CAUSE NO. 45990

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a CENTERPOINT ENERGY INDIANA SOUTH
(CEI SOUTH)

DIRECT TESTIMONY
OF
STEPHANIE E. GRAY
MANAGER, INDIANA ELECTRIC FINANCIAL PLANNING & ANALYSIS

ON

2025 FORECAST PROCESS AND RESULTS

SPONSORING PETITIONER'S EXHIBIT NO. 3,
ATTACHMENTS SEG-1 THROUGH SEG-3

DIRECT TESTIMONY OF STEPHANIE E. GRAY

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stephanie E. Gray. My business address is 211 NW Riverside Drive, Evansville, Indiana 47708.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by CenterPoint Energy Service Company, LLC ("Service Company"), a wholly owned subsidiary of CenterPoint Energy, Inc. The Service Company provides centralized support services to CenterPoint Energy, Inc.'s operating units, one of which is Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("CEI South", "Petitioner", or the "Company").

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS DIRECT TESTIMONY?

A. I am testifying on behalf of CEI South.

Q. WHAT IS YOUR ROLE WITH RESPECT TO PETITIONER CEI SOUTH?

A. I am Manager of Indiana Electric, Financial Planning and Analysis ("FP&A").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from Murray State University with a Bachelor of Science in Business in 1998. I also obtained a Master of Business Administration degree from Southern Illinois University in Carbondale in 1999.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. After obtaining my MBA, I started as a controller for a mining company, Sugar Camp Coal, in Southern Illinois. I later took a position as a controller for Power, Inc., a dock company that loaded coal onto barges. I worked at Power, Inc. for 11 years until the company was sold; thereafter, I became a controller for Eagle River Coal, LLC in Southern Illinois. Between 2003 and 2015, I also conducted financial analysis and federal reserve reporting for Farmer's State Bank before taking a position in 2015 as lead analyst within CEI South's[1] then-Power Supply Department. I was promoted to my current position, Manager of Indiana Electric FP&A in September of 2020.

Q. WHAT ARE YOUR PRESENT DUTIES AND RESPONSIBILITIES AS MANAGER OF INDIANA ELECTRIC, FP&A?

A. I am responsible for financial planning, forecasting, and analysis of revenues, operating expenses, and the capital investment plan for CEI South's electric operations in Indiana. This includes both the test year 2025 and the 2023 – 2024 bridge period.

Q. HAVE YOU EVER TESTIFIED BEFORE THE INDIANA UTILITY REGULATORY COMMISSION ("COMMISSION") OR ANY OTHER STATE REGULATORY COMMISSION?

A. No.

II. PURPOSE & SCOPE OF TESTIMONY

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

A. My testimony will support the unadjusted test year for CEI South in this proceeding, which is the forecast developed for calendar year 2025 (the future test year); as well as the forecast across the bridge period (calendar years 2023 – 2024). I also support the 2024 – 2025 unadjusted Income Statement and Balance Sheet for CEI South used in the development of the revenue requirement calculation supported by Petitioner's Witness Chrissy M. Behme. I am specifically sponsoring Column A of Petitioner's Exhibit No. 20, **Schedule C-1.1** and the unadjusted test year amounts in various other Schedules in Petitioner's Exhibit No. 20. In support of the 2025 forecast, I will provide an overview of CEI South's capital and operating forecasting process. I will discuss each of the key components of the unadjusted Income Statement and how those components were derived in the forecasting process. Petitioner's Witness Christopher G. Wood will describe the allocation process by which costs are allocated to CEI South. Finally, I will discuss how the capital forecast put forth for 2023, 2024, and 2025 was utilized in the rate base forecasts.

[1] For the sake of clarity, my testimony refers to CEI South, even though in certain situations, I may be referring to Southern Indiana Gas and Electric Company operating under a prior assumed business name.

