STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INDIANA UTILITY REGULATORY COMMISSION'S INVESTIGATION INTO THE IMPACTS OF THE TAX CUTS AND JOBS ACT OF 2017 AND POSSIBLE RATE IMPLICATIONS	))))	**CAUSE NO. 45032 S10**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1

TESTIMONY OF OUCC WITNESS

AMY E. LARSEN

AUGUST 21, 2018

Respectfully submitted,

Scott Franson
Attorney No. 27839-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS AMY E. LARSEN
CAUSE NO. 45032 S-10
INDIANA UTILITIES CORPORATION

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Amy E. Larsen, and my business address is 115 W. Washington Street, Suite 1500 South, Indianapolis, Indiana 46204.

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

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Utility Analyst II. For a summary of my educational and professional experience and my preparation for this case, please see Appendix AEL-1 attached to my testimony.

Q: What is the purpose of your testimony?

A: I discuss and provide background on the Indiana Utility Regulatory Commission's ("Commission") Investigation in Cause No. 45032 into the impacts of the Tax Cuts and Jobs Act of 2017 ("TCJA") on regulated utilities (the "Commission Investigation"). I respond to Indiana Utilities Corporation's ("Respondent" or "Indiana Utilities") proposed amortization and calculation of its excess accumulated deferred income taxes ("EDIT")[1] and address the refund of excess federal income tax expense collected by Indiana Utilities from January 1, 2018 through April 30, 2018, the date on which Respondent's base rates and charges were reduced to reflect the current federal income tax rate of 21%.

[1] Hereafter, ADIT refers to accumulated deferred income tax before the excess (EDIT) is calculated.

II. TCJA BACKGROUND

Q: What are the main effects of the TCJA on regulated utilities?

A: The main effects of the TCJA on regulated utilities are the reduction of the federal income tax rate to 21% and the elimination of bonus depreciation. Regulated utilities are still allowed to deduct all interest expense without limitation.

Q: What adjustments are necessary to reflect these effects in a regulated utility's rates and charges?

A: There are three major adjustments necessary to reflect the impact of the TCJA on a regulated utility's rates and charges: (1) reduction of federal income tax expense embedded in utility rates to reflect the new 21% corporate tax rate on a going-forward basis; (2) refund of the federal income tax expense over-collected by the utility from January 1, 2018 until the federal income tax rate embedded in rates and charges is reduced to 21%;[2] and (3) reduction of federal income tax expense to reflect the return of excess ADIT created when ADIT is revalued at the 21% rate. Item (1) is a Phase 1 issue in the Commission Investigation, and items (2) and (3) are Phase 2 issues in the Commission Investigation.

Q: How are the impacts of the TCJA on Indiana Utilities' rates being addressed?

A: On March 26, 2018, Indiana Utilities made a 30-Day filing in compliance with the Commission's Order in Cause No. 45032 dated February 16, 2018, and implemented revised rates based on the new 21% income tax rate effective on May 1, 2018, resolving Phase 1 of the Commission Investigation. Phase 2 tax

[2] Per the Commission's order dated January 3, 2018 in Cause No. 45032, all Indiana investor-owned utilities are required to begin using regulatory accounting, such as the use of regulatory assets and liabilities, for all calculated differences resulting from the TCJA and what would have been recorded if the TCJA did not go into effect.

issues are being addressed in this subdocket, Cause No. 45032 S-10.

Q: How are deferred income taxes generated?

A: Deferred income taxes are the result of temporary timing differences created by how revenues or expenses are recognized on a company's financial statements or its "books" and how those same revenues or expenses are recognized for tax purposes. For regulated utilities, the primary source of deferred income taxes is due to accelerated tax depreciation. Deferred taxes can also be generated by other items, such as unbilled revenue, accrued wages, capitalized payroll taxes, unamortized rate case expense, pension expenses, bad debts, and capital loss carry forwards. Deferred income taxes can be either a deferred liability (taxes paid are less than book taxes) or a deferred asset (taxes paid are more than book taxes).

Q: What is the difference between book depreciation and tax depreciation?

A: Accelerated tax depreciation uses a higher depreciation rate than the depreciation rate used for book purposes. This higher rate of depreciation results in more expense being recognized earlier in an asset's life for tax purposes than is recognized for book purposes.

