

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN POWER)
COMPANY (I&M) FOR APPROVAL OF (1) ISSUANCE TO I&M)
OF CERTIFICATES OF PUBLIC CONVENIENCE AND)
NECESSITY UNDER IND. CODE § 8-1-8.5-2 FOR THE)
ACQUISITION AND DEVELOPMENT THROUGH PURCHASE)
SALE AGREEMENTS (PSA) OF TWO SOLAR POWER)
GENERATING FACILITIES TO BE KNOWN AS LAKE)
TROUT, AND MAYAPPLE (CLEAN ENERGY PSA)
PROJECTS); (2) TO THE EXTENT NECESSARY, ISSUANCE)
OF AN ORDER PURSUANT TO IND. CODE § 8-1-2.5-5)
DECLINING TO EXERCISE JURISDICTION UNDER. IND.)
CODE § 8-1-8.5-5(e) (3) APPROVAL OF EACH PSA PROJECT)
AS A CLEAN ENERGY PROJECT UNDER IND. CODE § 8-1-8.8-)
11; (4) APPROVAL OF TWO SOLAR RENEWABLE ENERGY)
PURCHASE AGREEMENTS FOR PROJECTS TO BE KNOWN)
AS ELKHART COUNTY AND SCULPIN (CLEAN ENERGY)
PPA PROJECTS) AS CLEAN ENERGY PROJECTS UNDER)
IND. CODE § 8-1-8.8-11; (5) ASSOCIATED TIMELY COST)
RECOVERY UNDER IND. CODE § 8-1-8.8-11 FOR ALL PSA)
AND PPA PROJECTS; AND (6) OTHER ACCOUNTING AND)
RATEMAKING AUTHORITY.)

CAUSE NO. 45868

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 4

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY

MAY 19, 2023

Respectfully submitted,



T. Jason Haas

Attorney No. 34983-29

Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 45868
INDIANA MICHIGAN POWER COMPANY

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Wes R. Blakley and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am a Senior Utility Analyst in the Electric Division for the Indiana Office of
6 Utility Consumer Counselor ("OUCC"). My educational background is described
7 in Appendix A to my testimony.

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

9 A: The purpose of my testimony is to analyze and make recommendations regarding
10 specific accounting and ratemaking treatment proposals Indiana Michigan Power
11 Company ("I&M") made in its case-in-chief. In addition, I address I&M's
12 proposed cost recovery for the Clean Energy Projects proposed in this proceeding:
13 1) Two solar power projects that would be acquired through purchased sale
14 agreements ("PSA") whose costs recovery would be included in I&M's existing
15 Solar Power Rider ("SPR"); and
16 2) Two purchased power agreements ("PPA") for solar projects whose costs
17 would be recovered through the Fuel Cost Adjustment rider.

18 **Q: To the extent you do not address a specific item or adjustment, should that**
19 **be construed to mean you agree with I&M's proposal?**

20 A: No. Excluding any specific items, adjustments, or amounts proposed by I&M
21 from my testimony does not indicate my approval of those items, adjustments or

1 amounts, but rather that the scope of my testimony is limited to the specific items
2 addressed herein.

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

5 A: I read I&M's prefiled testimony and reviewed its exhibits, schedules, workpapers
6 and responses to certain data requests ("DR"). I reviewed testimony, exhibits, and
7 the Indiana Utility Regulatory Commission's ("Commission") Order, dated
8 February 23, 2022, in I&M's last base rate case, Cause No. 45576.

II. **ACCOUNTING AND RATEMAKING CLEAN ENERGY PSA AND PPA**
PROJECTS

9 **Q: What are the specific accounting and ratemaking treatment requested for**
10 **I&M's proposed Clean Energy PSA Projects?**

11 A: I&M requests cost recovery through Ind. Code § 8-1-8.8-11, which provides
12 recovery of costs and expenses for clean energy projects that are found to be
13 **reasonable and necessary**, including, among other things, costs and expenses
14 incurred during the construction and operation of Commission-approved projects
15 and other financial incentives the Commission considers appropriate. The
16 Company is requesting to recover its Clean Energy PSA Projects costs through its
17 existing SPR tracker. Those costs or proposals are:

- 18 1) Depreciate projects, once they are placed in-service, over a 35-year period
19 including estimated net salvage;
- 20 2) Recover asset retirement obligation ("ARO") depreciation and accretion
21 expense based on the Company's initial estimates;
- 22 3) Amortize the production tax credits ("PTC") over 20 years and utilize deferral
23 accounting to recognize the difference between this period and the period in
24 which PTC benefits are realized;

- 1 4) Defer and record as a regulatory asset eligible Clean Energy PSA Project costs
2 until such time as those costs are reflected in I&M's rates;
- 3 5) Utilize via the SPR, traditional over/under recovery accounting for the
4 periodic true-up of actual rider revenues to actual costs consistent with I&M's
5 past SPR proceedings; and
- 6 6) Allocate Clean Energy Project PSA Project costs consistent with the
7 allocation of similar costs for setting current rates.

