

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

October 23, 2017

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 1

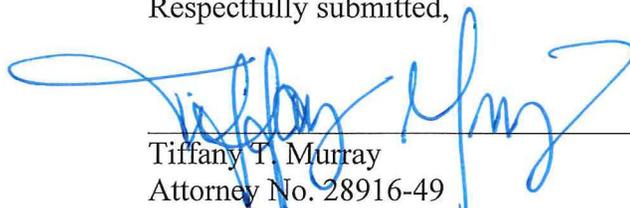
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

TESTIMONY OF

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

OCTOBER 23, 2017

Respectfully submitted,



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

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 44910 TDSIC-1
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN
ENERGY DELIVERY OF INDIANA, INC.

I. INTRODUCTION

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

2 A: My name is Wes R. Blakley and my business address is 115 W. Washington
3 St., Suite 1500 South, Indianapolis, Indiana 46204. I am employed by the
4 Indiana Office of Utility Consumer Counselor ("OUCC") as a Senior Utility
5 Analyst in the Electric Division. For a summary of my educational and
6 professional background, please see Appendix A attached to my testimony.

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

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

1 and charges, and the deferral of twenty percent (20%) of approved costs for
2 recovery as part of the next general rate case that the utility files with the
3 Commission.

4 **Q: Please describe the review and analysis you conducted in order to**
5 **prepare your testimony.**

6 A: I reviewed Vectren South's petition, testimony, schedules, and exhibits,
7 which contain internal accounting information. I reviewed Vectren South's
8 responses to OUCC data requests. I also reviewed pertinent parts of the
9 Indiana Code, Indiana Administrative Code, as well as the terms of the Cause
10 No. 44910 Settlement Agreement (the "Settlement").

II. TDSIC-1 REVENUE REQUIREMENT AND RATE CALCULATION

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

14 A: The basic ratemaking terms of the Settlement are summarized here:

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

19 (2) Vectren South will file its case associated with the TDSIC Plan on
20 August 1, 2017 to establish TDSIC rates and charges which shall
21 be implemented with the first billing cycle starting November 1,
22 2017 or as soon thereafter as is practicable. The petitions that are
23 filed on August 1 will be based on the capital investments and
24 expenses through the period ended April 30. Petitions filed on or
25 about February 1, 2018 will include capital investments and
26 expenses through the period ended October 31.

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

- 1 (4) For customers served under Rate Schedules RS, B and SGS, in
2 TDSIC-1, distribution-related costs will be recovered via a per
3 customer monthly charge up to a cap of \$0.50 per customer per
4 month. The cap on the monthly fixed TDSIC charge will grow by
5 \$0.50 per customer in each semi-annual filing (e.g. the fixed
6 charge cap will be \$0.50 per customer in TDSIC-1, \$1.00 per
7 month in TDSIC-2, and so on), with the overall distribution-
8 related TDSIC charge not to exceed \$7.00 per customer per
9 month. Distribution-related TDSIC costs exceeding the applicable
10 cap will be included in the energy charge (per kWh). All
11 transmission-related costs applicable to Rate Schedules RS, B,
12 and SGS will be recovered via an energy charge.
- 13 (5) The Return on Equity ("ROE") included in the Weighted Average
14 Cost of Capital ("WACC") for the TDSIC mechanism will be
15 10.4%. This recognizes that (1) Vectren South will continue to
16 net the original cost of retired assets from the depreciable base
17 used to determine its incremental recoverable depreciation
18 expense, and (2) Vectren South will not accrue carrying costs on
19 the amount deferred representing 20% of the TDSIC plan revenue
20 requirement.
- 21 (6) Depreciation expense included for recovery in the TDSIC Plan
22 will reflect an annualized level of expense related to the gross
23 new capital investment as of the cut-off date of the TDSIC filing.
24 As the investment is placed in service, it will be classified in the
25 appropriate Federal Energy Regulatory Commission ("FERC")
26 Plant Account, and depreciated using the depreciation rate
27 approved for the Plant Account. Similarly, property tax expense
28 included for recovery in the TDSIC will reflect an annualized
29 level of expense related to the gross new capital investment in
30 service as of the cut-off date of the filing. The annualized property
31 tax expenses will be calculated by multiplying gross new capital
32 investment in service by the then current or most recent tax rate
33 for the projected period.
- 34 (7) Vectren South will net the depreciation expense associated with
35 retired and replaced equipment against the depreciation expense
36 associated with new equipment in the TDSIC Plan.
- 37 (8) Vectren South had incurred \$3.7 million in development cost for
38 the TDSIC Plan. Vectren South should amortize and recover this
39 deferred balance through the TDSIC over a period of three (3)
40 years commencing in TDSIC-1.

