

**VERIFIED DIRECT TESTIMONY**  
**OF**  
**NATALIE HERR COKLOW**  
**ON BEHALF OF**  
**INDIANAPOLIS POWER & LIGHT COMPANY**  
**D/B/A AES INDIANA**  
Cause No. 45911

**VERIFIED DIRECT TESTIMONY OF NATALIE HERR COKLOW**  
**ON BEHALF OF AES INDIANA**

**1. INTRODUCTION**

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**Q1. Please state your name, employer, and business address.**

A1. My name is Natalie Herr Coklow. I am employed by AES US Services, LLC, (“AES Services”, also “Service Company”), which is the service company that serves Indianapolis Power & Light Company d/b/a AES Indiana (“AES Indiana”, “IPL”, or “the Company”). The Service Company is located at One Monument Circle, Indianapolis, Indiana 46204.

**Q2. What is your position with AES Services?**

A2. I am a Manager in the Regulatory Accounting department.

**Q3. On whose behalf are you submitting this direct testimony?**

A3. I am submitting this testimony on behalf of AES Indiana.

**Q4. Please describe your duties as Manager in the Regulatory Accounting department for AES Indiana.**

A4. As the Manager in the Regulatory Accounting department, I am responsible for various general ledger entries, reconciliation of regulatory asset and liability accounts, computation and tracking of various costs for regulatory filings, and preparation of supporting schedules for these filings. These regulatory filings for AES Indiana have included the Fuel Adjustment Clause (“FAC”) (Cause No. 38703-FAC XX), AES Indiana’s most recent basic rate cases (Cause Nos. 44576 and 45029), the Environmental Compliance Cost Recovery Adjustment (“ECCRA”) (Cause No. 42170-ECR XX) and the Transmission,

1 Distribution, and Storage System Improvement Charge (“TDSIC”) (Cause No 45264-  
2 TDSIC XX).

3 **Q5. Please summarize your education and professional qualifications.**

4 A5. I hold a Bachelor of Science Degree in Accounting from Indiana University.

5 **Q6. Please summarize your prior work experience.**

6 A6. I began employment with AES US Services, LLC in July 2013. During my tenure with  
7 AES US Services, LLC, I have worked in Regulatory Accounting on various AES Indiana  
8 and Dayton Power & Light Company d/b/a AES Ohio (“AES Ohio” or “DP&L”)  
9 regulatory filings and the associated accounting entries for both companies. Prior to AES  
10 US Services, LLC, I was employed by London Witte Group, LLC (“LWG”) for seven  
11 years. LWG is a certified public accounting firm that provides an array of accounting and  
12 consulting services to public utility, private and governmental clients. At LWG, I worked  
13 on the review of Gas Cost Adjustments filed with this Commission by various Indiana  
14 utilities, performed financial statement audits for predominately gas and electric utility  
15 clients, completed rate design for municipally owned utilities, and completed or reviewed  
16 financial statements and tax returns.

17 **Q7. Have you testified previously before the Indiana Utility Regulatory Commission**  
18 **(“Commission”) or any other regulatory agency?**

19 A7. Yes. I have submitted testimony on behalf of AES Indiana in previous FAC proceedings  
20 as well as ECCRA and TDSIC proceedings. I also submitted testimony in AES Indiana’s  
21 basic rates case, Cause No. 45029.

1 **Q8. What is the purpose of your testimony in this proceeding?**

2 A8. The purpose of my testimony is to: (i) sponsor the Company's financial statements; and  
3 (ii) explain how the Company calculated the pro forma adjustments which I sponsor.

4 **Q9. Are you sponsoring or co-sponsoring any financial exhibits or attachments?**

5 A9. Yes. I sponsor or co-sponsor the following financial exhibits that contain many of AES  
6 Indiana's pro forma adjustments to the test year period:

7 **Company Financial Statements**

- 8 • AES Indiana Financial Exhibit AESI-FS, Schedules FS1 through FS4.

