

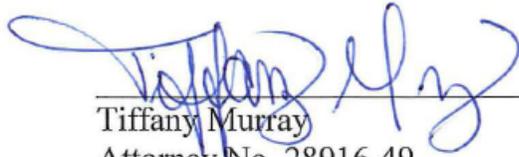
**STATE OF INDIANA**  
**INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF THE CITY OF RICHMOND, )  
INDIANA, BY AND THROUGH ITS MUNICIPAL )  
ELECTRIC UTILITY, RICHMOND POWER AND )  
LIGHT, FOR APPROVAL OF A NEW SCHEDULE ) CAUSE NO. 45361  
OF RATES AND CHARGES FOR ELECTRIC )  
SERVICE AND APPROVAL OF AN )  
AMENDMENT TO ITS ENERGY COST )  
ADJUSTMENT PROCEDURES )**

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**  
**PUBLIC'S EXHIBIT NO. 2**  
**TESTIMONY OF OUCC WITNESS**  
**WES R. BLAKLEY**

**JULY 2, 2020**

Respectfully submitted,

  
\_\_\_\_\_  
Tiffany Murray  
Attorney No. 28916-49  
Deputy Consumer Counselor

**TESTIMONY OF OUCC WITNESS WES R. BLAKLEY**  
**CAUSE NO. 45361**  
**RICHMOND POWER AND LIGHT**

**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 Office of Utility  
6 Consumer Counselor ("OUCC"). My educational background is described in  
7 Appendix A to my testimony.

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

9 A: I provide analyses and make recommendations regarding Richmond Power and  
10 Light's ("RP&L") case-in-chief. Specifically, I address: (1) the appropriate level of  
11 cash return for a municipally-owned utility, in support of OUCC witness Kaleb  
12 Lantrip's testimony regarding the reasonableness of RP&L's return request; (2) the  
13 difference between the OUCC's and RP&L's revenue requirement calculation  
14 methodology prior to any adjustments; (3) the difference between RP&L's  
15 calculation of rate base and the OUCC's calculation of rate base and how it affects  
16 the return percentage; (4) the treatment of interest income in the revenue  
17 requirement calculation; (5) RP&L's cash needs for capital projects and reserve  
18 funding, as discussed by OUCC witness Anthony Alvarez; and (6) the return  
19 percentage and associated revenue requirement, as recommended by Mr. Lantrip.

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

3 A: I read RP&L's pre-filed testimony and reviewed its exhibits, schedules, workpapers  
4 and responses to certain OUCC data requests. Additionally, I reviewed the Indiana  
5 Utility Regulatory Commission's ("Commission") Order in RP&L's last rate case,  
6 Cause No. 42713, dated February 9, 2005, including the approved settlement  
7 agreement. I also reviewed Indiana statutes as they pertain to municipally owned  
8 utilities under Ind. Code 8-1.5-3; specifically, § 8-1.5-3-8 relating to rates and  
9 charges.

10 **Q: To the extent you do not address a specific item or adjustment, should it be**  
11 **construed to mean you agree with RP&L's proposal?**

12 A: No. Excluding any specific adjustments or amounts RP&L proposes does not  
13 indicate my approval of those adjustments or amounts. Rather, the scope of my  
14 testimony is limited to the specific items addressed herein.

## II. RETURN ON MUNICIPALLY OWNED UTILITIES

15 **Q: Does RP&L witness Laurie Tomczyk have an opinion regarding the purpose**  
16 **of the municipal return component used to determine rates and charges for an**  
17 **Indiana municipal utility?**

18 A: Yes. Ms. Tomczyk states on page 12 of her testimony:

19 [M]unicipal utilities' rates are set to ensure that earnings are  
20 sufficient to cover the utility's costs and to maintain the financial  
21 health of the organization over time. Thus, the review of a municipal  
22 utility's return is really a test for reasonableness, in which the  
23 Commission has broad discretion.

