

FILED
April 4, 2024
INDIANA UTILITY
REGULATORY COMMISSION

**On Behalf of Petitioner,
DUKE ENERGY INDIANA, LLC**

**VERIFIED DIRECT TESTIMONY OF
JOEL T. RUTLEDGE**

Petitioner's Exhibit 2

April 4, 2024

**TESTIMONY OF JOEL T. RUTLEDGE
DIRECTOR OF JURISDICTIONAL PLANNING
DUKE ENERGY BUSINESS SERVICES LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION**

I. INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Joel T. Rutledge, and my business address is 525 South Tryon Street,
4 Charlotte, NC 28202.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Duke Energy Business Services LLC ("DEBS") as Director of
7 Jurisdictional Planning. DEBS is a service company subsidiary of Duke Energy
8 Corporation ("Duke Energy"), and a non-utility affiliate of Duke Energy Indiana,
9 LLC ("Duke Energy Indiana" or "Company") providing various administrative and
10 other services to Duke Energy Indiana and other affiliated companies of Duke
11 Energy.

12 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL
13 BACKGROUND AND PROFESSIONAL EXPERIENCE.**

14 A. I received a Bachelor of Science in Accounting from the University of North
15 Carolina at Wilmington in 1997, and a Master of Accounting from North Carolina
16 State University in 1998. I received my North Carolina CPA certificate in 1999. I
17 joined Duke Energy in 2005 as a Senior Accounting Analyst supporting joint
18 ownership and wholesale billings. I moved to the Financial Planning and Analysis

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1 (“FP&A”) organization couple of years later as part of the Major Projects Finance
2 organization. I have held various roles of increasing responsibility during my
3 career in FP&A. My most recent assignments, prior to this one, include support of
4 the Natural Gas and Commercial Renewables business units. I became the
5 Director of Jurisdictional Planning in November 2022.

6 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS DIRECTOR OF**
7 **JURISDICTIONAL PLANNING.**

8 A. I am responsible for preparing financial projections, budgets, and forecasts as well
9 as performing financial analysis for Duke Energy Indiana.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. My testimony describes the financial planning processes used as the basis for the
13 2025 Forward-Looking Test Period proposed in this case. I sponsor and support
14 the 2025 financial forecast as presented in Petitioner’s Exhibit No. 26, except with
15 respect to specific adjustments sponsored by Company witnesses Ms. Christa L.
16 Graft, Ms. Suzanne E. Sieferman, Ms. Kathryn C. Lilly and Mr. Roger A. Flick II.

17 **Q. ARE THERE ADJUSTMENTS TO THE FORECASTED TEST YEAR**
18 **COSTS AND REVENUES?**

19 A. Yes. Ms. Graft discusses certain adjustments made to the forecast for items that
20 became known after the forecast was prepared. In addition, *pro forma* adjustments
21 are detailed in the direct testimonies of Company witnesses Graft, Sieferman,
22 Lilly, and Flick. These adjustments reflect the impacts of the forecast relevant to

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1 requests that will be effective upon Commission approval in this proceeding.

2 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY AS IT**
3 **RELATES TO DUKE ENERGY INDIANA'S FINANCIAL PLANNING**
4 **PROCESS FOR 2025.**

5 A. I describe the financial planning process underlying the forecasted test year
6 proposed in this proceeding. I will also provide comparisons of the 2025 test year
7 revenues, expenses, and other underlying assumptions to other financial results
8 and forecasts. The four primary financial periods and processes in the financial
9 planning process that are referenced in my testimony are the historic base period,
10 2023 projection, and the 2024 and 2025 forecasts. The "Historic Base Period" in
11 this testimony refers to the 12 months of financial activity from September 2022
12 to August 2023 which will also be referred to as the "12 months ended August
13 2023" or "12ME Aug 2023" for short. Projections refer to a current year process
14 which provides updates to anticipated year-end results by combining actual results
15 recognized throughout the current year with projected activity for the remainder
16 of the year. For this testimony, the "2023 8&4" are projected financial outcomes
17 that capture 8 months of actual results through August 2023 plus projected
18 activity for the remaining 4 months of 2023 to create an expected year-end
19 outcome for 2023. There are two forecasted periods presented in the testimony
20 which are both based on the 2023 8&4 forecast. The 2024 Forecast, or "2024F"
21 for short, is presented as the interim view between the historic base period and the
22 Forward-Looking Test Period. The 2025 Forecast, or 2025F for short, is the

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1 Forward-Looking Test Period proposed in this case. The forecasts include O&M
2 and capital for each business unit, as well as reasonable assumptions regarding
3 revenues, regulatory strategies, other operating expenses (such as depreciation,
4 amortization, interest, etc.), financing needs, and income taxes. The forecasts are
5 prepared using the same process as the annual approved budget used to manage
6 the business, but with less detail.