1 (9) TDSIC costs will be allocated on rate schedules filed in Cause No.
2 44910 which take account of the rate migration of a large
3 customer.

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

6 A: Vectren South's calculation of its revenue requirement includes a return on
7 new TDSIC completed investment, Construction Work in Progress
8 ("CWIP"), and deferred post in service carrying charges ("PISCC") as of
9 April 30, 2017 in the amount of \$657,573. Incremental operating expenses
10 include property tax expense of \$19,940, depreciation expense of \$44,979,
11 amortization expense for plan development costs over 3 years of \$1,266,228,
12 amortization of deferred depreciation over the life of the transmission or
13 distribution asset of \$77.00 and amortization of PISCC over the life of the
14 transmission of distribution asset of \$178. These inputs total to \$1,988,981
15 before the 80%/20% split. The 80% cash revenue requirement to be tracked
16 in TDSIC-1 totals \$1,591,185 with \$397,796 representing 20% of the
17 revenue requirement that will be deferred for recovery in Vectren South's
18 next general base rate case.

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

21 A: Yes. Attachment WRB-1 displays my calculation of Vectren South's TDSIC
22 (transmission and distribution) rates for residential customers. The
23 transmission revenue requirement components are summed and multiplied by
24 80% to arrive at the eligible transmission cash revenue requirement for
25 tracking in TDSIC-1. This amount is multiplied by the Residential Service

1 rate allocation percentage for transmission investment to arrive at the
2 transmission cash revenue requirement for residential customers. The
3 resulting product is then divided by the total projected annual residential
4 kWh sales resulting in a transmission rate of \$.000198 per kWh. Grossing up
5 for Indiana Utility Receipts Tax produces a \$.000201 per kWh transmission
6 rate for residential customers.

7 The distribution revenue requirement components are summed and
8 multiplied by 80% to arrive at the eligible distribution cash revenue
9 requirement for tracking in TDSIC-1. This amount is multiplied by the
10 Residential Service rate allocation percentage for distribution investment to
11 arrive at the distribution cash revenue requirement for residential customers
12 The resulting product is then divided by the total number of projected
13 residential customers and divided by 12 months resulting in a \$0.36 per
14 customer monthly distribution fixed charge rate. Grossing up for Indiana
15 Utility Receipts Tax produces a \$0.37 per customer monthly distribution
16 fixed charge rate for residential customers.

17 **Q: Did any part of Vectren South's calculation of the TDSIC adjustment**
18 **factors for the relevant period cause concern?**

19 A: No. Based on my analysis, Petitioner's calculation of estimated TDSIC
20 adjustment factors for the relevant period appears to comport with the basic
21 ratemaking terms approved by the Commission, as a result of the Settlement,
22 in Cause No. 44910.

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

24 A: Yes.

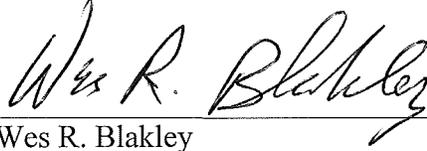
APPENDIX A

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

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.

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

10/23/2017

Date

Cause No. 44910 TDSIC 1

CERTIFICATE OF SERVICE

This is to certify that a copy of the ***OUC*** ***TESTIMONY OF WES R. BLAKLEY*** has been served upon the following parties of record in the captioned proceeding by electronic service on October 23, 2017.

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