24 **Q: Do you agree with Ms. Tomczyk's statement?**

25 A: No. I disagree that municipal rates are set to ensure earnings are sufficient to cover  
26 the utility's costs and to maintain the financial health of the organization over time.  
27 Municipal rates are set to provide a utility's cash needs through its revenue

1 requirement to recover reasonable costs justified by the case evidence providing for  
2 the safe and reliable operation of a utility. RP&L is not an investor-owned utility  
3 with shareholders that expect dividends from earnings. RP&L does not have any  
4 debtholders expecting payments for interest and principal. If RP&L did carry debt  
5 service, Indiana law provides for debt service for both principal and interest to  
6 cover 100% of the financing costs, plus a debt service reserve, if requested. RP&L's  
7 requested rate of return revenue requirement component is not for earnings, but  
8 rather a request for extra cash, which is provided for by Indiana law. Determination  
9 of this request for extra cash should be based upon reasonableness and the facts in  
10 this case. The reasonableness of the extra cash return will be determined through:  
11 (1) analysis of RP&L's current cash needs; (2) annual planned capital project costs;  
12 and (3) other proposed uses of the extra cash return. Mr. Lantrip testifies regarding  
13 the reasonableness of RP&L's return request, based on the value of RP&L's  
14 adjusted net plant and his opinion on the costs of funds for municipal utilities.

### III. REVENUE REQUIREMENT SCHEDULES

15 **Q: Please explain the difference between the OUCC's and RP&L's revenue**  
16 **requirement calculation methodology, prior to applying any adjustments.**

17 **A:** There are some differences regarding how the OUCC treats interest income and  
18 other operating revenue in the revenue requirement schedules compared to how  
19 RP&L treats these two components. These differences lead to slight variations in  
20 the calculation of the percent increase and dollar increase between the OUCC's and  
21 RP&L's revenue requirement schedules, prior to applying any other adjustments.

1           RP&L's \$105,957 interest income is netted with a small amount of interest  
2           expense \$(6,868) from customer deposits, then added to other operating revenue of  
3           \$1,031,274, which equals \$1,130,363. This amount is deducted from revenue  
4           requirement to derive an \$88,453,204 total revenue requirement. RP&L calculates  
5           its requested rate increase by excluding other operating revenue from the  
6           calculation, using only the pro forma test year revenue from metered sales of  
7           \$80,717,356. The resulting revenue deficiency is \$7,735,848, leading to RP&L's  
8           request for an approximate 9.6% increase in revenues.

9           Conversely, the OUCC nets the \$105,957 interest income with the revenue  
10          requirement to derive an \$89,475,555 total revenue requirement. The OUCC  
11          calculates the rate increase by including other operating revenue with metered  
12          revenue for a pro forma total operating revenue of \$81,748,630. Exhibit WRB-1  
13          shows the resulting revenue deficiency is \$7,726,925, which is about \$9,000 less  
14          than RP&L's calculation and a 9.45% increase in revenues. The OUCC's treatment  
15          of interest income and other operating revenue is the traditional method used by  
16          both the OUCC and the Commission in calculating the revenue requirement and  
17          the overall revenue increase warranted (dollar increase and percentage increase) of  
18          municipal rate filings.

#### IV. RATE BASE / PLANT INVESTMENT

1 **Q: What is RP&L's requested return on rate base?**

2 A: RP&L's actual test year rate base amount is \$66,054,623 and includes working  
3 capital, material and supplies, and prepayments of \$11,923,551.<sup>1</sup> RP&L adjusted  
4 the actual test year rate base for projections through September 30, 2020, resulting  
5 in rate base of \$65,714,525. RP&L's return calculation is shown on WP-3 page 8  
6 of 45, Attachment LAT-2. Its \$4,330,587 return on rate base is divided by  
7 \$65,714,525 to derive the 6.59% percentage return on rate base.