II. THE COMPANY'S FINANCIAL PLANNING PROCESS

8 **Q. PLEASE DESCRIBE THE COMPANY'S FINANCIAL PLANNING**
9 **PROCESS USED IN THE DEVELOPMENT OF THE FORECAST FOR**
10 **2025.**

11 A. Duke Energy's FP&A department manages an annual forecasting process that
12 includes input from multiple groups across the Company. The process uses a
13 "bottom-up" approach that consists of several phases. To start, each functional
14 organization (*e.g.*, Regulated and Renewable Energy, Power Grid Operations,
15 etc.) ("functions") that performs work for Duke Energy Indiana receives
16 operations and maintenance ("O&M") and capital spending guidelines provided
17 by Duke Energy's FP&A department. Spending guidelines are determined for
18 each business unit based on the resource needs and the business objectives that
19 have been established for Duke Energy Indiana. The functions then develop
20 forecasts for O&M and capital in coordination with FP&A which are informed
21 and prioritized by resource needs and business objectives. The results of these
22 forecasts are reviewed by the respective leaders in each function. The Company

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1 also updates key financial assumptions that will impact the forecast, such as
2 interest rates, commodity prices, and load forecasts by customer class and
3 jurisdiction.

4 The FP&A department provides guidelines, which are a detailed set of
5 instructions for creating a key portion of the forecast. For example, there are
6 detailed instructions for employee labor data, such as the escalation rates for non-
7 union labor expenses, indirect labor, fringe benefit loading rates, and other key
8 instructions to forecast employee's costs appropriately. Detailed instructions for
9 non-labor related expenses, such as transportation and information technology
10 expenses, are included. There are instructions for handling contract labor and
11 supplies, and guidelines for identifying a capital versus expense item.

12 Coordinators are required to use these assumptions and instructions in forecasting
13 their future departmental expenses. These guidelines are reflected in the forecasts
14 reflected in this proceeding.

15 The forecast is then consolidated and input into the Company's financial
16 software. Duke Energy uses a financial software program designed by Utilities
17 International ("UI"), which develops financial statements for the Company's
18 jurisdictional and corporate forecast. The forecast information is then reviewed by
19 various levels of management within Duke Energy Indiana and Duke Energy
20 Corporation. One or more iterations are typically required before final approval of
21 the annual budget by executive management and the Board of Directors in
22 February. This approach is reasonable and has been an effective process for

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1 managing costs.

2 **Q. HOW IS THE COMPANY'S CAPITAL FORECAST DEVELOPED?**

3 A. During the planning process, functional teams work to develop capital forecasts
4 and prioritize investments based on a number of factors, including regulatory and
5 compliance requirements, customer requirements, system reliability, the
6 integrated resource plan for each jurisdiction, capital constraints, and business
7 objectives. The guidelines referenced above also apply to the capital forecast. The
8 annual capital forecast is submitted to Duke Energy Indiana's executive
9 management and Duke Energy's Board of Directors in February.

10 **Q. HOW IS THE COMPANY'S LOAD FORECAST DEVELOPED?**

11 A. The load forecast is developed by Duke Energy's Load Forecasting group and is
12 updated at least annually. Generally speaking, the load forecast is developed in
13 three steps: first, a service area economic forecast is obtained; next, an energy
14 forecast is prepared; and finally, using the energy forecast, summer and winter
15 peak demand forecasts are developed.

16 The load forecast methodology is essentially the same as that presented in
17 past base rate cases and integrated resource plans submitted to the Indiana Utility
18 Regulatory Commission with updates to include more recent data. For the 2025
19 forecast at issue in this proceeding, the load forecast was developed in the Fall of
20 2023.

21 **Q. WHAT OTHER STEPS ARE INVOLVED IN DEVELOPING THE**
22 **CORPORATE FORECAST?**

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- 1 A. In addition to the O&M expenses and capital data provided via the planning
2 process, other forecast information is required as follows:
- 3 1. Operating revenues;
 - 4 2. Projected fuel, purchased power, purchased gas costs, emission
5 allowance, other production costs and off-system sales;
 - 6 3. Depreciation;
 - 7 4. Property taxes;
 - 8 5. Other Income and Expense, primarily allowance for funds used during
9 construction (“AFUDC”);
 - 10 6. Financing assumptions, including short- and long-term debt rates,
11 dividend policy, issuances and redemptions, accounts receivable sales
12 and capital leases; and tax rates and tax depreciation.