Q: How does the difference between book depreciation and accelerated tax depreciation affect Respondent's payment of income taxes?

A: A lower depreciation expense rate for book purposes results in a higher net income on a company's financial statements. A higher accelerated depreciation expense for tax purposes lowers the net income on which the company is taxed, thereby lowering the income tax payment. But a utility's income tax revenue requirement is not adjusted when it takes accelerated depreciation; therefore, the amount of income tax expense recovered from customers is higher than the actual income tax paid by the utility to the government. With accelerated tax depreciation, the company avoids taxes in the early years, and the temporary timing difference is recognized as deferred income tax. The value recorded for ADIT is based on the utility's current income tax rate and is calculated by taking the difference between book and tax expense and multiplying by the tax rate. ADIT reverses when accelerated tax depreciation is exhausted and the temporary timing difference is eliminated.

Q: What is the effect of the TCJA on Respondent's ADIT?

A: When tax rates change, ADIT balances must be revalued at the new tax rates. The difference between the ADIT balance valued at the old income tax rate (34%) and the new income tax rate (21%) is known as excess deferred tax liability, or excess deferred income tax ("EDIT"). Respondent also has other book to tax differences, not generated from accelerated depreciation, which resulted in either excess deferred tax liabilities or deferred tax assets. As reflected in this filing, Respondent revalued its accumulated deferred taxes using the new 21% income tax rate, which resulted in the EDIT to be returned to customers. As I discuss in more detail below, the amortization period over which the EDIT balance is to be refunded to customers depends on whether the EDIT is deemed protected or unprotected, pursuant to Internal Revenue Service ("IRS") normalization guidelines.

III. INDIANA UTILITIES' PHASE 2 SUBDOCKET

EDIT

Q: Please describe Respondent's calculation of EDIT as shown on Exhibit 1 and the proposed refund amortization period shown on Exhibit 2.

A: Respondent's Exhibit 1, page 1 determines the amount of ADIT at the prior 34% income tax rate and the amount of ADIT at the new 21% income tax rate; the difference being EDIT, which is to be refunded to ratepayers. Respondent's EDIT is mostly derived from book-to-tax depreciation differences, but it is also derived from capitalized payroll taxes, unrealized gain on marketable securities, unamortized rate case expense, accrued sales reconciliation component ("SRC") expenses, and capital loss carry forward. The book-to-tax depreciation portion is considered protected.[3] To the extent the utility has the detailed information for each of its assets individually, the utility should use the Average Rate Assumption Method ("ARAM") to calculate the remaining lives over which to refund protected EDIT. Respondent is not using ARAM for this calculation. The TCJA allows utilities with less sophisticated accounting records to use a weighted average life or composite rate used to compute depreciation for regulatory purposes. Respondent uses the weighted average life method as summarized on its Exhibit 2, page 1.[4] The capitalized payroll taxes, unrealized gain on

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[3] EDIT can be protected and unprotected. For protected EDIT, utilities are required to use normalized accounting under which depreciation for ratemaking purposes does not reflect accelerated depreciation for tax purposes. Unprotected EDIT is not subject to such normalization requirements, and the amortization of any refund is subject only to Commission discretion.

[4] Respondent's Exhibit 2 is titled Average Rate Assumption Method ("ARAM"), but ARAM is not used. Respondent indicated in response to discovery Q1.4 "Petitioner does not believe that Exhibit 2 shows an ARAM method." Respondent further indicates that "the calculation on Exhibit 2 is a calculation of the average remaining lives of [the] Petitioner's utility plant in service." (See Attachment AEL-2, pages 2-3.)

marketable securities, unamortized rate case expense, accrued SRC, and capital loss carry forward are considered unprotected and can be returned over a period subject to the Commission's discretion.

Exhibit 1, page 1, lines 1-8 calculates the book-to-tax difference in depreciation, and subtracts capitalized payroll taxes and unrealized gain on marketable securities as short term liabilities and unamortized rate case expense, accrued SRC, and capital loss carry forward as regulatory assets. The result is multiplied by the old 34% tax rate and the new 21% tax rate to get the difference, which is a regulatory liability shown on line 15. Respondent's Exhibit 1, page 1 calculates unprotected EDIT on lines 16-26. Also, since state income tax is a deduction for federal income tax purposes, the ADIT related to state deferred taxes is deducted from total ADIT to arrive at the federal ADIT balance used to derive the excess deferred taxes that should be refunded to customers.

