CAUSE NO. 45990

FILED
December 5 2023
INDIANA UTILITY
REGULATORY COMMISSION

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a CENTERPOINT ENERGY INDIANA SOUTH
(CEI SOUTH)

DIRECT TESTIMONY
OF
CHRISSY M. BEHME
MANAGER, REGULATORY REPORTING

ON

REVENUE REQUIREMENT, PHASE-IN, ACCOUNTING REQUESTS, AND CAUSE NO. 45564 S1 ISSUES

SPONSORING PETITIONER'S EXHIBIT NO. 2 (PUBLIC),
ATTACHMENTS CMB-1 THROUGH CMB-5

DIRECT TESTIMONY OF CHRISSY M. BEHME

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Chrissy M. Behme. My business address is 211 NW Riverside Drive, Evansville, IN 47708.

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. The Service Company provides centralized support services to CenterPoint Energy, Inc.'s operating units, one of which is Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("CEI South", "Petitioner", or "Company").

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS DIRECT TESTIMONY?

A. I am submitting testimony on behalf of CEI South.

Q. WHAT IS YOUR ROLE WITH RESPECT TO PETITIONER CEI SOUTH?

A. I am Manager, Regulatory Reporting.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Evansville in 2015 with a Bachelor of Science in Accounting. I joined CenterPoint Energy, Inc. in 2014 as an Accounting Analyst and have held various accounting and reporting positions with increasing responsibility with Petitioner[1] or one of its affiliates since that time. Those positions include Senior Accounting Analyst, Senior External Reporting and Accounting Research Analyst, Senior Utility Accounting Analyst, and Lead Regulatory Reporting Analyst. In October 2021, I was promoted to my current role as Manager, Regulatory Reporting and have been supporting CEI South since that time.

[1] For the sake of clarity, my testimony refers to CEI South, even though in certain situations, I may be referring to Southern Indiana Gas and Electric Company operating under a prior assumed business name.

Q. WHAT ARE YOUR PRESENT DUTIES AND RESPONSIBILITIES AS MANAGER, REGULATORY REPORTING?

A. I am responsible for the financial analysis for CenterPoint Energy Inc.'s regulated utility operations covering Indiana and Ohio. These duties include preparation of accounting exhibits submitted in various regulatory proceedings for these operations, including CEI South.

Q. ARE YOU FAMILIAR WITH THE BOOKS, RECORDS, AND ACCOUNTING PROCEDURES OF CEI SOUTH?

A. Yes, I am.

Q. ARE CEI SOUTH'S BOOKS AND RECORDS MAINTAINED IN ACCORDANCE WITH THE FEDERAL ENERGY REGULATORY COMMISSION ("FERC") UNIFORM SYSTEM OF ACCOUNTS ("USOA") AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")?

A. Yes.

Q. HAVE YOU EVER TESTIFIED BEFORE THE INDIANA UTILITY REGULATORY COMMISSION ("COMMISSION")?

A. Yes. I have testified before the Commission on behalf of CEI South in its Gas Cost Adjustment ("GCA") proceeding, Cause No. 37366; its Fuel Adjustment Clause ("FAC") proceeding, Cause No. 38708; its Environmental Cost Adjustment ("ECA") proceeding, Cause No. 45052; its Clean Energy Cost Adjustment ("CECA") proceeding, Cause No. 44909; its Electric Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") proceeding, Cause No. 44910; and its Compliance and System Improvement Adjustment ("CSIA") proceeding, Cause No. 45612. I have also testified on behalf of CEI South in support of its request for a certificate of public convenience and necessity ("CPCN") in Cause No. 45836, Cause No. 45847, and Cause No. 45903; its request to enter into certain amendments to Power Purchase Agreements ("PPAs") in Cause No. 45839; and its request for an for the 2024 – 2028 Electric TDSIC Plan in Cause No. 45894 (the "45894 TDSIC" or "2024 – 2028 TDSIC Plan"). In addition, I have testified before the Commission on behalf of Indiana Gas Company, Inc. d/b/a CenterPoint Energy Indiana North ("CEI North") in its GCA proceeding, Cause No. 37394 and its CSIA proceeding, Cause No. 45611.

II. PURPOSE & SCOPE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present: (i) the financial and accounting data in support of CEI South's revenue requirement; (ii) an explanation of the Company's forecasted 2025 test year for ratemaking purposes; (iii) the proposed update process for the phase-in of rates; (iv) the pro forma adjustments to the test year; (v) the determination of rate base; (vi) certain elements of the capital structure presented by Petitioner's Witness Brett A. Jerasa; (vii) CEI South's request for deferred accounting treatment for future cloud-based technologies and the Critical Peak Pricing ("CPP") Pilot Program; and (viii) potential impacts on this case from the pending subdocket in Cause No. 45564 S1.

Q. ARE YOU SPONSORING ANY OF THE REVENUE REQUIREMENT SCHEDULES PROVIDED IN PETITIONER'S EXHIBIT NO. 20 IN THIS PROCEEDING?

A. Yes. Within the financial schedules included in Petitioner's Exhibit No. 20, I am specifically sponsoring or co-sponsoring the revenue requirement and supporting calculations within **Schedules A** (Revenue Increase and Financial Summary), **Schedules B** (Rate Base), and **Schedules C** (Income Statement and Adjustments). Petitioner's Witness Jerasa will sponsor and support **Schedules D** (Capital Structure). Petitioner's Witnesses John D. Taylor and Matthew A. Rice will sponsor and support respective portions of the **Schedules E** (Revenue Proof and Bill Impacts). Through my testimony, I will refer to Petitioner's Exhibit No. 20 based on these Schedule references.

Q. HAS CEI SOUTH INCLUDED THESE FINANCIAL EXHIBITS IN THEIR NATIVE FORMAT WITHIN THE DOCUMENT SUBMITTED TO THE COMMISSION IN THIS PROCEEDING?

A. Yes.

Q. HAS CEI SOUTH ALSO INCLUDED WORKPAPERS IN THEIR NATIVE FORMAT SUPPORTING THESE SCHEDULES WITHIN THE DOCUMENTS SUBMITTED TO THE COMMISSION?

A. Yes. The Revenue Requirement files, including the workpapers, are contained in a single Excel workbook, which is marked as Petitioner's Exhibit No. 20. For simplicity, printed pages of selected individual worksheets from Petitioner's Exhibit No. 20 are included as Petitioner's Exhibit No. 21.

Q. ARE YOU SPONSORING ANY ATTACHMENTS OR SCHEDULES IN THIS PROCEEDING?

A. Yes. In addition to the schedules described earlier in my testimony, I am sponsoring the following attachments:

- Petitioner's Exhibit No. 2, **Attachment CMB-1:** CEI South Balance Sheet as of December 31, 2021 and December 31, 2022
- Petitioner's Exhibit No. 2, **Attachment CMB-2:** CEI South Income Statement for the twelve months ended December 31, 2021 and December 31, 2022
- Petitioner's Exhibit No. 2, **Attachment CMB-3:** CEI South Statement of Cash Flows for the twelve months ended December 31, 2021 and December 31, 2022
- Petitioner's Exhibit No. 2, **Attachment CMB-4:** Phase 1 Revenue Requirement
- Petitioner's Exhibit No. 2, **Attachment CMB-5:** Phase 2 Exemplar Revenue Requirement

Q. WERE THESE ATTACHMENTS OR SCHEDULES PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

III. REVENUE REQUIREMENT

Q. WHAT IS THE REVENUE INCREASE REQUESTED BY CEI SOUTH?

A. As reflected on **Schedule A-1**, the Company seeks a total revenue increase of $118,757,693 utilizing the calendar year 2025 as the forecasted test year, with rate base and capital structure balances forecasted as of December 31, 2025. This is necessary to allow the Company the opportunity to earn a fair and reasonable return on its investment at a proposed return on equity of 10.40%. The return on equity is set forth in the capital structure (**Schedule D-1**) sponsored by Petitioner's Witness Jerasa.

Q. WHY IS CEI SOUTH SEEKING RATE RELIEF IN THIS PROCEEDING?

A. In Cause No. 44910, the Company sought and received Commission approval under Ind. Code ch. 8-1-39 (the "TDSIC Statute") of a seven-year TDSIC plan, which started in 2017 and completes in 2023 (the "44910 TDSIC Plan" or "2017 – 2023 TDSIC Plan"). The TDSIC Statute requires that the Company file a base rate case prior to the completion of a seven-year plan, which, for the Company, is before the end of 2023.

In addition, **Schedule A-1** demonstrates there is a financial need that currently exists. Petitioner's Exhibit No. 20 demonstrates that rate base is forecasted to grow by more than 50% from December 31, 2023 to the end of the test year, and this is largely driven by the placement in service of new generation for which the Commission has issued a certificate of public convenience and necessity ("CPCN"). In addition, it has been well over a decade since the Company last filed a petition seeking a general increase in rates and charges. Petitioner's Witness Rice explains that over the past sixteen years between test years and rate base cutoff periods between rate cases, the Company has proactively taken measures that have allowed us to delay a general rate case. Nevertheless, CEI South's current rates are simply insufficient.

Q. WHAT IS THE RATE OF RETURN FOR THE TEST YEAR, ABSENT RATE RELIEF AS PROPOSED IN THIS PROCEEDING?

A. Without a base rate case, the Company is forecasting a rate of return of 3.91% for calendar year 2025. This compares to the proposed rate of return of 7.06%.

IV. TEST YEAR

Q. WHAT IS THE HISTORIC BASE PERIOD AND THE FORWARD-LOOKING TEST YEAR USED IN SUPPORT OF THE COMPANY'S RATE CASE?

A. The Company's historic base period is the twelve months ended December 31, 2022. This represents the most recent financial data available included in the FERC Form 1 that was submitted to the Commission for 2022. The Company's forward-looking test year is the forecasted twelve months ending December 31, 2025.

Q. IS 2025 APPROPRIATE FOR THE FORWARD-LOOKING TEST YEAR?

A. Yes. This is a twelve-month period beginning not later than 24 months after the date the petition in this case has been filed. The year ending December 31, 2025, with appropriate adjustments, is an appropriate test year since it is representative of the ongoing operations and economic conditions.