13 **Q. DOES THE FORECAST CONTAIN THE SAME ASSUMPTIONS AND**
14 **METHODOLOGIES USED IN FORECASTED DATA PREPARED FOR**
15 **USE BY MANAGEMENT?**

16 A. Yes. The 2025 forecast includes the same methodologies and general assumptions
17 as the budget.

18 **III. FORECASTED TEST YEAR**

19 **A. Revenues**

20 **Q. PLEASE DESCRIBE HOW THE OPERATING REVENUES WERE**
21 **FORECASTED.**

22 A. The first step in preparing the operating revenues for the 2025 forecast was to
23 obtain a forecast of the projected Retail electric kilowatt hour (kWh) sales and
24 Wholesale kilowatt (kW) and kWh sales from the Load Forecasting group. The

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1 Forecasting group prepares load forecasts for each customer class over a five-year
2 period. The Load Forecasting group also provides the number of customers for
3 each customer class. The projected revenues for the annual forecast were
4 calculated by applying the tariff charges to these sales forecast numbers for
5 residential electric customers. The projected revenue for electric non-residential
6 customers was calculated by applying average realizations to their respective kWh
7 sales forecasts.

8 **Q. ARE THE REVENUE FORECASTS BASED ON WEATHER**
9 **NORMALIZED LOAD?**

10 A. Yes. A thirty-year period was used as the basis for calculating normal weather.

11 **Q. HOW WERE OTHER REVENUES FORECAST?**

12 A. Other revenue categories, such as transmission revenues, reconnection charges,
13 late payment fees, etc., for Duke Energy Indiana's 2025 annual forecast were
14 projected based on historical trends or are provided by the functions.

15 **Q. WHAT ARE THE MAJOR OPERATING REVENUE ASSUMPTIONS**
16 **REFLECTED IN THE COMPANY'S 2025 FORECAST?**

17 A. The major revenue assumptions are the load forecast, current tariff rates, and
18 wholesale rates. Tariff rates are based on approved rate structures by the
19 Commission and projected rider recovery assumptions. Wholesale rate
20 assumptions are provided by the Duke Energy Wholesale Power function.

21 **Q. WHAT IS THE LEVEL OF REVENUE INCLUDED IN THE DUKE**
22 **ENERGY INDIANA 2025 FORECAST – USING CURRENT TARIFF**

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1 RATES, NOT PROPOSED OR ANTICIPATED TARIFF RATES COMING
2 OUT OF THIS CASE?

3 A. As shown in Attachment 2-B (JTR), under current rates before the adjustments
4 made for ratemaking, Duke Energy Indiana's total operating revenues in 2025 are
5 forecasted to be \$3.407 billion.

6 Q. HOW DO THESE FORECASTED 2025 REVENUES COMPARE TO THE
7 12 MONTHS ENDED AUGUST 2023, THE 2023 8&4, AND THE
8 FORECASTED 2024 REVENUES?

9 A. A comparison of the forecasted revenues, all under current rates, is shown in the
10 table below. The decline in revenues from the 12 months ended August 2023 to
11 the 2023 8&4 is primarily due to lower fuel expenses. The decline in revenues
12 due to lower expected fuel expenses continues in the 2024 forecast as compared
13 to the 2023 8&4. Revenues increase by \$91 million, or 3%, in 2025 over
14 forecasted 2024. The 2025 increase represents typical residential growth and an
15 expected acceleration of economic development load growth.

16 **Table 1:**

<i>\$ in Millions under current rates</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Revenues	\$3,735	\$3,398	\$3,316	\$3,407
Increase/(Decrease) Over Prior Period		(\$337)	(\$83)	\$91

17 * Reflects activity from Sept 2022 – Aug 2023

1 **B. Fuel and Purchased Power Expenses**

2 **Q. HOW DID YOU OBTAIN THE FUEL AND PURCHASED POWER**
3 **EXPENSES FOR THE FORECAST FOR 2025?**

4 A. The levels of fuel and purchased power expenses are derived from the forecast
5 cost per unit of the fuel consumed and the amount of power generated and
6 purchased. The Fuels and System Optimization group provided the electric fuel
7 and purchased power cost forecast by simulating generation output and associated
8 cost with their production cost. Duke Energy Indiana's fuel procurement strategy
9 is discussed in more detail in Duke Energy Indiana witness Mr. John Verderame's
10 testimony.

11 **Q. WHAT IS THE LEVEL OF FUEL AND PURCHASED POWER EXPENSE**
12 **INCLUDED IN THE DUKE ENERGY INDIANA 2025 FORECAST?**

13 A. As shown in Attachment 2-B (JTR), Duke Energy Indiana's fuel and purchased
14 power expense in 2025 is forecasted to be \$1,098 million.

15 **Q. HOW DO THE FORECASTED 2025 FUEL AND PURCHASED POWER**
16 **EXPENSE COMPARE TO THE 12 MONTHS ENDED AUGUST 2023,**
17 **THE 2023 8&4, AND THE FORECASTED 2024 FUEL AND PURCHASED**
18 **POWER EXPENSE?**

19 A. As also shown in Attachment 2-B (JTR), a comparison of the forecasted fuel and
20 purchased power expense is shown in the table below. The expenses for the 12
21 months ended August 2023 were elevated compared to the 2023 8&4 primarily
22 due to higher prices. The decline in expected fuel prices continues in the 2024

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1 forecast as compared to the 2023 8&4. Forecasted 2024 and 2025 expenses reflect
2 price reductions and weather normal sales.