Q: Do you agree with Respondent's EDIT, as calculated on its Exhibit 1, page 1?

A: No. While the necessary components to calculate EDIT are included in Respondent's Exhibit 1, page 1, with supporting documentation on additional pages of Exhibit 1, Respondent included an unrealized gain on marketable securities, which should be removed.

With that understanding, using Respondent's book and tax values for protected ADIT, and other deferred income tax balances of unprotected ADIT, I calculated a deferred tax liability shown on Attachment AEL-1. I took the difference between Respondent's net book value and net tax value of its assets, less state deferred taxes, and calculated the difference in deferred balances using the 34% and 21% tax rates, which yields the total protected EDIT to be returned to the ratepayers. (Attachment AEL-1, lines 1-10.) A similar calculation is shown on lines 11-27 for unprotected EDIT, where deferred tax assets (capitalized payroll taxes, unrealized gain on marketable securities, unamortized rate case expense, accrued SRC, and capital loss carry forward) were added, less applicable state deferred taxes, and the difference in deferred balances using the 34% and 21% tax rates, yielded the total unprotected EDIT.

My calculation differs from Respondent's Exhibit 1, page 1 in two respects. First, I removed Respondent's unrealized gain on marketable securities. My calculation also deducts state deferred income tax applicable to the protected and unprotected EDIT separately, based on the deferred state income tax calculation shown on Respondent's Exhibit 1, page 6, giving a more accurate protected and unprotected EDIT balance. The total protected EDIT and unprotected EDIT is added together on lines 28-30 for a total net regulatory liability to be returned to customers. This total net EDIT of $431,483 differs from the net total EDIT amount reflected on line 15 of Respondent's Exhibit 1, page 1.

Q: Why did you remove Respondent's unrealized gain on marketable securities from your calculation of EDIT?

A: I removed this item from the EDIT calculation because it has no relationship to revenues and expenses embedded in rates for the provision of utility service.

Q: Is Respondent proposing to refund its EDIT as calculated on Exhibit 1, page 1?

A: No. Respondent proposes to use an alternative calculation shown on its Exhibit 3. As described on page 8 of Ms. Mann's testimony, Respondent recalculated deferred income taxes from the utility's last rate case assuming a 21% federal tax rate. Respondent proposes to refund the difference between this amount and the ADIT at 34% from its last rate case.

Q: Do you agree with using Respondent's Exhibit 3 as the basis for the EDIT refund?

A: No, for several reasons. First, this calculation represents deferred taxes from a point in time years ago. Ratepayers have been paying income taxes embedded in rates each year since the last rate case, and each year deferred income taxes are calculated and reflected on the balance sheet. The December 31, 2017 deferred income tax balance is the most up to date balance before the new 21% income tax rate went into effect on January 1, 2018. For purposes of the calculation on Exhibit 3, Respondent did not update any deferred tax calculations since the last rate case. (Attachment AEL-2, pages 3-4, Q1.9.) Not updating deferred tax calculations since the last rate case ignores ratepayer contributions to income taxes or contributions to depreciation expense for the years between the last rate case and the date of the most current deferred income tax balance before the TCJA went into effect.

Second, Exhibit 3 is not supported by any other schedules. Ms. Mann states on page 9, lines 8-11 of her testimony, "[t]he accumulated deferred federal income tax calculation referenced in [e]xhibit 3 was included in each utilities [sic] last rate case and has therefore been previously vetted by both the OUCC and the IURC." None of the workpapers from the last rate case were presented to support these figures. In contrast, Respondent's Exhibit 1, page 1 is supported by sufficient detail in subsequent pages 2 through 9, and with Exhibit 2, pages 1 through 4. Supporting detail is necessary to verify the calculation of EDIT and would come directly from Respondent's books and records. The supporting detail should show how each pertinent figure in Respondent's EDIT calculation is derived.

Lastly, the method summarized on Respondent's Exhibit 1, and on my Attachment AEL-1, is the same or similar to methods I have seen with other utilities responsive to Phase 2 of the Commission Investigation, such as NIPSCO's rate case in Cause No. 44988, and Sycamore Gas Company's rate case in Cause No. 45072. In my experience, all utilities recognize December 31, 2017 as the ADIT balance from which to derive the EDIT amount for purposes of a ratepayer refund.