8 **Q: Do you agree with RP&L's return on rate base calculation?**

9 A: No. IC § 3-1.5-3-8(e) states, "The board may recommend to the municipal  
10 legislative body rates and charges sufficient to include a reasonable **return on the**  
11 **utility plant** of the municipality" (Emphasis added). The return calculation should  
12 be based on the net plant balance and not the rate base balance. The term "rate base"  
13 does not actually appear in this statute. Applying RP&L's requested \$4,330,587  
14 return dollars and dividing this amount by the adjusted test year net plant balance  
15 as of September 30, 2020, less contribution in aid of construction ("CIAC"), of  
16 \$53,686,611,<sup>2</sup> increases the actual requested percentage return on net plant to  
17 8.07%.<sup>3</sup> In calculating return on net plant, Mr. Lantrip uses the plant and  
18 accumulated depreciation values for the September 30, 2019 actual test year as  
19 required by the Pre-Hearing Conference Order in this Cause, dated April 21, 2020.  
20 This results in a net plant balance, less CIAC, of \$54,131,071.

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<sup>1</sup> Testimony of Laurie A, Tomczyk, page 34, line 1.

<sup>2</sup> Net plant balance of \$55,657,321 less CIAC of \$1,970,710 equals \$53,686,611.

<sup>3</sup> \$4,330,587/\$53,686,611 = 8.07%.

1 **Q: Do you agree with RP&L's inclusion of the Whitewater Valley Station**  
2 **("WWVS") in its return calculation?**

3 A: No. The WWVS should be excluded from RP&L's return calculation. RP&L  
4 entered into a Capacity Purchase Agreement ("Agreement") with the Indiana  
5 Municipal Power Agency ("IMPA") in 2014. The Agreement is attached to RP&L  
6 witness Russell Baker's testimony as Attachment RWB-10. Per this Agreement,  
7 IMPA pays RP&L a capacity and energy payment of \$500 each month.<sup>4</sup>  
8 Additionally, per the Agreement, RP&L will "retain sole ownership;" however,  
9 IMPA will have sole ownership of all Incremental Projects Facilities and all  
10 inventory IMPA procures, as well as sole ownership of RP&L inventory transferred  
11 to IMPA.<sup>5</sup> IMPA does not agree to, and shall not, assume any liability, undertaking,  
12 expense or contract of Richmond of any kind etc., after the execution of this  
13 contract.<sup>6</sup> IMPA will have sole and exclusive authority and rights to operate and  
14 manage WWVS during the Term.<sup>7</sup> IMPA will be responsible for payment to  
15 vendors for all operations and maintenance ("O&M") costs and capital costs, and  
16 IMPA will have sole and exclusive right to authorize, limit, approve, direct, and  
17 incur O&M and capital costs.<sup>8</sup> Under Article V Scheduling & Dispatch of Units,  
18 IMPA will have and receive the sole and exclusive ownership rights to, and benefits  
19 related to any and all Unit 1 output, and any and all Unit 2 Output.<sup>9</sup> IMPA pays the  
20 plant's O&M expenses and capital improvements and receives all the output from

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<sup>4</sup> RP&L Direct testimony of Russel Baker, Attachment RWB-10, Capacity and Purchase Agreement between Indiana Municipal Power and City of Richmond, Indiana, page 5.

<sup>5</sup> *Id.* page 8 and 9.

<sup>6</sup> *Id.* page 9.

<sup>7</sup> *Id.* page 9.

<sup>8</sup> *Id.* page 10.

<sup>9</sup> *Id.* page 10.

1 the units. IMPA has total control of WWVS and for this RP&L receives \$500 a  
2 month. In effect, IMPA owns WWVS.