The testimony of Petitioner's Witness Stephanie E. Gray will support the 2025 forecasting process in further detail and support the 2025 forecasted net operating income statement (including both revenues and operating expenses). Petitioner's Witnesses Stephen R. Rawlinson, F. Shane Bradford, and Ronald W. Bahr will support the capital expenditure forecast. I am sponsoring the forecasted and adjusted rate base (**Schedule B**) and adjusted net operating income statement at present and proposed rates (**Schedule C**), both of which are derived from these 2025 forecasts.

Q. HOW DID THE COMPANY DEVELOP ITS PROPOSED REVENUE REQUIREMENT?

A. As discussed in further detail by Petitioner's Witness Gray, CEI South developed the 2025 forecasted data with input provided by operations and allocated costs discussed by Petitioner's Witness Christopher G. Wood. Workpapers in support of the forecasted data are part of <u>Petitioner's Exhibit No. 20</u>. The forecasted data begins with the end of the historic base period and forecasts across the bridge periods (calendar years 2023 and 2024) and then on through the future test year (calendar year 2025). The forecast data components were classified within the appropriate FERC USoA for presentation within the revenue requirement schedules. Petitioner's Witness Gray supports the unadjusted test year levels for all income statement components. These are presented by FERC account monthly in **Schedule C-1.1** in <u>Petitioner's Exhibit No. 20.</u> Later in my testimony, I will discuss and sponsor necessary adjustments to the forecasted amounts.

Q. DOES THE COMPANY PROPOSE TO PHASE IN RATES FOLLOWING THE ISSUANCE OF AN ORDER IN THIS CAUSE?

A. Yes. The Company proposes that the rates should be set in a minimum of three phases.

Q. PLEASE DESCRIBE PHASE 1.

A. Upon issuance of an Order in this Cause, the Company proposes to implement rates under Phase 1 based on the actual rate base and capital structure as of December 31, 2023. As described below, revenues and O&M expense will be updated to November 2024, rather than the beginning of the test year.

Q. PLEASE DESCRIBE PHASE 2.

A. For Phase 2, the Company proposes to reflect most of the pro forma test year results of operations, updated to reflect the actual rate base and capital structure as of the December 31, 2024. We will implement rates as soon as possible following the beginning of the test year.

Q. PLEASE DESCRIBE PHASE 3.

A. For Phase 3, the Company proposes to update to reflect the fully adjusted test year and the actual rate base and capital structure as of the end of the test year. Phase 3 will be implemented as soon as possible following the end of the test year.

Q. HAS THIS THREE-PHASE APPROACH BEEN PROPOSED IN INDIANA GENERAL RATE CASES?

A. Yes. It is modeled after the approach proposed by Indiana American Water Company in Cause No. 45870.

Q. WHAT PROCESS DO YOU PROPOSE FOR THE PHASE 1 IMPLEMENTATION?

A. Phase 1 will take effect as soon as possible following issuance of the Order in this Cause and the Company's submission of the tariff and any required compliance filing. Phase 1 rates will be based upon the actual capital structure and rate base as of December 31, 2023. The Company has included a forecast of this information in its case-in-chief filed with the petition (the petition and case-in-chief were filed in December 2023). Actual data will be submitted at the time Petitioner files rebuttal. As I will explain later, pro forma results of operations at present and proposed rates will be based upon the test year data, but the operating expenses in Phase 1 will begin with November 2024 for the twelve-month period. In addition, as I will explain later, certain revenue and expense adjustments will not be included or will not be included at the full amount at Phase 1 because the changes for which these adjustments are made will not occur until the test year. A presentation of the Phase 1 revenue requirement is set forth in **Attachment CMB-4**, which I will explain later in my testimony. Other than the findings that are contained in the Commission's Final Order in this Cause, all of the information that is necessary to calculate Phase 1 rates will be available before the evidentiary hearing. Accordingly, there should not be a need to build in a post-order review process for Phase 1 as there will be with later phases.

Q. WHAT PROCESS DO YOU PROPOSE FOR THE PHASE 2 UPDATE?

A. Phase 2 rates shall be implemented as soon as possible after January 1, 2025 and will be based on actual net plant certified to have been completed and placed in service no later than December 31, 2024. Phase 2 rates should be subject to refund during the review period described below in the event the Commission determines that less than the certified amount of plant additions was placed in service as of that date. Prior to implementation of Phase 2 rates, CEI South will certify the net original cost rate base and the actual capital structure as of December 31, 2024 and calculate the Phase 2 rates using those certified figures. CEI South will provide its certification to all parties to this proceeding. Other parties to this proceeding should be provided up to 60 days to verify or state any objection to the net plant in service numbers from those which CEI South certifies. A hearing should be convened, as necessary, to resolve any objections, and rates should be trued up, with carrying charges at the weighted average cost of capital, retroactive to the date Phase 2 rates were submitted. Pro forma results of operations for purposes of Phase 2 rates should reflect the adjusted test year results of operations except there are certain revenue and expense adjustments that will not have been fully reflected by the beginning of the test year. Accordingly, we will modify some of the adjustments, as I will explain later in my testimony. **Attachment CMB-5** is an example of what the Phase 2 rate implementation would be, using the currently forecasted rate base and capital structure as of the beginning of the test year. I will explain this Attachment in further detail later in my testimony. Actual Phase 2 rates will be based upon the beginning-of-test-year submission.

Q. WHAT PROCESS DO YOU PROPOSE FOR THE PHASE 3 UPDATE?

A. The same process as with Phase 2, except using the end of test year rate base and capital structure. In addition, the pro forma results of operations will be based upon the fully adjusted test year presented in <u>Petitioner's Exhibit No. 20</u>.

Q. ARE THERE ANY INTERIM STEPS TO THE THREE-PHASE INCREASE YOU HAVE DESCRIBED?

A. Yes, up to three additional interim steps between Phases 2 and 3. The Company has been authorized to accrue post-in-service carrying costs ("PISCC") for each of the combustion turbines ("CTs") approved in Cause No. 45564 and the Posey Solar project approved in Cause No. 45847. The CTs and Posey Solar are both projected to be placed in service during mid-test year. If the PISCC on these projects continues to accrue until the end of the test year, rate base and Phase 3 rates will be higher than if these projects were reflected in rates at an earlier time. As such, CEI South would propose to implement interim steps to reflect the additional after-tax return and depreciation expense on each of these projects (each CT, in the event there is a delay in implementation between the two, and Posey Solar) using the capital structure in effect at the beginning of the test year and used for Phase 2. These interim steps would take effect upon filing of a certification in this Cause that the plant in question is in service. For GAAP purposes, prioritization of recovery upon implementation of each interim step should mirror what presently occurs in various rider filings, with the first dollars recovered collecting the PISCC (both debt and equity) related to these investments. The same interim-subject-to-refund basis as for Phases 2 and 3 would apply, with the same time period for other parties to raise objections. Because the number and timing of interim steps is dependent on the actual in-service dates, one cannot reliably predict precisely how many interim steps there will be, when they will occur, the overall increase at each step, or the overall ultimate reduction in Phase 3 rates from using interim steps. As such, the overall revenue requirement in <u>Petitioner's Exhibit No. 20</u> is presented as if there were no interim steps.

V. <u>REVENUE REQUIREMENT SCHEDULES</u>

Q. PLEASE GENERALLY DESCRIBE THE STRUCTURE OF THE REVENUE REQUIREMENT SCHEDULES AND WORKPAPERS INCLUDED IN <u>PETITIONER'S EXHIBIT NO. 20</u>.

A. The revenue requirement schedules support the proposed final rates at Phase 3. The Company has included within <u>Petitioner's Exhibit No. 20</u> all of its revenue requirement schedules and associated workpapers in native format, with printed copies of the schedules referenced below in <u>Petitioner's Exhibit No. 21</u>. As previously explained, these calculations are organized by schedule to differentiate the components and more clearly explain each of the factors utilized to derive the proposed revenue requirement and revenue increase.

- **A Schedules** – Revenue Increase and Financial Summary, including the gross revenue conversion factor support.
- **B Schedules** – Rate Base, and all components with pro forma adjustments.

- **C Schedules** – Income Statement and all pro forma adjustments.
- **D Schedules** – Capital Structure and Weighted Average Cost of Capital.
- **E Schedules** – Revenue Proof and Bill Impacts, referred to as the "Revenue Model."

VI. A SCHEDULES

Q. PLEASE DESCRIBE SCHEDULE A-1.

A. **Schedule A-1** is the overall financial summary including rate base, operating income, rate of return, and the proposed revenue increase. As indicated on this summary schedule and as I explained previously, the forecasted rate of return on a pro forma basis for calendar year 2025 without a general rate case is 3.91%, which is significantly below the level required to provide CEI South with a fair and reasonable return as recommended by Petitioner's Witnesses Jerasa and Bulkley.

Q. PLEASE EXPLAIN THE CALCULATION OF THE REVENUE DEFICIENCY FOR THE FORWARD-LOOKING TEST YEAR OF DECEMBER 31, 2025.

A. The revenue deficiency is determined by multiplying the test year ending rate base of $2,820,468,760 by the proposed rate of return (equal to the weighted average cost of capital) of 7.06% to arrive at the required operating income of $199,125,094. The difference between the required operating income and the pro forma operating income without this rate case results in the operating income deficiency of $88,822,861. The operating income deficiency is multiplied by the Gross Revenue Conversion Factor ("GRCF") to arrive at the revenue deficiency of $118,757,693.

Q. IS THE PRO FORMA NET OPERATING INCOME WITHOUT THIS RATE CASE THE SAME THING AS THE PRO FORMA NET OPERATING INCOME AT THE RATES THAT ARE IN EFFECT AS OF THE DATE THE PETITION WAS FILED IN THIS CASE?

