**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

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| **VERIFIED PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a CENTERPOINT ENERGY INDIANA SOUTH 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-10** |

**PUBLIC'S EXHIBIT NO. 1**

**TESTIMONY OF WES R. BLAKLEY**

**ON BEHALF OF**

**THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**APRIL 4, 2022**

Respectfully submitted

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

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## CERTIFICATE OF SERVICE

This is to certify that a copy of the ***Public Exhibit No. 1– Testimony of Wes R. Blakley on behalf of the OUCC*** has been served upon the following in the captioned proceeding by electronic service on April 4, 2022.

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**TESTIMONY OF OUCC WITNESS WES R. BLAKLEY**
**CAUSE NO. 44910 TDSIC-10**
**SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH ("CEI SOUTH")**

## 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").

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

A: My testimony addresses Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South's ("CEI South") request to recover investment costs incurred for the construction and operation of transmission, distribution, and storage facilities that were included in CEI South's Seven-Year Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Plan. These costs were also addressed in the Settlement approved by the Indiana Utility Regulatory Commission ("Commission") in Cause No. 44910. In this tracker, CEI South requests approval of its TDSIC costs incurred through October 31, 2021, under Ind. Code § 8-1-39-9. Provisions in this Code allows for recovery of eighty percent (80%) of approved capital expenditures through a periodic automatic adjustment of a utility's base rates and charges as well as deferral of twenty percent (20%) of approved costs for recovery as part of its next general rate case. I conclude nothing came to my attention indicating CEI South's calculation of estimated TDSIC adjustment factors for the relevant period is unreasonable. Ultimately, I recommend approval of CEI South's proposed TDSIC-10 adjustment factors.

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

A: I reviewed CEI South's petition, testimony, schedules, and exhibits, which contain internal accounting information. I also reviewed the Commission's Cause No. 44910 TDSIC-9 Order, dated November 24, 2021. I also reviewed Indiana House Enrolled Act 1002 ("HEA 1002" or "Act"), which repeals the Indiana Utility Receipts Tax ("URT").

## II. TDSIC-10 REVENUE REQUIREMENT AND RATE CALCULATION

**Q: Please describe the Settlement terms in Cause No. 44910 relating to the calculation of CEI South's revenue requirement and rate adjustment in this Cause.**

A: The basic ratemaking terms of the Settlement are summarized below:

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

(2) CEI South's petitions for rate recovery filed on or about August 1 will be based on the capital investments and expenses through the period ended April 30. Petitions filed on or about February 1 will include capital investments and expenses through the period ended October 31.

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

(4) For customers served under Rate Schedules RS, B and SGS, in Cause No. 44910 TDSIC-1, distribution-related costs will be recovered via a per customer monthly charge up to a cap of $0.50 per customer per month. The cap on the monthly fixed TDSIC charge will grow by $0.50 per customer in each semi-annual filing *(e.g.* the fixed charge cap will be $0.50 per customer in TDSIC-1, $1.00 per month in TDSIC-2, and so on),

with the overall distribution-related TDSIC charge not to exceed $7.00 per customer per month. The distribution-related fixed charge cap for TDSIC-10 is $5.00. Distribution-related TDSIC costs exceeding this applicable cap will be included in the energy charge (per kWh). All transmission-related costs applicable to Rate Schedules RS, B, and SGS will be recovered via an energy charge.

(5) The Return on Equity included in the weighted average cost of capital for the TDSIC mechanism will be 10.4%. This recognizes that (1) CEI South will continue to net the original cost of retired assets from the depreciable base used to determine its incremental recoverable depreciation expense, and (2) CEI South will not accrue carrying costs on the amount deferred representing 20% of the TDSIC Plan revenue requirement.

(6) Depreciation expense included for recovery in the TDSIC Plan will reflect an annualized level of expense related to the gross new capital investment as of the cut-off date of the TDSIC filing. As the investment is placed in service, it will be classified in the appropriate FERC Plant Account and depreciated using the depreciation rate approved for the Plant Account. Similarly, property tax expense included for recovery in the TDSIC will reflect an annualized level of expense related to the gross new capital investment in service as of the cut-off date of the filing. The annualized property tax expenses will be calculated by multiplying gross new capital investment in service by the then current or most recent tax rate for the projected period.