Q: What is the EDIT balance you recommend be returned to ratepayers?

A: As I described earlier and as shown on Attachment AEL-1, I recommend a total EDIT balance of $431,483 be returned to Respondent's customers.

<u>Amortization Period</u>

Q: What method has Respondent proposed for calculating the amortization period for its protected EDIT balance?

A: Respondent uses the alternative weighted average life method, based on the level of property record detail available. Respondent calculated the estimated average useful life of its utility plant in service on Exhibit 2, page 1, and calculated the weighted average to determine the final amortization period by asset class summarized on Exhibit 2, page 1. As I mentioned earlier, although this exhibit is labeled ARAM, the ARAM method is not used. Given the level of property detail available to Indiana Utilities, the OUCC does not object to using the weighted average life method. Respondent's weighted average remaining life calculation for each of its asset classes results in a 12.13 year amortization period, over which protected EDIT is to be amortized back to ratepayers.

Q: Does Respondent propose an amortization period over which unprotected EDIT will be returned to ratepayers?

A: Yes. Even though Respondent recommends using Exhibit 3 for purposes of calculating its proposed ratepayer refund for deferred taxes, which does not show any unprotected EDIT, in an apparent reference to Exhibit 1, it states that due to the relatively small amount, unprotected EDIT should be amortized over the same amortization period as calculated for protected EDIT. Respondent also argues that using the same amortization period for the entire EDIT will make tracking of the amortization easier for both the utility and the regulator. (Testimony of Mann, page 10, lines 16-23.)

Q: Do you agree with Respondent's proposed unprotected EDIT amortization period?

A: For the reasons described below, yes. While the TCJA governs the appropriate normalization method to amortize protected EDIT back to ratepayers, the Commission has discretion over the amortization period for unprotected EDIT. In most instances, it would be appropriate to require a utility to return unprotected EDIT over a shorter timeframe than for protected EDIT. Should the Commission determine that to be the appropriate outcome in this instance, the OUCC would not object; however, I note below the reasons why Respondent's unique characteristics create challenges that make following this general principle difficult.

First, as shown in Attachment AEL-1, which makes use of Respondent’s Exhibit 1, I calculate an unprotected EDIT liability for Respondent of $14,066. If Respondent is ordered to amortize this unprotected EDIT liability over a timeframe shorter than its protected EDIT liability, Respondent will have to make separate ratemaking adjustments to decrease its deferred tax balances and amortization expense until the unprotected EDIT liability is fully amortized. Then Respondent will need an additional tariff filing to remove the ratemaking adjustment for unprotected EDIT, leaving the adjustment for protected EDIT in place. Given Indiana Utilities’ relative size and limited resources, it seems unnecessarily burdensome to require that level of complexity and additional tariff submissions.

Second, Respondent’s weighted average calculation results in a 12.13 year amortization period for protected EDIT. Relatively speaking, this amortization period will return protected EDIT back to ratepayers more quickly than the time periods that were calculated by NIPSCO and Vectren’s gas utilities in the Commission Investigation. Likewise, using the same amortization period for Respondent’s unprotected EDIT liability will spread out the rate decrease, as a result of this liability, over a reasonable time period. Therefore, I recommend Respondent’s protected and unprotected EDIT balances be amortized over 12.13 years.

Q: Can this amortization period be adjusted for rounding?

A: No. Respondent replied in discovery that it “expects that it would likely be required to round that amount to 12 years.” (Attachment AEL-2, pages 2-3

Q1.4(b).) Protected EDIT is governed by the TCJA and the weighted average life method resulted in a specific amount. The 12.13 year weighted average remaining life is the proper amortization period used in my calculation on line 32 of Attachment AEL-1 for both protected and unprotected EDIT, converted to 146 months on line 35.

Q: By what mechanism do you propose to return EDIT?

A: Amortizing EDIT of $431,483 over 12.13 years or 146 months yields an annual amortization of $35,572. Respondent's base rates should be reduced by this annual amount using the same revenue requirement schedules applicable to the approved rates in Respondent's last rate case, reflecting the revised 21% income tax rate effective on May 1, 2018 in Cause No. 45032. This method is commonly used to remove rate case expense amortization from base rates and will account for any flow-through tax effects of the adjusted rates. New rates should also be based on customer allocation and rate design as approved in Respondent's last rate case. I suggest this be accomplished using a 30-Day filing process to allow sufficient time for review by the OUCC and IURC.

