

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS )  
AND ELECTRIC COMPANY d/b/a VECTREN )  
ENERGY DELIVERY OF INDIANA, INC., FOR: (1) )  
APPROVAL OF AN ADJUSTMENT TO ITS )  
ELECTRIC SERVICE RATES THROUGH ITS )  
TRANSMISSION, DISTRIBUTION, AND STORAGE )  
SYSTEM IMPROVEMENT CHARGE ("TDSIC") RATE )  
SCHEDULE; (2) AUTHORITY TO DEFER 20% OF )  
THE APPROVED CAPITAL EXPENDITURES AND )  
TDSIC COSTS FOR RECOVERY IN PETITIONER'S )  
NEXT GENERAL RATE CASE; AND (3) APPROVAL )  
OF PETITIONER'S UPDATED 7-YEAR ELECTRIC )  
PLAN, ALL PURSUANT TO IND. CODE § 8-1-39-9 )

CAUSE NO. 44910  
TDSIC 2

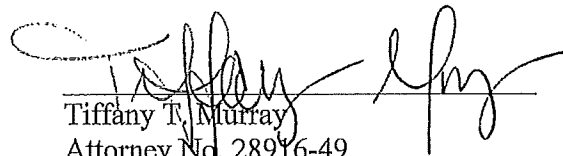
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

TESTIMONY OF

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

APRIL 2, 2018

Respectfully submitted,



Tiffany T. Murray  
Attorney No. 28916-49  
Deputy Consumer Counselor

**TESTIMONY OF OUCC WITNESS WES R. BLAKLEY**  
**CAUSE NO. 44910 TDSIC-2**  
**SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN**  
**ENERGY DELIVERY OF INDIANA, INC.**

**I. INTRODUCTION**

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

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

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

5 A: I am a Senior Utility Analyst for the Office of Utility Consumer Counselor  
6 ("OUCC"). A summary of my educational and professional background can  
7 be found in Appendix A at the end of my testimony.

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

9 A: My testimony addresses Southern Indiana Gas and Electric Company d/b/a  
10 Vectren Energy Delivery of Indiana, Inc.'s ("Vectren South" or "Petitioner")  
11 request to recover costs incurred for the construction and operation of  
12 investment in transmission, distribution, and storage facilities that were  
13 included in Vectren South's 7-Year Transmission, Distribution, and Storage  
14 System Improvement Charge ("TDSIC") and addressed in the Settlement  
15 Agreement approved by the Indiana Utility Regulatory Commission  
16 ("Commission") in Cause No. 44910. In this tracker, Vectren South has  
17 requested approval of its TDSIC costs under Ind. Code § 8-1-39-9, which  
18 allows for recovery of eighty percent (80%) of approved capital expenditures  
19 through a periodic automatic adjustment of a utility's base rates and charges

1 and the deferral of twenty percent (20%) of approved costs for recovery as  
2 part of the next general rate case the utility files with the Commission. I  
3 conclude Vectren South's proposed recovery of the costs incurred in  
4 connection with its TDSIC appear to be in compliance with the terms of the  
5 Cause No. 44910 Settlement Agreement (the "Settlement").

6 **Q: Please describe your review and analysis to prepare your testimony.**

7 A: I reviewed Vectren South's petition, testimony, schedules, and exhibits,  
8 which contain internal accounting information. I also reviewed pertinent  
9 parts of the Indiana Code, Indiana Administrative Code, as well as the terms  
10 of the Settlement.

## 11 **II. TDSIC-2 REVENUE REQUIREMENT AND RATE CALCULATION**

12 **Q: Please describe the Settlement terms that relate to the calculation of  
Vectren South's revenue requirement and rate adjustment in this Cause.**

13 A: The following is a summary of the basic ratemaking terms of the Settlement:

14 (1) Vectren South shall be authorized to implement components of  
15 the TDSIC Plan in good faith up to the \$446.5 million cap over a  
16 seven-year period with various cap requirements for each year of  
17 the 7 years.

18 (2) Vectren South's petitions for rate recovery that are filed on or  
19 about August 1 will be based on the capital investments and  
20 expenses through the period ended April 30. Petitions filed on or  
21 about February 1 will include capital investments and expenses  
22 through the period ended October 31.

23 (3) For customers receiving service pursuant to Rate Schedules DGS,  
24 MLA, OSS, LP, BAMP and HLF, the tracked portion of approved  
25 capital expenditures and TDSIC costs will be recovered through  
26 demand charges.

27 (4) For customers served under Rate Schedules RS, B and SGS, in  
28 TDSIC-1, distribution-related costs will be recovered via a per  
29 customer monthly charge up to a cap of \$0.50 per customer per

1 month. The cap on the monthly fixed TDSIC charge will grow by  
2 \$0.50 per customer in each semi-annual filing (*e.g.* the fixed  
3 charge cap will be \$0.50 per customer in TDSIC-1, \$1.00 per  
4 month in TDSIC-2, and so on), with the overall distribution-related  
5 TDSIC charge not to exceed \$7.00 per customer per month.  
6 Distribution-related TDSIC costs exceeding the applicable cap will  
7 be included in the energy charge (per kWh). All transmission-  
8 related costs applicable to Rate Schedules RS, B, and SGS will be  
9 recovered via an energy charge.