9 **Rate Base**

- 10 • AES Indiana Financial Exhibit AESI-RB, Schedule RB1 – Original Cost Electric  
11 Rate Base Per Books at December 31, 2022 and Pro Forma.
- 12 • AES Indiana Financial Exhibit AESI-RB, Schedule RB7 – Electric Materials and  
13 Supplies Inventory Per Books at December 31, 2022 and Pro Forma. I sponsor the  
14 framework of this Schedule, while AES Indiana witnesses Bigalbal and Holtsclaw  
15 support the reasonableness of the pro forma adjustments to power supply and  
16 transmission and distribution related inventory values.

17 **Operating Income**

- 18 • AES Indiana Financial Exhibit AESI-OPER, Schedule OPINC – Statements of  
19 Electric Operating Income for the Twelve Months Ended December 31, 2022, Per  
20 books and Jurisdictional Pro Forma at Present and Proposed Rates.

21 **Revenues**

- 22 • AES Indiana Financial Exhibit AESI-OPER, Schedule REV1 – Summary of  
23 Electric Operating Revenue for the Twelve Months Ended December 31, 2022, Per  
24 Books and Pro Forma at Present and Proposed Rates.
- 25 • AES Indiana Financial Exhibit AESI-OPER, Schedule REV2 – Summary of  
26 Electric Operating Revenue Adjustments, Taking Per Books to Pro Forma at  
27 Present Rates.
- 28 • AES Indiana Financial Exhibit AESI-OPER, Schedule REV7 – Summary of  
29 Electric Rent Revenue, Per Books and Pro Forma at Present Rates for the Twelve  
30 Months Ended December 31, 2022.

1           **Operating Expenses**

- 2           • AES Indiana Financial Exhibit AESI-OPER, Schedule OM1 – Summary of Pro  
3           Forma Adjustments to Electric Operation and Maintenance Expense for the Twelve  
4           Months Ended December 31, 2022.
- 5           • AES Indiana Financial Exhibit AESI-OPER, Schedule OM6 – Transportation  
6           Expense Adjustment
- 7           • AES Indiana Financial Exhibit AESI-OPER, Schedule OM9 – Obsolete/Damaged  
8           Materials and Supplies Inventory Write-Offs Expense.
- 9           • AES Indiana Financial Exhibit AESI-OPER, Schedule OM22 – Miscellaneous  
10           Expense Adjustments.
- 11           • AES Indiana Financial Exhibit AESI-OPER, Schedule OM26 – Write-Off of  
12           Preliminary Investigation Charges and Cancelled Capital Projects.

13   **Q10. Did you submit any workpapers?**

14   A10. Yes. AES Indiana is submitting workpapers in electronic format that support the basic rate  
15           case schedules. I am sponsoring the workpapers that support the financial statements and  
16           schedules that I sponsor.

17   **Q11. Were these exhibits or workpapers, or portions thereof, that you are sponsoring or**  
18           **co-sponsoring prepared or assembled by you or under your direction and**  
19           **supervision?**

20   A11. Yes.

21   **Q12. Did AES Indiana provide the workpapers and other information required by sections**  
22           **7 through 16 of the Minimum Standard Filing Requirements (“MSFR”)?**

23   A12. Yes. This information was submitted to the Commission and the parties contemporaneous  
24           with our Case-in-Chief filing.

1 **2. FINANCIAL STATEMENTS**

2 **Q13. Please explain AES Indiana Financial Exhibit AESI-FS, Schedules FS1 through FS4.**

3 A13. Schedules FS1 and FS2 present AES Indiana’s Comparative Balance Sheets in accordance  
4 with the accounting requirements of the Federal Energy Regulatory Commission (“FERC”)  
5 as set forth in its applicable Uniform System of Accounts (“USOA”). This information is  
6 provided as of the end of the test year, which is December 31, 2022, and as of December  
7 31, 2021. The schedules include assets held, liabilities owed or accrued, and owner’s  
8 equity, and are prepared on the accrual basis of accounting. These schedules were prepared  
9 from the books of AES Indiana.