(7) CEI South will net the depreciation expense associated with retired and replaced equipment against the depreciation expense associated with new equipment in the TDSIC Plan.

(8) CEI South incurred $3.7 million in development cost for the TDSIC Plan. CEI South should amortize and recover this deferred balance through the TDSIC tracker over a period of three years commencing in TDSIC-1. The development cost has been fully amortized as of TDSCI-6 and thus no development cost will be passed through in any further TDSIC trackers.

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

**Q: Did the Commission approve CEI South's adjustment to its seven-year TDSIC Plan regarding multiple-unit projects in TDSIC-3?**

A: Yes. In TDSIC-3, CEI South revised its TDSIC Plan to remove Wood Pole Replacement Program projects for years 2018-2023. The OUCC did not object to this proposal, and the Commission's Final Order in Cause No. 44910 TDSIC-3 approved CEI's proposed cost recovery.[1]

**Q: Has CEI South incorporated elements of the Settlement Agreement in Cause No. 45032-S21 relating to the Tax Cuts and Jobs Act of 2017 in TDSIC-10?**

A: Yes. The Settlement Agreement requires CEI South to pass credits to customers for the amortization of Excess Accumulated Deferred Income Tax ("EADIT") using the Average Rate Assumption Method for the protected balance, and a straight–line 10-year amortization period for the unprotected balance. CEI South included the EADIT credits in TDSIC-10, Attachment MAR-1, Schedule 2 using the Tax Reform Settlement allocation percentages.

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

A: CEI South's revenue requirement calculation includes a return on new TDSIC-completed investment, Construction Work in Progress and annual return on new capital investment as of October 31, 2021, in the amount of $22,299,439. Incremental operating expenses include property tax expense of $1,514,603, depreciation expense of $5,980,257, plan development costs are fully recovered as of TDSIC-6 and are $0, amortization of deferred depreciation over the life of the transmission or distribution asset of $117,507, and amortization of post-in-service carrying charge over the life of the transmission and distribution assets of $280,432. This total $30,192,238 before the 80%/20% split. The 80% cash revenue requirement to be tracked in TDSIC-10 totals $24,153,790, with $6,038,448 representing 20% of

[1] Cause No. 44910 TDSIC-3, Final Order, December 5, 2018, page 5.

the revenue requirement that will be deferred for recovery in CEI South's next general rate case.

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

A: Yes. Attachment WRB-1 displays my calculation of CEI South's TDSIC (transmission and distribution) rates for residential customers. The transmission revenue requirement components are summed and multiplied by 80% to derive the eligible transmission cash revenue requirement for tracking in TDSIC-10. This amount is multiplied by the Residential Service rate allocation percentage for transmission investment to derive the transmission cash revenue requirement for residential customers. The resulting product is then divided by the total projected annual residential kWh sales resulting in a transmission rate of $0.002574 per kWh. Grossing up for Indiana Utility Receipts Tax produces a $0.002615 per kWh transmission rate for residential customers.

The distribution revenue requirement components are summed and multiplied by 80% to derive the eligible distribution cash revenue requirement for tracking in TDSIC-10. This amount is multiplied by the Residential Service rate allocation percentage for distribution investment to derive the distribution cash revenue requirement for residential customers. The resulting product is then divided by the total number of projected residential customers and divided by 12 months resulting in a $5.86 per customer monthly distribution fixed charge rate. As indicated previously in my testimony, the distribution-related fixed charge is capped at $5.00 in TDSIC-10. Any amount in excess of the $5.00 distribution-related fixed charge cap will be recovered in an energy charge. This additional overage results in a distribution energy charge of $0.001097 per kWh after Utility Receipts Tax gross up.