10 (5) The Return on Equity ("ROE") included in the WACC for the  
11 TDSIC mechanism will be 10.4%. This recognizes that (1)  
12 Vectren South will continue to net the original cost of retired assets  
13 from the depreciable base used to determine its incremental  
14 recoverable depreciation expense, and (2) Vectren South will not  
15 accrue carrying costs on the amount deferred representing 20% of  
16 the TDSIC plan revenue requirement.

17 (6) Depreciation expense included for recovery in the TDSIC Plan  
18 will reflect an annualized level of expense related to the gross  
19 new capital investment as of the cut-off date of the TDSIC filing.  
20 As the investment is placed in service, it will be classified in the  
21 appropriate FERC Plant Account, and depreciated using the  
22 depreciation rate approved for the Plant Account. Similarly,  
23 property tax expense included for recovery in the TDSIC will  
24 reflect an annualized level of expense related to the gross new  
25 capital investment in service as of the cut-off date of the filing.  
26 The annualized property tax expenses will be calculated by  
27 multiplying gross new capital investment in service by the then  
28 current or most recent tax rate for the projected period.

29 (7) Vectren South will net the depreciation expense associated with  
30 retired and replaced equipment against the depreciation expense  
31 associated with new equipment in the TDSIC Plan.

32 (8) Vectren South has incurred \$3.7 million in development cost for  
33 the TDSIC Plan. Vectren South should amortize and recover this  
34 deferred balance through the TDSIC over a period of three (3)  
35 years commencing in TDSIC-2.

36 (9) TDSIC costs will be allocated on rate schedules filed in Cause No.  
37 44910 which take account of the rate migration of a large  
38 customer.

1 **Q: With the passage of the Tax Cuts and Jobs Act of 2017, has Vectren**  
2 **South adjusted its TDSIC schedules to reflect the reduction of the**  
3 **federal income tax rate from 35% to 21%?**

4 A: Yes, but only with respect to the federal income tax rate change. Other items  
5 that are affected by the tax change will be addressed within the  
6 Commission's investigation into the impacts of the Tax Cuts and Jobs Act  
7 and its possible rate implications on Indiana utility ratepayers (Cause No.  
8 45032).

9 **Q: How did Vectren South calculate its revenue requirement and rate**  
10 **adjustment in this Cause?**

11 A: Vectren South's revenue requirement calculation includes a return on TDSIC  
12 investments completed since TDSIC-1, Construction Work in Progress  
13 ("CWIP") and deferred post in service carrying charge ("PISCC") as of  
14 October 31 2017 in the amount of \$2,487,678. Incremental operating  
15 expenses include property tax expense of \$128,653, depreciation expense of  
16 \$510,877, amortization expense for plan development costs over three years  
17 of \$1,266,228, amortization of deferred depreciation over the life of the  
18 transmission or distribution asset of \$3,734 and amortization of PISCC over  
19 the life of the transmission of distribution asset of \$8,324. This totals  
20 \$4,405,496 before the 80%/20% split. The 80% cash revenue requirement to  
21 be tracked in TDSIC-2 totals \$3,524,397 with \$881,099 representing 20% of  
22 the revenue requirement that will be deferred for recovery in Vectren South's  
23 next general rate case.

24 **Q: Using Vectren South's data, have you verified its rate calculation and the**  
25 **rate impact for residential customers ?**

1 A: Yes. Attachment WRB-1 displays my calculation of Vectren South's TDSIC  
2 (transmission and distribution) rates for residential customers. The  
3 transmission revenue requirement components are summed and multiplied by  
4 80% to arrive at the eligible transmission cash revenue requirement for  
5 tracking in TDSIC-2. This amount is multiplied by the Residential Service  
6 rate allocation percentage for transmission investment to arrive at the  
7 transmission cash revenue requirement for residential customers. The  
8 resulting product is then divided by the total projected annual residential  
9 kWh sales resulting in a transmission rate of \$0.000334 per kWh. Grossing  
10 up for Indiana Utility Receipts Tax produces a \$0.000339 per kWh  
11 transmission rate for residential customers.

12 The distribution revenue requirement components are summed and  
13 multiplied by 80% to arrive at the eligible distribution cash revenue  
14 requirement for tracking in TDSIC-2. This amount is multiplied by the  
15 Residential Service rate allocation percentage for distribution investment to  
16 arrive at the distribution cash revenue requirement for residential customers.  
17 The resulting product is then divided by the total number of projected  
18 residential customers and divided by 12 months resulting in a \$0.93 per  
19 customer monthly distribution fixed charge rate. Grossing up for Indiana  
20 Utility Receipts Tax produces a \$0.95 per customer monthly distribution  
21 fixed charge rate for residential customers.