8 More specifically to item (4) above, I&M further requests from the Commission
9 authority to **defer as a regulatory asset** the PSA projects listed above including
10 depreciation expense (including net salvage), ARO expenses including
11 depreciation and accretion expenses, pre-tax carrying costs, operation and
12 maintenance expenses, PTC benefits, and property tax expenses until such time
13 as these costs are reflected in I&M's rates, either SPR rates as proposed in this
14 proceeding or I&M's basic rates.¹

15 **Q: What is an ARO?**

16 A: AROs are legal obligations associated with the retirement of long-lived assets.
17 Generally Accepted Accounting Principles ("GAAP") under Accounting
18 Standards Codification requires companies to recognize ARO liabilities on their
19 books and records for asset retirement when situations occur that legally commit
20 the company to incurring costs in the future to retire the asset. It requires an
21 offsetting ARO plant asset on its books and records, which is depreciated over
22 time until the retirement and removal of the asset. The ARO plant asset is not an

¹ Direct Testimony of Andrew J. Williamson, p. 13, ll. 4-9.

1 asset that requires an expenditure of cash but rather it is a fair value estimate
2 using present value techniques sometimes.

3 **Q: Do you have any concerns regarding I&M's cost recovery requests for its**
4 **Clean Energy PSA capital investment and its PPAs?**

5 A: Yes. I have concerns over I&M's use of the terms: 1) "rate base" when referring
6 to its capital investment in its Clean Energy PSA Projects; 2) "deferred average
7 monthly rate base;" and 3) pre-tax carrying charge at its current weighted average
8 cost of capital rate ("WACC") grossed up for federal income taxes to be applied
9 to the deferred average monthly rate base.

10 **Q: What is your concern related to the term "rate base"?**

11 A: I&M requests authority to continue deferred accounting on its capital investment
12 until it is reflected in the SPR tracker for recovery. Capital investment is the
13 actual incurred costs of the project under construction until its final completion.
14 As such, it is part of rate base, but is not total rate base. All capital investment
15 trackers recover the direct incurred costs of the capital investment and should not
16 include any other rate base items such as material and supplies or working capital.

17 **Q: What is your concern related to the term "average monthly rate base"?**

18 A: The term "average monthly rate base" is confusing in that this is a capital
19 investment tracker that recovers costs on actual incurred investment and not rate
20 base. The use of an "average monthly" rate base goes against the plain language
21 of Ind. Code 8-1-8.8-11, which I&M uses as authority to support its cost recovery
22 proposal. The statute refers to "the timely recovery of costs and expenses incurred
23 during construction and operation of projects."² Only incurred capital investment

² Ind. Code 8-1-8.8-11(a)(1).

1 can be included for recovery in an investment tracker that can be requested as of a
2 date, which is usually near its Petition filing date. Average investment or rate base
3 is not mentioned in the statute.

4 **Q: What is your concern related to calculate pre-tax gross-up?**

5 A: I&M requests to calculate a pre-tax gross-up to its carrying charge at the WACC
6 rate and apply it to the PSA deferred regulatory asset as well as on the deferred
7 regulatory asset for internal and external development expenses for its request for
8 PPAs. Income tax gross-ups should not be included in carrying charges that are
9 applied to deferred regulatory assets because there will be no income tax on the
10 deferred costs until those costs are included in rates. At the time the deferred asset
11 is included in rates for recovery, then the income tax gross-ups should be applied.

12 **Q: Do you have any other concerns about I&M's recovery proposal of PSA**
13 **costs?**

14 A: Yes. I&M witness Andrew Williamson lists ARO depreciation and accretion
15 expense as one of the cost elements to be recovered in this Cause and are based on
16 the Company's initial estimates.³ He further states that the obligation to remove
17 the PSA project at retirement is accounted for as an ARO and according to
18 GAAP, it is necessary to recognize in I&M's ratemaking.⁴ In addition, he testifies
19 that the sum of ARO depreciation and accretion expenses represent I&M's annual
20 cost of service impact.⁵

21 **Q: Did I&M provide a Solar Decommissioning Estimate?**

³ Williamson Direct, p. 5, ll. 3-4.