There are two other items that affect the overall TDSIC energy rate. The first is the calculation of over- or under-recovery variance. In this case, the variance is an under-recovery of $1,622,737 that will be charged to customers. The rate for residential customers for the variance is a decrease of $0.000017 per kWh. The second item is the result of the Tax Reform Settlement in Cause No. 45032-S21. That settlement required CEI South to calculate a tax refund for excess ADIT balances, as its ADIT was revalued as of December 31, 2017, at the new, lower federal corporate income tax rate of 21%. In this case, a total tax refund credit of $4,700,936 will be passed back to customers. The resulting rate for residential customers is a decrease of $0.001483 per kWh. The combined TDSIC charge for residential customers will be the fixed distribution charge of $5.00 per month plus an energy charge of $0.002212 per kWh, which is the sum of the transmission and distribution energy charges plus the under-recovery variance net of the income tax refund.

## III. INDIANA UTILITY RECEIPTS TAX

**Q: What is the effect of HEA 1002?**

A: Among other things, HEA 1002 repeals the URT effective July 1, 2022.[2] Indiana utilities recover the URT from customers in utilities' rates and charges. As such, the Act requires every utility subject to both the URT and Commission's ratemaking jurisdiction to file a rate adjustment to change the utility's rates and charges to reflect

[2] HEA 1002, Section 3. Repeals I.C. ch. 6-2.3 effective July 1, 2022.

the URT repeal.[3] The Act states this rate adjustment is to be "independent of any other matters related to the utility's revenue requirement."[4] Pursuant to HEA 1002, this rate adjustment shall be prospective and calculated to remove the amount of the URT each existing rate or charge was designed to recover, based on the URT rate in effect at the time the rate or charge was approved.[5] In addition, upon implementing the Commission-approved rate adjustment, the Act requires a utility to provide notice to its customers stating the impact of the adjustment on the customer's bill and that the adjustment reflects the URT repeal.[6]

**Q: When must a rate-regulated utility file its proposed URT-related rate adjustment with the Commission?**

A: The Act specifies that a regulated utility is to file a rate adjustment with the Commission that adjusts the utility's rates and charges to reflect the repeal of the URT, independent of any other matters related to the utility's revenue requirement, no later than May 1, 2022.[7] Pending approval of the utility's filing by the Commission, the related rate adjustment will take effect upon the effective date of the URT repeal, which is July 1, 2022. The OUCC expects that updating utility rates to remove URT will be a straightforward calculation and the related utility rate reduction will be non-controversial.

**Q: Does the Act specify what rates and charges are covered?**

A: While the Act does not specifically identify each utility rate or charge that will need to be changed as a result of the URT repeal, it does specify that the rate adjustment

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[3] HEA 1002, Section 15. I.C. § 8-1-2-4.2(a) and (b).
[4] HEA 1002, Section 15. I.C. § 8-1-2-4.2(b).
[5] HEA 1002, Section 15. I.C. § 8-1-2-4.2(c)(2).
[6] HEA 1002, Section 15. I.C. § 8-1-2-4.2(d).
[7] HEA 1002, Section 15. I.C. §8-1-2-4.2(b).

applies to each rate or charge in effect at the time of the filing that includes recovery of URT.[8]

**Q: Does HEA 1002 identify what type of filing should be made with the Commission?**

A: No.

**Q: Does the OUCC have a position on what type of filing or proceeding should be used for the repeal of the URT?**

A: Not at this time. However, given that CEI South is before the Commission now with this TDSIC proceeding and the rates set in this Cause will be paid by customers starting approximately in June 2022, it may be appropriate for CEI South to update its tariff in this proceeding to reflect the URT repeal. CEI South could file two tariffs: 1) a tariff for June 2022 rates that includes URT and 2) a tariff for rates for July 2022 and going forward that excludes the URT. Including this update in CEI South's rebuttal testimony in this Cause could be more efficient and result in a more timely change to its rates than addressing the URT repeal in a separate docket. Should the OUCC have any concerns with CEI South calculations, it can raise those concerns at the hearing in this Cause.

[8] HEA 1002, Section 15, I.C. § 8-1-2-4.2(c)(2).

## IV. CONCLUSION AND RECOMMENDATION

**Q: What is your opinion of CEI South's estimated TDSIC adjustment factors for the relevant period?**

A: Other than the inclusion of URT taxes in its calculations, nothing came to my attention indicating CEI South's calculation of estimated TDSIC adjustment factors for the relevant period is unreasonable.