Q. ARE YOU SPONSORING ANY ATTACHMENTS OR SCHEDULES IN THIS PROCEEDING?

A. Yes. I am sponsoring the following attachments in this proceeding:

- Petitioner's Exhibit No 3, **Attachment SEG-1:** CEI South's Electric Operating Forecasted Income Statement for calendar year 2024 – 2025
- Petitioner's Exhibit No 3, **Attachment SEG-2:** CEI South's Forecasted Balance Sheet for December 31, 2024 and December 31, 2025
- Petitioner's Exhibit No 3, **Attachment SEG-3:** CEI South's Forecasted Statement of Cash Flows for 2024 – 2025

In addition, as mentioned earlier in my testimony, I am sponsoring the unadjusted portion of **Schedules C-1.1** and **C-1.1a** within Petitioner's Exhibit No. 20 – the Current and Unadjusted Income Statement by FERC account and Current and Adjusted Pro-forma Income Statement, respectively. I am also sponsoring **Schedule C-2.1** within Petitioner's Exhibit No. 20, the Operating Revenue and Expenses by Accounts.

Q. WERE THESE ATTACHMENTS AND SCHEDULES PREPARED OR ASSEMBLED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

Q. WERE YOU DIRECTLY INVOLVED IN THE DEVELOPMENT OF CEI SOUTH'S FORECAST?[2]

A. Yes. I was directly involved in the development of CEI South's forecast.

III. OVERVIEW OF TEST YEAR DATA

Q. WHAT IS THE TEST PERIOD THAT CEI SOUTH IS USING FOR THIS RATE CASE PROCEEDING?

A. CEI South is using a test year based upon the forecasted twelve-month period ending December 31, 2025.

[2] Unless otherwise indicated, CEI South when referenced in this testimony, refers to the electric operations, which is one of the business units (or operating activities) within the combined gas and electric company.

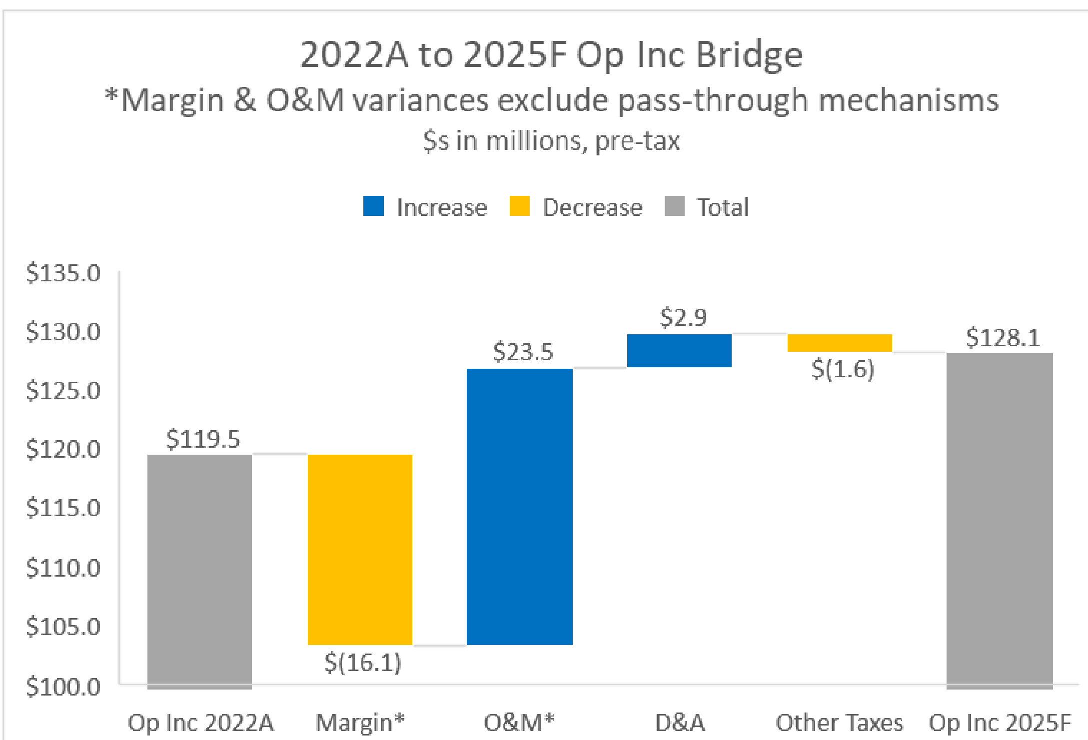
Q. WHAT IS CEI SOUTH RELYING ON AS THE PRIMARY BASIS FOR THE 2025 FORECASTED DATA?