A. No. CEI South believes that what matters most to customers is how much rates will change as a result of this case. The need for a rate increase is primarily driven by the increase in rate base, and a significant amount of that rate base increase is related to TDSIC and federal mandate projects that have already been reviewed and approved by the Commission and would be reflected in rates even without this case. This means that an average customer's rates would increase to reflect cost recovery associated with these approved projects even if this case had not been filed. The unadjusted test year revenues reflect these increases that would naturally occur between now and the end of the test year had this case not been filed. As such, the pro forma net operating income without this rate case uses the rates that would be in effect based upon a December 31, 2025 rider cutoff had this case not been filed. Those are not the same rates that are in effect in December 2023. While the schedules will refer to this as the pro forma "present rates," that language means the pro forma results at the rates that would presently be in effect without this case.[2] This is the same presentation that the Company used in its most recent gas base rate case, Cause No. 45447.

Q. PLEASE DESCRIBE THE GRCF THAT IS SHOWN ON SCHEDULE A-2.

A. **Schedule A-2** presents the calculated GRCF of 1.3370172 which is used to determine the overall revenue increase on **Schedule A-1**. The GRCF uses the current statutory federal income tax rate of 21% and the statutory Indiana State Tax Rate of 4.90% effective July 1, 2021. The GRCF calculates the incremental gross revenue required to generate the incremental dollar of net operating income accounting for the effects of taxes, IURC fees, and uncollectible accounts.

Q. HOW DID THE COMPANY DETERMINE THE UNCOLLECTIBLE EXPENSE (OR BAD DEBT) RATE USED IN THE CURRENT PROCEEDING?

A. The uncollectible expense rate of 0.300% as depicted in the GRCF was determined based on the ratio of the three-year (2020 – 2022) average of (1) bad debt charge offs, net of collections, to (2) total revenues.

[2] At the time of filing the Petition in this Cause, CEI South has proceedings pending in Cause Nos. 45894 and 45903. The revenue requirement model filed with the Petition assumes that CEI South's relief in those Causes will be granted. To the extent the Commission's Final Order in those Causes differs from that proposed by CEI South, CEI South will update Petitioner's Exhibit No. 20 and Petitioner's Exhibit No. 21 to reflect the result of any changes. Orders in these cases could affect the total cost recovery under the 45894 TDSIC Plan as well as the timing of recovery. It could also affect the method of recovery of ash pond remediation costs pending in Cause No. 45903.

VII. B SCHEDULES

Q. PLEASE DESCRIBE THE COMPONENTS OF SCHEDULES B, RATE BASE.

A. The purpose of the B Schedules is to present the forecasted rate base as of December 31, 2025. The rate base summary is shown on **Schedule B-1**, reflecting the total rate base forecasted of $2,820,468,760. This schedule includes various components from other B Schedules, as referenced on **Schedule B-1**. The supporting schedule references are: **B-2**, plant in service; **B-3**, reserve for accumulated depreciation; and **B-4**, other rate base components, which include fuel stock, utility materials and supplies, material storeroom expense, allowance inventory, and regulatory assets related to PISCC for capital expenditure programs that will have been approved.

Q. PLEASE DESCRIBE GENERALLY HOW RATE BASE IS CALCULATED FOR THIS PROCEEDING.

A. CEI South began with the actual rate base as of December 31, 2022. As described in the testimony of Petitioner's Witnesses Gray, Rawlinson, Bradford, and Bahr, the Company has forecasted capital expenditures for calendar years 2023, 2024, and 2025 as part of its capital investment planning process. As associated investments are placed in service, these expenditures, along with the estimated accumulated depreciation, have been included as net utility plant in service in the Company's December 31, 2025 forecasted rate base balance. As I discuss in greater detail later in my testimony, for other rate base components included in working capital, the Company has either maintained the actual December 31, 2022 balances or forecasted the balances based on activity during the 2023, 2024, and 2025 periods.

Q. PLEASE DESCRIBE SCHEDULE B-1.1.

A. **Schedule B-1.1** presents a roll-forward of the rate base as determined in the Company's last rate case to the amounts forecasted in this proceeding, by FERC major class of plant. The schedule starts with the comparison of the last authorized rate base in Cause No. 43839, as of June 30, 2009, to the rate base as of December 31, 2025, noting the changes over this sixteen-year period. Petitioner's Witnesses Rawlinson, Bradford, and Bahr discuss in greater detail in their testimony the activity that comprises the material changes in gross plant since 2009.

From the actual December 31, 2022 balances, the 2023 activity is added in Column D of **Schedule B-1.1** to calculate the December 31, 2023 rate base balance. The 2023 capital investment plan is supported by Petitioner's Witnesses Rawlinson, Bradford, and Bahr. The Company has taken these capital expenditures and determined the estimated activity that will be placed in service during calendar year 2023, using the same information that supports the calculation of forecasted depreciation expense as discussed in greater detail by Petitioner's Witness Gray. The difference between the activity included in rate base in 2023 and the capital investment plan dollars supported by Petitioner's Witnesses Rawlinson, Bradford, and Bahr is the exclusion of any year-end 2023 construction work in progress ("CWIP") activity, which is not included in rate base at Phase 1 in this proceeding. The estimated Phase 1 rate base amount, as of December 31, 2023 in Column E, is forecasted to be $1,827,211,874.

The same process is followed for 2024 capital investment plan activity. Activity for 2024 is included in Column F to forecast the December 31, 2024 rate base balance. The estimated Phase 2 rate base amount, as of December 31, 2024 in Column G, is forecasted to be $1,930,379,152. Following the same process, 2025 capital investment plan activity is included in Column H to forecast the December 31, 2025 rate base balance. The estimated Phase 3 rate base amount, as of December 31, 2025 in Column I, is forecasted to be $2,820,468,760, as used within the revenue requirement schedules to determine the requested increase in this proceeding.

Later in my testimony, I will discuss adjustments that have been included in the forecasted December 31, 2025 rate base. These adjustments have been captured in the forecasted periods.

Q. PETITIONER'S WITNESS BRADFORD DESCRIBES IN HIS TESTIMONY THE RETIREMENT OF WARRICK UNIT 4. IS THAT RETIREMENT REFLECTED IN YOUR B SCHEDULES?

A. Yes. As Petitioner's Witness Bradford notes, Warrick Unit 4 has been jointly owned and operated by Alcoa Power Generating Inc. ("Alcoa") and CEI South since 1968 pursuant to a Joint Operating Agreement ("JOA"). That original agreement had an operating term of [redacted]. An Amendment to the JOA for Warrick Unit 4 was executed in 2017 (the "2017 Amendment"). Under the 2017 Amendment, [redacted]

[redacted] The term of the 2017 Amendment continued until December 31, 2023 and thereafter until terminated by written notice by either party. [redacted] provided timely written notice to terminate, which now triggers a process [redacted] As a result of this sequence of events, the unit is no longer used and useful as of December 31, 2023 and is being retired from the books and records as of that date. This is considered a normal retirement, and the B Schedules reflect the journal entries prescribed by the FERC Uniform System of Accounts to reflect the retirement – debiting Account 108 and crediting Utility Plant in Service for the original cost. As I noted, there is a process under the 2017 Amendment [redacted] If and when there is a final agreement with Alcoa, the Company expects it will need to file a proceeding with the Commission.

Q. IS ALL OF THE PLANT IN SERVICE INCLUDED IN RATE BASE USED AND USEFUL IN PROVIDING UTILITY SERVICE?

A. The plant in service as of December 31, 2022 is rendering service to CEI South's customers receiving service subject to the Commission's jurisdiction and is used and useful in that regard. The plant in service in the forward-looking test year is anticipated to be used and useful to render service to the Company's customers. The phase-in process that I have described previously will provide assurance that only plant that is placed in service will be reflected in rates.

Q. PLEASE DESCRIBE SCHEDULES B-2 AND B-2.1?

A. **Schedule B-2** presents the gross plant in service forecasted for December 31, 2025 by major FERC class of plant. **Schedule B-2.1** is the supporting detail for this schedule, subdividing the class of plant by account and sub-account.

Q. HAS CEI SOUTH PROPOSED ADJUSTMENTS TO THE FORECASTED RATE BASE AS OF DECEMBER 31, 2025?

A. Yes. On **Schedule B-2 and B-2.1**, specifically in the "Adjustments" column, gross plant in service forecasted as of December 31, 2025 includes three primary adjustments. The adjustments have both gross plant and accumulated reserve impacts. The first adjustment relates to the Midcontinent Independent System Operator ("MISO") Regional Expansion Criteria and Benefit ("RECB"). The second adjustment relates to a 50 MW Solar Farm in Troy, Indiana ("Troy Solar").[3] The third adjustment relates to a 130 MW solar farm in Pike County, Indiana ("Crosstrack Solar").[4]

Q. PLEASE DESCRIBE THE ADJUSTMENT ASSOCIATED WITH MISO RECB INVESTMENTS.

A. This adjustment reflects the removal of the utility plant in service and associated accumulated depreciation of RECB transmission plant in service. Pursuant to the Commission's Order in Cause No. 43111, CEI South has treated MISO-approved RECB investments as FERC jurisdictional. This accounting treatment was affirmed in CEI South's following base rate case, Cause No. 43839. As a result of this treatment, CEI South has removed the revenues, operating expenses, and associated rate base related to these investments, and treated them as non-jurisdictional. CEI South continues this accounting practice of treating RECB projects as non-jurisdictional and recovery is handled outside of base rate cases.

Q. PLEASE DESCRIBE THE ADJUSTMENT ASSOCIATED WITH TROY SOLAR.

A. This adjustment reflects the removal of the utility plant in service and associated accumulated depreciation of the assets associated with Troy Solar. CEI South was granted authority to recover the costs of Troy Solar using a levelized rate through the CECA annual tracker. As part of the settlement agreement in Cause No. 45086, the Order states that the project will be excluded from the calculation of the Company's electric revenue requirement in each rate case over the life of the project. Specifically, as it pertains to this adjustment, the Order states that the project will be excluded from rate base in such future base rate cases.

Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO CROSSTRACK SOLAR PROJECT.

