

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC )  
COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH )  
PURSUANT TO INDIANA CODE CH. 8-1-40.5 FOR (1) )  
AUTHORITY TO (A) ISSUE SECURITIZATION BONDS; (B) )  
COLLECT SECURITIZATION CHARGES; AND (C) ENCUMBER )  
SECURITIZATION PROPERTY WITH A LIEN AND SECURITY )  
INTEREST; (2) A DETERMINATION OF TOTAL QUALIFIED )  
COSTS AND AUTHORIZATION OF RELATED ACCOUNTING )  
TREATMENT; (3) AUTHORIZATION OF ACCOUNTING )  
TREATMENT RELATED TO ISSUANCE OF SECURITIZATION )  
BONDS AND IMPLEMENTATION OF SECURITIZATION )  
CHARGES; (4) APPROVAL OF PROPOSED TERMS AND )  
STRUCTURE FOR THE SECURITIZATION FINANCING; (5) )  
APPROVAL OF PROPOSED TARIFFS TO (A) IMPLEMENT THE )  
SECURITIZATION CHARGES AUTHORIZED BY THE )  
FINANCING ORDER IN THIS PROCEEDING, (B) REFLECT A )  
CREDIT FOR ACCUMULATED DEFERRED INCOME TAXES, )  
AND (C) REFLECT A REDUCTION IN PETITIONER'S BASE )  
RATES AND CHARGES TO REMOVE ANY QUALIFIED COSTS )  
FROM BASE RATES; AND (6) ESTABLISHMENT OF A TRUE-UP )  
MECHANISM PURSUANT TO INDIANA CODE § 8-1-40.5-12(c.) )

CAUSE NO. 45722

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 10

TESTIMONY OF WITNESS WES R. BLAKLEY

AUGUST 3, 2022

Respectfully submitted,



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

**TESTIMONY OF OUCC WITNESS WES R. BLAKLEY**  
**CAUSE NO. 45722**  
**SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT**  
**ENERGY INDIANA SOUTH**

**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 St.,  
3 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 Indiana Office of Utility Consumer Counselor  
6 (“OUCC”).

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

8 A: My testimony addresses Southern Indiana Gas and Electric Company d/b/a  
9 CenterPoint Energy Indiana South’s (“CEI South” or “Petitioner”) request to retire A.  
10 B. Brown Generating Station Units 1 and 2 (“Brown Units”) and recover the  
11 undepreciated value and other qualified costs of these units through a Ratepayer-  
12 backed Bond (“RBB”) issuance per Indiana Code (“I.C.”) 8-1-40.5 and 170 IAC 4-  
13 10-5. Specifically, I address ratemaking and accounting issues pertaining to its  
14 request.

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

17 A: I reviewed CEI South’s petition, testimony, schedules, and exhibits, which contain  
18 internal accounting information. I issued formal data requests (“DR”) and reviewed  
19 CEI South’s responses to OUCC and interveners’ DRs in this Cause.

**II. CEI SOUTH'S SECURITIZATION COST RECOVERY, RATE  
REDUCTION, AND CREDIT PROPOSAL**

1 **Q: What statute addresses the definition of Qualified Costs and the type, amount,**  
2 **and mechanisms used to recover the securitized costs.**

3 A: In 2021, the Indiana General Assembly passed Senate Enrolled Act 386, which  
4 codified I.C. 8-1-40.5 ("Securitization Act") and permits certain electric utilities to  
5 recover "Qualified Costs" of an electric generating facility through securitization  
6 financing. I.C. 8-1-40.5-6 defines these costs as:

7 ...the net original cost of the facility and any associated  
8 investments, as reflected on the electric utility's accounting system,  
9 and as adjusted for depreciation to be incurred until the facility is  
10 retired, together with:

11 (1) costs of:

12 (A) removal; and

13 (B) restoration, as applicable;

14 of the facility, any associated improvements, and facility grounds;

15 (2) the applicable portion of investment tax credits associated with  
16 the facility and any associated investments;

17 (3) costs of issuing, supporting, and servicing securitization bonds;

18 (4) taxes related to the recovery of securitization charges; and

19 (5) any costs of retiring and refunding the electric utility's existing  
20 debt and equity securities in connection with the issuance of  
21 securitization bonds.

22 Under I.C. 8-1-40.5-10(d), the Commission must make certain findings and  
23 determinations when issuing a financing order:

24 (d) In issuing a financing order under this section, the commission  
25 must make the following findings and determinations:

26 (1) A determination of the amount of the electric utility's  
27 qualified costs.