A. CEI South developed the 2025 forecasted data based on forecasted costs, including costs due to the change in generation fleet. Working with operations, CEI South forecasts the capital and Operations & Maintenance ("O&M") spend to allow it to continue to provide safe and reliable electric utility service during the period the rates are anticipated to be in effect. As mentioned earlier in my testimony, Petitioner's Witness Wood discusses the basis for the allocated costs.

Q. HOW DOES THE 2025 FORECAST COMPARE TO THE HISTORICAL BASE PERIOD IN THIS PROCEEDING?

A. The waterfall chart (below) in **Figure SEG-1** shows a bridge from the 2022 Actual ("2022A") pre-tax Operating Income ("Op Inc") of $119.5 million to the 2025 Forecast ("2025F") pre-tax Op Inc of $128.1 million.

Figure SEG-1 – 2022A to 2025F Op Inc Bridge



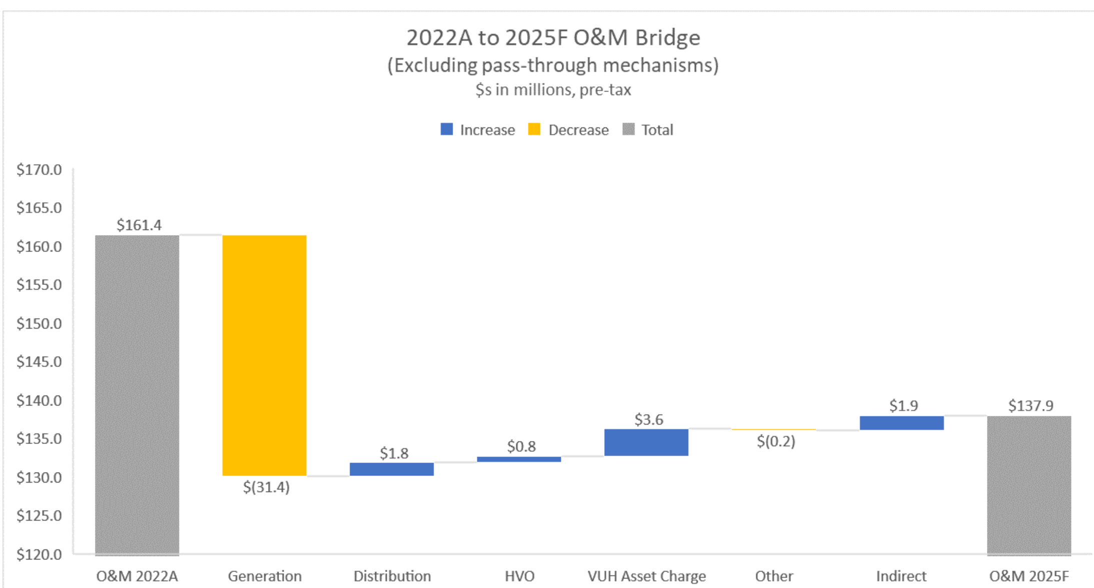
When compared to 2022A, the blue shaded bars represent increases to Op Inc in 2025F while the orange shaded bars represent decreases to Op Inc in 2025F. The $8.6 million Op Inc increase (from 2022A to 2025F) is primarily driven by both lower forecasted O&M and Depreciation & Amortization ("D&A") expense, which is partially offset by a reduction in Margin and higher forecasted expenses in Other Taxes.

"Margin" is a commonly used term in the industry and refers to the difference between operating revenues and the cost of fuel, purchased power, and capacity purchases. Margin is the amount from which all other costs of providing electric utility service are recovered. The $16.1 million reduction in Margin is primarily due to a reduction in revenues from the Securitization of the A.B. Brown assets, which was approved in Cause No. 45722, and a reduction in miscellaneous revenues; both of which were partially offset by an increase in revenues from interim recovery mechanisms. CEI South's interim recovery mechanisms are the Transmission, Distribution, and Storage System Improvement Charge ("TDSIC"), the Clean Energy Cost Adjustment ("CECA"), and the Environmental Cost Adjustment ("ECA").

The lower forecast in O&M expenses is primarily due to the retirement of the A.B. Brown coal units and the termination of the Joint Operating Agreement for Warrick Unit 4.

The waterfall chart (below) in **Figure SEG-2** focuses on O&M only and details the change in O&M expense from 2022 Actuals to the 2025 Forecast.