A. This adjustment reflects the removal of the utility plant in service and associated accumulated depreciation of the assets associated with Crosstrack Solar. CEI South was granted authority to recover the costs of Crosstrack Solar using a levelized rate

[3] IURC Cause No. 45086, March 20, 2019.
[4] IURC Cause No. 45754, January 1, 2023.

through the CECA annual tracker. The unadjusted forecast assumes that Crosstrack Solar would be placed in service during the test year as was detailed in Cause No. 45754. Similar to the way CEI South accounts for Troy Solar, per the Final Order in Cause No. 45754, when completed CEI South would have excluded Crosstrack Solar from rate base in future base rate cases. Petitioner's Exhibit No. 20 has been prepared based upon that assumption; therefore, the net book value of the assets have been excluded from rate base. As it is, CEI South [redacted] Crosstrack Solar and its commercial operation date has been updated to 2026, which is beyond the test year in this Cause. While the schedules may reflect adjustments for Crosstrack Solar as a levelized rate (similar to Troy Solar), none of the costs associated with Crosstrack Solar should be included because it is beyond the test year.

Q. PLEASE DESCRIBE SCHEDULES B-3 AND B-3.1.

A. **Schedule B-3** is the accumulated depreciation and amortization balances by FERC account and subaccount, forecasted as of December 31, 2025. **Schedule B-3.1** summarizes the corresponding adjustments for the test year, discussed earlier in my testimony, to the accumulated depreciation reserve by FERC account. Each of these adjustments to gross plant in service also carried with it a corresponding adjustment to the accumulated reserve account. The net impact of each is summarized in the table below:

Table CMB-1 – Net Plant Adjustments

Description	Gross Plant In Service (Schedule B-2.1)	Accumulated Depreciation Reserve (Schedule B-3.1)	Net Adjustments to Rate Base
MISO RECB	$(162,709,742)	$52,120,703	$(110,589,039)
Troy Solar	$(97,671,665)	$14,193,921	$(83,477,744)
Crosstrack Solar	$(291,140,060)	$2,079,572	$(289,060,488)
Total	$(551,521,467)	$68,394,196	$(483,127,271)

Q. WILL CEI SOUTH BE PROPOSING NEW DEPRECIATION RATES IN THE PROCEEDING?

A. Yes. CEI South is proposing new depreciation rates effective upon an order in this proceeding. The "Depreciation Study" and the proposed depreciation rates are supported by the testimony of Petitioner's Witness Spanos. CEI South included the annualized depreciation expense based on December 31, 2025 plant in service balances in its revenue requirement schedules. The new depreciation accrual rates are forecasted to take effect in Phase 1, and the forecasted net original cost rate bases for Phases 2 and 3 reflect an effective date of the new depreciation rates in approximately November 2024. As explained by CEI South Witness Richard C. Leger, in an effort to mitigate the rate impact of the requests in this case, CEI South is not seeking to implement the depreciation rates for the new combustion turbines and Posey Solar that are recommended by Mr. Spanos. Instead, we are proposing to continue to use the depreciation rates for these projects that were approved in Cause Nos. 45564 and 45847. Depreciation rates for these generating stations will be reviewed on the next occasion that CEI South conducts a depreciation study for its electric plant.

Q. PLEASE DESCRIBE SCHEDULE B-3.2.

A. **Schedule B-3.2** presents the calculation of the pro forma level of depreciation expense, by FERC account and subaccount, using the forecasted and adjusted December 31, 2025 gross plant in service and current approved depreciation rates, as compared to those depreciation rates proposed by Petitioner's Witness Spanos. This schedule shows that the current approved depreciation rates would result in annual depreciation on forecasted gross plant in service of $122.478 million, whereas the proposed depreciation rates applied to the same asset base would produce annual depreciation of $143.047 million.

Q. PLEASE DESCRIBE SCHEDULE B-4.

A. **Schedule B-4** presents the other rate base component items, forecasted as of December 31, 2025. Within this schedule, there are eleven specific items included in rate base as working capital components.

The first four components are: (1) fuel stock; (2) utility materials and supplies; (3) storeroom expenses associated with the materials and supplies; and (4) allowance inventory. Each balance noted on Workpaper WPB-4.1 reflects a thirteen-month average of the actual balances for CEI South for the monthly periods ended December 31, 2022, with the exception of fuel stock and utility materials and supplies. Fuel stock and utility materials and supplies were adjusted to reflect the retirement of A.B. Brown and Warrick Unit 4, as detailed in Workpapers WPB-4.1a and WPB-4.1b. The Company does not generally forecast these balances as part of its forecasting process, so the Company has maintained the actual, historical balances as the basis for inclusion in rate base in this proceeding.

The remaining seven components are regulatory assets associated with the deferral of PISCC associated with projects or programs forecasted to be approved as of December 31, 2025. The first regulatory asset is related to the Company's Advanced Metering Infrastructure ("AMI") project. The accounting treatment for this deferral was approved in Cause No. 44910. The second regulatory asset is related to the Company's initial TDSIC plan. The accounting treatment for this PISCC deferral was originally approved in Cause No. 44910, with amounts approved in subsequent TDSIC proceedings. The third regulatory asset is related to the Company's second TDSIC plan.[5] The accounting treatment for this PISCC deferral has been sought in Cause No. 45894. The fourth regulatory asset is related to the Company's annual CECA proceeding.[6] The accounting treatment for this PISCC deferral was originally approved in Cause No. 44909, with amounts approved in subsequent CECA proceedings. The fifth regulatory asset is related to the Company's annual ECA proceeding. The accounting treatment for this PISCC deferral was originally approved in Cause No. 45052, with amounts approved in subsequent ECA proceedings. The sixth regulatory asset is related to the PISCC associated with the F.B. Culley East Ash Pond Closure. The accounting treatment for this deferral has been sought in Cause No. 45903. It includes the PISCC that is forecasted to accrue after the completion of the project and before the commencement of recovery through the ECA, as I explained in my direct and rebuttal testimony in that Cause.[7] The seventh regulatory asset is related to the PISCC associated with the natural gas Combustion Turbines ("CTs"). The accounting treatment for this deferral was originally approved in Cause No. 45564.[8]

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[5] See note 2, supra.

[6] In addition to the PISCC deferral originally approved in Cause No. 44909 and amounts separately approved in subsequent CECA proceedings, this regulatory asset also includes PISCC associated with Posey Solar, approved in Cause No. 45847.

[7] See note 2, supra.

[8] To the extent the proposed additional interim phases are granted, the forecasted level of PISCC associated with the CTs and Posey Solar will be reduced. It will only be the actual amount that is accrued for purposes of the implementation of Phase 3 rates.

VIII. C SCHEDULES

Q. PLEASE DESCRIBE THE COMPONENTS OF SCHEDULES C, INCOME STATEMENT AND ADJUSTMENTS.

A. The C Schedules present the calculation of CEI South's operating income for the test year, adjusted to capture items that were not within the 2025 forecast.

Q. PLEASE DESCRIBE SCHEDULE C-1.

A. **Schedule C-1** is the pro forma income statement showing adjusted revenues and expenses under what would be the present customer rates without this case and the impact of the proposed revenue increase. This schedule shows that under the rates without this case, the Company's pro forma rate of return forecasted for 2025 is 3.91%. The revenue increase calculated within **Schedule E-4** is based on the rates submitted as part of CEI South's proposed tariff supported by Petitioner's Witnesses Taylor and Rice. By adjusting the current adjusted operating income statement by the impact of the proposed rates, this schedule shows that the Company's rate of return will increase to 7.06%, which is the requested Rate of Return reflected on **Schedule D-1** and discussed by Petitioner's Witness Jerasa.

Q. PLEASE DESCRIBE SCHEDULE C-1.1.

A. **Schedule C-1.1** presents a more detailed view of the pro forma income statement, through net operating income, for the twelve months ended December 31, 2025. Column A presents the unadjusted income statement, by FERC Account, for the 2025 forecast as supported by Petitioner's Witness Gray. Column B summarizes the pro forma adjustments required to the test year. These pro forma adjustments are detailed within the various **C-3 Schedules** I will discuss later in my testimony. These adjustments are numbered sequentially starting with **Schedule C-3.1** and presented by FERC Account, shown on the far-left side of **Schedule C-1.1**. Column C then represents the pro forma income statement at present rates. Column D captures the revenue increase, as noted on **Schedule C-1**, to arrive at the pro forma at proposed rates income statement presented in Column E. The version of **Schedule C-1.1** in native format as presented in Petitioner's Exhibit No. 20 can be expanded to show the breakdown of the Test Year Unadjusted column on a monthly basis.

Q. IN YOUR OPINION, DOES SCHEDULE C-1.1, COLUMN E ACCURATELY REFLECT CEI SOUTH'S PROJECTED OPERATING RESULTS DURING THE TEST YEAR, WITH APPROPRIATE ADJUSTMENTS?

A. Yes.

Q. PLEASE DESCRIBE SCHEDULE C1.1a.

A. **Schedule C-1.1a** presents a summarized view of the pro forma income statement, through net operating income, for the twelve months ended December 31, 2025. Column A presents the unadjusted income statement for 2025 forecasted as supported by Petitioner's Witness Gray. Column B summarizes the pro forma adjustments required to the test year. Column C then represents the pro forma income statement at the rates that would be in effect without this case. Column D captures the revenue increase, as noted on **Schedule C-1**, to arrive at the pro forma at proposed rates income statement presented in Column E.

Q. PLEASE DESCRIBE SCHEDULE C-2.

A. **Schedule C-2** reflects the Company's operating income for the test year, the twelve months ended December 31, 2025, adjusted for several items as identified in **Schedule C-3** (Summary of Adjustments to Operating Income). These adjustments will be discussed later in my testimony.

Q. PLEASE DESCRIBE SCHEDULE C-2.1.

A. **Schedule C-2.1** provides the detail of the revenue and expenses for the test year, by account in accordance with FERC USoA. The detail provided on this schedule represents the test year amounts and is unadjusted, as supported by Petitioner's Witness Gray.