28 (2) A finding that the proceeds of the authorized securitization  
29 bonds will be used solely for the purposes of reimbursing the  
30 electric utility for qualified costs, that the electric utility's  
31 books and records will reflect a reduction in rate base  
32 associated with the receipt of proceeds from the securitization  
33 bonds, and that such reduction will be reflected in retail rates  
34 when the securitization bonds are issued.

1 (3) A finding that the expected structuring and the expected  
2 pricing of the securitization bonds will result in reasonable  
3 terms consistent with market conditions and the terms of the  
4 financing order.

5 (4) A finding that the electric utility has demonstrated that it  
6 will make, subject to approval by the commission, capital  
7 investments in Indiana in an amount equal to or exceeding the  
8 amount of the electric utility's qualified costs, over a period of  
9 not more than seven (7) years immediately following the  
10 planned issuance date of the securitization bonds. Costs to  
11 purchase energy or capacity through a power purchase  
12 agreement do not constitute a capital investment for purposes  
13 of this subdivision. The commission may not impose any  
14 other requirement related to the use or distribution of the  
15 proceeds of the securitization bonds. However:

16 (A) the commission shall encourage the electric utility to use  
17 the proceeds from the securitization bonds for the  
18 construction and ownership of clean energy resources  
19 described in IC 8-1-37-4(a)(1) through IC 8-1-37-4(a)(15);  
20 and

21 (B) notwithstanding the issuance of the financing order, the  
22 proposed capital investments remain subject to commission  
23 approval to the extent otherwise required by this article.

24 (5) A finding that:

25 (A) the electric utility has proposed a reasonable mechanism  
26 to reflect a reduction in the electric utility's base rates and  
27 charges upon the assessment of securitization charges on  
28 customer bills, so as to remove any qualified costs from the  
29 electric utility's base rates; and

30 (B) the mechanism will provide timely rate savings for  
31 customers.

32 (6) A determination that the proposal is just and reasonable.

33 **Q: What Qualified Costs is CEI South's requesting to recover in this Cause?**

34 A: CEI South requests early retirement of the Brown Units' generating assets, per I.C.  
35 8-1-40.5 and 170 IAC 4-10-5, which permits securitization of certain Qualified Costs.  
36 The Qualified Costs CEI South proposes to securitize are included in CEI South  
37 witness Ryan P. Harper's testimony in Table RPH-1. The estimated Qualified Costs  
38 as of February 28, 2023, include:

|    |   |                      |
|----|---|----------------------|
| 1  | Brown Units' Original Cost                    | \$798,297,876        |
| 2  | Accumulated Depreciation                      | <u>(534,035,130)</u> |
| 3  | Net Cost of Brown Units                       | 264,262,746          |
| 4  | Less: Recovered cost of removal in base rates | <u>(6,042,788)</u>   |
| 5  | Net Cost of Brown Units to be Securitized     | 258,219,958          |
| 6  | Plus: Brown MATS and Dense Pack Reg. Asset    | 59,557,019           |
| 7  | Plus: Cost to Demolish and Restore Site       | 26,771,245           |
| 8  | Plus: Expert Support Costs                    | 885,000              |
| 9  | Plus: Estimated Cost to issue Security Bonds  | <u>4,691,778</u>     |
| 10 | Total Estimated Qualified Costs to Securitize | <u>\$350,125,000</u> |

11 **Q: Do you have concerns over CEI South's Qualified Cost estimates shown above?**

12 A: Yes. Although the Qualified Cost estimates for securitization are subject to change,  
13 based on timing and the possibility of some changes in demolition, support and  
14 issuance costs that may be different, the overall cost estimate, as of February 28,  
15 2023, for the cost elements shown above are in the ballpark for costs to be  
16 securitized. I do have concerns with CEI South's proposal to account for the removal  
17 and restoration costs that may exceed the approximately \$27 million estimate. CEI  
18 South witness Matthew A. Rice indicates<sup>1</sup> if the removal and restoration costs  
19 actually incurred are more than the \$27 million Qualified Cost included in the RBB  
20 issuance, recovery of those additional costs will be deferred until a general rate relief  
21 request. The securitization of extra removal and restoration costs is special treatment  
22 permitted by I.C. 8-1-40.5. Absent this statute, the proper accounting treatment for

<sup>1</sup> Petitioner's Exhibit No. 8, Direct Testimony of Matthew A. Rice, page 22, line 13.