⁴ Williamson Direct, p. 8, ll. 11-14.

⁵ Williamson Direct, p. 8, ll. 15-17.

1 Yes. I&M witness Beth Lozier has included Attachment BEL-5C (Confidential)
2 to her testimony which is entitled the "Clean Energy PSA Projects Solar
3 Decommissioning Cost Estimate".⁶ I&M includes "general, non-site specific,
4 estimates based on project size and technology used."⁷ The decommissioning
5 costs included disassembly costs, removal costs and disposal cost net of salvage.
6 The purpose of this study was to "address net salvage and asset retirement
7 obligation ('ARO') of each Clean Energy PSA Project."⁸

8 **Q: Did you ask I&M about the decommissioning costs estimates provided by**
9 **witness Lozier?**

10 A: Yes. OUCC Data Request No. 2-01 asked if the ARO costs mentioned in I&M
11 witness Williamson's testimony represents the net decommissioning costs
12 calculation included in I&M witness Lozier's testimony.⁹ I&M explained that its
13 ARO costs were not the net decommissioning costs calculation included in I&M
14 witness Lozier's testimony. The response stated that ARO costs represent
15 estimated decommissioning costs for each project, excluding the salvage value
16 which is included I&M's proposed depreciation rates. I&M's response also stated
17 that I&M will include the forecasted ARO expenses (ARO accretion expense and
18 ARO depreciation expense) in its SPR revenue requirement and reconcile to
19 actual ARO expenses for past periods.

20 **Q: What is your opinion of I&M's explanation of ARO costs in relation to**
21 **decommissioning costs?**

⁶ Direct Testimony of Beth Lozier, Confidential Attachment BEL-5C, pp. 15-17.

⁷ Lozier Direct, p. 15, ll. 21-22.

⁸ Lozier Direct, p. 15, ll. 18-19.

⁹ Attachment WRB-1, I&M Response to OUCC Data Request No. 2-01.

1 A: First, the term “ARO cost” is misleading because AROs, as mentioned earlier in
2 my testimony, are not incurred costs for plant investment or expenses paid to a
3 vendor for goods and services. Instead, they are estimates of future obligations of
4 costs to remove long-lived assets from service. In utility ratemaking, the recovery
5 of these obligations comes through depreciation rates that adjust for the estimated
6 cost of these obligations as decommissioning and removal costs net of salvage
7 value that have been calculated in depreciation studies. At the time of asset
8 retirement, actual incurred decommissioning and removal costs are charged to
9 accumulated depreciation. I&M expects to update depreciation rates including
10 estimates for net salvage in later depreciation studies following in-service dates of
11 the new solar resources.¹⁰ So, I agree with I&M that ARO cost estimates
12 represent decommissioning costs that will be included in I&M’s proposed
13 depreciation rates. The current decommissioning cost estimates calculated by
14 witness Lozier are not included in the depreciation rates in this Cause. I&M
15 requested Commission approval to calculate depreciation rates for each project
16 based on a 35-year expected useful life and including the initial net salvage
17 estimate. I&M’s witness Lozier stated the purpose of her study was to “address
18 net salvage and asset retirement obligation (“ARO”) for each Clean Energy PSA
19 Project.¹¹

¹⁰ Williamson Direct, p. 8, ll. 5-7.

¹¹ Lozier Direct, p. 15, ll. 18-19.

1 **Q: Please continue your discussion on I&M's ARO recovery proposal for its**
2 **SCR in this Cause.**

3 A: When ARO obligations are recognized, a new plant asset is established on the
4 company's books and records, but this asset does not require an expenditure of
5 cash and should not be included in rates. I&M zeroed out its existing non-cash
6 ARO obligations in its last rate case, Cause No. 45576, because if it had not,
7 "I&M's rate base would be overstated."¹² I&M, in this Cause, expects to update
8 its depreciation rates including decommissioning and salvage estimates for its
9 new solar resources. Depreciation expense is where ARO obligation costs
10 estimates are reflected in utility ratemaking, not in rate base or for recovery as an
11 operating expense. Yet, I&M witness Williamson has proposed in his testimony
12 to calculate estimated accretion and depreciation expense on the ARO Liability
13 and recover it in in the SPR tracker. This would be recovery of estimated costs
14 that have not been incurred on assets that do not exist and are not used and useful.