<u>Refund of Over-Collection</u>

Q: Did Respondent provide a calculation and propose a method for returning over-collected taxes beginning January 1, 2018?

A: Yes. Respondent provided a calculation of its tax over-collection in Exhibit 4, pages 1 and 3-6, and a proposed refund credit tracker on page 2. The over-collection represents Respondent's tracking of the difference in revenue collected at the 34% tax rate and what would have been collected at the 21% tax rate during the period January 1, 2018 through April 30, 2018. Respondent's calculations of the over-collection are by customer class, and the proposed refund mechanism is also by customer class at the same volumes as collected. Respondent is proposing to refund the over-collection over the same four months it was collected, January through April starting January 1, 2019. Respondent recommends the refund be administered through a temporary tracker mechanism with variances recovered through Respondent's next GCA that includes a reconciliation of April 2019.

Q: Is there any element in Respondent's over-collection refund proposal with which you disagree?

A: Yes. I agree with Respondent's calculation of the over-collection and with making the refund over the proposed four month period in 2019. I agree with the temporary tracker mechanism proposal. However, the GCA is an inappropriate mechanism for tax refunds. Not all customer classes receiving refunds are included in the GCA mechanism. Additionally, all seven small utilities represented by Ms. Mann's testimony have one GCA rate for all customer classes, so the allocation of variances would deviate from the customer class allocation approved in the last rate case. I recommend any variances in the temporary tracker mechanism be reconciled and refunded in the same temporary tracker mechanism.

Other Concerns

Q: Does Respondent address other concerns it believes are relevant to this Cause?

A: Yes. First, Respondent is concerned that non-calendar year taxpayers will refund more than they should because of a split tax year where the utility will pay a blended rate. Respondent's witness Mann admits on page 14, lines 7-8 of her testimony that "It will be a blended rate based on the number of months at each tax rate during their tax year." This is not a problem for the income tax refund. For the period up to December 31, 2017, base rates were based on a 34% federal tax rate, and from January 1, 2018 through April 30, 2018, a 21% federal tax rate applies. Utilities with a blended rate tax year will only refund an over-collection back to January 1, 2018. The blended rate will match the appropriate rates collected for the appropriate months.

Second, Respondent seeks approval to defer the cost of its participation in this proceeding as a regulatory asset that can be reviewed and eventually recovered in the next full base rate case. I do not recommend approval for this unknown amount. Given that Respondent's income tax rate has been changed, it would have had to calculate its EDIT in order to adhere to the IRS's normalization requirements; therefore, it is not entirely accurate to suggest that Respondent's costs to participate in the Commission Investigation would not have been required anyway. However, even so, in a regulatory environment, unexpected, one-time legal and accounting bills occur occasionally. Respondent has legal and accounting fees embedded into its current rates and no additional compensation should be necessary.

Also, since this is a single issue case and Respondent's testimony is considerably similar for each of seven utilities, and litigation should be minimal, I would hope the costs for each utility are a reasonable amount as the actual costs incurred have not been presented in this subdocket. Further, Respondent has an interest in arguing for an outcome in this case that minimizes any refunds it owes to its customers. Those same customers should not be required to pay for the regulatory expense Respondent incurs in making such arguments.

Third, Respondent argues that a lower ADIT with a 0% cost of capital could have the effect of increasing the overall cost of capital, so authorized earnings should increase. I do not disagree that overall cost of capital could increase, but this issue is outside the scope of this proceeding.

Last, Respondent believes the fact the Commission initiated the tax investigation has created uncertainty for the utility, increasing the risk for its shareholders. A regulated utility facing regulatory action is inherent to its business model.

IV. OUCC RECOMMENDATIONS

Q: What are your recommendations in this Cause?

A: I recommend amortizing EDIT of $431,483 over 12.13 years, resulting in a return of EDIT to the ratepayers at an annual amortization of $35,572. This amortization should be reflected as a reduction to existing rates using revenue requirement schedules from Respondent’s last rate case, updated to the new tax rate as of May 1, 2018, using the same customer allocation and rate design as approved in Respondent’s last rate case, to be submitted for review through a 30-Day filing process. I also recommend Respondent be required to file a compliance filing initiating a temporary tracker to return the excess federal tax collected from January 1, 2018 through April 30, 2018, allocated to each rate class based on actual revenues received during the period collected. This temporary tracker should also be used to reconcile and return or collect any variances. I do not recommend approval to defer the cost of this proceeding as a regulatory asset.

