

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY LLC PURSUANT TO IND.)
CODE §§ 8-1-42.7, 8-1-2-61 AND IND. CODE § 8-1-2.5-6)
FOR (1) AUTHORITY TO MODIFY ITS RATES AND)
CHARGES FOR ELECTRIC UTILITY SERVICE)
THROUGH A PHASE IN OF RATES; (2) APPROVAL)
OF NEW SCHEDULES OF RATES AND CHARGES,)
GENERAL RULES AND REGULATIONS, AND)
RIDERS; (3) APPROVAL OF REVISED COMMON)
AND ELECTRIC DEPRECIATION RATES)
APPLICABLE TO ITS ELECTRIC PLANT IN)
SERVICE; (4) APPROVAL OF NECESSARY AND)
APPROPRIATE ACCOUNTING RELIEF; AND (5))
APPROVAL OF A NEW SERVICE STRUCTURE FOR)
INDUSTRIAL RATES.)

CAUSE NO. 45159

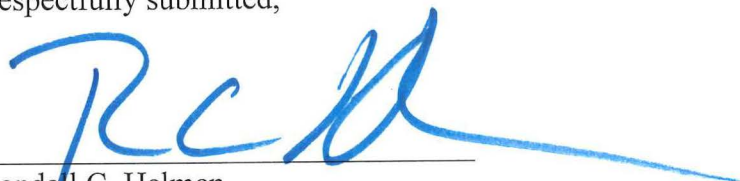
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SETTLEMENT TESTIMONY OF

WES R. BLAKLEY- PUBLIC'S EXHIBIT NO. 2-S

MAY 17, 2019

Respectfully submitted,



Randall C. Helmen
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SETTLEMENT TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 45159
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC

I. INTRODUCTION

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

2 A: My name is Wes R. Blakley and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204. I am a Senior Utility Analyst in the
4 Electric Division for the Office of Utility Consumer Counselor ("OUCC"). My
5 qualifications are attached to this testimony as Appendix A.

6 **Q: Are you the same Wes R. Blakley that previously submitted direct testimony**
7 **in this Cause?**

8 A: Yes.

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

10 A: The purpose of my testimony is to provide support for why two terms in the
11 Settlement Agreement on Less Than all the Issues (the "Settlement Agreement")
12 entered into between Northern Indiana Public Service Company LLC
13 ("NIPSCO"), the OUCC, NIPSCO Industrial Group, NLMK Indiana, United States
14 Steel Corporation, the Citizens Action Coalition of Indiana, Inc., Walmart, Inc.
15 Northern Indiana Commuter Transportation District, Indiana Municipal Utilities
16 Group ("IMUG"), and Sierra Club (collectively, the "Settling Parties") are in the
17 public interest and should be approved. The two items addressed in my testimony
18 are: (1) agreement on an annual revenue credit mechanism that recognizes
19 accumulated depreciation on NIPSCO's plant investment at the R.M. Schahfer
20 ("Schahfer") and Michigan City Generating Stations and (2) agreed amortization

1 of protected and unprotected Excess Accumulated Deferred Income Taxes
2 ("EADIT") and the related refund of EADIT as a result of the Tax Cuts and Jobs
3 Act of 2017 ("TCJA"). Both terms create customer benefits and should be
4 approved.

II. REVENUE CREDIT MECHANISM RELATED TO SCHAHFER AND
MICHIGAN CITY GENERATING STATIONS

5 **Q: Please describe your understanding of the agreement reached by the Settling**
6 **Parties to implement a revenue credit mechanism.**

7 A: In my direct testimony I proposed an annual credit mechanism be implemented to
8 recalculate NIPSCO's return based on Schahfer's and Michigan City's reduced
9 plant investment as a means to mitigate the ratepayer impact of the generating
10 units' retirements. The Settlement Agreement includes a term showing agreement
11 to implement this annual credit mechanism after the units' retirement dates. The
12 agreed mechanism recognizes the net rate base value of the stations at the time the
13 rates are approved in this Cause, then reduces the plant investment for annual
14 depreciation at the time the first annual revenue credit mechanism is implemented.
15 The mechanism will then recalculate NIPSCO's return on the reduced plant
16 investment of Schahfer and Michigan City.

