

**REBUTTAL TESTIMONY OF DAVID G. RAIFORD  
ACCOUNTING MANAGER I  
DUKE ENERGY BUSINESS SERVICES LLC  
ON BEHALF OF DUKE ENERGY INDIANA, LLC  
CAUSE NO. 45253 S1 BEFORE THE  
INDIANA UTILITY REGULATORY COMMISSION**

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is David Raiford, and my business address is 550 South Tryon Street,  
Charlotte, North Carolina 28202.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by Duke Energy Business Services LLC, a service company affiliate of  
Duke Energy Indiana, LLC ("Duke Energy Indiana" or "Company") and a subsidiary of  
Duke Energy Corporation ("Duke Energy"), as Accounting Manager I, Asset Accounting  
within the Corporate Controllers Department.

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND  
BUSINESS EXPERIENCE.**

A. I am a graduate of the University of North Carolina at Wilmington, with a Bachelor of  
Science degree in Business Administration, and a Master of Science degree in  
Accountancy. I am a Certified Public Accountant in the State of North Carolina. I began  
my employment with Duke Energy in 2010 in the Financial Reporting group within the  
Accounting Department and have also supported the accounting for Asset Retirement  
Obligations within Asset Accounting. I transitioned to my current position within Asset

1 Accounting in June 2020. My work experience prior to Duke Energy was with Grant  
2 Thornton, LLP as an Audit Senior Associate serving clients in a variety of industries.

3 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS**  
4 **ACCOUNTING MANAGER I, ASSET ACCOUNTING.**

5 A. As Manager I, Asset Accounting, I have responsibility for accounting and reporting  
6 activities within Duke Energy's electric and gas utilities and infrastructure segment  
7 related to fixed assets, including electric plant in service, construction work in progress,  
8 depreciation, asset retirement obligations ("ARO"), and various regulatory assets.

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
10 **PROCEEDING?**

11 A. The purpose of my testimony is to respond to the testimony of OUCC witness, Wes  
12 Blakley. Specifically, I will explain that Duke Energy Indiana has properly recorded an  
13 ARO for its coal ash remediation and pond closure costs once those became a legal  
14 obligation under state and federal regulations. I will also explain that both Generally  
15 Accepted Accounting Principles ("GAAP") and Federal Energy Regulatory Commission  
16 ("FERC") rules require such accounting treatment for the legal obligations imposed upon  
17 the Company by the Environmental Protection Agency ("EPA") and Indiana Department  
18 of Environmental Management ("IDEM") compliance requirements. My testimony and  
19 the rebuttal testimony of Mr. Davey will explain that the cost recovery treatment for the  
20 Company's coal ash remediation and pond closure costs would be substantially similar  
21 whether accounted for as an ARO or cost of removal.

1 **Q. ARE YOU FAMILIAR WITH MR. BLAKLEY'S TESTIMONY IN THIS**  
2 **PROCEEDING?**

3 A. Yes, I have read it.

4 **Q. COULD YOU PLEASE PROVIDE YOUR UNDERSTANDING OF THE OUCC'S**  
5 **POSITION AS STATED BY MR. BLAKLEY?**

6 A. Yes. My understanding of the OUCC's ratemaking position in this proceeding is that  
7 Duke Energy Indiana chose to create an ARO for its coal ash closure costs, that the  
8 Company is unreasonably and unfairly "cherry-picking" certain costs of removal to treat  
9 as a regulatory asset, and that the Commission should require Duke Energy Indiana to use  
10 traditional ratemaking for its recovery of coal ash closure costs and only authorize "return  
11 of" the Company's investment.

12 **Q. COULD YOU PLEASE DESCRIBE THE ACCOUNTING IN PLACE FOR DUKE**  
13 **ENERGY INDIANA'S COAL ASH CLOSURE ACTIVITIES AND COSTS?**

14 A. Yes. As alluded to in the testimony of Mr. Blakley, prior to the coal ash remediation and  
15 pond closure costs becoming legal obligations under the enacted EPA and IDEM  
16 requirements described above, these types of costs were properly considered a cost of  
17 removal. As such, the costs were estimated as part of the cost of decommissioning the  
18 coal plants in prior decommissioning studies and included in depreciation rates to be  
19 charged to customers over the life of the plants. Accordingly, the Company accumulated  
20 a balance in its accumulated depreciation reserve for the amounts that customers have  
21 paid via depreciation rates for the coal ash portion of the estimated cost of removal.  
22 However, as previously explained in the Company's recent base rate case, Cause No.

1 45253, the historical estimates for cost of removal were much lower than the costs of  
2 complying with the newly enacted EPA and IDEM requirements.