Figure SEG-2 – 2022A to 2025F O&M Bridge



The blue shaded bars represent increases to O&M expense in 2025 compared to 2022 while the orange shaded bars represent decreases. As shown in the waterfall chart, the biggest decrease is due to Generation, which is discussed in further detail by Petitioner's Witness F. Shane Bradford. The reduction in O&M from Generation, however, was partially offset by increases for the Vectren Utility Holding, LLC ("VUH") Asset Charge and Indirect O&M, which are both discussed in greater detail by Petitioner's Witness Wood; and increases for Distribution and High Voltage Operations, which are addressed by Petitioner's Witnesses Gregg M. Maurer and Amy L. Folz, respectively.

IV. REVIEW OF THE PROCESS FOR DEVELOPMENT OF THE FORECAST

Q. PLEASE GENERALLY DESCRIBE THE PROCESS FOR THE DEVELOPMENT OF CEI SOUTH'S FORECAST.

A. The comprehensive forecast represents a combination of a bottom-up and an escalation approach. With respect to the bottom-up approach, CEI South's Operational Units forecasted the capital and O&M spend that allows CEI South to continue to provide safe and reliable electric utility service during the period the rates are anticipated to be in effect. Petitioner's Witness Wood describes how the allocated costs were developed using escalation.

Q. PLEASE GENERALLY DESCRIBE THE OPERATING FORECAST.

A. The operating forecast comprises the accumulated detail to support each segment of the Company's Income Statement. CEI South classifies work within its financial system using unique coding, which is a combination of a cost object (internal order, Work Breakdown Structure ("WBS"), or cost center) and the cost element (General Ledger ("GL"), or account). The cost object or cost element is used to assign the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USoA") accounting information. The aggregated amounts are then grouped together to support the Company's O&M and other operating expenses within the forecast. I will discuss the individual components of the operating forecast later in my testimony.

Q. PLEASE GENERALLY DESCRIBE THE CAPITAL FORECAST.

A. The capital forecast includes activity-based and project level detail for all forecasted plant activity for the calendar year. Activity-based detail represents the core functions associated with the capital project and aligns the work with the FERC Class of Plant designation (e.g., generation, distribution, and transmission). Project level detail forecasting is used for specific projects already in process, identified as needed, or that already have a specific order number. Petitioner's Witnesses Stephen R. Rawlinson, Bradford, and Ronald W. Bahr discuss in greater detail the capital investment planning process and the capital forecast.

V. OPERATING FORECAST

Q. PLEASE DESCRIBE THE KEY COMPONENTS OF THE OPERATING FORECAST.

A. As explained in greater detail throughout my testimony, the key components of the operating forecast are Margin (defined as CEI South operating revenues less cost of fuel, purchased power, and capacity purchases); O&M expenses; Depreciation and Amortization expenses; and Income and Other Taxes.

A. MARGIN FORECAST

Q. HOW WAS THE FORECAST FOR THE MARGIN COMPONENT PRODUCED?

A. Margin is the starting point of the operating forecast given that it incorporates forecasted load and customer counts. The margin forecast also accounts for costs of fuel, purchased power, and capacity purchases, which can deviate from month to month. A variance from base amounts is fully recovered from customers via adjustment mechanisms, namely, fuel and purchased power costs via the Fuel Adjustment Clause ("FAC"); and capacity purchase costs via the Reliability Cost and Revenue Adjustment ("RCRA"). The billing determinants – sales, customers, and demand – were developed for the test year. A full explanation of the sales and customer forecast may be found in the testimony of Petitioner's Witness Michael E. Russo. The demand forecast for the large industrial customers is based on the actual demand for 2022 and any expected changes, such as the addition of a new customer. The billing determinants are then multiplied by the tariff rates for each Rate Schedule, which includes any base rates and any approved Riders (e.g., CECA), to determine the forecasted margin by month by Rate Schedule. Miscellaneous revenues (e.g., late fees) are forecasted based on historical trends with updates for any new information.

Q. DOES THE METHODOLOGY USED TO DETERMINE THE MARGIN FORECAST RESULT IN A REASONABLE ESTIMATE OF THE MARGINS TO BE ACHIEVED DURING 2025?

A. Yes, the margin forecast for 2025 is reasonably reflected with some adjustments required. Petitioner's Witness Behme discusses the adjustments.