17 **Q: How will the agreed revenue credit mechanism be implemented?**

18 A: The difference between the return embedded in NIPSCO's base rates for Schahfer
19 and Michigan City and the annual recalculated return based on the reduced plant
20 value of these generating stations will be credited back to customers annually
21 through a revenue credit mechanism filing. At the time of retirement of the
22 generating units, which is planned to be no later than 2023 for Schahfer and 2028

1 for Michigan City, NIPSCO will implement the revenue credit mechanism. The
2 filing of the mechanism will begin when each unit is retired and annually thereafter
3 and will reflect the return on the difference in net book value of the regulatory
4 asset at the time the credit is filed and the net book value of Schahfer and
5 Michigan City reflected in base rates. It is the OUCC's position that no capital
6 maintenance, repair costs, or special accounting treatment be included in this credit
7 mechanism. Attached to my testimony are two schedules showing how these
8 revenue credits are derived and the amounts currently estimated for both the
9 Schahfer and Michigan City generating stations.

10 **Q: How does the agreed revenue credit mechanism serve the public interest?**

11 A: The agreed revenue credit mechanism strikes an appropriate balance between
12 providing a customer benefit in the form of annual credits to NIPSCO's rates while
13 also not harming NIPSCO because its return "on" and "of" will continue to be
14 matched with its plant investment. NIPSCO will continue to receive a return "on"
15 and a return "of" its investment in Schahfer and Michigan City generating stations,
16 while at the same time customers will receive credits that acknowledge the level of
17 investment in Schahfer and Michigan City plant investments have decreased in
18 value every year through accumulated depreciation. These annual credits mitigate
19 the customer burden created by the increase to NIPSCO's depreciation expense.
20 The public interest is served by approving implementation of the agreed revenue
21 credit mechanism.

III. EADIT REFUND

1 **Q: Please describe your understanding of the Settling Parties' agreement on the**
2 **refund of protected and unprotected EADIT.**

3 A: Per the Settlement Agreement, items that make up NIPSCO's protected EADIT
4 total approximately \$203,164,460 and will be passed back to customers using the
5 average rate assumption method ("ARAM"), estimated to be approximately 26
6 years. Items that make up NIPSCO's unprotected and other EADIT total
7 approximately \$137,789,071 as of December 31, 2017. However, the Settlement
8 Agreement does not reflect agreement on the total amount of unprotected EADIT
9 to be refunded to customers. Instead, the Settlement Agreement shows NIPSCO's
10 unprotected EADIT will be passed back to customers by December 31, 2030 and
11 the amortization will start at \$12,170,384 per year beginning with the
12 implementation of Phase 2 Rates on March 1, 2020. At the time of NIPSCO's next
13 rate case, the total amount of unprotected EADIT to be passed back will be
14 determined and the agreed amortization may be adjusted.

15 **Q: How does the agreed EADIT refund benefit customers?**

16 A: EADIT represents funds a utility has collected from ratepayers to pay future taxes
17 that, as a result of the TCJA reduction in tax rates, will not now be imposed.
18 Essentially, ADIT represent a "loan" from ratepayers to the utility. When the
19 income tax rate decreases, the amount of the "loan" from ratepayers is reduced and
20 needs to be "repaid" or returned to the ratepayers. EADIT represents the amount of
21 the "loan" to be repaid to ratepayers. With the reduction of the corporate tax rates
22 from 35% to 21%, customers have overpaid for future taxes and are now due a

1 refund. Protected EADIT is restricted by Internal Revenue Service ("IRS") rules
2 to be refunded over ARAM, which in this case is approximately 26 years.
3 Unprotected EADIT is not restricted to ARAM and can be negotiated. In this
4 Settlement, the payback period to customers is 10 years. The payback credits
5 benefit customers by reducing their rates in this Cause for the prior overpayment of
6 taxes.

7 **Q: Do you recommend the Commission approve the Settlement Agreement?**

8 A: Yes. The two terms highlighted in my testimony generate customer benefits that
9 were achieved only in settlement, as there was not consensus on either item during
10 the course of litigating this case. Taken into context with the other terms, the entire
11 Settlement Agreement serves the public interest and should be approved, in its
12 entirety, without modification.