3 In accordance with GAAP as prescribed in Financial Accounting Standards Board  
4 ("FASB") Accounting Standards Codification ("ASC") 410-20, as well as FERC rules as  
5 prescribed in Order No. 631, the Company records an ARO liability when it has a legal  
6 obligation associated with the retirement of a long-lived asset and the obligation can be  
7 reasonably estimated. The Company evaluated these GAAP and FERC rules in light of  
8 the legal obligations imposed upon it by the EPA and IDEM compliance requirements  
9 regarding coal ash as described above. The Company determined that the coal ash basins  
10 it operated at its coal-fired generating facilities needed to be closed as a result of these  
11 compliance requirements, and this closure obligation triggered a requirement for the  
12 Company to record an ARO liability under the accounting rules. When the ARO liability  
13 was recorded, a corresponding equivalent ARO asset was recorded on the books as part of  
14 the cost of the associated asset in the property, plant and equipment accounts. This ARO  
15 asset will be depreciated over the remaining estimated plant life.

16 ASC 980 applies to regulated entities that charge rates at levels designed to  
17 recover the entity's costs of providing regulated services. ASC 980 provides that a utility  
18 should capitalize a cost, as a regulatory asset, if it is probable that, through the  
19 ratemaking process, there will be a corresponding increase in future revenues. Under  
20 ASC 980, a regulated entity should capitalize incurred costs that would otherwise be  
21 charged to expense if both of the following criteria are met: (1) it is probable (*i.e.*, likely  
22 to occur) that future revenues in an amount at least equal to that capitalized cost will

1 result from inclusion of that cost in allowable costs for ratemaking purposes; and (2)  
2 based on available evidence, the future revenue will be provided to permit recovery of the  
3 incurred cost rather than to provide for expected levels of similar future costs. The  
4 determination whether recovery is probable is a matter of professional judgment, based  
5 upon specific facts and circumstances, but the following evidence can support a  
6 conclusion that recovery is probable: (1) a rate order from regulators specifically  
7 authorizing recovery; (2) previous rate orders from the regulators allowing recovery for  
8 substantially similar costs; (3) written approval from the regulators approving recovery;  
9 and (4) analysis of recoverability from internal or external legal counsel. Duke Energy  
10 Indiana has determined that the costs meet the capitalization requirements as outlined  
11 above, and has deferred into a regulatory asset account the depreciation expense  
12 associated with the ARO.

13 As actual costs are incurred to comply with the federal and state regulations that  
14 gave rise to the AROs, the Company reduces the ARO liability to reflect cash spent to  
15 satisfy those legal obligations. Simultaneously, the Company records an entry to reduce  
16 the regulatory asset described above and increase a separate regulatory asset that was  
17 created for the purpose of tracking the amount of actual cash expenditures incurred. In  
18 addition, the Company transferred the cumulative balance of coal ash related cost of  
19 removal amounts collected from customers from the accumulated depreciation reserve to  
20 this regulatory asset, so that customers receive credit for the coal ash remediation costs  
21 they have already paid.

1 **Q. HOW WOULD THESE ARO COSTS HAVE BEEN ACCOUNTED FOR IF THEY**  
2 **WERE NOT LEGAL OBLIGATIONS?**

3 A. As discussed above, if the Company were not legally obligated to incur these costs, they  
4 would have been recorded as costs of removal. As explained by Mr. Davey's rebuttal  
5 testimony in this proceeding and contrary to Mr. Blakley's assertions, cost recovery  
6 treatment would be substantially similar whether accounted for as an ARO or cost of  
7 removal.

8 **Q. IS MR. BLAKLEY CORRECT THAT THE COMPANY CHOSE TO TREAT ITS**  
9 **COAL ASH CLOSURE ACTIVITIES AND EXPENDITURES QUALIFIED AS**  
10 **ARO UNDER GAAP?**

11 A. No. The Company must follow GAAP and FERC rules for accounting. As noted above,  
12 when an ARO liability is recorded, a corresponding equivalent ARO asset is recorded as  
13 part of the cost of the associated asset in the property, plant and equipment accounts and  
14 depreciated over the remaining estimated plant life. This depreciation expense is deferred  
15 as a regulatory asset, as discussed above. As reflected in Ms. Douglas Exhibit 4-F in  
16 Cause 45253, Duke Energy Indiana excludes these balances from the net utility plant  
17 balance requested to be included in rate base.

