
22 Request 2-006, NIPSCO was asked whether, after its purchase of the Crossroads

⁴ NIPSCO response to OUCC DR-1-005, Confidential Attachment A.xlsx, Tax Equity Model, Line 100.

1 Project, it would seek a fair value cost determination of this investment for
2 recovery in a base rate case. NIPSCO replied:

3 Pursuant to Ind. Code 8-1-2-6: (a) The commission shall value all
4 property of every public utility actually used and useful for the
5 convenience of the public at its **fair value**, giving such
6 consideration as it deems appropriate in each case to all bases of
7 valuation which may be presented or which the commission is
8 authorized to consider by the following provisions of this section.
9 As one of the elements in such valuation the commission shall give
10 weight to the reasonable cost of bringing the property to its then
11 state of efficiency. [Emphasis added]

12 NIPSCO indicates that it plans to ask for a fair value return on and a return of the
13 Crossroads Project in the future. The fair value of a wind farm of this size and the
14 cost in 2031 and beyond are not known. Determinations of fair value may, among
15 other things, use studies that reproduce the property in the same form as it was
16 constructed. There is no way of knowing what the fair value of a \$[REDACTED] million
17 wind farm constructed in 2021 will be, or how much it would cost to reconstruct it
18 in 2031. I have concerns that it may be much more than the original cost of
19 NIPSCO's investment net of depreciation, resulting in ratepayers potentially being
20 on the hook for more than the actual cost of building the Project.

21 **Q: Does the Crossroads Project make economic sense for NIPSCO ratepayers?**

22 A: No. The Crossroads Project, with its use of a Joint Venture structure with a TEP,
23 has been proposed as a good deal for NIPSCO's ratepayers. In his testimony,
24 NIPSCO witness Robert Lee states the Joint Venture "is an economic choice for
25 helping meet NIPSCO's retail electric load."⁵ When referring to how the

⁵ Joint Petitioner's Exhibit No. 5, Verified Direct Testimony of Robert Lee, page 4, line 15 (October 22, 2019).

1 Crossroads Project qualifies for 80% of the PTC, NIPSCO witness Michael D.
2 McCuen states, "The credits are a significant source of value to the project."⁶

3 ~~However, even with the creation of the Joint Venture and its use of the PTC, it will~~
4 ~~still cost NIPSCO ratepayers an additional \$[REDACTED] million over the first 15 years~~
5 ~~versus the Back Stop Purchase Power Agreement being offered in this case,~~
6 ~~according to OUCC witness Peter M. Boerger Ph.D.~~

7 **Q: What about possible future ratemaking treatment of the Crossroads Project?**

8 A: The idea that the entire Crossroads Project will someday be owned by NIPSCO
9 and will be included in base rates at fair value in the future makes one wonder how
10 much additional impact this will have on the cost of power generated by the
11 Crossroads Project. This cost cannot be determined now, but the likelihood of
12 greater costs entering into the equation, which are not factored here, is real.

13 **Q: What does the OUCC recommend?**

14 A: ~~Consistent with Dr. Boerger's testimony, t~~The OUCC recommends the
15 Commission deny Joint Petitioners' request for approval of the Joint Venture.
16 However, should the Commission approve the Joint Venture, the OUCC
17 recommends the Commission require all Joint Venture assets be treated as a
18 regulatory asset - booking amortization instead of depreciation. Additionally, the
19 OUCC recommends, in any future rate case after NIPSCO purchases the TEP's
20 interest in the Joint Venture (around 2031), the Commission only allow NIPSCO
21 to include the amount of net cost it has invested in the Crossroads Project, as
22 discussed in the testimony of OUCC witness John E. Haselden.

⁶ McCuen Direct, page 8, line 2.

1 **Q:** **Does this conclude your testimony?**

2 **A:** Yes, it does.

APPENDIX A

1 **Q: Please describe your educational background and experience.**

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

10 **Q: Have you previously testified before the Commission?**

11 A: Yes.

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
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20 project ("Rosewater Project").