10 Schedule FS3 presents AES Indiana’s actual, per books, unadjusted operating results and  
11 net income for the twelve-months ended December 31, 2022 and for the twelve-months  
12 ended December 31, 2021. It is prepared on an accrual basis of accounting in accordance  
13 with the accounting requirements of FERC.

14 Schedule FS4 presents the net change in cash and cash equivalents for the twelve-months  
15 ended December 31, 2022, on a per books basis. In accordance with the accounting  
16 requirements of FERC, it is segregated into three categories: operating activities, investing  
17 activities, and financing activities. It also states the amount of cash and cash equivalents at  
18 the end of test period, December 31, 2022.

19 **3. RATE BASE**

20 **Q14. Please explain AES Indiana Financial Exhibit AESI-RB, Schedule RB1 Original Cost**  
21 **Electric Rate Base Per Books at December 31, 2022 and Pro Forma.**

22 A14. This schedule illustrates how AES Indiana’s pro forma rate base at original cost was  
23 derived. Beginning with the original cost rate base per books at December 31, 2022 (line

1 1), the exhibit is a summary of the adjustments necessary to arrive at the appropriate  
2 amount for AES Indiana's pro forma original cost rate base. Each of the adjustments is  
3 derived from other RB schedules. On the left side of the page there is a description of each  
4 adjustment, with a reference to the appropriate RB schedule that contains the detail. For  
5 example, in column 3, \$4.5 million is subtracted from the per books amount and the  
6 description on that row (line 6) shows that the details of this adjustment can be found on  
7 AES Indiana Financial Exhibit AESI-RB, Schedule RB7. The total on line 9 of AES  
8 Indiana Financial Exhibit AESI-RB, Schedule RB1 carries forward to AES Indiana  
9 Financial Exhibit AESI-REVREQ, Schedule REVREQ1.

10 **Q15. Please explain AES Indiana Financial Exhibit AESI-RB, Schedule RB7, Electric**  
11 **Materials and Supplies Inventory Per Books at December 31, 2022 and Pro Forma.**

12 A15. This schedule displays on line 14, columns 1 and 2, the average balances of the  
13 transmission and distribution non-capital spare parts materials and supplies as well as an  
14 average of all other materials and supplies which would include generation inventory,  
15 capital spare parts, emission allowance inventory, and undistributed stores expense. A five-  
16 month average was used for transmission and distribution inventory as discussed by AES  
17 Indiana witness Holtsclaw, while a standard thirteen-month average was used for power  
18 supply inventory.<sup>1</sup> An inventory reserve representing the balance of materials and supplies  
19 which will be obsolete due to the retirement of Petersburg Unit 2 in 2023 was recorded in  
20 2021 and adjusted in 2022. For each of the thirteen months, this reserve decreased the level  
21 of materials and supplies that would have otherwise been included in the materials and

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<sup>1</sup> AES Indiana witness Holtsclaw, Direct Testimony, Q/A 16.

1 supplies balance per books. Therefore, a pro forma adjustment to the materials and supplies  
2 balance as of the end of the test year for this matter is not needed.

3 Column 3 is the total average of columns 1 and 2. The average in column 3 totals \$111.7  
4 million which the Company believes is representative of the average materials and supplies  
5 inventory balance that AES Indiana will have going forward. This amount results in a  
6 decrease from the ending per books balance on December 31, 2022, of \$116.2 million. The  
7 resulting \$4.5 million decrease shown on line 16 is carried forward to AES Indiana  
8 Financial Exhibit AESI-RB, Schedule RB1 to be included in AES Indiana's pro forma  
9 original cost rate base.