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

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

Amy E Larsen
____
Amy E. Larsen
Utility Analyst II
Indiana Office of Utility Consumer Counselor
Cause No. 45032 S10
Commission Investigation/Indiana Utilities
Corporation

August 21, 2018
____
Date

APPENDIX AEL-1 TO TESTIMONY OF OUCC WITNESS AMY E. LARSEN

Q: Please describe your educational background and experience.

A: I graduated from the School of Public and Environmental Affairs at Indiana University in Bloomington, Indiana with a Bachelor of Science Degree in Public Financial Management in May 2011. In December 2017, I graduated from the Kelley School of Business at Indiana University in Indianapolis, Indiana with a Master's of Science Degree in Accounting. From May 2011 through December 2012, I worked for the Indiana State Personnel Department in Indianapolis, Indiana, as a Benefits Specialist. I resolved benefit administration questions and issues raised by state agencies and employees. I also investigated claims, disputes, and eligibility by working with the insurance carriers to ensure claims were properly adjusted. From December 2012 through January 2015, I worked for the Indiana Family and Social Services Administration as an Accountant. I worked in accounts receivable to collect, deposit, and record any funds received. I was also responsible for any refunds due to customers. From January 2015 through October 2017, I worked for the Indiana Department of Workforce Development as a Budget Analyst. I set up and monitored projects for grants received from the federal government. I also worked with department managers to create and adhere to their yearly budget.

In October 2017, I began my employment with the OUCC as a Utility Analyst II. My current responsibilities include reviewing and analyzing Gas Cost Adjustment ("GCA") petitions and flex filings. I also review and analyze rate cases, special contracts, financing, certificate of public convenience and necessity, pipeline safety adjustment, 7-Year Plan and TDSIC Tracker cases filed by Indiana natural gas utilities with the Commission.

Q: Have you previously testified before the Commission?

A: Yes, I have testified in GCA, rate cases, special contract and pipeline safety adjustment cases.

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

A: I reviewed Respondent's direct testimony, exhibits, workpapers and other supporting documentation provided in this Cause. I analyzed Respondent's responses to the OUCC's discovery requests. I reviewed Respondent's 30-Day Filing submitted for Phase 1 of Cause No. 45032.

Indiana Utilities Corporation
Deferred Tax Asset/Liability

Line		After Tax Act	Prior to Tax Act
	Protected EDIT:		
1	Net Book Value, Petitioner's Exhibit 1 Page 2	7,083,585	7,083,585
2	Net Tax Value, Petitioner's Exhibit 1 Page 3	3,684,653	3,684,653
3	Difference in Net Book Value	3,398,932	3,398,932
4	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	(188,034)	(188,034)
5	NBV less State Deferred Tax Estimate	3,210,898	3,210,898
6	Tax Rate	21.0%	34.0%
7	Current Period Deferred	674,289	1,091,705
8	Deferred Tax under old rate	1,091,705	
9	Deferred Tax under new rate	674,289	
10	Protected EDIT - Regulatory Liability	417,417	

Line		After Tax Act	Prior to Tax Act
	Un-Protected EDIT:		
	Other Deferred Taxes, Petitioner's Exhibit 1 Page 6:		
11	Capitalized Payroll Taxes (Short Term Deferred Liability)	127,955	127,955
12	Unrealized Gain on Marketable Securities (Short Term Deferred Liability)	1,640,378	1,640,378
13	Unamortized Rate Case & Accrued SRC (Short Term Deferred Asset)	(8,149)	68,269
14	Capital Loss Carry Forward (Short Term Deferred Asset)	(4,698)	(4,698)
15	Total Other Deferred Taxes	1,755,486	1,755,486
16	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	(7,677)	(7,677)
17	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	(98,423)	(98,423)
18	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	489	489
19	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	282	282
20	Less Deferred Tax not applicable to utility rates:		
21	Unrealized Gain on Marketable Securities, Net of State Deferred Taxes	(1,541,955)	(1,541,955)
22	Total Applicable Other Deferred Taxes	108,202	108,202
23	Tax Rate	21.0%	34.0%
24	Current Period Deferred (Line 8 * Line 9)	22,722	36,789
25	Deferred Tax under old rate	36,789	
26	Deferred Tax under new rate	22,722	
27	Un-Protected EDIT - Net Regulatory Asset	14,066	
	Total EDIT:		
28	Protected EDIT - Regulatory Liability	417,417	
29	Un-Protected EDIT - Net Regulatory Liability	14,066	
30	Total Net EDIT	431,483	
	EDIT Amortization:		
31	Total Net EDIT	431,483	
32	Amortization Period (years), Petitioner's Exhibit 2 page 1	12.13	
33	Annual Amortization	35,572	
34	Total Net EDIT	431,483	
35	Amortization Period (months)	146.00	
36	Monthly Amortization	2,955	