B. <u>O&M FORECAST</u>

Q. PLEASE PROVIDE AN OVERVIEW OF THE O&M EXPENSE FORECAST USED BY CEI SOUTH TO DEVELOP THE FORECASTED TEST YEAR FINANCIAL DATA FOR THIS RATE CASE.

A. The forecast for O&M expense was developed based on forecasted needs of CEI South's Operational Units – both forecasted operational costs and forecasted workforce staffing levels. The O&M forecasting process is different for the labor and non-labor components, both of which are described further later in my testimony. The O&M forecast also includes allocated costs, which is discussed in greater detail by Petitioner's Witness Wood.

Q. HOW IS THE GENERATION TRANSITION FACTORED INTO THE O&M FORECAST FOR 2025?

A. The O&M forecast for 2025 includes the cost estimates for the units that will be in service during the test year. It includes costs for new generation and excludes cost for generation units no longer in service. Petitioner's Witness Bradford discusses CEI South's Generation Transition Plan in more detail in his testimony.

Q. PLEASE PROVIDE AN OVERVIEW OF HOW LABOR IS FORECASTED WITHIN THE O&M FORECASTING PROCESS.

A. Labor costs are both directly forecasted and allocated to CEI South. In regards to the directly forecasted labor, CEI South's Operational Units forecasted their workforce staffing needs based on the generating units in service at that time and the forecasted level of work needed to run the electric business safely, reliably, and effectively. Therefore, the labor, or workforce, forecast includes employee level detail for exempt, non-exempt, and bargaining unit employees. Employee labor hours by cost center are forecasted to cost objects within the financial system, which then feeds the operating forecast. Allocated labor, as discussed in Petitioner's Witness Wood's testimony, utilized an escalation approach to forecast the allocated labor.

Q. PLEASE DISCUSS HOW THE COMPANY FORECASTS FOR VACANCIES OR CHANGES IN THE WORKFORCE.

A. Available hours for the forecasted year are adjusted for planned new employee start dates and potential retirements. All vacant positions identified within the workforce forecast had a plan in place to hire these positions prior to or within the forecasted year, before they were included in the forecast.

Q. PLEASE DESCRIBE HOW THE COMPANY FORECASTED CHANGES IN WAGE RATES FOR THE FORECASTED TEST YEAR.

A. Petitioner's Witness Wood discusses the escalation approach for allocated labor. In general, to forecast the estimated wage rate increase for 2025, CEI South started with 2023 plan wage rates and escalated by 3% for two years to get to a forecasted 2025 wage rate. For generation union employees, CEI South used the actual 2024 wage rates per the union contract and escalated by 3% for one year to develop the forecasted 2025 wage rates. The assumed wage rate increases for the 2025 forecast starts in April 2025 for non-union employees because that is when the pay increases typically go into effect; and in July 2025 for union to correspond with union contract expiration dates. Petitioner's Witness Deneisia R. Williford discusses the reasonableness of the 3% CPA.

Q. HOW ARE LABOR BENEFITS FORECASTED?

A. The Company accounts for labor benefits via a labor loading rate. The loading process is a rational and systematic approach of matching overhead costs to related drivers. Loading rates are based on an estimate of costs to be incurred for the year (numerator) divided by the specific driver of the costs (i.e., labor dollars) (denominator) to create a rate. This process is designed so that similar costs are grouped together and loaded based on the driver to ensure that all costs are properly cleared. The process, common to utility industry practice, allows costs to be spread as evenly as possible throughout the year based on the loading rates derived from the estimated annual costs and clears all balance sheet clearing accounts to zero on an annual basis.

Q. DOES THE FORECAST PERIOD INCLUDE INCENTIVE COMPENSATION?

A. Yes. The forecast used for the unadjusted test year includes estimates for these plans at target. As explained by Petitioner's Witness Williford, incentive compensation in excess of target will be borne by shareholders. Ms. Williford also discusses in greater detail that CenterPoint Energy Inc.'s compensation philosophy is intended to provide market-based compensation.