Q. PLEASE DESCRIBE SCHEDULE C-3.

A. The amounts as indicated on **Schedule C-3** represent a summary of the adjustments which are detailed on **Schedules C-3.1** through **C-3.39**. The adjustments are necessary to reflect the annual effect of expenses and revenues for ratemaking purposes and establish test year expense and revenue levels appropriate for ratemaking purposes.

Q. PLEASE DESCRIBE SCHEDULES C-3.1 THROUGH C-3.12.

A. **Schedules C-3.1** through **C-3.12** are pro forma adjustments to the Company's test year gross revenues and represent an overall net increase in test year revenues.

Q. HAS CEI SOUTH PROVIDED DETAILED CALCULATIONS SUPPORTING THE DETERMINATION OF THE PRO FORMA LEVEL OF OPERATING REVENUES WITHIN THE DOCUMENTS SUBMITTED IN THIS PROCEEDING?

A. Yes. The Company has included as workpapers documents that support these adjustments, and specifically support for the amount ultimately utilized on **Schedule E-4.1** for the Revenue Proof, which is supported by Petitioner's Witness Taylor. These workpapers, referred to below as the "Revenue Model" provide detailed calculations of the test year and pro forma level of operating revenues by Rate Schedule.

Q. PLEASE DESCRIBE SCHEDULE C-3.1.

A. **Schedule C-3.1** reflects the change to operating revenues to remove revenues from the forecast to match contracts in place that have been approved pursuant to Ind. Code § 8-1-2-24.

Q. PLEASE DESCRIBE SCHEDULE C-3.2.

A. **Schedule C-3.2** reflects adjustments associated with the TDSIC rider related to the 2017 – 2023 TDSIC Plan under Cause No. 44910 (the "44910 TDSIC" or "2017 – 2023 TDSIC Plan") and the 2024 – 2028 TDSIC Plan under Cause No. 45894 (the "45894 TDSIC" or "2024 – 2028 TDSIC Plan"). The 2025 forecast includes 100% of the 44910 TDSIC revenues but present rates only allow for the collection of 80% of the revenue requirement associated with the approved 44910 TDSIC investments. The 2025 forecast includes the recognition of this deferral authority, and includes the deferred amount forecasted; however, this amount should be removed from the test year operating revenues as present rates and charges do not include recovery of this balance. This adjustment removes the remaining 20% deferred for recovery. Note that the annual amortization of the 20% that will have been deferred up to the anticipated order date in this Cause is reflected in **Schedule C-3.21**. Additionally, this adjustment annualizes the level of 45894 TDSIC recovery that would be reflected in the TDSIC based upon a December 31, 2025 cutoff. Finally, the 2025 forecast includes recovery of 100% of the 45894 TDSIC costs based upon a December 31, 2025 cutoff. The rider allows for only the collection of 80% of the revenue requirement associated with the approved 45894 TDSIC investments. The remaining 20% is deferred for recovery. The 2025 forecast includes the recognition of this deferral authority and includes the deferred amount forecasted; however, this amount should be removed from the test year operating revenues as present rates and charges do not include recovery of this balance.

Q. PLEASE DESCRIBE SCHEDULE C-3.3.

A. **Schedule C-3.3** reflects the change in operating revenues and expenses for annualized CECA revenues and the removal of the levelized rate projects, Troy Solar and Crosstrack Solar, that are excluded from rate base. In addition, and similar to the TDSIC, this adjustment annualizes revenues in the 2025 forecast for assets in service through December 31, 2025 that are currently recovered through the CECA filing or would have been recovered through the CECA filing absent this base rate case. To clarify, Posey Solar has been authorized for recovery through the CECA to the extent not included in rate base in CEI South's general rate case. As such, had this case not been filed, Posey Solar would be reflected in the CECA and is therefore reflected in pro forma present rate revenues.

Q. PLEASE DESCRIBE SCHEDULE C-3.4.

A. **Schedule C-3.4** reflects adjustments associated with the ECA rider. The 2025 forecast includes 100% of the ECA revenues forecasted through December 31, 2025. This rider, currently authorized under Cause No. 45052, allows for the collection of 80% of the revenue requirement associated with the approved federally mandated projects. The remaining 20% is deferred for recovery within this base rate case in **Schedule C-3.23**. The 2025 forecast includes the recognition of this deferral authority and includes the deferred amount forecasted; however, this amount should be removed from the test year operating revenues as present rates and charges do not include recovery of this balance. This adjustment also annualizes the revenues forecasted to be recovered through the ECA based upon a cutoff at December 31, 2025. The adjustment also reflects a decrease in forecasted O&M recovery, which corresponds to the anticipated proceeds to be received for the sale of ash from the A.B. Brown Ash Pond Project approved in Cause No. 45280.

Q. PLEASE DESCRIBE SCHEDULE C-3.5.

A. **Schedule C-3.5** reflects the change in operating revenues for annualized Demand Side Management Adjustment ("DSMA") revenue and to allocate DSMA Over/Under recoveries to the rate classes from miscellaneous revenues.

Q. PLEASE DESCRIBE SCHEDULE C-3.6.

A. **Schedule C-3.6** reflects an allocation of MISO Cost and Revenue Adjustment ("MCRA") Over/Under recovery to the rate classes from miscellaneous revenues and to match forecasted MCRA revenues with recoverable expenses.

Q. PLEASE DESCRIBE SCHEDULE C-3.7.

A. **Schedule C-3.7** reflects an allocation of Reliability Cost and Revenue Adjustment ("RCRA") Over/Under recovery to the rate classes from miscellaneous revenues and to match forecasted RCRA revenues with recoverable expenses. In addition, this adjustment reflects anticipated purchases of capacity from a demand response aggregator.

Q. PLEASE DESCRIBE SCHEDULE C-3.8.

A. **Schedule C-3.8** reflects adjustments to excess accumulated deferred income tax ("EDIT"). Currently, the Company is returning to customers the EDIT associated with the Tax Cuts and Jobs Act through the TDSIC, pursuant to the Settlement Agreement approved in Cause No. 45032 S21. As explained by Witness Rice, the Company plans to continue to pass back this EDIT per that Settlement Agreement outside of base rates, but now is proposing to do so through the Tax Adjustment Rider ("TAR"). This adjustment increases pro forma revenues by the amount forecasted to be passed back during the test year, as it will not be passed back through base rates but through the TAR. In addition, to avoid passing the amounts back twice, a similar adjustment has been made to remove the pass-back in the calculation of federal income tax.

Q. PLEASE DESCRIBE SCHEDULE C-3.9.

A. This is similar to Adjustment C-3.8. In Cause No. 45722, the Commission approved the issuance of Securitization Bonds. That Order also required that the EDIT associated with A.B. Brown (which was similarly being flowed back to customers through the TDSIC) be amortized and returned to customers over the life of those Securitization Bonds. Effective upon closing of those bonds, the Company filed a revision to its EDIT credit in the TDSIC to make this change. As such, the EDIT associated with A.B. Brown is being flowed back to customers over the life of the bonds via the TDSIC. The Company will continue to flow back this EDIT over the life of the bonds but is instead proposing to reflect the pass-back through the new TAR. This adjustment removes the forecasted pass-back from base rate revenues, as it will be reflected outside base rates. **Schedule C-3.9** reflects this adjustment.

Q. PLEASE DESCRIBE SCHEDULE C-3.10.

A. **Schedule C-3.10** reflects the change in operating revenues and operating expenses for normalized FAC associated with F.B. Culley 2.

Q. PLEASE DESCRIBE SCHEDULE C-3.11.

A. **Schedule C-3.11** reflects the removal of operating revenues and operating expenses for RECB projects. The revenues and expenses associated with these projects relate to non-jurisdictional transmission projects under the MISO Transmission Expansion Plan ("MTEP") process. The treatment to remove the impact of these projects was established in Cause No. 43111 and affirmed in Cause No. 43839.

Q. PLEASE DESCRIBE SCHEDULE C-3.12.

A. **Schedule C-3.12** reflects the change in operating revenues and operating expenses for various adjustments to Miscellaneous Revenue to synchronize to the forecasted test year revenue.

Q. PLEASE DESCRIBE SCHEDULE C-3.13.

A. **Schedule C-3.13** represents an adjustment of $414,956 to increase test year expenses for the estimated incremental rate case costs associated with this proceeding. Line 1 reflects the total estimated cost of the current proceeding, $2,074,780. Line 2 reflects the amortization period of five years. CEI South has proposed a five–year TDSIC Plan and, upon Commission approval of that Plan, CEI South must file a general rate case before the end of that Plan. That is the basis for the five-year amortization period. Line 3 reflects the annual pro forma amortization. If a rate case is filed before the end of the five year amortization, CEI South would propose to recover the unamortized balance in its next general rate case.

Q. PLEASE DESCRIBE SCHEDULE C-3.14.

A. **Schedule C-3.14** represents the increase in operating expenses of $108,034 associated with the proposed five year amortization of COVID-19 deferred expenses. Pursuant to the Commission's June 29, 2020 Order in Cause No. 45380 following the mandated moratorium on utility disconnections, CEI South established a regulatory asset to track COVID-19 related impacts. In combination with the temporary disconnection moratorium, the Commission's Orders with respect to extended payment plans, deferrals, and other arrangements have resulted in an increase in uncollectible accounts. Since the Commission's authorization to do so in its June 29, 2020 Order in Cause No. 45380, the Company has deferred bad debt expense associated with COVID-19 in a regulatory asset. We have chosen the same amortization period as the life of rates in this Cause.

Q. PLEASE DESCRIBE SCHEDULE C-3.15.

A. **Schedule C-3.15** reflects the pro forma level of IURC Fees and is determined by applying a rate of 0.147% (Line 2) to the adjusted test year operating revenues of $741,397,336 (Line 1). The pro forma increase of $211,836 on Line 5 was calculated as the difference between the pro forma level of IURC assessment fee (Line 3) and the unadjusted test year assessment fee amount (Line 4).