#### 10 **4. OPERATING INCOME**

11 **Q16. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule OPINC,**  
12 **Statements of Electric Operating Income for the Twelve Months Ended December 31,**  
13 **2022 Per Books and Jurisdictional Pro Forma at Present and Proposed Rates.**

14 A16. This schedule is a summary statement showing AES Indiana's test year operating revenue,  
15 operating expenses (including operation and maintenance expenses, depreciation and  
16 amortization expenses, and taxes), and the resulting electric operating income per books  
17 and jurisdictional pro forma, based upon the electric rates now in effect and upon the  
18 electric rates proposed by AES Indiana for this Cause. This schedule does not include  
19 anticipated revenues from the following sources: (i) non-jurisdictional transmission plant  
20 assets recovery by AES Indiana through MISO transmission cost sharing; (ii) the return or  
21 recovery of amortization AES Indiana received for the Hardy Hills Solar Project which  
22 will remain as part of AES Indiana's environmental rate rider; (iii) the return or expense  
23 recovery AES Indiana receives on projects related to TDSIC that were placed in service



1 after December 31, 2022 which will remain part of AES Indiana's TDSIC rider, and (iv)  
2 shared savings incentives AES Indiana receives for successful implementation of demand  
3 side management ("DSM") programs. Such revenues are not based on AES Indiana's pro  
4 forma rate base or pro forma operating expenses included in this Petition and therefore are  
5 not included in the revenue requirement AES Indiana seeks through basic rates and charges  
6 in this proceeding.

7 The return, expense recovery and expenses related to National Ambient Air Quality  
8 Standards ("NAAQS") (excluding the Di Basic Acid ("DBA") system) project are included  
9 in this case because that project was in service as of December 31, 2022, and AES Indiana  
10 proposes to move that project from the environmental rider into basic rates through this  
11 proceeding. In addition, the return, expense recovery and expenses related to TDSIC  
12 projects placed in service as of December 31, 2022, are also included in this case because  
13 AES Indiana proposes to move this portion of TDSIC projects from the TDSIC rider into  
14 basic rates through this proceeding.

15 **Q17. Please further explain AES Indiana Financial Exhibit AESI-OPER, Schedule**  
16 **OPINC.**

17 A17. Column 1 of this schedule sets forth the actual per books electric operations of AES Indiana  
18 for the test year ending December 31, 2022. Column 2 shows the adjustments at present  
19 rates that sum in column 3 the pro forma operating revenues, pro forma operating expenses,  
20 and pro forma operating income at present rates, on a normalized and annualized basis.  
21 Column 4 presents pro forma adjustments that would result from the change in AES  
22 Indiana's proposed rates in this Cause and column 5 shows the resulting pro forma

1 operating revenues, pro forma operating expenses, and pro forma operating income at  
2 proposed rates, on a normalized and annualized basis.

3 The actual per books electric net operating income for twelve-months ended December 31,  
4 2022 was \$211.3 million. The pro forma jurisdictional electric net operating income at  
5 present rates is shown to be \$151.0 million. The jurisdictional pro forma level of operating  
6 revenues at rates proposed by AES Indiana is \$1,737.8 million, resulting in pro forma  
7 jurisdictional electric net operating income at proposed rates of \$251.4 million.

8 **Q18. Please explain the general nature of the adjustments at present rates, as summarized**  
9 **in column 3 of AES Indiana Financial Exhibit AESI-OPER, Schedule OPINC.**

10 A18. The adjustments made in column 3 are necessary in order to reflect, on a normalized and  
11 annualized basis, changes in operating conditions on AES Indiana's electric system which  
12 are not fully reflected in the actual operating results, as shown in column 2. These  
13 adjustments reflect changes through the twelve-months following the end of the test year  
14 which are representative of utility operations and which are fixed in time, known to be  
15 occurring, and measurable in amount. Consequently, it is necessary to give effect to those  
16 adjustments in order to properly determine the pro forma electric operating revenues,  
17 operating expenses, and operating income at present rates, as shown in column 4, before  
18 proceeding to reflect the additional adjustments needed to determine these amounts at  
19 proposed rates.

20 **Q19. Please explain the general nature of the adjustments at proposed rates, as**  
21 **summarized in column 5 of AES Indiana Financial Exhibit AESI-OPER, Schedule**  
22 **OPINC.**

1 A19. These adjustments are necessary to reflect the additional operating revenues produced by  
2 proposed rates, as sponsored by AES Indiana witness Rimal, and the related additional  
3 operating expenses and taxes resulting from such additional revenues. When these amounts  
4 are added to the pro forma adjusted revenues, operating expenses and income taxes at  
5 present rates (column 3), the result is pro forma revenues, operating expenses and income  
6 taxes at proposed rates (column 5).