15 **III. RECOMMENDATIONS**

16 **Q: What do you recommend with regards to recovery of PSA costs in I&M's**
17 **existing SPR tracker in this proceeding?**

18 A: I recommend that:

- 19 1) If approved, the SPR tracker should only track the return "on" plant
20 investment of I&M's solar power projects and no other rate base elements
21 such as materials and supplies and working capital;
- 22 2) The calculation of return "on" and return "of" should be on the actual incurred
23 costs of the solar power project investments and not the average costs of the

¹² Cause No. 45576, Direct Testimony of Tyler H. Ross, p. 10, l. 11.

1 investment;

2 3) Pre-tax gross-ups should not be included in carrying charges that are applied
3 to deferred regulatory assets because there is no income tax on the deferred
4 costs until those costs are included in rates. Pre-tax gross ups should only be
5 included at the time the deferred asset is included in rates for recovery in the
6 calculation of revenue requirement; and

7 4) I&M should not include any forecasted or estimated non-cash expensed ARO
8 costs that reside on its balance sheet in its SPR tracker. AROs are legal
9 obligations that must be recognized on the balance sheet per GAAP. They are
10 not an asset that requires an expenditure of cash but are fair value estimates of
11 the future cost of removal of long-lived assets. They are not included in base
12 rates as a return on investment nor a recovery of expenses nor should they be
13 included in the SPR tracker. I&M has stated that it expects to update
14 depreciation rates including estimates for ARO decommissioning costs net of
15 salvage in later depreciation studies following in-service dates of the new
16 solar resources. We agree that this is the proper ratemaking treatment for
17 ARO decommissioning cost estimates, that they be included in I&M
18 depreciation rates and net salvage calculations along with all the other existing
19 asset decommissioning costs, and at the time of retirement of the assets, the
20 actual removal costs incurred be charged to accumulated depreciation.

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

22 A: Yes.

APPENDIX A

1 **Q: Please describe your educational background and experience.**

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

INDIANA MICHIGAN POWER COMPANY
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
DATA REQUEST SET NO. OUCC DR 2
IURC CAUSE NO. 45868

DATA REQUEST NO OUCC 2-01

REQUEST

Do the ARO costs mentioned in I&M witness Williamsons testimony represent the estimated net decommissioning costs shown in I&M witness Lozier's study of estimated net salvage of the solar projects? If not, what are the ARO costs and how are they to be recovered in the SPR tracker?

RESPONSE

No. ARO costs and net salvage are not the same and are not combined. Net salvage represents only the estimated salvage of the project and is included in the Company's depreciation rate request. Separate ratemaking treatment is requested for the ARO costs (i.e. the other decommissioning costs).

As discussed on pages 15-16, beginning with Q35 of Company witness Lozier's testimony, the Company engaged DNV Energy USA, Inc. (DNV) to perform a decommissioning analysis for the dismantling, removal, and salvage (or disposal) of equipment and materials that make up a generic solar PV power plant. DNV prepared cost estimates based on the labor costs to disassemble and demolish, remove and salvage (or dispose) of project equipment and material, and included consideration of the scrap value. The analysis and cost estimates are based on publicly available industry cost information and DNV's database of experience in the electric power industry. The resulting cost estimates for a generic solar PV power plant were used to determine the estimated cost per MWdc for solar. The decommissioning cost for each project was calculated by scaling the project size by this estimate cost, which is typical for decommissioning cost estimates in the electric power industry.

The ARO costs represent the estimated decommissioning cost for each project, excluding the salvage value which has been included in I&M's proposed depreciation rates. Company witness Williamson discusses salvage value and ARO costs at page 7-8, Q15-Q17.

As I&M makes future SPR filings, I&M will include the forecasted ARO expenses (ARO accretion expense and ARO depreciation expense) in its SPR revenue requirement and reconcile to actual ARO expenses for past periods. I&M is requesting to utilize the initial estimates presented in this case for ratemaking until such time as ARO estimates are updated in the future.

AFFIRMATION

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



Wes R. Blakley
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor

Cause No. 45868
Indiana Michigan Power Co.

May 19, 2023

Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC's Testimony Public's Exhibit No. 4 Wes R. Blakley* has been served upon the following parties of record in the captioned proceeding by electronic service on May 19, 2023.

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