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INDIANA UTILITY	)	
REGULATORY COMMISSION'S	)	
INVESTIGATION INTO THE IMPACTS OF THE	)	**CAUSE NO. 45032 S10**
TAX CUTS AND JOBS ACT OF 2017 AND	)	
POSSIBLE RATE IMPLICATIONS.	)	

INDIANA UTILITIES CORPORATION RESPONSES TO THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S FIRST SET OF DATA REQUESTS

Comes now Indiana Utilities Corporation, by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's First Set of Data Requests dated July 3, 2018, as follows:

II. Data Request.

Q 1.1: What is Respondent's balance of deferred taxes on the balance sheet as of December 31, 2017?

A. Petitioner's balance of deferred taxes on the balance sheet as of December 31, 2017 was $965,719.

Q 1.2: Regarding Respondent's Exhibit 1:

a. Please provide a list of the types of accounts, assets, expenses, or other items that produced the balance of Deferred Tax on line 12, as of December 31, 2017, including the amount of each item.
b. On the list from a. above, identify the items as protected or unprotected balances.
c. On the list from a. above, identify the items as property or non-property.
d. On the list from a. above, identify short term items.
e. On the list from a. above, identify non-income statement items.
f. On the list from a. above, identify regulatory liabilities and regulatory assets.

A.

a. Each item and the amounts are listed on lines 1-7 of Exhibit 1 Page 1. All numbers on Exhibit 1 Page 1, are for December 31, 2017.
b. Items which are listed as protected are on lines 1 and 2 of Exhibit 1 Page 1. The remaining items are unprotected as shown in the unprotected calculation of Exhibit 1 starting on line 16.
c. Petitioner is assuming that by requesting items as property, that lines 1 and 2 of Exhibit 1 show that information for utility plant information.
d. Short term items are line item 4 of Exhibit 1.

e. Petitioner is unsure of what is meant by non-income items. Utility plant included on lines 1 and 2 of Exhibit 1 are not reflected on the income statement but the annual depreciation associated with those items is reflected. However, the amount of depreciation differs between the financial statements and the tax return. Item on lines 4 - 5 of Exhibit 1 appear on the income statement, but appear differently on the tax return. The item on line is related to an investment and will not appear on the income statement until the investment is sold. The item on line 7 appeared on the income statement in the year it occurred but has not appeared on the tax return.
f. The item on line 6 of the Exhibit 1 is a regulatory asset approved by the IURC in the Petitioner's last general rate proceeding.

Q 1.3: Regarding Respondent's Exhibit 1, line 13, Deferred Tax under old rate:

a. Is any of Respondent's deferred income tax balance derived from expense deductions available for tax purposes for costs that were capitalized for book purposes?
b. If yes, are these deferred tax amounts considered as associated with property or non-property?
c. Please provide the balance for the property or non-property for (a.) and (b.) above.

A.

a. The item on line 5 of Exhibit 1 was expensed for tax purposes when incurred during 2017 but was capitalized and amortized based on the Order in Petitioner's last base rate proceeding.
b. Petitioner is assuming that property or non-property refers to utility plant in service. The item listed in a. above is not utility plant in service.
c. See line 5 of Exhibit 1 for the amount.

Q 1.4: Page 9, lines 19-20 of Ms. Mann's testimony mentions using the alternative weighted average life method, but Exhibit 2 shows an ARAM calculation.

a. Is ARAM or the alternative weighted average life method used? Please explain.
b. Is Respondent proposing an amortization period of 12.13 years?
c. Please show the calculation of the 12.13 years. (i.e. What numbers were used?)
d. Please provide the IRS publication and any other authoritative source Ms. Mann relied upon to support the calculation method on Exhibit 2.