**Q: What do you recommend in this proceeding?**

A: I recommend the Commission approve CEI South's proposed TDSIC-10 adjustment factors as soon as they file schedules that adjust for the exclusion of URT taxes as of July 1, 2022.

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

A: Yes.

**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 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 the representations I made in the foregoing testimony are true to the best of my knowledge, information, and belief.

Wes R. Blakley

By: Wes R. Blakley
Cause No. 44910 TDSIC-10
Office of Utility Consumer Counselor (OUCC)

Date: 4/4/22

Southern Indiana Gas and Electric Company D/B/A Vectren Energy Delivery of Indiana Inc.
Vectren South
Cause No. 44910-TDSIC-10

Calculation of TDSIC Tracker Rate for Residential Customers (RS)

| | | | Rate RS Allocation % | Rate RS |
|---|---|---|---|---|
| Cash Revenue Requirements for the 80% Trackable TDSIC Transmission and Distribution Investment | | | | |
| Transmission Revenue Requirement | | | | |
| Return on Transimission Investment | $8,358,653 | | | |
| Property Tax Expense | 493,161 | | | |
| Depreciation Expense | 1,429,873 | | | |
| Plan Development Cost - Amortization | 0 | | | |
| Deferred Depreciation - Amortization | 22,581 | | | |
| Deferred Post in Service Carrying Charge - Amortization | 71,196 | | | |
| Total Transimission Revenue Requirement | | $10,375,464 | | |
| Times: 80% | | 80% | | |
| Total 80% Transmission Cash Revenue Requirement | | $8,300,371 | 42.62% | $3,537,619 |
| Annual kWh Sales for RS | | | | 1,374,205,480 |
| Transmission Rate for RS Class per kWh | | | | $0.002574 |
| Including Utility Receipts Tax. .1.4% | | | | $0.002615 |
| Distribution Revenue Requirement | | | | |
| Return on Distribution Investment | $13,940,786 | | | |
| Property Tax Expense | 1,021,442 | | | |
| Depreciation Expense | 4,550,384 | | | |
| Plan Development Cost - Amortization | 0 | | | |
| Deferred Depreciation - Amortization | 94,926 | | | |
| Deferred Post in Service Carrying Charge - Amortization | 209,235 | | | |
| Total Distribution Revenue Requirement | | 19,816,773 | | |
| Times: 80% | | 80% | | |
| Total 80% Distribution Cash Revenue Requirement | | $15,853,418 | 58.44% | 9,264,738 |
| Total Residential Customers | | | | 131,712 |
| **Distribution Fixed Charge per Month for Residential Customer (RS) | | | | $4.92 |
| Including Utility Receipts Tax. .1.4% | | | | $5.00 |
| Annual kWh Sales for RS Disrtriubution Fixed Charge | | | | $7,776,276 |
| Distribution Rate for RS Class per kWh | | | | $0.001080 |
| Including Utility Receipts Tax. .1.4% | | | | $0.001097 |
| (Over)/Under Recovery Variance | | | | |
| Variance Rate for RS Class per kWh | ($12,106) | 721,777,425 | ($0.000017) | |
| Including Utility Receipts Tax. .1.4% | | | | ($0.000017) |
| EADIT Credit | | | | |
| EADIT Rate for RS Class oer kWh | ($2,005,889) | 1,374,205,480 | ($0.001460) | |
| Including Utility Receipts Tax. .1.4% | | | | ($0.001483) |
| Total TDSIC-10 Rates | | | | |
| Total Combined TDSIC-10 Energy Charge | | | | $0.002212 |
| Total Distribution Fixed Charge | | | | $5.00 |
| Deferred Revenue Requirement | | | | |
| Total 20% Deferred Revenue Requirement TDSIC-10 | | $6,038,447 | | |

** Distribution costs collected through a fixed charge for rate RS capped at $5.00 in TDSIC-10. Rate B and Rate SGS fixed charge is $4.10 and $5.00 respectively.