FILED
December 17, 2019
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED JOINT PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC ("NIPSCO") AND INDIANA CROSSROADS WIND GENERATION LLC (THE "JOINT VENTURE") FOR (1) ISSUANCE TO NIPSCO OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE PURCHASE AND ACQUISITION OF A 302 MW WIND FARM ("THE CROSSROADS PROJECT"); (2) APPROVAL OF THE CROSSROADS PROJECT AS A CLEAN ENERGY PROJECT UNDER IND. CODE § 8-1-8.8-11; (3) APPROVAL OF RATEMAKING AND ACCOUNTING TREATMENT ASSOCIATED WITH THE CROSSROADS PROJECT; (4) AUTHORITY TO ESTABLISH AMORTIZATION RATES FOR NIPSCO'S INVESTMENT IN THE JOINT VENTURE; (5) APPROVAL PURSUANT TO IND. CODE § 8-1-2.5-6 OF AN ALTERNATIVE REGULATORY PLAN INCLUDING ESTABLISHMENT OF JOINT VENTURE THROUGH WHICH THE CROSSROADS PROJECT WILL SUPPORT NIPSCO'S GENERATION FLEET AND THE REFLECTION IN NIPSCO'S NET ORIGINAL COST RATE BASE OF ITS INVESTMENT IN JOINT VENTURE; (6) APPROVAL OF PURCHASED POWER AGREEMENTS THROUGH WHICH NIPSCO WILL RECEIVE THE ENERGY GENERATED BY THE CROSSROADS PROJECT, INCLUDING TIMELY COST RECOVERY PURSUANT TO IND. CODE § 8-1-8.8-11 THROUGH NIPSCO'S FUEL ADJUSTMENT CLAUSE; (7) AUTHORITY TO DEFER AMORTIZATION CLAUSE; (7) AUTHORITY TO DEFER AMORTIZATION AND TO ACCRUE POST-IN SERVICE CARRYING CHARGES ON NIPSCO'S INVESTMENT IN JOINT VENTURE; (8) TO THE EXTENT GENERALLY ACCEPTED ACCOUNTING PRINCIPLES WOULD TREAT ANY ASPECT OF JOINT VENTURE AS DEBT ON NIPSCO'S FINANCIAL STATEMENTS, APPROVAL OF FINANCING; (9) APPROVAL OF AN ALTERNATIVE REGULATORY PLAN FOR NIPSCO IN ORDER TO FACILITATE THE IMPLEMENTATION OF THE CROSSROADS PROJECT; AND (10) TO THE EXTENT NECESSARY, ISSUANCE OF AN ORDER PURSUANT TO IND. CODE § 8-1-2.5-5 DECLINING TO EXERCISE JURISDICTION OVER JOINT VENTURE AS A PUBLIC UTILITY.	CAUSE NO. 45310

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 3

REDACTED TESTIMONY OF OUCC WITNESS

WES R. BLAKLEY

DECEMBER 17, 2019

Respectfully submitted,

T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

"CONFIDENTIAL HIGHLIGHTED IN [redacted]"

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 45310
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC AND INDIANA CROSSROADS WIND GENERATION LLC ("JOINT VENTURE")

I. INTRODUCTION

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

A: My name is Wes R. Blakley and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204. I am a Senior Utility Analyst in the Electric Division for the Office of Utility Consumer Counselor ("OUCC"). My qualifications are attached to this testimony as Appendix A.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to provide analysis and make recommendations on Northern Indiana Public Service Company LLC's ("NIPSCO") proposal to purchase and acquire a wind farm (hereafter "Crossroads Project" or "Project") indirectly through a joint venture arrangement ("Joint Venture") with Indiana Crossroads Wind Generation LLC (together "Joint Petitioners"). I specifically address the accounting and ratemaking treatment for the Crossroads Project proposed by NIPSCO witness Angela Camp.

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

A: I read NIPSCO's prefiled case-in-chief testimony, exhibits, schedules and workpapers in this Cause. I also reviewed testimony, exhibits and the Indiana Utility Regulatory Commission's ("Commission") Final Order in Cause No.

"CONFIDENTIAL HIGHLIGHTED IN [redacted]"

45194, dated August 7, 2019 regarding NIPSCO's first Joint Venture wind farm project ("Rosewater Project").

II. STRUCTURE OF THE JOINT VENTURE

Q: Please briefly explain the structure of, and NIPSCO's interest in, the Joint Venture, which involves other parties.