1 the removal and restoration costs would be a charge to accumulated depreciation, but,  
2 in this special case, it will be recovered through the RBBs. If removal and restoration  
3 costs exceed the securitized removal and restoration costs included in the RBB, those  
4 costs should not be deferred as a regulatory asset for recovery in the next rate case.  
5 Rather, these costs should be charged to accumulated depreciation, per the Uniform  
6 System of Accounts for Electric Utilities description of Accumulated Provision for  
7 Depreciation of Utility Plant in Service for account 108 (B) which states, “[a]t the  
8 time of retirement of depreciable utility plant in service, this account shall be charged  
9 with the book cost of the property retired and the cost of remove[.]” This is the proper  
10 accounting for removal costs. Once the RBBs are issued with removal and restoration  
11 costs included, the proper treatment for additional removal costs is to charge the  
12 accumulated depreciation account, per the Uniform System of Accounts.

13 **Q: Does CEI South propose a credit mechanism as required by I.C. 8-1-40.5?**

14 A: Yes. CEI South proposes to implement a Securitization Rate Reduction (“SRR”)  
15 Tariff to facilitate removal of Qualified Costs from rate base. The SRR Tariff’s basic  
16 calculation is shown in CEI South witness Harper’s testimony, page 17. The  
17 calculation estimated as of February 28, 2023, includes:

|    |  |                            |
|----|--|----------------------------|
| 1  | Brown Units' Original Cost                       | \$798,297,876              |
| 2  | Accumulated Depreciation                         | <u>(534,035,130)</u>       |
| 3  | Net Cost of Brown Units                          | 264,262,746                |
| 4  | Less: Recovered cost of removal in base rates    | <u>(6,042,788)</u>         |
| 5  | Net Qualified Cost of Brown Units                | 258,219,958                |
| 6  | Pretax Weighted Cost of Capital                  | <u>7.66%</u>               |
| 7  | (From Cause No. 44909 – CECA – 4)                |                            |
| 8  | Return on Rate Base                              | <u>19,779,649</u>          |
| 9  | Plus: Depreciation and Amortization – annualized |                            |
| 10 | Depreciation Exp. (excluding Cost of Removal)    | 25,721,104                 |
| 11 | Cost of Removal Exp.                             | 1,466,855                  |
| 12 | Amortization Expense for MATS Regulatory         | <u>1,376,761</u>           |
| 13 | Depreciation and Amortization – annualized       | <u>28,564,719</u>          |
| 14 | Revenue Requirement (SRR Credit)                 | <u><u>\$48,344,368</u></u> |

15 The annual SRR credit will be effective as soon as the securitization charges are  
16 implemented and will remain in place until an order is received in CEI South's next  
17 general rate case.

18 **Q: Do you have any concerns with the SRR credit calculation?**

19 A: Yes, specifically with the calculation of the return component in the SRR. CEI South  
20 proposes calculating the “return on” component of the SRR using the estimated  
21 original book cost of the Brown Units, net of estimated accumulated depreciation and  
22 cost of removal, on February 28, 2023. This produces a \$258,219,958 net book value  
23 to calculate a return on. CEI South uses a weighted average cost of capital (“WACC”)  
24 used in its clean energy cost adjustment tracker in Cause No. 44909 CECA-4. This  
25 CECA filing has a 6.08% WACC and, when grossed-up for taxes, results in a 7.66%  
26 rate. When calculated on February 28, 2023, with the estimated net book cost of the

1 Brown Units, this creates a \$19,779,649 return on these assets. This amount is  
2 included in the SRR credit calculation shown above.

3 **Q: Does CEI South's calculation of a credit for the return on portion of the Brown**  
4 **Units in the SRR reflect what customers are paying for these investments?**

5  
6 A: No. The OUCC asked CEI South, in OUCC DR 5.1<sup>2</sup>, to provide the accumulated  
7 depreciation amounts for the Brown Units as of June 30, 2009, which is the test year  
8 cutoff in its last base rate case, Cause No. 43839, Final Order, approved April 27,  
9 2011. The amounts provided in CEI South's DR response for the Brown Units, as of  
10 June 30, 2009, are \$651,372,234 for the gross plant and \$303,434,593 of accumulated  
11 depreciation, which equals a \$347,937,641 net plant amount. This represents the  
12 approximate net book value of the Brown Units included in CEI South's most recent  
13 base rate case. The WACC approved in the most recent base rate case is 7.29%<sup>3</sup> and  
14 the tax gross up to be applied to the weighted average cost of equity is 59.475%.<sup>4</sup>  
15 This creates a 10.37% pre-tax WACC. By applying the actual WACC grossed up for  
16 taxes, and approved in CEI South's most recent rate case, to the net plant embedded  
17 in base rates for the Brown Units, the SSR credit increases:

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<sup>2</sup> See Attachment WRB-1

<sup>3</sup> Vectren Energy, Cause No. 43839, Final Order, page 32.