3 **Table 2:**

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Fuel & Purchased Power Expense	\$1,644	\$1,236	\$1,136	\$1,098
Increase/(Decrease) Over Prior Period		(\$408)	(\$100)	(\$37)

4 * Reflects activity from Sept 2022 – Aug 2023

5 **C. O&M**

6 **Q. HOW DID YOU OBTAIN OPERATING AND MAINTENANCE**
7 **EXPENSES FOR THE 2025 FORECAST?**

8 A. The O&M expenses, including benefits and payroll taxes, were obtained from the
9 2025 forecast by the various functions, using the bottom-up approach that I
10 previously described. Duke Energy Indiana's proportionate share of the shared
11 and corporate O&M expenses are assigned and/or allocated from the service
12 company to Duke Energy Indiana and are also derived using the same bottom-up
13 approach. The allocated share is derived by the application of appropriate
14 allocations based on the service company allocation factors, and in accordance
15 with affiliate agreements as currently on file with the Commission, as discussed in
16 the direct testimony of Duke Energy Indiana witness Ms. Rebekah Buck.

17 **Q. WHAT ARE THE MAJOR O&M ASSUMPTIONS REFLECTED IN THE**
18 **COMPANY'S 2025 FORECAST?**

19 A. For labor-related expenses, the forecast used the projected annual labor cost rate
20 increases provided by Duke Energy Indiana witness Ms. Shannon Caldwell to

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1 forecast 2025 union and non-union employee labor expense. Union labor cost
2 increases were assumed to be between <BEGIN CONFIDENTIAL> ██████████
3 ██████████<END CONFIDENTIAL>, depending on the agreements, while non-union
4 labor cost increases were assumed to be 3.5%. Additional assumptions include
5 fringe benefit loading of rates 25.2% and payroll tax loadings of 7.65%.

6 Non-labor expenses for 2025 were forecasted by the functions based on
7 their knowledge and expectations for various costs.

8 **Q. WHAT IS THE LEVEL OF O&M EXPENSES INCLUDED IN THE DUKE**
9 **ENERGY INDIANA 2025 FORECAST?**

10 A. As shown in Attachment 2-B (JTR), Duke Energy Indiana's O&M expenses in
11 2025 are forecasted to be \$731 million including non-utility O&M expenditures
12 and \$707 million when excluding non-utility O&M expenditures.

13 **Q. HOW DO THESE FORECASTED 2025 O&M EXPENSES COMPARE TO**
14 **THE 12 MONTHS ENDED AUGUST 2023, THE 2023 8&4, AND THE**
15 **FORECASTED 2024 O&M EXPENSES?**

16 A. A comparison of the O&M expenses is shown in the table below.

17 **Table 3:**

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
O&M	\$652	\$669	\$677	\$707
Increase/(Decrease) Over Prior Period		\$17	\$8	\$30

18 * Reflects activity from Sept 2022 – Aug 2023

19 NOTE: Table 3 excludes non-utility O&M

20 Table 4 below includes forecasted O&M expenses by FERC function. From the

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1 12 months ended August 2023 to the 2025 forecast, FERC O&M is forecasted to
2 increase by \$55 million, equivalent to a ~3.7% compounded annual growth rate.

3 FERC O&M increases \$25M from the 12 months ended August 2023 as
4 compared to the 2024 forecast due to timing in TDSIC cost recovery, increased
5 vegetation management in Transmission and Distribution as discussed in the
6 testimonies of Company witnesses Mr. Timothy A. Abbott and Mr. Harley
7 McCorkle, and additional ash hauling in Steam Production as discussed by
8 Company witness Mr. Timothy S. Hill; offset by reduced Steam Production
9 outages and efficiencies recognized across multiple FERC Functions. Key drivers
10 for the \$30M year-over-year increase from the 2024 forecast to the 2025 forecast
11 are increased outage volume in Steam Production and vegetation management in
12 Transmission and Distribution.

Table 4:

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Production - Steam	\$227	\$235	\$230	\$246
Production - Hydro	3	2	\$3	2
Other Production	33	32	21	21
Total Production, excluding EE	\$263	\$269	\$254	\$269
Energy Efficiency	29	34	47	38
Transmission	93	98	105	111
Distribution	98	109	117	119
Customer/Sales	30	31	26	26
Administrative and General	139	128	128	143
Total O&M	\$652	\$669	\$677	\$707
Increase/(Decrease) Over Prior Period		\$17	\$8	\$30

