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 UNDER PHASE 1 AND PHASE 2 FOR DUKE ENERGY INDIANA, LLC	)))))))	**CAUSE NO. 45032 S2**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SETTLEMENT TESTIMONY OF

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

JUNE 27, 2018

Respectfully submitted,

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

SETTLEMENT TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 45032-S2
DUKE ENERGY INDIANA, LLC

I. INTRODUCTION

Q: Please state your name and business address.

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

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

A: I am a Senior Utility Analyst for the Office of Utility Consumer Counselor ("OUCC"). For a summary of my educational and professional background, please see Appendix A attached to my testimony.

Q: What is the purpose of your settlement testimony in this Cause?

A: My testimony provides a review of the tax adjustments and ratepayer benefits achieved by the Stipulation and Settlement Agreement entered into between Duke Energy Indiana, LLC ("DEI" or "Duke"), the OUCC, Duke Energy Industrial Group and NUCOR Steel – Indiana relating to all of DEI's Phase 1 and Phase 2 tax issues, as those are defined in the Commission's investigation into the impacts of the Tax Cuts and Jobs Act of 2017 ("TCJA") in Cause No. 45032-S2 ("Settlement").

II. PHASE 1 TAX ISSUES

Q: Please describe how this Settlement timely provides the Phase 1 tax benefit to Duke's customers.

A: Phase 1 tax benefits to customers lie solely in the federal tax rate change from 35%, which is included in Duke's current base rates and tracker charges, to the new federal income tax rate of 21%. (Cause No. 45032, Order, February 16, 2018 at 2.) To that end, the Settling Parties agree that Duke will make a revised 30-day filing to reduce its base rates and any riders affected by base rate reductions such that implementation of the revised rates can be made no later than September 1, 2018. The Settlement reflects the Parties' agreement that Duke's revised 30-day filing is part and parcel of the terms and commitments reflected in the Settlement itself. The Settling Parties also agree that all of Duke's trackers are to be reduced to reflect the new 21% corporate income tax rate as those trackers are filed in 2018. The lower tax rate has already been included in the rates that have been approved and implemented for Duke's ECR and IGCC riders. The remaining rider rates reflecting the 21% tax rate are expected to be approved and implemented by the end of October 2018.

It is the OUCC's position that the public interest requires immediate utility rate reductions to account for the reduced tax liability utilities will now have to bear under the TCJA. If Duke had not withdrawn its 30-day filing and requested this sub docket, its customers would have experienced reduced rates as early as May 1, 2018. Reducing Duke's base rates in September 2018, and remaining trackers that do not already reflect the lower tax rate by the end of October 2018, in context with the other terms and concessions within the Settlement, is a reasonable outcome that provides a timely refund to ratepayers.

III. PHASE 2 TAX ISSUES

Q: Please describe the Phase 2 tax benefits of the Settlement.

A: The Commission's February 16, 2018 Order in Cause No. 45032 at page 2 provides the scope of issues to be addressed in Phase 2 of the Commission's tax investigation:

> Phase 2 will address all remaining issues, including (1) the amount and amortization of normalized and non-normalized excess accumulated deferred income taxes and the regulatory accounting being used by Respondents as required by the Commission's January 3, 2018 Order in this Cause for estimated impacts resulting from the Act, and (2) the timing and method for how these benefits will be realized by customers, whether directly or indirectly.

As such, this Settlement provides Phase 2 tax benefits to customers in two ways: 1) amortization of the regulatory liability created by excess taxes embedded in Duke's base rates and trackers since January 1, 2018; and 2) amortization of excess accumulated deferred income taxes ("ADIT") as of December 31, 2017.

Q: How does the Settlement resolve treatment of Duke's regulatory liability created by embedded excess taxes?

A: Regarding the excess taxes embedded in Duke's current base rates since January 1, 2018, upon approval of the Settlement, Duke will make accounting entries to offset approximately $36 million of regulatory assets relating to the IGCC carbon capture project and the environmental AFUDC costs for NOX plant that was included after the rate base cutoff date from its last rate case, both of which are currently accruing carrying charges, against the regulatory liability starting January 1, 2018 created by the difference between the 35% tax rate embedded in Duke's base rates and the new

21% corporate tax rate as a result of the TCJA. The Settling Parties agree that any remaining regulatory liability/asset after this offset will be deferred until Duke's` next base rate case without carrying charges.