<sup>4</sup> Vectren Energy, Cause No. 43839, Direct Testimony of Susan Hardwick, Exhibit No. MSH-3, Adjustment A46.



|    |  |                      |
|----|--|----------------------|
| 1  | Brown Unit 1 and 2 Original Cost as of June 30, 2022 | \$651,372,234        |
| 2  | Accumulated Depreciation as of June 30, 2022         | <u>(303,434,593)</u> |
| 3  | Net Cost of Brown Unit 1 and 2                       | 347,937,642          |
| 4  | Less: Recovered cost of removal in base rates        | <u>(6,042,788)</u>   |
| 5  | Net Qualified Cost of Brown Units                    | 341,894,854          |
| 6  | Pretax Weighted Cost of Capital                      | <u>10.37%</u>        |
| 7  | Return on Rate Base                                  | <u>35,454,496</u>    |
| 8  | Plus: Depreciation and Amortization – annualized     |                      |
| 9  | Depreciation Exp. (excluding Cost of Removal)        | 25,721,104           |
| 10 | Cost of Removal Exp.                                 | 1,466,855            |
| 11 | Amortization Expense for MATS Regulatory             | <u>1,376,761</u>     |
| 12 | Depreciation and Amortization – annualized           | <u>28,564,719</u>    |
| 13 | Revenue Requirement (SRR Credit)                     | <u>\$64,019,216</u>  |

14 By including the embedded cost of the Brown Units in CEI South's most recent base  
15 rate case, including the embedded WACC, the total SRR credit to customers becomes  
16 \$64,019,216.

### **III. CONCLUSION AND RECOMMENDATIONS**

17 **Q: What are your recommendations regarding removal cost treatment and**  
18 **embedded Brown Units' costs in CEI South's base rates?**

19 **A:** I recommend the Commission:

20 1) Deny CEI South's request to defer removal and restoration costs above the  
21 amount included in the RBBs as a regulatory asset to be recovered in the  
22 next base rate case and require CEI South to charge this amount to  
23 accumulated depreciation, per the Uniform System of Accounts; and

1                   2) Order the net cost of the Brown Units embedded in CEI's most recent base  
2                   rate case, including the embedded WACC, be used in the calculation to  
3                   determine the SRR credit.

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

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

10 **Q: Have you previously testified before the Commission?**

11 A: Yes.

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**Q 5.1:** Please provide the accumulated depreciation amounts for Brown Units 1 and 2 as of June 30, 2009.

**Objection:**

Petitioner objects to the Request on the grounds and to the extent it seeks a calculation, analysis or compilation which has not already been performed and which Petitioner objects to performing.

**Response:**

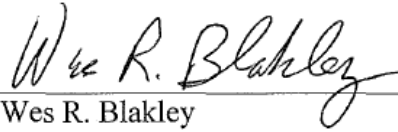
Subject to and without waiver of the foregoing objections, Petitioner responds as follows:

The Brown Unit 1 and Unit 2 assets are currently grouped for depreciation purposes at the FERC account level, resulting in a limitation in presenting depreciation amounts separately for Unit 1 and Unit 2. For purposes of this presentation, the cost of removal reserve is included within Accumulated Depreciation. The schedule below illustrates the plant and accumulated depreciation balances for the combined Brown Units 1 & 2:

| FERC | Description                        | Gross Plant    | Accum. Depr.   | Net Plant      |
|------|------------------------------------|----------------|----------------|----------------|
| 310  | Land and Land Rights               | 3,096,648.77   | (5,617.45)     | 3,102,266.22   |
| 311  | Structures and Improvements        | 51,138,378.31  | 26,005,619.64  | 25,132,758.67  |
| 312  | Boiler Plant Equipment             | 464,423,725.82 | 209,555,357.51 | 254,868,368.31 |
| 314  | Turbogenerator Units               | 92,413,122.97  | 46,786,751.77  | 45,626,371.20  |
| 315  | Accessory Electric Equipment       | 32,640,445.84  | 17,797,963.25  | 14,842,482.59  |
| 316  | Miscellaneous Power Plant Equipmen | 7,659,912.84   | 3,294,518.08   | 4,365,394.76   |
|      | Total Brown Production Plant       | 651,372,234.55 | 303,434,592.79 | 347,937,641.76 |

**AFFIRMATION**

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

A handwritten signature in black ink that reads "Wes R. Blakley". The signature is written in a cursive style with a horizontal line extending to the right across the signature.

Wes R. Blakley  
Senior Utility Analyst  
Indiana Office of Utility Consumer Counselor  
Cause No 45722  
CenterPoint Energy Indiana South

August 3, 2022

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the *OUCC's Testimony* has been served upon the following parties of record in the captioned proceeding by electronic service on August 3, 2002.

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