14 * Reflects activity from Sept 2022 – Aug 2023

15 NOTE: Table 4 excludes non-utility O&M

1 **D. Depreciation & Amortization**

2 **Q. DESCRIBE HOW DEPRECIATION AND AMORTIZATION EXPENSE IS**
3 **REFLECTED IN THE 2025 FORECAST.**

4 A. The forecasted depreciation/amortization for existing and projected new plant was
5 calculated by multiplying the original cost of current and projected new plant by
6 the current composite depreciation/amortization rates. For existing plant, the
7 Asset Accounting department provided the original cost of the current electric
8 plant along with the current depreciation/amortization rates. For anticipated new
9 plant, the timing and cost of the projects were based on the functional
10 organization's capital expenditure plans, which include estimated in-service dates.
11 Forecasted projects were assigned a depreciation/amortization rate. Asset
12 retirements were also forecasted and removed from the depreciation calculations.
13 Similarly, amortization is forecasted using regulatory asset/liability balances and
14 approved amortization rates.

15 **Q. WHAT IS THE LEVEL OF DEPRECIATION AND AMORTIZATION**
16 **EXPENSES INCLUDED IN THE DUKE ENERGY INDIANA 2025**
17 **FORECAST?**

18 A. As shown in Attachment 2-B (JTR), Duke Energy Indiana's depreciation and
19 amortization expenses in 2025 are forecasted to be \$720 million.

1

E. Property and Other Taxes

2

**Q. HOW DID YOU OBTAIN THE PROPERTY AND OTHER TAX
EXPENSE?**

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A. As described in Duke Energy Indiana witness Mr. John Panizza's testimony, the Company's forecasted property taxes are based on the most recent historical property tax data. It is then adjusted based on projected property tax rates, assumed in-service dates for new projects, retirements, and depreciation. Other taxes are calculated in the financial software based on current tax rates.

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**Q. WHAT IS THE LEVEL OF TAX EXPENSES, OTHER THAN INCOME
TAXES, INCLUDED IN THE DUKE ENERGY INDIANA 2025
FORECAST?**

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11

12

A. As shown in Attachment 2-B (JTR), Duke Energy Indiana's tax expenses, other than income taxes in 2025 are forecasted to be \$70 million.

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**Q. HOW DO THE FORECASTED 2025 TAX EXPENSES COMPARE TO
THE 12 MONTHS ENDED AUGUST 2023, THE 2023 8&4, AND THE
FORECASTED 2024 TAX EXPENSES, OTHER THAN INCOME TAXES?**

15

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A. A comparison of the forecasted tax expenses, other than income taxes, to the is shown in the table below. Expenses increase through the 2025 forecasted test period, with property tax being the primary driver in the year-over-year changes.

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Table 5:

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Property and other Taxes	\$55	\$58	\$68	\$70
Increase/(Decrease) Over Prior Period		\$3	\$10	\$2

2

* Reflects activity from Sept 2022 – Aug 2023

3

F. Other Income and Expenses

4

Q. DESCRIBE HOW OTHER INCOME AND EXPENSE IS REFLECTED IN THE 2025 FORECAST.

5

6

A. The “other income and expense” was derived from a combination of sources. The amount of funds for the AFUDC was derived from the capital forecasts using forecasted CWIP balances and AFUDC rates. Also included in Other Income and Expense is intercompany interest income, other interest, and deferred returns (*i.e.* deferred equity return on TDSIC investments). For each of these, forecasted debt balances or plant-in-service and forecasted interest and equity return rates factored into the forecasted amounts.

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Q. WHAT IS THE LEVEL OF OTHER INCOME AND EXPENSES INCLUDED IN THE DUKE ENERGY INDIANA 2025 FORECAST?

14

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A. As shown in Attachment 2-B (JTR), Duke Energy Indiana’s other income and expenses in 2025 is forecasted to be \$89 million.

16

17

Q. HOW DO THESE FORECASTED 2025 OTHER INCOME AND EXPENSES COMPARE TO THE 12 MONTHS ENDED AUGUST 2023, THE 2023 8&4, AND THE FORECASTED 2024 OTHER INCOME AND EXPENSES?

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- 1 A. A comparison of the forecasted other income and expenses is in the table below.
- 2 Other income and expenses were \$6M higher in the 2023 8&4 than the 12 months
- 3 ended August 2023 due to higher AFUDC equity returns for September –
- 4 December 2023. The 2024 forecasted other income and expenses is \$5M higher
- 5 than the 12 months ended August 2023 primarily due to higher AFUDC equity
- 6 returns and deferred returns related to TDSIC. Forecasted 2025 other income and
- 7 expenses results are an increase of \$12 million as compared to the 2024 forecast
- 8 primarily due to higher AFUDC equity returns.