3 **Q: For purposes of this Cause, what ratemaking treatment should be used for the**  
4 **WWVS?**

5 A: The WWVS should be treated as RP&L's stranded asset. The plant is not used and  
6 useful in RP&L's electricity production. I recommend WWVS's net book value,  
7 included in the net plant balance for test year ending September 30, 2019, be  
8 removed from the return percentage calculation in this Cause. This is illustrated on  
9 Schedule 6 in OUCC Schedules and Exhibits, which Mr. Lantrip sponsors. RP&L  
10 should continue including WWVS in the calculation of depreciation expense so it  
11 can receive a return "of" the stranded asset. Using RP&L's net plant balance as of  
12 September 30, 2019, less CIAC, of \$54,131,071 and excluding \$6,111,347 net plant  
13 for the WWVS, results in \$48,019,724 total net plant. Dividing RP&L's requested  
14 \$4,330,587 return dollars by \$48,019,724 net plant results in a 9.02% return on net  
15 plant.<sup>10</sup> Mr. Lantrip discusses the fair return on net plant in this Cause.

## V. INTEREST INCOME

16 **Q: RP&L excluded \$50,311 of interest income from its revenue requirement**  
17 **deduction, which appeared to belong to its affiliate telecommunications**  
18 **company, Parallax Systems. Was this the case?**

19 A: No. In response to OUCC data request question 3.4, which states, "Please explain  
20 why Parallax Systems' interest income is reflected on RP&L's accounting books,"  
21 RP&L states, "The \$50,311 is not interest *income* from Parallax, it is Parallax's

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<sup>10</sup> \$4,330,587 / \$48,019,724 = 9.02%.

1 interest *expense* on the loan from RP&L. Thus, it is loan interest income owed to  
2 RP&L from Parallax.”

3 **Q: Should all interest income earned from ratepayer-provided funds be netted**  
4 **against the overall revenue requirement requested in this Cause?**

5 A: Yes.

6  
7 **Q: Did RP&L net all interest income earned from ratepayer-provided funds**  
8 **against the overall revenue requirement requested?**

9 A: No. RP&L correctly included interest income from its investments and bank  
10 accounts; however, it did not include the interest income from Parallax Systems.  
11 The Commission has a long history of accepting interest income as a deduction to  
12 revenue requirement. The Commission addressed this issue in a Rural Electric  
13 Membership Cooperative (“REMC”) case in United REMC, Cause No. 39988,  
14 Order dated November 7, 1990, stating: “It has been the traditional ratemaking  
15 policy of this Commission to deduct interest income from cash revenue  
16 requirements in REMC cases.”

17 **Q: How does the OUCC account for interest income in this case?**

18 A: The OUCC adds the \$105,957 of interest income from RP&L’s investments and  
19 bank accounts to the \$50,311 earned from the loan to Parallax Systems, totaling  
20 \$156,268 in interest income. The OUCC then uses this interest income to reduce  
21 the revenue requirement in this Cause.

## VI. CASH NEEDS / CAPITAL PROJECTS

22 **Q: In this filing, RP&L indicates it needs cash for its identified capital projects.**  
23 **Did RP&L ask for Extensions and Replacements (“E&R”) in this Cause?**

24 A: No. RP&L did not propose E&R in its case-in-chief. E&R provides cash revenue  
25 for individual projects on an annual basis, based on evidence of the project’s need

1 and costs. Instead, RP&L proposes to recover depreciation expense, which is the  
2 costs of its plant multiplied by the approved depreciation rate. RP&L's proposed  
3 depreciation expense amount is \$4,055,996. Depreciation and E&R are both  
4 discretionary cash revenue requirements that provide funds for capital projects.  
5 However, under Indiana law, E&R can actually be more than depreciation and is  
6 justified by specific projects the utility pursues. Another discretionary cash revenue  
7 requirement RP&L proposes in this case is return on plant, which I discussed earlier  
8 in my testimony. Indiana law provides for the return component and provides  
9 additional cash revenue requirement for discretionary purposes, for which RP&L  
10 requests \$4,330,000. The total discretionary cash amount RP&L seeks for spending  
11 is \$8,335,996.<sup>11</sup> If approved, RP&L will collect this amount annually from its  
12 ratepayers year after year.