A: NIPSCO requests a certificate of public convenience and necessity ("CPCN") to purchase indirectly through a Joint Venture, the Crossroads Project, which is a wind farm that will have an approximate capacity of 302 megawatt ("MW"). The Joint Venture members consist of (1) a Tax Equity Partner ("TEP") that will be an investor and put a large amount of capital in the project, but will not be responsible for any of its operation; (2) EDP Renewables North America, LLC ("EDPRNA"), which is the Developer that will construct the Crossroads Project; and (3) NIPSCO, which will be the Managing Member and will operate the facility. EDPRNA will build and initially own the Crossroads Project before it is sold to the Joint Venture. EDPRNA, through a Build Transfer Agreement ("BTA"), will transfer 100% of the Crossroads Project to the Joint Venture when the Project begins operating in late 2021. Just prior to the transfer, EDPRNA will invest a portion of the proceeds to be paid by Joint Venture in return for an ownership share of the Joint Venture, which it will hold until 2023. The TEP will also invest an amount needed to pay the Joint Venture's obligation under the BTA. In 2021 at the Project's completion, NIPSCO will invest approximately 1% of the cost of the Project in return for its share of the Joint Venture. In 2023, NIPSCO will purchase EDPRNA's interest in the Joint Venture for cash. The TEP's interest in the Joint

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Venture will enable it to receive 99% of the Production Tax Credits ("PTC") plus tax losses generated by the Crossroad Project, along with excess cash distributions of up to 30% generated by the Project. The TEP anticipates it will attain its required internal rate of return, as specified by the Joint Venture Operating Agreement, around 2031. At this point, the allocation of taxable income, loss, gain and deductions drops to 5%. NIPSCO will then have the option to acquire the TEP interest for fair market value, as defined in the Joint Venture Operating Agreement.

III. ACCOUNTING AND RATEMAKING TREATMENT OF THE JOINT VENTURE

Q: Please explain the basic accounting and ratemaking treatment and recovery of costs between NIPSCO and the other involved parties.

A: Regarding investment, NIPSCO will initially own 1% of the Joint Venture at the time the Crossroads Project becomes operational in 2021. The estimated cost of the Crossroads Project is [redacted][1] million, thus NIPSCO's investment at the time of the Project's completion will be approximately $[redacted] million.[2] NIPSCO seeks to have its 1% ownership interest in the Joint Venture treated as a regulatory asset and accrue carrying charges until it is included in base rate at the time of NIPSCO's next base rate case in approximately 2023. At 2023, NIPSCO will purchase Developer's (EDPRNA) interest in the [redacted] million Joint Venture. At this point NIPSCO will have invested approximately [redacted] million for its share in

[1] Joint Petitioner's Confidential Exhibit No. 2, Verified Direct Testimony of Michael D. McCuen, page 10, line 13 (October 22, 2019).

[2] [redacted])

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the Joint Venture.[3] Of that amount, approximately $[redacted] million is interest, which is calculated by applying a [redacted] carrying charge to EDPRNA's share of the Joint Venture it held for [redacted] years. The $[redacted] million, which represents NIPSCO's approximate total maximum investment at 2023, will be included in base rates as a regulatory asset to earn a return on and amortized for a return of over 30 years – the life of the asset at the time of NIPSCO's anticipated 2023 base rate case. NIPSCO has the option to purchase the ownership interest the TEP has in the Joint Venture at fair value of the discounted future cash flows of the project for the remaining [redacted] interest.

Q: Is it important that NIPSCO's investment in the Joint Venture remain as a regulatory asset?

A: Yes, because if it is transferred to plant investment, it will be depreciated. The depreciation expenses will then be included as a deduction in NIPSCO's tax returns. Transferring the investment to plant investment should not be permitted because depreciation on the Crossroads Project will already have been included as a deduction on the TEP's tax returns. If NIPSCO included depreciation, for tax purposes, it would be a form of double counting depreciation. Because of this risk, the OUCC's position is that all Joint Venture assets (Crossroads Project), should be treated as a regulatory asset -- booking amortization instead of depreciation. Amortization is not deductible for federal income taxes.

[3] McCuen Direct, page 12, line 14.

"CONFIDENTIAL HIGHLIGHTED IN [redacted]"

Q: What is NIPSCO's estimated cost of the discounted future cash flows of TEP's ownership interest in the Joint Venture?

A: The estimated cost NIPSCO will pay for the TEP's share in the Joint Venture in 2031 is $[redacted] million.[4]

Q: What is the approximate total cost of all the investments that NIPSCO will pay for the Crossroads Project?

A: The total cost of the Crossroads Project is $[redacted] million. In 2023, NIPSCO will pay EDPRNA [redacted], which includes the $[redacted] million carrying charge payment to EDPRNA at the time of purchase. The TEP will own approximately [redacted] of the Crossroads Project at this time. NIPSCO will amortize its $[redacted] million investment in the Joint Venture as a regulatory asset over 30 years and will receive a return on its investment, which it will include in its next rate case following its purchase. NIPSCO will amortize its investment in the Joint Venture until the time of the TEP buyout (in approximately 8 years), leaving a net book value of approximately $[redacted] million. In 2031, NIPSCO will have the option to purchase the TEP's interest in the Joint Venture for about $[redacted] million. Thus, the net cost of NIPSCO's investment in the Crossroads Project, after its purchase of the TEP's interest in 2031, will be approximately $[redacted] million.