7 **Q20. In your opinion, does AES Indiana Financial Exhibit AESI-OPER, Schedule OPINC**  
8 **fairly present the estimated operating results of AES Indiana’s electric business on**  
9 **an annualized and normalized basis under the existing rates, as now in effect for AES**  
10 **Indiana’s electric service and at proposed rates?**

11 A20. Yes. The twelve-month period ending December 31, 2022 is a full year of actual operating  
12 results in AES Indiana’s books and records, which has been audited by AES Indiana’s  
13 independent certified public accountants, Ernst & Young. After considering the effects of  
14 the pro forma adjustments, this test period as adjusted is representative, from a financial  
15 standpoint, as a basis for setting future rates. Therefore, the annual results as of that date,  
16 as adjusted in AES Indiana Financial Exhibit AESI-OPER, Schedule OPINC, provide a  
17 sound basis for setting new rates.

18 **5. REVENUE**

19 **Q21. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule REV1,**  
20 **Summary of Electric Operating Revenue for the Twelve Months Ended December 31,**  
21 **2022, Per Books and Pro Forma at Present and Proposed Rates.**

22 A21. This schedule summarizes the per books, test year amounts of revenues and the pro forma  
23 adjustments required to arrive at revenues at both present and proposed rates. These

1 adjustments to the test year per books results are necessary to give effect on a pro forma  
2 annual basis to increases and decreases in revenues that are fixed in time, known to be  
3 occurring, and measurable in amount.

4 The total electric operating revenue increase shown on line 13 of column 4 agrees with the  
5 increase calculated on AES Indiana Financial Exhibit AESI-REVREQ, Schedule  
6 REVREQ1, line 7. The distribution of that increase to the various customer classes is  
7 supported by AES Indiana witness Rimal. The net amount of these adjustments is shown  
8 on line 1 in columns 3 and 5 of AES Indiana Financial Exhibit AESI-OPER, Schedule  
9 OPINC.

10 **Q22. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule REV2,**  
11 **Summary of Electric Operating Revenue Adjustments, Taking Per Books to Pro**  
12 **Forma at Present Rates.**

13 A22. AES Indiana Financial Exhibit AESI-OPER, Schedule REV2 summarizes the pro forma  
14 adjustments to test year results required to arrive at pro forma total electric operating  
15 revenues at present rates. The details supporting each pro forma adjustment are included  
16 on the schedules named at the top of each column 1-7 of this schedule. These adjustments  
17 to the test year per books results are necessary to give effect on a pro forma annual basis  
18 to increases and decreases in revenues that are fixed in time, known to be occurring, and  
19 measurable in amount. Column 8 is a total of these adjustments. The amounts shown in  
20 column 8 also appear on AES Indiana Financial Exhibit AESI-OPER, Schedule REV1.

1 **Q23. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule REV7,**  
2 **Summary of Electric Rent Revenue, Per Books and Pro Forma Total Electric at**  
3 **Present Rates for the twelve-months ended December 31, 2022.**

4 A23. AES Indiana Financial Exhibit AESI-OPER, Schedule REV7 adjusts rental revenues in the  
5 test year for fixed, known, and measurable items. The first adjustment, which is on line 2,  
6 adjusts pole contact rental revenue to the annualized amount of the annual billings from  
7 2022, which is the most recent period for which billing information is available. That  
8 amount is the best available estimate for future pole contact rental revenues. The next  
9 adjustment on line 3 decreases test year revenue based on the most recent rental agreements  
10 for the various leases, with the largest portion of lease rent revenue being attributable to  
11 leasing out portions of the headquarters building at One Monument Circle in Indianapolis.  
12 This adjustment annualizes any changes in lease revenue during 2022 based on the most  
13 recent rental agreements. The total per books amount of \$3.4 million from column 1 is  
14 reduced by \$0.1 million in column 2 for a total pro forma level of electric rent revenue of  
15 approximately \$3.2 million. The proposed pro forma adjustment is reflected in column 5  
16 of AES Indiana Financial Exhibit AESI-OPER, Schedule REV2.