Q. PLEASE DESCRIBE SCHEDULE C-3.16.

A. **Schedule C-3.16** in the amount of $9,946,645 reflects an adjustment to annualize depreciation expense based on plant in service as of December 31, 2025 at the proposed depreciation rates discussed above. This is calculated by taking the annualized depreciation expense of $143,046,671 as shown in **Schedule B-3.2** less the adjustments for TDSIC annualized depreciation expense of $4,004,864 (**Schedule C-3.2**), for CECA annualized depreciation expense of $12,011,430 (**Schedule C-3.3**), for ECA annualized depreciation expense of $459,384 (**Schedule C-3.4**), and the test year depreciation expense of $116,624,348 (**Schedule C-2.1**).

Q. PLEASE DESCRIBE SCHEDULE C-3.17.

A. **Schedule C-3.17** includes expenses associated with Troy Solar and removes them from the revenue requirement calculation. CEI South was granted authority to recover the costs of Troy Solar using a levelized rate through the CECA annual tracker. As part of the Settlement Agreement in Cause No. 45086, the Order states that the project will be excluded from the calculation of the Company's electric revenue requirement in each rate case over the life of the project.

Q. PLEASE DESCRIBE SCHEDULE C-3.18.

A. **Schedule C-3.18** includes expenses associated with Crosstrack Solar and removes them from the revenue requirement calculation. CEI South was granted authority to recover the costs of Crosstrack Solar using a levelized rate through the CECA annual tracker. The adjustment is shown in this fashion for Crosstrack Solar even though, as I previously explained, Crosstrack Solar is not expected to be in service before the end of the test year.

Q. PLEASE DESCRIBE SCHEDULE C-3.19.

A. **Schedule C-3.19** reflects a pro forma adjustment increase of $38,459 in Vectren Utility Holdings, LLC ("VUH") shared services charges for the test year. The VUH shared services charge represents the centralization of the assets that service multiple utility jurisdictions, and the subsequent charging via a lease or rental charge as operating expense to the utilities. The shared services charge includes depreciation expense, property taxes, and a fair and reasonable return on net plant. The adjusted test year amount of $4,690,415 is based on the allocated share of forecasted plant at December 31, 2025, multiplied by the pre-tax rate of return proposed in this proceeding, with the return on the assets adding to the annual depreciation and property tax expense to determine the total shared services charge. This is consistent with the treatment of these costs in CEI South's most recent gas rate case, Cause No. 45447.

Q. PLEASE DESCRIBE SCHEDULE C-3.20.

A. **Schedule C-3.20** reflects the annual amortization expense associated with the AMI deferrals related to PISCC and deferred depreciation. Per the Final Order in Cause No. 44910 for TDSIC, accounting treatment was approved to accrue PISCC and to defer, without carrying costs, the depreciation associated with the AMI project. The total investment in the AMI project eligible for this deferred accounting authority was capped at $39 million and the total amount of deferred debt related to post-in-service carrying costs would not exceed $12 million. The deferred depreciation and deferred PISCC balance were approved to be recovered over a period of ten years, with the deferred depreciation being without carrying costs, in the Company's next electric rate case. The forecasted December 31, 2025 regulatory asset balance for AMI PISCC and depreciation is $16,435,272, with the amortization period representing the approved ten years.

Q. PLEASE DESCRIBE SCHEDULE C-3.21.

A. **Schedule C-3.21** reflects the annual amortization expense associated with the regulatory assets for the TDSIC approved in 2017 in Cause No. 44910 (the "44910 TDSIC"), and the TDSIC pending in Cause No. 45894 (the "45894 TDSIC"). Regulatory assets include PISCC and deferred depreciation, and 20% of the revenues. The PISCC and deferred depreciation regulatory assets have an amortization period representing the average remaining asset life of 34 years. The forecasted December 31, 2025 PISCC and deferred depreciation balance for the 44910 TDSIC is $24,003,107 and for the 45894 TDSIC is $7,463,195. In addition to these regulatory assets, the statute requires that the utility recover 80% of its revenues via its approved recovery mechanism, with the remaining amount deferred. The deferred revenues regulatory assets are being amortized over seven years.[9] The total annual amortization expense is $6,965,302 collectively for both TDSIC plans and all regulatory assets including PISCC, deferred depreciation, and the 20% revenue deferral. The deferrals will be updated with each phase and will not be included in the calculation until incurred.

Q. PLEASE DESCRIBE SCHEDULE C-3.22.

A. **Schedule C-3.22** reflects the annual amortization expense associated with the regulatory assets for CECA approved in 2019 in Cause No. 44909. The Company has recorded PISCC and deferred depreciation to regulatory assets, which have an amortization period representing the average remaining asset life of 27 years. In addition, O&M expense was deferred to a regulatory asset, which is proposed to be amortized over seven years. The total annual amortization expense is $994,415 collectively for all regulatory assets including PISCC, deferred depreciation, and O&M expense deferral.

Q. PLEASE DESCRIBE SCHEDULE C-3.23.

A. **Schedule C-3.23** reflects the annual amortization expense associated with the regulatory assets for ECA approved in 2019 in Cause No. 45052. The Company has

[9] See note 2, supra.

recorded PISCC and deferred depreciation to regulatory assets, which have an amortization period representing the average remaining asset life of 23 years. In addition to these regulatory assets, the statute requires that the utility recover 80% of its revenues via its approved recovery mechanism, with the remaining amount deferred. The deferred revenues regulatory asset is being amortized over seven years. Finally, O&M expense has been deferred as well and the regulatory asset is also being amortized over seven years. The total annual amortization expense is $15,911,386 collectively for all regulatory assets including PISCC, deferred depreciation, 20% revenue deferral, and O&M expense deferral.

Q. PLEASE DESCRIBE SCHEDULE C-3.24.

A. This is amortization of the PISCC that will accrue to a regulatory asset after completion of the F.B. Culley East Ash Pond project at issue in Cause No. 45903.[10] Total forecasted PISCC deferral is $2,712,341 with an amortization period of seven years estimating amortization expense to be $387,477 annually.

Q. YOU MENTIONED PREVIOUSLY THAT IN CAUSE NO. 45903 THERE WAS AN ISSUE CONCERNING THE PROPER METHOD OF RECOVERY ASSOCIATED WITH THESE ASH POND REMEDIATION COSTS. WHAT IS THAT ISSUE AND HOW COULD IT AFFECT THIS CASE?

A. The Indiana Office of Utility Consumer Counselor ("OUCC") has taken the position that proper accounting for these costs is through traditional cost of removal accounting, with its associated effect on net original cost rate base and the establishment of depreciation rates. While I agree that this is one proper method for recovering these costs, the federal mandate statute is an additional method providing for a timelier recovery. In any event, at the time of filing this case, this issue remains pending. As such, CEI South Witness Spanos has prepared and is sponsoring an alternative calculation of depreciation accrual rates in the event the requested CPCN in Cause No. 45903 is denied or CEI South is not permitted to recover these costs as requested therein.

[10] See note 2, supra.

Q. PLEASE DESCRIBE SCHEDULE C-3.25.

A. **Schedule C-3.25** reflects the annual amortization expense associated with the CT Project deferrals related to PISCC. Per the Final Order in Cause No. 45564, accounting treatment was approved to accrue and defer carrying costs associated with the CT Project. Line 1 represents the forecasted PISCC deferrals as of December 31, 2025. Line 2 represents the amortization period of 29 years based on the approved annual depreciation rate of 3.44%. If the Company's request to implement interim step(s) upon placement in service of the CTs is approved, this adjustment will be reduced accordingly.

Q. PLEASE DESCRIBE SCHEDULE C-3.26.

A. **Schedule C-3.26** reflects a pro forma adjustment decrease of $560,000 to normalize integrated resource planning ("IRP") Expense. Portions of costs incurred during an IRP are deferred and ultimately capitalized to resulting projects pursuant to the FERC USoA. There is a portion of IRP costs that are not eligible for such treatment and are expensed. As discussed by Petitioner's Witness Rice, the expense annually is not the same between 2024 and 2026 and the majority is expected in 2025. Due to this, the pro forma adjustment normalizes the expense for the test year to an adjusted expense on Line 1 of $340,000.

Q. PLEASE DESCRIBE SCHEDULE C-3.27.

A. **Schedule C-3.27** reflects the annualized property tax expense on the forecasted tax basis balance of assets as of December 31, 2025. The detailed pro forma property tax expense calculation is presented in workpapers supporting **Schedule C-3.27** and is calculated in line with the Company's annual property tax return. The resulting calculation yields pro forma property tax expense of $9,516,863, and a total pro forma adjustment of ($9,562,096) to property tax expense. Petitioner's Witness Jennifer K. Story sponsors the pro forma property tax expense.

Q. PLEASE DESCRIBE SCHEDULE C-3.28.

A. **Schedule C-3.28** reflects a pro forma adjustment of $75,808 decrease to test year expense to annualize the level of uncollectible accounts expense to the latest known level. This is calculated by taking the pro forma adjusted operating revenues on Line 1 multiplied by the bad debt write-off percentage of 0.300% as described earlier in my testimony to arrive at the amount of $2,224,192. The amount of $2,300,000 on Line 2 represents the unadjusted test year uncollectible expense, which is removed from the amount on Line 1 to arrive at the adjustment to uncollectible accounts expense.

Q. PLEASE DESCRIBE SCHEDULE C-3.29.

A. **Schedule C-3.29** reflects a pro forma adjustment of $160,653 decrease to test year expenses associated with sponsorships including Indianapolis Colts and Ford Center that should have been recorded below the line.

Q. PLEASE DESCRIBE SCHEDULE C-3.30.

A. **Schedule C-3.30** reflects a pro forma adjustment of $347,401 decrease to test year expense associated with Deferred Medicare Tax Liability, which is sponsored by Petitioner's Witness Story. Line 1 reflects the balance of $1,737,007. Line 2 reflects the amortization period of five years. CEI South has proposed a 5-year TDSIC Plan in Cause No. 45894 and, upon Commission approval of that Plan, CEI South must file a general rate case before the end of that Plan. That is the basis for the five year amortization period. Line 3 reflects the annual pro forma amortization.