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6 Joint Venture members consist of (1) a Tax Equity Partner ("TEP") that will be an
7 investor and put a large amount of capital in the project, but will not be responsible
8 for any of its operation; (2) EDP Renewables North America, LLC ("EDPRNA"),
9 which is the Developer that will construct the Crossroads Project; and (3)
10 NIPSCO, which will be the Managing Member and will operate the facility.
11 EDPRNA will build and initially own the Crossroads Project before it is sold to the
12 Joint Venture. EDPRNA, through a Build Transfer Agreement ("BTA"), will
13 transfer 100% of the Crossroads Project to the Joint Venture when the Project
14 begins operating in late 2021. Just prior to the transfer, EDPRNA will invest a
15 portion of the proceeds to be paid by Joint Venture in return for an ownership
16 share of the Joint Venture, which it will hold until 2023. The TEP will also invest
17 an amount needed to pay the Joint Venture's obligation under the BTA. In 2021 at
18 the Project's completion, NIPSCO will invest approximately 1% of the cost of the
19 Project in return for its share of the Joint Venture. In 2023, NIPSCO will purchase
20 EDPRNA's interest in the Joint Venture for cash. The TEP's interest in the Joint
21 Venture will enable it to receive 99% of the Production Tax Credits ("PTC") plus
22 tax losses generated by the Crossroad Project, along with excess cash distributions

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2 required internal rate of return, as specified by the Joint Venture Operating
3 Agreement, around 2031. At this point, the allocation of taxable income, loss, gain
4 and deductions drops to 5%. NIPSCO will then have the option to acquire the
5 TEP interest for fair market value, as defined in the Joint Venture Operating
6 Agreement.

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12 the Project's completion will be approximately \$ [REDACTED] million.² NIPSCO seeks to
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15 NIPSCO's next base rate case in approximately 2023. At 2023, NIPSCO will
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7 Venture at fair value of the discounted future cash flows of the project for the
8 remaining [REDACTED] interest.

9 **Q: Is it important that NIPSCO's investment in the Joint Venture remain as a**
10 **regulatory asset?**

11 **A:** Yes, because if it is transferred to plant investment, it will be depreciated. The
12 depreciation expenses will then be included as a deduction in NIPSCO's tax
13 returns. Transferring the investment to plant investment should not be permitted
14 because depreciation on the Crossroads Project will already have been included as
15 a deduction on the TEP's tax returns. If NIPSCO included depreciation, for tax
16 purposes, it would be a form of double counting depreciation. Because of this risk,
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21 **TEP's ownership interest in the Joint Venture?**

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2 2031 is \$ [REDACTED] million.

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12 Venture until the time of the TEP buyout (in approximately 8 years), leaving a net
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16 of the TEP's interest in 2031, will be approximately \$ [REDACTED] million.

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19 NIPSCO's investment net of depreciation, resulting in ratepayers potentially being
20 on the hook for more than the actual cost of building the Project.

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24 NIPSCO witness Robert Lee states the Joint Venture "is an economic choice for
25 helping meet NIPSCO's retail electric load."⁵ When referring to how the

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5 and will be included in base rates at fair value in the future makes one wonder how
6 much additional impact this will have on the cost of power generated by the
7 Crossroads Project. This cost cannot be determined now, but the likelihood of
8 greater costs entering into the equation, which are not factored here, is real.

9 **Q: What does the OUCC recommend?**

10 A: The OUCC recommends the Commission deny Joint Petitioners' request for
11 approval of the Joint Venture. However, should the Commission approve the Joint
12 Venture, the OUCC recommends the Commission require all Joint Venture assets
13 be treated as a regulatory asset - booking amortization instead of depreciation.
14 Additionally, the OUCC recommends, in any future rate case after NIPSCO
15 purchases the TEP's interest in the Joint Venture (around 2031), the Commission
16 only allow NIPSCO to include the amount of net cost it has invested in the
17 Crossroads Project, as discussed in the testimony of OUCC witness John E.
18 Haselden.

19 **Q: Does this conclude your testimony?**

20 A: Yes, it does.

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APPENDIX A

1 **Q: Please describe your educational background and experience.**

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

10 **Q: Have you previously testified before the Commission?**

11 A: Yes.


CERTIFICATE OF SERVICE

Indiana Office of Utility Consumer Counselor Public's Exhibit No. 3 Revised Redacted

Testimony of OUCC Witness Wes R. Blakley has been served upon the following parties of record in the captioned proceeding by electronic service on January 3, 2020.

Claudia J. Earls
M. Bryan Little
NiSource Corporate Services – Legal
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blittle@nisource.com

Jennifer A. Washburn
Citizens Action Coalition of Indiana
jwashburn@citact.org



T. Jason Haas
Deputy Consumer Counselor

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