Table 6:

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Other Income and Expenses	\$65	\$72	\$77	\$89
Increase/(Decrease) Over Prior Period		\$6	\$5	\$12

10 * Reflects activity from Sept 2022 – Aug 2023

G. Interest Expense

- 12 **Q. DESCRIBE HOW INTEREST EXPENSE IS REFLECTED IN THE 2025**
- 13 **FORECAST.**

- 14 A. Duke Energy Indiana witness Mr. Christopher R. Bauer provides the short- and
- 15 long-term interest rates for the 2025 forecast. To forecast interest expense, the
- 16 2025 forecast includes assumptions on the amount of short- and long-term debt
- 17 required as well as projected debt cost rates. The debt balances are based on other
- 18 inputs, such as the maturity of long-term debt and the timing of O&M and capital
- 19 expenditures. The financial plan also includes assumptions around the sizing and
- 20 timing of new long-term debt issuances. Finally, the plan applies the projected

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1 short- and long-term debt rates.

2 **Q. WHAT IS THE LEVEL OF INTEREST EXPENSE INCLUDED IN THE**
3 **DUKE ENERGY INDIANA 2025 FORECAST?**

4 A. As shown in Attachment 2-B (JTR), Duke Energy Indiana's interest expense in
5 2025 is forecasted to be \$224 million.

6 **Q. HOW DO THESE FORECASTED 2025 INTEREST EXPENSES**
7 **COMPARE TO THE 12 MONTHS ENDED AUGUST 2023, THE 2023 8&4,**
8 **AND THE FORECASTED 2024 INTEREST EXPENSES?**

9 A. A comparison of the interest expenses is shown in the table below. The year-over-
10 year change is primarily due to interest expense on long-term debt for the 2024
11 forecast and 2025 forecasted interest expenses that are primarily offset by
12 increases in TDSIC carrying costs in the 2025 forecast.

13 **Table 7:**

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Interest Expense	\$207	\$214	\$234	\$224
Increase/(Decrease) Over Prior Period		\$7	\$19	(\$10)

14 * Reflects activity from Sept 2022 – Aug 2023

15 **H. Income Tax**

16 **Q. DESCRIBE HOW INCOME TAX EXPENSE IS REFLECTED IN THE**
17 **2025 FORECAST.**

18 A. The tax department provided the appropriate state and federal income tax rates
19 and the amortization of tax credits. The income tax expense was derived in the
20 Company's financial software for each month of the 2025 forecast by applying

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1 statutory income tax rates to applicable taxable book income and then applying
2 book-to-tax adjustments according to the Internal Revenue Code.

3 **Q. WHAT IS THE LEVEL OF INCOME TAX EXPENSES INCLUDED IN**
4 **THE DUKE ENERGY INDIANA 2025 FORECAST?**

5 A. As shown in Attachment 2-B (JTR), Duke Energy Indiana's income tax expenses,
6 in 2025 are forecasted to be \$99 million.

7 **I. Capital Expenditures**

8 **Q. WHAT IS THE LEVEL OF CAPITAL EXPENDITURES INCLUDED IN**
9 **THE DUKE ENERGY INDIANA 2025 FORECAST?**

10 A. Duke Energy Indiana's capital expenditures in 2025 are forecasted to be \$1,459
11 million.

12 **Q. HOW DO THE FORECASTED 2025 CAPITAL EXPENDITURES**
13 **COMPARE TO THE 12 MONTHS ENDED AUGUST 2023, THE 2023 8&4,**
14 **AND THE FORECASTED 2024 CAPITAL EXPENDITURES?**

15 A. A comparison of the capital expenditures is shown in the table below.

16 **Table 8:**

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Capital Expenditures	\$890	\$844	\$968	\$1,459
Increase/(Decrease) Over Prior Period		(\$46)	\$124	\$491

17 * Reflects activity from Sept 2022 – Aug 2023

18 The table below includes forecasted capital expenditures by FERC function. From
19 12 months ended 2023 to forecasted 2025, capital expenditures are forecasted to
20 increase by \$569 million, equivalent to a ~25% compounded annual growth rate

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1 which is primarily due to potential new generation capital yet to be requested.

2 Key drivers of the year-over-year change include increases in Distribution and

3 Transmission, primarily due to increases in TDSIC and economic development

4 (covered in greater detail in the direct testimony of Mr. Abbott and Mr.

5 McCorkle). Total capital expenditure increases are primarily due to potential new

6 generation projects that the Company has not yet proposed and will not be in-

7 service by 12/31/2025 – these increased costs are not included in rates in this

8 proceeding (refer to Attachment 26-C workpaper RB23).