Q. PLEASE DESCRIBE SCHEDULE C-3.31.

A. **Schedule C-3.31** reflects a pro forma adjustment increase to test year expense to annualize the partial year operating expense associated with the CT Project, forecasted to be placed in service during the test year.

Q. PLEASE DESCRIBE SCHEDULE C-3.32.

A. **Schedule C-3.32** reflects a pro forma adjustment increase to test year expense to annualize the partial year operating expense associated with Posey Solar, forecasted to be placed in service during the test year.

Q. PLEASE DESCRIBE SCHEDULE C-3.33.

A. **Schedule C-3.33** reflects a pro forma adjustment decrease to test year expense associated with F.B. Culley Unit 2, which is forecasted to retire at the end of the test year. As the unadjusted expense will be incurred throughout the entirety of the test year, this is a Phase 3 adjustment only.

Q. PLEASE DESCRIBE SCHEDULE C-3.34.

A. **Schedule C-3.34** reflects a pro forma adjustment to normalize outage operating expense. The test year includes a major outage. Planned outages do not occur every year, and so this requires normalization of expense by averaging expense across multiple forecasted years.

Q. PLEASE DESCRIBE SCHEDULE C-3.35.

A. **Schedule C-3.35** reflects a pro forma adjustment increase to test year expenses of $770,000 pertaining to the SAP S/4HANA Transformation Project. Petitioner's Witness Bahr describes the SAP S/4HANA Transformation Project in more detail.

Q. PLEASE DESCRIBE SCHEDULE C-3.36.

A. **Schedule C-3.36** reflects a pro forma adjustment decrease to test year expenses of $1,368,371 pertaining to ash transportation and ash handling operating expenses that should have been deferred to a regulatory asset during the test year.

Q. PLEASE DESCRIBE SCHEDULE C-3.37.

A. **Schedule C-3.37** reflects a pro forma adjustment decrease to test year expenses of $159,143 pertaining to non-recurring miscellaneous forecast adjustments. The pro forma adjustment was made to correct FERC 5930 for distribution programs that should have been capitalized.

Q. PLEASE DESCRIBE SCHEDULES C-3.38 AND C-3.39.

A. **Schedule C-3.38** and **C-3.39** are calculations of the Indiana state and federal income taxes for the pro forma adjusted test year. Indiana state income taxes are calculated in detail on **Schedule C-4**, sponsored by Petitioner's Witness Story. The statutory rate utilized for the Indiana income taxes is 4.90%, which was effective July 1, 2021. Federal income taxes are calculated in detail on **Schedule C-5**, also sponsored by Petitioner's Witness Story. The current statutory rate utilized for the federal income taxes is 21%. The pro forma level of state and federal income tax expense is compared to the test year unadjusted tax expense to determine the required adjustment. As all the adjustments to revenue and operating expenses also include state and federal tax impacts, the net adjustment shown on **Schedule C-3.38** and **C-3.39** excludes all adjustments already reflected to the test year income tax expense.

IX. D SCHEDULES

Q. PLEASE DESCRIBE SCHEDULE D-1.

A. **Schedule D-1** reflects the calculation of the overall rate of return summary which is based on the forecasted capital structure on December 31, 2025. This is sponsored by Petitioner's Witness Jerasa, who also discusses how the forecasted balances for long-term debt and common equity were determined for December 31, 2025.

Q. HAS CEI SOUTH ADJUSTED THE CAPITAL STRUCTURE COMPONENTS?

A. Yes. The Commission issued an Order in Cause No. 45722 (the "45722 Order") that stated the accumulated deferred income tax ("ADIT") associated with the retiring A.B. Brown Units 1 and 2 shall be segregated from all other ADIT and not included in the calculation of capital structure or otherwise be used in finding CEI South's authorized return in future rate cases. Therefore, in compliance with the 45722 Order, the Company has excluded A.B. Brown Securitization ADIT associated with the retiring of A.B. Brown Units 1 and 2. The Company has also excluded Troy Solar and Crosstrack Solar from the capital structure since both solar farms have ratemaking terms using a fixed levelized rate per kWh of produced energy for the life of the investment allowing the Company and customers to benefit from the investment tax credit to offset project costs. The Company has included a prepaid pension asset as a component of the capital structure which is an offset to zero cost capital. This methodology is consistent with previous rulings made by the Commission in CEI South Gas and CEI North's last base rate case proceedings, Cause Nos. 45447 and 45468, respectively. Petitioner's Witness Jerasa discusses in further detail CEI South's proposal to include the prepaid pension asset in the capital structure.

Q. ARE THERE COMPONENTS OF CEI SOUTH'S CAPITAL STRUCTURE THAT HAVE NOT BEEN FORECASTED TO DECEMBER 31, 2025?

A. Yes. On **Schedule D-5** Customer Advances for Construction, Other Post-Employment Benefits ("OPEB"), Prepaid Pension, and Customer Deposits are held constant as of December 31, 2022 with no forecasted assumptions or estimates to include for the forecasted test year for 2025. This is consistent with how the Company currently forecasts, with these items not discretely forecasted for changes on the forecasted balance sheet.

Q. HOW DID THE COMPANY FORECAST THE TEST YEAR BALANCE OF INVESTMENT TAX CREDIT ("ITC")?

A. The Company used the year-end balance as of December 31, 2022 as a starting point then forecasted activity associated with amortizations of the balance through December 31, 2025 to arrive at the forecasted level of ITC included in the capital structure. Petitioner's Witness Story discusses ITC in further detail.

X. RATE PHASE SCHEDULES

Q. YOU PREVIOUSLY REFERENCED ATTACHMENTS CMB-4 AND CMB-5 AS REFLECTING THE ANTICIPATED REVENUE REQUIREMENT AT PHASES 1 AND 2 OF THE PROPOSED RATE PHASE-IN. HOW ARE THESE TWO ATTACHMENTS PREPARED?

A. **Attachments CMB-4** and **CMB-5** are print-outs of the Revenue Requirement model for purposes of Phase 1 (rates upon issuance of the Order in this Cause) and Phase 2 (rates upon beginning of the test year). The Revenue Requirement model at each step is in the same format as Petitioner's Exhibit No. 20. The complete Excel model for Phase 1 and Phase 2 is included in the workpapers. **Attachments CMB-4** and **CMB-5** are **Schedules A-1** (Overall Financial Summary), **Schedule A-2** (Calculation of Gross Revenue Conversion Factor), **Schedule B-1** (Rate Base Summary), **Schedule C-1** (Pro Forma Income Statement), **Schedule C-1.1a** (Current and Adjusted Pro Forma Income Statement), **Schedule C-3** (Summary of Adjustments to Operating Income), and **Schedule D-1** (Rate of Return Summary).

Q. BEGINNING WITH ATTACHMENT CMB-4, CAN YOU BRIEFLY SUMMARIZE HOW THIS DIFFERS FROM WHAT IS SHOWN IN PETITIONER'S EXHIBIT NO. 20?

A. As originally filed, **Attachment CMB-4** is based upon a forecasted rate base and capital structure as of December 31, 2023. Prior to the evidentiary hearing, this Attachment will be updated to the actual rate base and capital structure as of that date. The primary difference between **Attachment CMB-4** and Petitioner's Exhibit No. 20 is to use this December 31, 2023 date for purposes of **Schedule A**. The billing determinants set forth in **Schedule E** of Petitioner's Exhibit No. 20 have not been changed across all three phases. For Phase 1, expenses and the rates used to forecast revenues have been modified to reflect the state of the forecast that will have occurred by the anticipated date of the Order.

Q. HOW DID YOU DETERMINE WHAT FORECASTED REVENUES AND EXPENSES WILL HAVE OCCURRED BY THE ANTICIPATED DATE OF THE ORDER?

A. The first step is to remove the revenues (and associated expenses) associated with the TDSIC, CECA, and ECA rates using the projected rates for these riders with a December 31, 2025 cutoff. Rates in effect at the time of the order will not have yet reflected these revenues. I have then removed amortization of PISCC and deferred depreciation associated with the CT Project and Posey Solar, because the PISCC accrual and depreciation deferral will not have commenced as of that date. These are Adjustments C-3.22 and C-3.25. In addition, I have removed amortization of the 45894 TDSIC PISCC and deferred depreciation and recovery of 45894 TDSIC deferred revenues. This is Adjustment C-3.21. Further, there will be no O&M associated with the CT Project or Posey Solar until after they have been placed in service, which will not be before the test year. This affects Adjustments C-3.31 and 3.32. Finally, F.B. Culley Unit 2 will still be in service, and so O&M associated with operating that unit will still be incurred. Adjustment C-3.33 has therefore been eliminated. The remainder of the differences from this Attachment and <u>Petitioner's Exhibit No. 20</u> are to update the remaining forecasted expenses by substituting the monthly November and December 2024 forecast for those months of the test year. As shown on **Attachment CMB-4** and based upon the projection as of the filing of the Petition, the Phase 1 increase is projected to be approximately 6%.

Q. TURNING TO ATTACHMENT CMB-5, CAN YOU EXPLAIN HOW THIS DIFFERS FROM <u>PETITIONER'S EXHIBIT NO. 20</u>?

A. This Attachment represents an example of the anticipated revenue requirement at the beginning of the test year. The actual revenue requirement will be based upon the actual rate base and capital structure as of December 31, 2024. Otherwise, it reflects the full test year except for certain adjustments to the test year that should not be made until the end of the test year, or in Phase 3 rates.

Q. WHAT ARE THOSE ADJUSTMENTS THAT SHOULD NOT BE MADE UNTIL THE END OF THE TEST YEAR?

A. As with Phase 1, the revenues (and expenses) from TDSIC, CECA, and ECA should be stated as of the beginning of the test year cutoff. In addition, there will not yet have been PISCC or deferred depreciation for the CTs or Posey Solar at the beginning of the test year. Accordingly, I have removed Adjustments C-3.22 and C-3.25. Further, I have removed the amortization of PISCC and deferred depreciation associated with the 45894 TDSIC and recovery of the 45894 TDSIC deferred revenue, which is in Adjustment C-3.21. Finally, F.B. Culley Unit 2 will continue to operate the entire test year (it is forecasted to be retired at the end of the test year). I have therefore eliminated Adjustment 3.33, which removes the F.B. Culley Unit 2 O&M. That adjustment will also be made at Phase 3. Based upon the projected data as of the filing of the case-in-chief, the Phase 2 increase is projected to be approximately 2% above Phase 1 levels. The remainder of the increase would then be reflected over the proposed interim steps as the CT Project and Posey Solar are placed in service and then ultimately Phase 3.