18 When coal ash expenditures (settlements) are incurred, they reduce the ARO, as  
19 prescribed by accounting guidance. ASC 410 addresses the accounting treatment related  
20 to AROs; however, it does not address the recovery mechanism of such costs for a rate-  
21 regulated entity such as Duke Energy Indiana. Due to the net ARO asset balance being  
22 excluded from rate base, when spend is incurred Duke Energy Indiana utilizes a separate

1 regulatory asset to record coal ash removal cost expenditures on its books to settle its  
2 legal obligations (and simultaneously reduces the regulatory asset used to record the  
3 deferred depreciation expense, as discussed above), which is the basis for the spend  
4 requested to be recovered (net of any insurance proceeds and amounts previously  
5 collected through cost of removal).

6 Furthermore, the activities Mr. Thiemann described that comprise the coal ash  
7 costs being requested would have been properly accounted for as a capital project in plant  
8 account 101, preliminary engineering costs in a 183 account, or as cost of removal  
9 charges to plant account 108 absent the ARO. Mr. Davey's rebuttal explains the  
10 ratemaking treatment in more detail.

11 **Q. ARE YOU AWARE OF OTHER UTILITIES RECORDING AROS FOR COAL**  
12 **ASH CLOSURE EXPENSES?**

13 A. Yes, other utilities, in accordance with the GAAP and FERC accounting rules prescribed  
14 as discussed above, have AROs recorded related to coal ash closure costs.

15 **Q. DO GAAP OR FERC RULES PROHIBIT RECORDING AN ARO IF THE**  
16 **LEGAL OBLIGATION INVOLVES THE RETIREMENT OF AN ASSET, SUCH**  
17 **AS COAL ASH SURFACE IMPOUNDMENTS?**

18 A No, ASC 410-20-15 provides guidance on the scope of the ARO guidance. Subtopic 15-2  
19 indicates that the guidance applies to the following transactions and activities:

20 a) Legal obligations associated with the retirement of a tangible long-lived asset that  
21 result from the acquisition, construction, or development and (or) the normal

1 operation of a long-lived asset, including any legal obligations that require disposal  
2 of a replaced part that is a component of a tangible long-lived asset.

3 b) An environmental remediation liability that results from the normal operation of a  
4 long-lived asset and that is associated with the retirement of that asset. The fact  
5 that partial settlement of an obligation is required or performed before full  
6 retirement of an asset does not remove that obligation from the scope of this  
7 Subtopic. If environmental contamination is incurred in the normal operation of a  
8 long-lived asset and is associated with the retirement of that asset, then this  
9 Subtopic will apply (and Subtopic 410-30 will not apply) if the entity is legally  
10 obligated to treat the contamination.

11 c) A conditional obligation to perform a retirement activity. Uncertainty about the  
12 timing of settlement of the asset retirement obligation does not remove that  
13 obligation from the scope of this Subtopic but will affect the measurement of a  
14 liability for that obligation (see paragraph 410-20-25-10).

15 The coal ash surface impoundments being retired are tangible long-lived assets, and  
16 to the extent that retirement involves any environmental remediation, that remediation is  
17 the result of the normal operation of the basins, which is the subject of 15 Subtopics 15-  
18 2(a) and (b). Finally, under Subtopic 15-2(c), the retirement requirements are a conditional  
19 obligation to perform a retirement activity as the nature, timing and extent of the closure  
20 depends on various determinations. Under the CCR rule, those determinations include the  
21 evaluation of certain criteria by specific deadlines. For those sites whose closure is not



1 required by CCR, determinations are made in accordance with IDEM or other federal  
2 requirements.

3 **Q. MR. RAIFORD, HAS DUKE ENERGY INDIANA COMPLIED WITH**  
4 **APPROPRIATE ACCOUNTING RULES AND GUIDANCE IN ITS**  
5 **TREATMENT OF COAL ASH CLOSURE-RELATED EXPENDITURES?**

6 A. Yes, I believe it has. Deloitte and Touche LLP (Deloitte), Duke Energy Indiana's  
7 external auditor, audits Duke Energy Indiana's financial statements in conformity with  
8 accounting principles generally accepted in the United States of America. As part of  
9 Deloitte's annual audit of Duke Energy Indiana's financial statements and the related  
10 notes, they are required to determine if the financial statements present fairly, in all  
11 material respects, the financial position of Duke Energy Indiana. Deloitte's audit opinion  
12 has not noted any exceptions to Duke Energy Indiana's ARO accounting. Deloitte also  
13 performs a review of the FERC Form 1 and issues its opinion that the Regulatory Basis  
14 Financial Statements are presented fairly, in all material respects, in conformity with the  
15 FERC Uniform System of Accounts.

16 **Q. DOES THIS CONCLUDE YOUR PREFILED REBUTTAL TESTIMONY AT**  
17 **THIS TIME?**

18 A. Yes, it does.

## VERIFICATION

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

Signed: David G. Raiford  
David G. Raiford

Dated: 8/17/2020