A.

a. Petitioner does not believe that Exhibit 2 shows an ARAM method. It is Petitioner's understanding that ARAM requires the calculation and amortization of the excess deferred federal income tax amount for each underlying item separately. Petitioner is not proposing to calculate the excess deferred federal income tax amount to that level of detail, but instead calculate the average remaining of life of its assets at the greatest level of detail available to it.

b. Petitioner expects that it would likely be required to round that amount to 12 years.
c. Please review formula in cell K28 of the tab labeled (Ex 2 Pg 1) NAV in the excel file; that was filed with the workpapers in this cause and sent to OUCC as part of the workpaper package.
d. Ms. Mann believes that the calculation on Exhibit 2 is a calculation of the average remaining lives of the Petitioner's utility plant in service. She relied on her training as an accountant and her 30 years of consulting in the utility industry to make the calculation.

Q 1.5: Referring to Exhibit 3, please provide the separate amounts to be refunded for protected and unprotected excess deferred federal income tax.

A. The protected amount of Exhibit 3 is calculated by taking the amount of federal deferred taxes net of state taxes on Exhibit 3 page 2 line 14 less the amount of federal deferred taxes net of state taxes on Exhibit 3 page 3 line 14 which nets to ($282,599).

The protected amount of Exhibit 3 is calculated by taking the total unprotected items federal taxes on Exhibit 3 page 2 line 19 less the total unprotected items federal taxes on Exhibit 3 page 2 line 19 which nets to ($10,012).

Q 1.6: What are the depreciation rates used by Respondent, for each asset class, as of December 31, 2017?

A. The depreciation rates used by the Respondent, for each asset class, as of December 31, 2017 are shown within the supporting workpapers proved with the filing of Cause No. 45032-S10. These workpapers reflect Federal, State and Book depreciation reports which show the method of depreciation and useful lives.

Q 1.7: What are the utility-plant-in-service balances, for each asset class, as of December 31, 2017?

A. The utility-plant-in-service balances, for each asset class, as of December 31, 2017 are shown on Exhibit 1 page 2.

Q 1.8: Please provide the balance sheet for Respondent as of December 31, 2017.

A. See Attached.

Q 1.9: On page 8, lines 4-5, Ms. Mann states, "I have recalculated the deferred income taxes from each utility's last base rate case assuming a federal tax rate of 21%."
a. Did Ms. Mann recalculate the deferred income taxes for each tax year after the last base rate case through December 31, 2017? Please explain.
b. If yes, please provide the workpapers and calculations.
c. Please provide the IRS publication and any other authoritative source Ms. Mann relied upon to support this method of calculating excess deferred income tax.

A.
a. No.
b. N/A
c. The method used to calculate deferred income taxes follows the proscribed method of generally accepted accounting principles as accepted in the United States and dictated by the Federal Accounting Standards Board in ASC 740.

Q 1.10: Referring to Exhibit 1, page 1:
a. Please confirm the line description for line 27 should read "State Deferred Tax Estimate (Exhibit 1 Page 6)." If this is incorrect, what should the line description be?
b. Please confirm the line description for line 30 should read "Total Unprotected excess ADIT (Line 25 + Line 29)." If this is incorrect, what should the line description be?
c. Please provide documentation supporting the amounts on lines 4, 5, 6, 7, 16, 17, 18, and 19.
d. Please explain why Respondent included a state deferred tax estimate on lines 9 and 27-29.
e. Please confirm the correct calculation of Respondent's protected portion of EADIT as line 15 less line 30, or as line 15 less line 25.

A.
a. Confirmed
b. Confirmed
c. See attached
d. Because state income taxes are a deduction in the calculation of federal income taxes
e. The calculation of Respondent's protected portion of EADIT is line 15 less line 30.

Q 1.11: On page 6, lines 13-20, Ms. Mann discusses a retirement component. Please explain whether this retirement component is applicable to Indiana Utilities Corporation. If so, please provide a copy of the retirement study.

A. There is no retirement component applicable to Indiana Utilities Corporation.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1 Testimony of OUCC Witness Amy E. Larsen*** has been served upon the following counsel of record in the captioned proceeding by electronic service on August 21, 2018.

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