XI. <u>CLOUD COMPUTING AND CRITICAL PEAK PRICING ACCOUNTING-RELATED ISSUES</u>

Q. PLEASE EXPLAIN CLOUD COMPUTING AND HOW IT IS BEING USED BY THE COMPANY.

A. Petitioner's Witness Bahr is the Company's subject matter expert regarding what cloud computing is and how it is being used by the Company. To restate the background for purposes of my testimony, he explains the delivery of Information Technology ("IT") products, including servers, storage, databases, networking, and software, over the internet or "cloud." Primarily, CEI South's cloud computing arrangements ("CCAs") are for infrastructure as a service ("IaaS") and software as a service ("SaaS"). This is referred to as the Cloud Acceleration, Transformation, and Optimization ("CATO") program.

Q. ARE IaaS-RELATED COSTS INCURRED UNDER A CCA ELIGIBLE TO BE CAPITALIZED PER GAAP?

A. Yes. Whether or not an IaaS-type CCA may be capitalized pursuant to GAAP requires an evaluation under lease accounting guidance. As such, certain costs may be eligible to be capitalized under GAAP in instances where it can be demonstrated that control exists. Control can take various forms, such as the ability to restrict or dictate the way in which the CCA provider may utilize the underlying infrastructure. For example, control would exist where a server under an IaaS-type CCA was entirely reserved for the service recipient alone or if the service recipient had the ability to require the service be provided using specific assets. For FERC purposes, the IaaS-type CCA would be eligible to be capitalized as a capital lease assuming certain criteria are met. Additionally, certain costs, such as implementation and development costs may be eligible to be capitalized as well.

Q. ARE SaaS-RELATED COSTS INCURRED UNDER A CCA ELIGIBLE TO BE CAPITALIZED PURSUANT TO GAAP?

A. Yes. If the SaaS-type CCA includes an identifiable cost associated with a license, then that cost may be eligible to be capitalized pursuant to GAAP. In making this determination, it must also be demonstrated that: (1) a contractual right to take possession of the software at any time may occur without significant penalty or loss in functionality; and (2) it is feasible to run the software on the company's own hardware or contract with another party to do so. Additionally, certain costs, such as implementation and development costs may be eligible to be capitalized as well. Determining whether a SaaS-type CCA contains a license can be difficult, however, as many of these CCAs do not contain the level of detail necessary to reasonably make that determination. In those situations, none of the costs under the SaaS-type CCA would be capitalized, despite the similarity of the economics between traditional on-premises IT solutions ("On-Prem") and the CCA that would indicate that a capital component would exist.

Q. ARE CLOUD COMPUTING COSTS ELIGIBLE TO BE CAPITALIZED AS RATE BASE FOR RATEMAKING PURPOSES?

A. Yes. Northern Indiana Public Service Company ("NIPSCO") has capitalized cloud computing costs as rate base in Cause No. 45159. As explained by NIPSCO's witness in that Cause, cloud computing is becoming an ever more prevalent approach to IT solutions, and the regulatory treatment of such costs should not be different than more traditional IT solutions. As such, NIPSCO included in rate base in that Cause its forecast of cloud computing costs. In addition, not all costs of the more traditional IT solutions are eligible to be capitalized pursuant to GAAP, but this Commission has authorized the capitalization of the costs that GAAP would treat as expense for regulatory purposes. This rate base treatment was authorized for Aqua Indiana, Inc. in Cause No. 45675.

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED ACCOUNTING TREATMENT FOR THIRD-PARTY CCA COSTS.

A. Going forward from the end of the test year in this case, CEI South is proposing to capitalize all cloud computing costs by establishing a deferred regulatory asset to reflect amounts not already included in the Company's base rates that are incurred for third-party CCAs. Amortization of the regulatory asset would begin upon the effective date of rates in CEI South's next rate case and would be amortized over the anticipated life of the rates in that case.

Q. DO THE COMPANY'S REQUESTED RATES IN THIS CASE REFLECT THIS PROPOSED ACCOUNTING TREATMENT?

A. No. The Company has only reflected in rate base the forecasted amounts that are expected to be eligible for capitalization pursuant to GAAP. The remainder of the costs are reflected in the forecasted test year O&M expenses. The Company proposes the deferred accounting treatment on a prospective basis, beginning with the end of the test year, December 31, 2025, and it would apply to the costs in excess of the amount reflected in O&M in this case.

Q. WHAT IS THE BASELINE LEVEL OF THIRD-PARTY CCA COSTS INCLUDED IN THIS CASE, AND HOW WAS THIS AMOUNT CALCULATED?

A. The baseline level of third-party CCA costs expected to be recorded to expense during the test year pursuant to GAAP is $813,540, which the Company proposes to recover through base rates and has included in this case:

Table CMB-2 – CCA Test Year Amounts

CCA Type	Test Year Amount
SaaS	$754,683
IaaS	$58,857

The amounts in the table above represent the Company's unadjusted test year level of expense for CCAs. Eligible CCA costs are recorded either to Work-Breakdown Structure ("WBS") Elements with a specific identifying code, or into a specific cost center. In either case, third-party CCA costs are recorded to specific general ledger accounts designated for CCAs. After the conclusion of the test year, CEI South is proposing to defer 100% of costs that GAAP would treat as expense and that are in excess of these annual levels included in base rates to the regulatory asset.

Q. WHY IS THE COMPANY PROPOSING THIS ACCOUNTING TREATMENT?

A. While the test year level of expense for CCAs is small, there is a high likelihood for increased usage of CCAs over On-Prem in the future as evidenced by the Company's CATO program discussed by Petitioner's Witness Bahr. Further as explained by NIPSCO's witness in Cause No. 45159, it is important that regulatory treatment match the progress of the technology advancement. As I previously mentioned, disparate outcomes between the treatment of comparable On-Prem and CCAs can occur despite similarities in economics. Moreover, due to the nature of SaaS-type CCAs that make it very difficult to determine identifiable license costs, there is also increased potential for CCA costs to be recorded as O&M expense as opposed to capital as would occur with On-Prem. It is for these reasons, that the Company is requesting the accounting treatment described above.

Q. HOW WOULD THE DEFERRED ACCOUNTING WORK UNDER THE PROPOSED CCA REGULATORY ASSET?

A. The proposed deferral would specifically authorize the Company to create a regulatory asset to recover, or regulatory liability to credit, eligible CCA costs as described above. The CCA regulatory asset balance will be adjusted on a monthly basis consistent with actual CCA eligible costs and will be addressed in the Company's next rate case. Because the costs recorded to the regulatory asset represent amounts that would have been capitalized if they were for On-Prem, the Company requests to also defer to the regulatory asset a return on the balance. The Company would defer a return using the Company's approved pre-tax weighted average cost of capital and would do so until the return on the balance begins to be recovered in rates. This is the equivalent to providing PISCC at the weighted average cost of capital ("WACC") on the regulatory balance. Amortization of the balance would not begin until rates are in effect in the Company's ensuing rate case. This is consistent with the Commission's treatment of On-Prem costs in Cause No. 45675.

Q. WITNESS RICE ALSO MENTIONS AN ACCOUNTING DEFERRAL REQUEST PERTAINING TO THE CRITICAL PEAK PRICING ("CPP") PILOT PROGRAM. CAN YOU EXPLAIN THAT REQUEST?

A. Yes. Petitioner 's Witness Rice describes a proposed pilot program that would allow for more efficient utilization of CEI South's system by allowing customers to manage peak loads. To provide this service and to set up the pilot program, CEI South will incur anticipated costs as set forth in **Table MAR-4** to Petitioner Witness. Rice's testimony. Most of these costs are capital, but a portion are O&M. Most of the expense items are IT costs. CEI South seeks authority to defer to a regulatory asset all of the costs that would otherwise be booked to expense. CEI South seeks to commence amortization of the regulatory asset beginning with the effective date of rates in our next rate case, amortized over the life of rates in that case. Finally, CEI South seeks to include the regulatory asset in rate base upon which it is authorized to earn a return and to accrue PISCC at the WACC,

XII. <u>COSTS THAT ARE SUBJECT TO CAUSE NO. 45564 S1</u>

Q. WHAT IS THE ISSUE PENDING IN CAUSE NO. 45564 S1, AND HOW COULD IT IMPACT THE RELIEF SOUGHT IN THIS CASE?

A. In Cause No. 45564, the Commission issued a CPCN for the CT Project. In that case, the Company requested authority to treat the demand charge for the interstate pipeline as a fuel cost for purposes of the FAC. The 45564 S1 subdocket was created to review and decide the proper method of recovery for the demand charge. It could be recovered through the FAC as proposed by CEI South. It is possible that the cost could be recovered through base rates. The Commission has authorized the deferral of any actual demand costs that are incurred until they are reflected in rates. If the

Commission ultimately approves CEI South's request to recover this cost through the FAC, then there is no impact on the request in this case. If it is to be recovered through base rates, however, then the revenue requirement proposed herein would need to be updated to reflect this cost. Petitioner's Witness Rice has recommended a process that would allow the updating of the revenue requirement for this demand cost and any resulting deferrals in the event it becomes necessary as a result of the subdocket.

XIII. <u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

A. Yes, it does.

CAUSE NO. 45990

VERIFICATION

I affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH

Chrissy M. Behme
Manager, Regulatory Reporting

12/5/2023
Date

Attachments CMB-1 Provided in Native Excel Format

Attachments CMB-2 Provided in Native Excel Format

Attachments CMB-3 Provided in Native Excel Format

Attachments CMB-4 Provided in Native Excel Format

Attachments CMB-5 Provided in Native Excel Format