22 **Q: Do you have any concerns with Vectren South's estimate of its TDSIC**  
23 **adjustment factors for the relevant period?**

1 A: No. In the course of my review of Petitioner's calculation of estimated  
2 TDSIC adjustment factors for the relevant period, nothing came to my  
3 attention that would indicate Petitioner's estimate is unreasonable.

### III. CONCLUSION

4 **Q: What do you conclude regarding Vectren South's proposed TDSIC-2**  
5 **adjustment factors?**

6 A: Based on my analysis of Petitioner's TDSIC-2, Vectren South's proposed  
7 adjustment factors appear to be in compliance with the terms of the  
8 Settlement authorized by the Commission in Cause No. 44910.

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

10 A: Yes.

**APPENDIX A**

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

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



Southern Indiana Gas and Electric Company D/B/A Vectren Energy Delivery of Indiana Inc.  
 Vectren South  
 Cause No. 44910-TDSIC-2

Calculation of TDSIC Tracker Rate for Residential Customers (RS)

Cash Revenue Requirements for the 80% Trackable TDSIC Transmission and Distribution Investment

		<u>Rate RS</u>	
		<u>Allocation %</u>	<u>Rate RS</u>
<u>Transmission Revenue Requirement</u>			
Return on Transmission Investment	\$747,314		
Property Tax Expense	30,706		
Depreciation Expense	71,203		
Plan Development Cost - Amortization	505,385		
Deferred Depreciation - Amortization	330		
Deferred Post in Service Carrying Charge - Amortization	1,140		
Total Transmission Revenue Requirement	\$1,356,078		
Times: 80%	80%		
Total 80% Transmission Cash Revenue Requirement	1,084,862	42.62%	\$462,369
Annual kWh Sales for RS			1,383,887,469
Transmission Rate for RS Class per kWh			\$0.000334
Including Utility Receipts Tax. (.0000334*1.014 = .000201)			\$0.000339
<u>Distribution Revenue Requirement</u>			
Return on Distribution Investment	\$1,740,364		
Property Tax Expense	97,948		
Depreciation Expense	439,674		
Plan Development Cost - Amortization	760,843		
Deferred Depreciation - Amortization	3,405		
Deferred Post in Service Carrying Charge - Amortization	7,184		
Total Distribution Revenue Requirement	3,049,418		
Times: 80%	80%		
Total 80% Distribution Cash Revenue Requirement	2,439,534	58.44%	1,425,664
Total Residential Customers			127,087
**Distribution Fixed Charge per Month for Residential Customer (RS)			\$0.93
Including Utility Receipts Tax. (.93 *1.014 = .37)			\$0.95
<u>Deferred Revenue Requirement</u>			
Total 20% Deferred Revenue Requirement TDSIC-2	881,099		

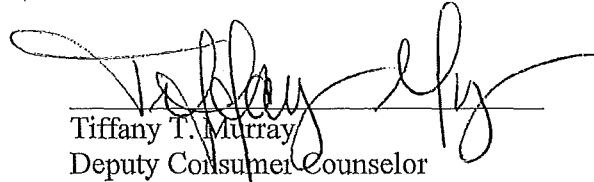
\*\* Distribution costs collected through a fixed charge for rate RS, B and SGS capped at \$1.00 in TDSIC-2. Rate B and Rate SGS fixed charge is \$.57 and .84 respectively.

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the *OUCC TESTIMONY OF WES R. BLAKLEY* has been served upon the following parties of record in the captioned proceeding by electronic service on April 2, 2018.

Robert E. Heidorn  
P. Jason Stephenson  
**VECTREN SOUTH**  
One Vectren Square  
Evansville, IN 47708  
[rheidorn@vectren.com](mailto:rheidorn@vectren.com)  
[jstephenson@vectren.com](mailto:jstephenson@vectren.com)

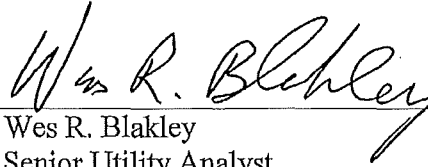
Steven W. Krohne  
**ICE MILLER LLP**  
One American Square  
Suite 2900  
Indianapolis, IN 46282-0200  
[Steven.krohne@icemiller.com](mailto:Steven.krohne@icemiller.com)

  
Tiffany T. Murray  
Deputy Consumer Counselor

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**  
115 West Washington Street  
Suite 1500 South  
Indianapolis, IN 46204  
[infomgt@oucc.in.gov](mailto:infomgt@oucc.in.gov)  
317/232-2494 – Telephone  
317/232-5923 – Facsimile

**AFFIRMATION**

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



Wes R. Blakley  
Senior Utility Analyst

Indiana Office of Utility Consumer Counselor

April 2, 2018  
Date

Cause No. 44910 TDSIC 2