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

14 A: Yes, it does.

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, rate cases and
6 other proceedings before the Commission. I have attended the Annual Regulatory
7 Studies Program sponsored by NARUC at Michigan State University in East
8 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 filed testimony before the Commission?**

11 A: Yes.

NIPSCO 45159													
Schahfer Generating Station Credit Mechanism													
	Schahfer Plant Year 1 2020	Year 2 2021	Year 3 2022	Asset Year 4 2023	Amortize Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029	Year 11 2030	Year 12 2031	Year 13 2032
Schahfer Plant 12/31/19	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620	\$1,194,725,620
Net Accumulated Depreciation	<u>108,850,515</u>	<u>217,701,030</u>	<u>326,551,545</u>	<u>435,402,060</u>	<u>544,252,575</u>	<u>653,103,090</u>	<u>761,953,605</u>	<u>870,804,120</u>	<u>979,654,635</u>	<u>1,088,505,150</u>	<u>1,197,355,665</u>	<u>4,354,020,600</u>	<u>4,898,273,175</u>
Net book value of Shahfer at 2023 - REGULATORY ASSET	1,085,875,105	\$977,024,590	868,174,075	759,323,560	650,473,045	541,622,530	432,772,015	323,921,500	215,070,985	106,220,470	-2,630,045	-3,159,294,980	-3,703,547,555
Times assumed rate of return	<u>0.0659</u>	<u>0.0659</u>	<u>0.0659</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>	<u>6.59%</u>
Return on Regulatory Asset in next rate case (no tax gross-up)	71,559,169	\$64,385,920	\$57,212,672	\$50,039,423	\$42,866,174	\$35,692,925	\$28,519,676	\$21,346,427	\$14,173,178	\$6,999,929	-\$173,320	-\$208,197,539	-\$244,063,784
Revenue Multiplier	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587		
Return with tax gross up	\$96,296,858	\$86,643,849	\$76,990,840	\$67,337,830	\$57,684,821	\$48,031,811	\$38,378,802	\$28,725,792	\$19,072,783	\$9,419,774	-\$233,236		
Credit					(\$38,612,038)	(\$48,265,047)	(\$57,918,057)	(\$67,571,066)	(\$77,224,076)	(\$86,877,085)	(\$96,530,094)		

NIPSCO
45159
Michigan City Generating Station
Credit Mechanism

	Michigan Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Regulatory Asset Year 10 2029	Year 11 2030	Year 12 2031	Year 13 2032
Michigan City Plant 12/31/19	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221	\$504,011,221
Net Accumulated Depreciation	33,820,055	67,640,110	101,460,166	135,280,221	169,100,276	202,920,331	236,740,386	270,560,441	304,380,497	338,200,552	372,020,607	405,840,662	439,660,717
Net book value of Michigan City at 2028 - REGULATORY ASSET	470,191,166	\$436,371,111	402,551,055	368,731,000	334,910,945	301,090,890	267,270,835	233,450,780	199,630,724	165,810,669	131,990,614	98,170,559	64,350,504
Times assumed rate of return	0.0659	0.0659	0.0659	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%
Return on Regulatory Asset in next rate case (no tax gross-up)	30,985,598	\$28,756,856	\$26,528,115	\$24,299,373	\$22,070,631	\$19,841,890	\$17,613,148	\$15,384,406	\$13,155,665	\$10,926,923	\$8,698,181	\$6,469,440	\$4,240,698
Revenue Multiplier	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587	1.345695587
Return with tax gross up	\$41,697,182	\$38,697,974	\$35,698,767	\$32,699,559	\$29,700,351	\$26,701,143	\$23,701,936	\$20,702,728	\$17,703,520	\$14,704,312	\$11,705,104	\$8,705,897	\$5,706,689
Credit											(\$29,992,078)	(\$32,991,286)	(\$35,990,493)

CERTIFICATE OF SERVICE

This is to certify that a copy of the *INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S SETTLEMENT TESTIMONY OF WES R. BLAKLEY- PUBLIC'S EXHIBIT NO. 2-S* has been served upon the following parties of record in the captioned proceeding by electronic service on May 17, 2019.

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