17 **6. PRO FORMA ADJUSTMENTS AT PRESENT RATES AND AT PROPOSED**  
18 **RATES TO OPERATIONS AND MAINTENANCE EXPENSES**

19 **Q24. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule OM1, which**  
20 **summarizes the pro forma operation and maintenance expense adjustments.**

21 A24. This schedule lists the various adjustments to test year operation and maintenance expenses  
22 necessary to arrive at pro forma jurisdictional operating and maintenance expenses at  
23 present rates and pro forma jurisdictional operation and maintenance expenses at proposed  
24 rates. These adjustments to the test year per books results are necessary to give effect on a

1 pro forma annual basis to increases and decreases in operation and maintenance expenses  
2 that are fixed in time, known to be occurring, and measurable in amount. The net amount  
3 of these adjustments is shown on line 2 columns 3 and 5 of AES Indiana Financial Exhibit  
4 AESI-OPER, Schedule OPINC. Details of the operation and maintenance expense  
5 adjustments are reflected on each adjustment AES Indiana Financial Exhibit AESI-OPER,  
6 Schedules OM2 through OM28, and each adjustment is further addressed by the  
7 corresponding witness shown on the Index of Financial Exhibits (AES Indiana Exhibit 1).

8 The net pro forma adjustment at proposed rates, shown on AES Indiana Financial Exhibit  
9 AESI-OPER, Schedule OPINC, line 2, column 5, involves only the pro forma uncollectible  
10 accounts expense and the pro forma utility fee expense. Each of these items was adjusted  
11 using current rates multiplied by the pro forma level of applicable revenues. If the  
12 respective adjustments are not made, the pro forma net utility operating income at present  
13 rates and jurisdictional net operating income at proposed rates would not be representative  
14 of continuing operating results expected during the period when rates requested in this  
15 Cause are to be in effect and would not represent an appropriate basis upon which to  
16 establish new rates in this Cause. The following questions and answers focus on the  
17 operations and maintenance expense pro forma adjustments which are sponsored by me.

18 **Q25. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule OM6, which is**  
19 **an adjustment to remove non-recurring transportation costs.**

20 A25. The pro-forma adjustment on AES Indiana Financial Exhibit AESI-OPER, Schedule OM6  
21 removes transportation expenses related to leased vehicles that we do not expect to be  
22 recurring in the future. This adjustment includes the results of a detailed review of the  
23 operation and maintenance expense activity for the test year as described in further detail

1 in Q/A 28 of my testimony. During this review of expenses, the Company identified some  
2 fleet costs that were incurred related to the rental of extra vehicles. These lease agreements  
3 were terminated in 2022. As a result, these costs were determined to be non-recurring and  
4 the Company is proposing to remove the O&M portion of these costs from the test year. If  
5 this adjustment is not made, the pro forma electric operation and maintenance expense  
6 included in the determination of AES Indiana's electric operating income at present and at  
7 proposed rates would be overstated and not representative of future operating costs during  
8 the period when the requested rates are expected to be in effect.

9 The \$0.6 million pro forma expense net decrease is included in the summary of electric  
10 operation and maintenance expense adjustments on AES Indiana Financial Exhibit AESI-  
11 OPER, Schedule OM1, line 6, column 2.

12 **Q26. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule OM9, which is**  
13 **an adjustment to write-off expense for obsolete and damaged inventory.**

14 A26. AES Indiana Financial Exhibit AESI-OPER, Schedule OM9 adjusts test year operating  
15 expense to reduce the impact of materials and supplies inventory obsolescence write-offs  
16 during the test year. The schedule includes inventory obsolescence expenses incurred for  
17 each of the three years ended December 31, 2022 and calculates an average expense for  
18 the three year period. The per books amount in the test year is then adjusted down by \$0.6  
19 million to equal average expenses for the three-year period. This adjustment is reflected on  
20 AES Indiana Financial Exhibit AESI-OPER, Schedule OM1, line 9, column 2.