Q: Will NIPSCO request recovery of this approximate cost in a potential rate case around 2031?

A: No. This is NIPSCO's approximate net cost at 2031. With the purchase of EDPRNA's interest in 2023 and the purchase of the TEP's interest in 2031, NIPSCO will have full ownership of the Crossroads Project. In OUCC Data

[4] NIPSCO response to OUCC DR-1-005, Confidential Attachment A.xlsx, Tax Equity Model, Line 100.

"CONFIDENTIAL HIGHLIGHTED IN [redacted]"

Request 2-006, NIPSCO was asked whether, after its purchase of the Crossroads Project, it would seek a fair value cost determination of this investment for recovery in a base rate case. NIPSCO replied:

> Pursuant to Ind. Code 8-1-2-6: (a) The commission shall value all property of every public utility actually used and useful for the convenience of the public at its **fair value**, giving such consideration as it deems appropriate in each case to all bases of valuation which may be presented or which the commission is authorized to consider by the following provisions of this section. As one of the elements in such valuation the commission shall give weight to the reasonable cost of bringing the property to its then state of efficiency. [Emphasis added]

NIPSCO indicates that it plans to ask for a fair value return on and a return of the Crossroads Project in the future. The fair value of a wind farm of this size and the cost in 2031 and beyond are not known. Determinations of fair value may, among other things, use studies that reproduce the property in the same form as it was constructed. There is no way of knowing what the fair value of a $[redacted] million wind farm constructed in 2021 will be, or how much it would cost to reconstruct it in 2031. I have concerns that it may be much more than the original cost of NIPSCO's investment net of depreciation, resulting in ratepayers potentially being on the hook for more than the actual cost of building the Project.

Q: Does the Crossroads Project make economic sense for NIPSCO ratepayers?

A: No. The Crossroads Project, with its use of a Joint Venture structure with a TEP, has been proposed as a good deal for NIPSCO's ratepayers. In his testimony, NIPSCO witness Robert Lee states the Joint Venture "is an economic choice for

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helping meet NIPSCO's retail electric load."[5] When referring to how the Crossroads Project qualifies for 80% of the PTC, NIPSCO witness Michael D. McCuen states, "The credits are a significant source of value to the project."[6] However, even with the creation of the Joint Venture and its use of the PTC, it will still cost NIPSCO ratepayers an additional $[redacted] million over the first 15 years versus the Back-Stop Purchase Power Agreement being offered in this case, according to OUCC witness Peter M. Boerger Ph.D.

Q: What about possible future ratemaking treatment of the Crossroads Project?

A: The idea that the entire Crossroads Project will someday be owned by NIPSCO and will be included in base rates at fair value in the future makes one wonder how much additional impact this will have on the cost of power generated by the Crossroads Project. This cost cannot be determined now, but the likelihood of greater costs entering into the equation, which are not factored here, is real.

Q: What does the OUCC recommend?

A: Consistent with Dr. Boerger's testimony, the OUCC recommends the Commission deny Joint Petitioners' request for approval of the Joint Venture. However, should the Commission approve the Joint Venture, the OUCC recommends the Commission require all Joint Venture assets be treated as a regulatory asset - booking amortization instead of depreciation. Additionally, the OUCC recommends, in any future rate case after NIPSCO purchases the TEP's interest in

[5] Joint Petitioner's Exhibit No. 5, Verified Direct Testimony of Robert Lee, page 4, line 15 (October 22, 2019).

[6] McCuen Direct, page 8, line 2.

"CONFIDENTIAL HIGHLIGHTED IN [redacted]"

the Joint Venture (around 2031), the Commission only allow NIPSCO to include the amount of net cost it has invested in the Crossroads Project, as discussed in the testimony of OUCC witness John E. Haselden.

Q: Does this conclude your testimony?

A: Yes, it does.

"CONFIDENTIAL HIGHLIGHTED IN [redacted]"

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 IURC. 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

Cause No. 45310
NIPSCO, LLC and Crossroads Wind
Generation LLC (the "Joint Venture")

12/16/19

Date

CERTIFICATE OF SERVICE

Indiana Office of Utility Consumer Counselor Public's Exhibit No. 3 Redacted Testimony of OUCC Witness Wes R. Blakley has been served upon the following parties of record in the captioned proceeding by electronic service on December 17, 2019.

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