Duke's tracker charges also contain income taxes, and the differences between tracker rates being billed in 2018 that reflect the 35% tax rate and the lower 21% tax rate are also being deferred in a regulatory liability. Therefore, with reference to the IGCC tracker, the Settlement reflects agreement that Duke will supplement its case in the current IGCC-17 proceeding to show evidence of the over collection of taxes based on the tax rate differences that are being recorded in a regulatory liability, and will refund that difference to customers as those rates become effective in February 2019. For all other trackers including Duke's Environmental Compliance Investment (Rider 62), Environmental Compliance Operating Cost (Rider 71), Renewable Energy (Rider 73), Federally Mandated Costs (Rider 72), Transmission and Distribution Infrastructure (Rider 65) and the Energy Efficiency Rider (Rider 66-A), Duke will refund the regulatory liability that is a result of the tax rate change as these trackers are filed with the refund of the regulatory liability to be made in full by December 2020.

Q: How does the Settlement address the amortization of excess ADIT?

A: Effective on the date a final order is issued in this subdocket, Duke will amortize its excess unprotected ADIT balance of $210 million through its existing Rider 67, which will be renamed the Tax and Merger Credit Rider. The Parties agree that the amortization period for Duke's unprotected excess ADIT balance is 10 years. The Settlement reflects the Parties' agreement that the first five years of the unprotected

ADIT amortization will be refunded at approximately $7 million annually, and for the next five years, starting September 1, 2023, the amortization will refunded at approximately $35 million annually. Starting January 1, 2020 and through the renamed Rider 67, DEI will amortize its excess protected ADIT balance, which it currently estimates to be $766 million using the Average Rate Assumption Method ("ARAM"), which Duke currently estimates to be over 25.8 years, resulting in an annual amortization of $29.7 million annually. The Settlement states that the allocation factors for the ADIT refunds in Rider 67 will be the Retail Original Cost Depreciated Rate Base from DEI's last rate case in Cause 42359. The Settlement provides that the total initial amount of annual ADIT refund to DEI customers will be approximately $36.7 million and after five years, the annual amount will increase to $64.7 million.

Q: What other ratepayer benefits are created by the Settlement?

A: The Settlement also includes an additional rate credit of $1.9 million, to be refunded to customers in calendar year 2020 via Rider 67. The Settlement states that this additional rate credit is included in consideration of the compromises made on key issues, including the timing of when benefits from the TCJA will be refunded to ratepayers. Finally, the Settlement creates an additional regulatory liability that will include the 2018 and 2019 amortizations of protected ADIT. This regulatory liability, totaling approximately $59.4 million, will be deferred until DEI's next base rate case.

Q: Do you believe the Settlement is in the public interest?

A: Yes. The terms of the Settlement provide material financial benefits to DEI's customers. DEI's customers will experience benefit in 2018 with the base rate change, the lower tax rate used in Duke's trackers, and elimination of regulatory assets offset by the tax regulatory liability, which will significantly reduce the amount of outstanding regulatory assets in DEI's next rate case. The Settlement also provides for significant refunds of over-collected taxes in Duke's trackers through 2020, as well as a deliberate, timely schedule for the refund of $976 million of excess ADIT, in addition to the $1.9 million credit to be refunded to DEI's customers through 2020. The Settlement reflects compromises made by DEI from the positions taken in its Phase 1 subdocket testimony, and creates a reasonable balance of the interests of ratepayers and those of DEI and its shareholders.

Q: Does this conclude your testimony?

A: Yes, it does.

APPENDIX A

Q: Please describe your educational background and experience.

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

Q: Have you previously testified before the Commission?

A: Yes.

AFFIRMATION

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

Wes R. Blakley

Wes R. Blakley
Senior Utility Analyst

Indiana Office of Utility Consumer Counselor

June 27, 2018
Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***OUCC SETTLEMENT TESTIMONY*** has been served upon the following parties of record in the captioned proceeding by electronic service, on June 27, 2018.

Duke
Kelley A. Karn
Melanie D. Price
DUKE ENERGY BUSINESS SERVICES, LLC.
1000 East Main Street
Plainfield, IN 46168
Kelley.karn@duke-energy.com
Melanie.price@duke-energy.com

Courtesy Copies to:
CAC
Jennifer A. Washburn
Margo Tucker
CITIZENS ACTION COALITION
1915 West 18th Street, Suite C
Indianapolis, IN 46202
jwashburn@citact.org
mtucker@citact.org

Industrial Group
Todd A. Richardson
Aaron A. Schmoll
Joseph P. Rompala
LEWIS & KAPPES, P.C.
TRichardson@lewis-kappes.com
ASchmoll@lewis-kappes.com
JRompala@lewis-kappes.com
ATyler@lewis-kappes.com
ETennant@lewis-kappes.com

Nucor
LEWIS & KAPPES, P.C.
Anne E. Becker
Lewis Kappes, P.C.
One American Square, Ste. 2500
Indianapolis, Indiana 46282
abecker@Lewis-Kappes.com

RCH fm
Tiffany T. Murray
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
PNC Center
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317/232-2494 – Telephone
317/232-5923 – Facsimile