21 **Q27. Why is the AES Indiana Financial Exhibit AESI-OPER, Schedule OM9 adjustment**  
22 **necessary?**

1 A27. The level of expense in the test year is higher than average due to the write-off of materials  
2 and supplies related to the retirement of Petersburg Unit 2 in 2023. These dollars represent  
3 the per books value of coal handling materials and supplies for Petersburg Unit 2 that were  
4 written-off in the test year as they were unused, deemed obsolete, and not anticipated to be  
5 used after Petersburg Unit 2 shut down. This proposed treatment is appropriate ratemaking  
6 treatment of the net inventory costs. This expense fell within the test year. Including such  
7 costs at a level incurred during the test year would not be representative of future operating  
8 costs during the period when the requested rates are expected to be in effect. As such, I am  
9 proposing to normalize the expense by adjusting total materials and supplies inventory  
10 obsolescence expense to the average expense incurred for the three-year period ended  
11 December 31, 2022. Such time period is consistent with the period of time I also propose  
12 to normalize write-offs of preliminary survey and investigation charges and cancelled  
13 capital projects as described further below in my testimony. It is also consistent with the  
14 time period AES Indiana witness Robinson proposes to normalize injuries and damages  
15 expense and amortize rate case expense.<sup>2</sup> Furthermore, a three-year average was accepted  
16 in AES Indiana's prior rate case, Cause No. 45029.

17 **Q28. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule OM22, which**  
18 **is an adjustment for miscellaneous, out-of-period, and other expenses.**

19 A28. This adjustment includes the results of a detailed review of the operation and maintenance  
20 expense accounts activity for the test year. This review was conducted for the purpose of  
21 identifying any items recorded in the test year that were: (i) out-of-period expenses, (ii)

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<sup>2</sup> See AES Indiana witness Robinson, Direct Testimony, Q/A 13 for discussion on injuries and damages expense normalization and AES Indiana witness Robinson, Direct Testimony, Q/A 14 for discussion of rate case amortization.



1 items miscoded to AES Indiana's operating expenses, (iii) expenses for which AES Indiana  
2 is contracted at an ongoing rate that is different than the level included in the test year, and  
3 (iv) items that may be viewed as being excessive or not reasonably necessary to provide  
4 reliable electric service to our customers. Examples of items excluded are certain meals,  
5 travel, and entertainment expenses; employee events; sporting events; and out of period  
6 adjustments. Column 1 of this schedule includes the net amount of such adjustments by  
7 functional category. Column 2 is the subtotal of each category.

8 The \$ 0.7 million pro forma expense net decrease is included in the summary of electric  
9 operation and maintenance expense adjustments on AES Indiana Financial Exhibit AESI-  
10 OPER, Schedule OM1, line 22, column 2. This total includes a reduction to test year  
11 expenses of \$0.8 million related to the detailed review described above, offset by an  
12 increase of \$0.1 million related to run-rate adjustments for external audit fees and  
13 temporary labor.

14 If these adjustments are not made, the pro forma electric operation and maintenance  
15 expense included in the determination of AES Indiana's electric operating income at  
16 present and at proposed rates would be overstated and not representative of future operating  
17 costs during the period when the requested rates are expected to be in effect.

18 **Q29. Please explain AES Indiana Financial Exhibit AESI-OPER, Schedule OM26, which**  
19 **normalizes the write-off of preliminary survey and investigation charges and**  
20 **cancelled capital projects.**

21 A29. AES Indiana Financial Exhibit AESI-OPER, Schedule OM26 normalizes test year  
22 operating expense to reduce the impact of preliminary survey and investigation charges  
23 and cancelled capital project write-offs during the test year. The schedule includes write-

1 offs of preliminary survey and investigation charges and cancelled capital projects for each  
2 of the three years ended December 31, 2022 and calculates an average expense for the three  
3 year period. The per books amount in the test year is then adjusted down by \$0.3 million  
4 to the average for the three-year period. This adjustment is reflected on AES Indiana  
5 Financial Exhibit AESI-OPER, Schedule OM1, line 26, column 2. FERC guidelines  
6 require that “all expenditures for preliminary surveys, plans, investigations, etc., made for  
7 the purpose of determining the feasibility of utility projects under contemplation” be  
8 recorded to Account 183 Preliminary survey and investigation charges.<sup>3</sup> FERC guidelines  
9 further stipulate that such costs be expensed to 426.5, Other Deductions, or to the  
10 appropriate operating expense account if the work is abandoned.