9 **Table 9:**

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Elec - General Plant	\$65	\$50	\$21	\$20
Elec - Other Production Plant	23	98	35	90
Elec - Steam Production Plant	200	99	159	88
Production Capital (excl. New Gen)	\$288	\$247	\$215	\$198
Elec - Distribution Plant	403	370	376	420
Elec - Transmission Plant	177	215	244	415
Elec - Intangible Plant	22	12	26	20
Total Capital (excl. New Gen)	\$890	\$844	861	\$1,053
Potential New Generation Capital	-	-	107	406
Total Capital Expenditures	\$890	\$844	\$968	\$1,459

10 * Reflects activity from Sept 2022 – Aug 2023

11 **J. Plant in Service**

12 **Q. HOW WERE PLANT IN SERVICE BALANCES CALCULATED?**

13 A. The forecasted 2025 plant in service balance uses actual August 2023 results as a
14 baseline. From there, the remainder of 2023, the 2024 forecasted, and 2025
15 forecasted capital expenditures and retirements are supplied by the various groups

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1 within the Company were incorporated. The timing and cost of the projects are
2 based on the functional organization's capital budget and forecasts, which include
3 estimated in-service dates. The estimated in-service dates and corresponding
4 depreciation rates were then used to calculate depreciation expense.

5 Other forecasted items include materials, supplies, and inventory. The
6 forecasted totals are based on (i) guidance from the functional organizations or (ii)
7 historical balance levels (i.e., balances are held constant throughout the forecast).

Table 10:

<i>\$ in Millions</i>	12ME Aug 2023*	2023 8&4	2024F	2025F
Materials and Supplies Inventory	\$377	\$377	\$377	\$377
Increase/(Decrease) Over Prior Period		\$0	\$0	\$0

9 * Reflects activity from Sept 2022 – Aug 2023

K. Balance Sheet

11 **Q. HOW WERE INITIAL BALANCES ESTABLISHED FOR THE BALANCE**
12 **SHEET?**

13 A. The final month of actual results for the historic period was August 2023 which
14 are the basis for the initial balances.

15 **Q. WHAT OTHER INFORMATION WAS USED TO ESTABLISH THE**
16 **FORECASTED BALANCE SHEET?**

17 A. The forecasted balance sheet is generated as part of the UI financial software. The
18 software begins with the initial August 2023 balances and then consolidates the
19 forecasted inputs to derive the updated balance sheet. Please see Attachment 2-C
20 (JTR).

1 **L. Cash Flow Statement**

2 **Q. HOW DID YOU PREPARE THE CASH FLOW STATEMENT FOR THE**
3 **2025 FORECAST?**

4 A. The cash flow statement is generated as part of the UI financial software. It is
5 derived from corresponding inputs from the income statement and changes in the
6 balance sheet. Please see Attachment 2-D (JTR).

7 **M. Forecasted Test Period**

8 **Q. DO YOU HAVE AN OPINION AS TO WHETHER THE FORECASTED**
9 **TEST PERIOD FINANCIAL DATA IS REASONABLE AND**
10 **REPRESENTATIVE OF THE RESULTS OF OPERATIONS DURING**
11 **THE PERIOD RATES WILL BE IN EFFECT?**

12 A. Yes, the forecasted test period financial data is reasonable and representative of
13 the results of operations during the period that rates will be in effect.. In my
14 opinion, as Director of Jurisdictional Planning, the forecasting processes are
15 adequate, reasonable, and reliable. My testimony has identified all the basic
16 assumptions in the forecast and reflects the work of multiple organizations across
17 Duke Energy to ensure the accuracy and reasonableness of the forecasted data.
18 These assumptions are explained in my testimony and the testimony of the other
19 witnesses I have identified.

20 **IV. OVERVIEW OF DUKE ENERGY INDIANA'S BUDGET**
21 **TO ACTUAL VARIANCES FOR 2019-**
22 **THE 12 MONTHS ENDED AUGUST 2023**

23 **Q. DOES THE REVENUE FORECASTING METHODOLOGY DESCRIBED**

1 **IN THIS TESTIMONY RESULT IN AN ACCURATE ESTIMATE OF**
2 **REVENUES TO BE ACHIEVED DURING 2025?**

3 A. Yes, with two caveats: Duke Energy Indiana witnesses Ms. Graft, Ms. Sieferman,
4 Ms. Lilly and Mr. Flick describe various pro forma adjustments to the 2025
5 forecast that are more reflective of actual revenues expected and the revenue
6 forecast presented in this case does not yet reflect proposed or anticipated
7 revenues coming out of this proceeding. As discussed earlier in my testimony, a
8 key component of forecasted revenues is the amount of forecasted customer
9 energy usage. For the last five years, the average annual weather normalized
10 variance for the residential customer class was 0.2%. During that same time
11 period the average annual weather normalized variance was (1.5%) for general
12 service. The more volatile industrial forecast average variance was (3.9%) during
13 that same time period. Given that Duke Energy Indiana operates in an
14 environment influenced by external factors that are outside of its control, such as
15 weather and manufacturing production, this average variance demonstrates a high
16 level of historical revenue forecasting accuracy by Duke Energy Indiana.
17 Accordingly, these results should provide confidence as to the overall accuracy
18 and reliability of the revenue included in Duke Energy Indiana's 2025 forecast.