13 **Q: How much is RP&L proposing for annual capital projects expenditures in this**  
14 **Cause?**

15 A: On page 26, line 30 of Ms. Tomczyk's testimony, she includes \$3,564,545 annual  
16 spending on capital projects through 2023. If this level of capital spending is  
17 sustained, RP&L could pay cash for all of its capital project spending and have  
18 \$4,771,451 of free cash left to spend on other things.<sup>12</sup> RP&L has no debt; therefore,  
19 it pays for all its projects entirely with cash.

20 **Q: Do you assess the spending level for capital projects?**

21 A: No. Mr. Alvarez makes recommendations regarding the appropriate level of capital  
22 project spending in this Cause.

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<sup>11</sup> \$4,055,996 depreciation expense plus \$4,330,000 return equals \$8,335,996.

<sup>12</sup> \$8,335,996 depreciation expense and return less \$3,564,5445 spending on capital projects equals \$4,771,451.

1 **Q: In additional to capital projects, are there other discretionary cash uses RP&L**  
2 **requests in this Cause?**

3 A: Yes. RP&L also requests:

4 1) To increase its approximate \$15.1 million cash operating reserve fund  
5 balance at the end of the test year to \$18.7 million over a five-year period.  
6 It will accomplish this by depositing \$730,658 per year into this account for  
7 five years;

8 2) A decommissioning reserve of \$1,843,964 for the dismantling of the  
9 WWVS; and

10 3) An appropriation of retained earnings in the amount of \$1,361,917 to the  
11 City of Richmond.

12 The total discretionary cash funds RP&L is requesting compared to the OUCC's  
13 recommendation is depicted in Table 1 below:

**Table 1**

	<b>RP&amp;L</b>	<b>OUCC</b>	<b>OUCC With Return Adjustment</b>
Capital Projects <sup>13</sup>	\$3,564,545	\$3,062,072	\$3,062,072
Decommissioning Reserve <sup>14</sup>	\$1,843,964	\$835,087	\$835,087
Cash Reserve Operating Fund	\$730,658	\$730,658	\$730,658
Appropriation of Retained Earnings	\$1,361,917	\$1,361,917	\$1,361,917
Total	\$7,501,084	\$5,989,734	\$5,989,734
RP&L Discretionary Cash Request	\$8,335,996	\$8,335,996	\$6,260,101
Excess Cash Requirement	\$834,912	\$2,346,262	\$272,367

14 Even with the OUCC's adjustments, RP&L has enough money to fund its cash  
15 operating reserves and cash transfers to the City of Richmond, including  
16 approximately \$300,000 of excess cash.

<sup>13</sup> See OUCC witness Anthony Alvarez's testimony for the OUCC's adjustment to capital projects.

<sup>14</sup> See OUCC witness Caleb Loveman's testimony for the OUCC's adjustment to decommission reserve.

1 **Q: Are there other discretionary funds for municipal utilities provided by Indiana**  
2 **law?**

3 A: Yes. Municipal utilities can request Payment in Lieu of Taxes ("PILT"). PILT is  
4 additional cash revenues for the municipal utility for property taxes as if it were  
5 privately owned. RP&L can keep this additional cash revenue requirement for its  
6 operations, or the City of Richmond may request PILT from RP&L. RP&L  
7 provides the total \$777,792 PILT revenue requirement to the City of Richmond.

8 **Q: If a municipal utility has trouble with cash flow and, therefore, difficulty**  
9 **paying its bills, is there a revenue requirement that can alleviate some of this**  
10 **problem?**

11 A: Yes. Indiana law provides a cash revenue requirement called working capital.  
12 Working capital is the amount of revenue needed to bridge the monthly gap  
13 between when expenditures needed to provide service is incurred, and collections  
14 services are received. The normal cash working capital calculation for municipal  
15 utilities is the 45-day method, where  $1/8^{\text{th}}$  of operating expenses less purchase  
16 power, less current cash operating fund balance, equals the net working capital  
17 revenue requirement. RP&L does not qualify for the working capital revenue  
18 requirement due to its \$15.1 million cash operating fund, which provides a large  
19 excess of cash to cover any timing difference between expenses incurred and cash  
20 collections received.