11 This adjustment on AES Indiana Financial Exhibit AESI-OPER, Schedule OM26 is  
12 necessary because write-off of preliminary survey and investigation charges and cancelled  
13 capital projects recur at some level each year. This is an anticipated expense of the business  
14 as projects are investigated for feasibility, and therefore, normalization of these costs is  
15 reasonable. This proposed treatment is appropriate ratemaking treatment because the costs  
16 are being normalized to a level representative of future operating costs during the period  
17 when the requested rates are expected to be in effect. I am proposing to use a three-year  
18 average for the pro forma adjustment. This three-year period is consistent with the period  
19 of time I also propose to normalize write-offs of materials and supplies as described  
20 previously in my testimony, as well as the time period AES Indiana witness Robinson  
21 proposes to normalize injuries and damages expense and amortize rate case expenses.<sup>4</sup>

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<sup>3</sup> Title 18 of FERC Code of Federal Regulations, Part 101, Uniform System of accounts prescribed for public utilities and licensees subject to the provisions of the Federal Power Act, Definition of Account 183.

<sup>4</sup> See AES Indiana witness Robinson, Direct Testimony, Q/A 13 for discussion on injuries and damages expense normalization and AES Indiana witness Robinson, Direct Testimony, Q/A 14 for discussion of rate case amortization.

1 Furthermore, a three-year average was accepted in AES Indiana's prior rate case, Cause  
2 No. 45029.

### 3 **7. SUMMARY AND RECOMMENDATIONS**

4 **Q30. Please summarize your testimony and recommendations.**

5 A30. AES Indiana Financial Exhibit AESI-OPER, Schedule OPINC fairly presents the estimated  
6 operating results of AES Indiana's electric business on an annualized and normalized basis.

7 In summary, all exhibits that I sponsor represent test year activity, are based on sound  
8 accounting principles, and are reasonable. In addition, the pro forma adjustments that I  
9 sponsor related to AES Indiana Financial Exhibit AESI-RB, Schedule RB7 (materials and  
10 supplies), AES Indiana Financial Exhibit AESI-OPER, Schedule REV7 (rent revenue),  
11 AES Indiana Financial Exhibit AESI-OPER, Schedule OM6 (transportation charges), AES  
12 Indiana Financial Exhibit AESI-OPER, Schedule OM9 (write-off expense for obsolete and  
13 damaged materials and supplies), AES Indiana Financial Exhibit AESI-OPER, Schedule  
14 OM22 (miscellaneous expense), and AES Indiana Financial Exhibit AESI-OPER,  
15 Schedule OM26 (preliminary survey and investigation charges and cancelled capital  
16 projects), are appropriate for setting new basic rates and charges as these adjustments  
17 reflect changes through the twelve-months following the end of the test year which are  
18 representative of utility operations and which are fixed in time, known to be occurring, and  
19 measurable in amount. Consequently, it is necessary to give effect to those adjustments to  
20 properly determine the appropriate level of pro forma electric operating revenues and  
21 expenses. If these adjustments are not made, the pro forma electric revenues and operation  
22 and maintenance expenses included in the determination of AES Indiana's electric  
23 operating income at present and at proposed rates would not be representative of future

1 revenues and operating costs during the period when the requested rates are expected to be  
2 in effect.

3 **Q31. Does this conclude your verified pre-filed direct testimony?**

4 A31. Yes.

## VERIFICATION

I, Natalie Herr Coklow, Manager in Regulatory Accounting for AES US Services, LLC, affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

*Natalie Herr Coklow*

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Natalie Herr Coklow

Dated: June 28, 2023