DUKE ENERGY INDIANA 2024 BASE RATE CASE
DIRECT TESTIMONY OF JOEL T. RUTLEDGE1 **Table 11: Duke Energy Indiana Weather Normal Retail Sales Actual vs. Budget**

Customer Class	2019	2020	2021	2022	12ME Aug 2023*	5-Yr Avg
Residential	1.0%	1.2%	0.2%	1.5%	-3.0%	0.2%
General Service	-1.1%	-8.5%	1.5%	-0.3%	0.7%	-1.5%
Industrial	-3.3%	-8.6%	3.6%	-5.1%	-6.3%	-3.9%
Retail	-1.3%	-5.4%	1.8%	-1.4%	-3.1%	-1.9%

2 * Reflects activity from Sept 2022 – Aug 2023

3 **Q. DOES THE O&M FORECASTING METHODOLOGY DESCRIBED IN**
4 **THIS TESTIMONY RESULT IN AN ACCURATE ESTIMATE OF**
5 **EXPENSES TO BE INCURRED DURING 2025?**

6 A. Yes. Duke Energy Indiana has experienced a variance of 0.6%, compared to its
7 Base O&M budget over the last 5 years. As shown in the table below, Duke
8 Energy Indiana's average budgeted expenses over the approximate 5-year period
9 2019 through the 12 months ended August 2023 were \$613 million and the
10 average actual Base O&M spend for the same period was \$609 million. That
11 represents an average annual underspend of \$4 million, or 0.6%. Given that Duke
12 Energy Indiana operates in an environment influenced by external factors that are
13 outside of its control, such as weather, this average variance demonstrates a high
14 level of historical O&M forecasting accuracy by Duke Energy Indiana.
15 Accordingly, these results should provide confidence as to the overall accuracy
16 and reliability of the O&M expenses included in Duke Energy Indiana's 2025
17 O&M forecast.

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1

Table 12:

<i>\$ in Millions</i>	2019	2020	2021	2022	12ME Aug 2023*	5-Yr Avg
Total O&M	\$783	\$754	\$738	\$719	\$705	\$740
LESS: Rider Recoverable O&M	(288)	(195)	(50)	(64)	(55)	(130)
Base O&M Actual	495	559	688	655	649	609
Base O&M Budget	460	600	704	649	651	613
Variance	(\$35)	\$41	\$16	(\$5)	\$2	\$4
Variance %	-7.7%	6.8%	2.2%	-0.8%	0.3%	0.6%

2

* Reflects activity from Sept 2022 – Aug 2023

3

Q. DOES THE CAPITAL FORECASTING METHODOLOGY DESCRIBED IN THIS TESTIMONY RESULT IN AN ACCURATE ESTIMATE OF CAPITAL TO BE EXPENDED DURING 2025?

4

5

6

A. Yes. Duke Energy Indiana has experienced a variance of 3.5%, compared to its approved capital budget over the last 5 years. As shown in the table below, Duke Energy Indiana's average annual capital budget over the approximate 5-year period 2019 through the 12 months ended August 2023 was \$811 million. The average annual actual spend for the same period was \$839 million, representing an annual overspend of \$29 million, or approximately 3.5%. This variance demonstrates a high level of historical capital budgeting accuracy by Duke Energy Indiana. Accordingly, these results should provide confidence as to the overall accuracy and reliability of the capital expenses included in Duke Energy Indiana's 2025 capital forecast.

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1

Table 13:

<i>\$ in Millions</i>	2019	2020	2021	2022	12ME Aug 2023*	Average
Actual	\$865	\$784	\$804	\$853	\$890	\$839
Budget	\$786	\$821	\$840	\$849	\$757	\$811
Variance	\$79	(\$37)	(\$36)	\$4	\$133	\$29
Variance %	10%	-5%	-4%	0%	18%	4%

2

* Reflects activity from Sept 2022 – Aug 2023

3

Q. YOU HAVE DISCUSSED IN YOUR TESTIMONY SOME OF THE VARIANCES BETWEEN THE 2025 FORECAST, COMPARED TO THE 12 MONTHS ENDED AUGUST 2023, THE 2023 8&4, AND THE FORECASTED 2024 VARIANCES. CAN YOU ALSO PLEASE SUMMARIZE OTHER VARIANCES THAT HAVE OCCURRED?

6

7

A. Yes. Attachments 2-A through 2-D (JTR) and Workpapers 1-JTR through 3-JTR provide a summary of the remaining variances as compared to the forecast for 2025.

8

9

10

V. CONCLUSION

11

Q. WERE ATTACHMENTS 2-A (JTR) THROUGH 2-D (JTR) PREPARED BY YOU OR UNDER YOUR SUPERVISION?

12

13

A. Yes.

14

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

15

A. Yes.

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information and belief.

Signed: 
Joel Rutledge

Dated: April 4, 2024

Attachment 2-A (JTR)

[Excel Filed Separately]

Attachments 2-B (JTR) through 2-D (JTR)

[Excel Filed Separately]