21 **Q: What is RP&L's total cash operating funds balance?**

22 A: RP&L has a total of \$28.6 million in both restricted and unrestricted funds.

**VII. RECOMMENDATIONS**

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

2 A: I recommend the Commission:

3 1) Reduce RP&L's rate base to include only net plant investment at the  
4 end of the historic test year, as of September 30, 2019;

5 2) Reduce RP&L's rate base to exclude WWVS's net book value in the net  
6 plant value calculation as of September 30, 2019;

7 3) Exclude interest income RP&L receives from Parallax Systems from  
8 total revenue requirements in this Cause; and

9 4) Accept Mr. Lantrip's opinion and recommendation regarding the  
10 reasonableness of RP&L's return request in this Cause.

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

12 A: Yes.

**APPENDIX A**

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

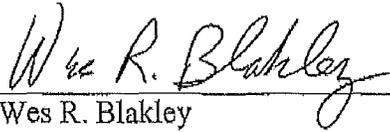
2 A: I received a Bachelor of Science Degree in Business with a major in Accounting  
3 from Eastern Illinois University in 1987 and worked for Illinois Consolidated  
4 Telephone Company until joining the OUCC in April 1991 as a staff accountant.  
5 Since that time, I have reviewed and testified in hundreds of tracker cases, rate  
6 cases, 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.

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

11 A: Yes.

**AFFIRMATION**

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

A handwritten signature in black ink that reads "Wes R. Blakley". The signature is written in a cursive style and is positioned above a horizontal line.

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

Cause No. 45361  
Richmond Power & Light

Date: July 2, 2020

**Richmond Power and Light  
 CAUSE NUMBER 45361**

**Comparison of Petitioner's and the OUCC's  
 Revenue Requirements**

<u>Revenue Requirement</u>	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Sch. Ref.</u>	<u>OUCC More/(Less)</u>
Purchased power	\$ 63,409,146	\$ 63,409,146	5	\$ -
Other operation & maintenance exp.	12,609,594	12,609,594	4*	-
Depreciation Expense	4,055,996	4,055,996	4	-
Amortization Expense	2,680,000	\$ 2,680,000	4	
Taxes other than income	2,388,012	2,388,012	4	-
Return on Plant	4,330,587	4,330,587	6	-
Other revenue and interest income	(1,130,363)	(105,957)	3	1,024,406
Revenue requirement	\$ 88,342,972	\$ 89,367,377		1,024,406
Utility receipts tax (proposed increase)	110,231	\$108,178	4	(2,053)
Total revenue requirement	<u>88,453,203</u>	<u>89,475,555</u>		<u>1,022,352</u>
Pro forma present rate revenue	80,717,356	81,748,630		(1,031,274)
Recommended pro forma revenue increase	<u>\$ 7,735,847</u>	<u>\$ 7,726,925</u>		<u>\$ (8,922)</u>
Recommended % Increase/(Decrease)	<u>9.58%</u>	<u>9.45%</u>		

**Utility receipts tax on proposed increase**

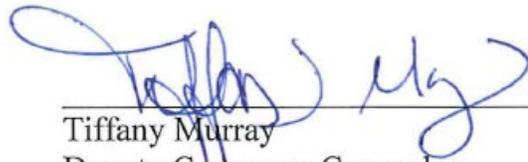
Increase in revenues	7,726,925
Times: Tax rate	1.40%
Adjustment - Increase	<u>\$108,178</u>
Adjustment - Increase	<u>\$108,178</u>

\* *Pro-forma* Present Rates O&M Expense (Sch 4)  
 Less: Purchased Power (Sch 5-1)

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor Public's Exhibit No. 2\_ Testimony of OUCC Witness Wes R. Blakley* has been served upon the following parties of record in the captioned proceeding by electronic service on, July 2, 2020.

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