Q. PLEASE PROVIDE AN OVERVIEW OF THE NON-LABOR COMPONENT OF THE O&M FORECASTING PROCESS.

A. In developing the forecasted 2025 non-labor O&M, Operational Units looked at historical spend as well as forecasted costs that are different than that historical basis but allow it to continue to provide safe and reliable electric utility service during the period the rates are anticipated to be in effect. Forecasted costs for non-labor O&M take into consideration not only changes in costs seen recently, but also changes in generation, resource plans, business drivers, continuous improvement initiatives, etc. In addition, the non-labor O&M includes costs such as training expenses, professional fees, contract labor, contract materials, and material issues from inventory. Non-labor costs are forecasted based on a cost object and cost element, which drive the appropriate accounting on the general ledgers, including the FERC account.

Q. ARE THERE NON-LABOR EXPENSES THAT ARE ALLOCATED?

A. Yes. As discussed in Petitioner's Witness Wood's testimony, there are non-labor costs that are allocated. Those allocated costs include, but are not limited to, information technology, insurance, and building expenses.

Q. HOW IS THE MONTHLY FORECAST DERIVED FOR THE NON-LABOR O&M COMPONENT?

A. The monthly forecast is allocated based on the anticipated timing of when actual expenses will be incurred. The monthly forecast is presented within **Schedule C-1.1** of Petitioner's Exhibit No. 20. Notably, **Schedule C-1.1** can be expanded to show the breakdown of the Test Year Unadjusted column on a monthly basis.

Q. DOES THE METHODOLOGY USED TO DETERMINE THE COMPONENTS FOR THE O&M FORECAST RESULT IN A REASONABLE ESTIMATE OF EXPENSES TO BE INCURRED DURING 2025?

A. Yes.

C. <u>DEPRECIATION AND AMORTIZATION EXPENSE</u>

Q. PLEASE DESCRIBE HOW DEPRECIATION EXPENSE IS DETERMINED WITHIN THE FORECAST.

A. Depreciation expense is forecasted by the Property Accounting group and FP&A based upon the Operational Units' capital forecast for the forecasted period. The detailed capital plan is used to determine the depreciable plant basis each month by FERC Class of Plant (i.e., generation, distribution, transmission, etc.). As previously explained, the capital forecast for the calendar year is prepared at the activity and project level, which links directly with the FERC Class of Plant.

Depreciation is calculated only on in-service investments. The Company starts with actual plant in-service balances as of the most recent reported period (e.g., July 31) and adds that to the estimated in-service amounts based on the capital expenditures in the forecast and estimated in-service dates for the projects or types of spend. In instances when the estimated in-service dates are known, the capital expenditures will be placed in service for forecast purposes based on those estimated dates. In other instances when the in-service date is not known, the Company relies upon a historical trend analysis to derive estimated in-service timing for various categories of spend.

The FERC Class of Plant designation drives the depreciation rate applied to the capital expenditures. Average depreciation rates for each Class of Plant, based upon current authorized depreciation rates, are multiplied by the plant in-service balance to determine the forecasted depreciation for each forecast month.

Q. PLEASE DESCRIBE HOW AMORTIZATION EXPENSE IS DETERMINED WITHIN THE FORECAST.

A. Amortization expense in the forecast represents the amortization of regulatory assets over the defined life. As discussed in Petitioner's Witness Behme's testimony, in the case of CEI South, the amortization expense captured in the 2025 forecast reflects the continued amortization of deferred balances associated with projects or programs forecasted to be approved as of December 31, 2025.

Q. DOES THE FORECASTED DEPRECIATION AND AMORTIZATION EXPENSE FOR 2025 REFLECT CHANGES PROPOSED IN THIS PROCEEDING?

A. Not the unadjusted amounts that I sponsor. Consistent with the other categories previously discussed, adjustments are required to this expense level to capture the proposals put forth by CEI South in this proceeding. For instance, depreciation expense is adjusted in the revenue requirement to capture the impact of proposed depreciation rates sponsored by Petitioner's Witness John J. Spanos and discussed in greater detail by Petitioner's Witness Behme.

D. INCOME AND OTHER TAXES

Q. PLEASE EXPLAIN HOW STATE AND FEDERAL INCOME TAX EXPENSE WAS CALCULATED IN THE 2025 FORECAST.

A. As discussed by Petitioner's Witness Jennifer K. Story, state and federal income tax expense is calculated under statutory rates applicable for the forecasted period.

Q. WHAT OTHER TAXES ARE INCLUDED IN THE FORECAST FOR CEI SOUTH IN 2025?

A. CEI South has included forecasted expense for property taxes within the forecast for 2025. Petitioner's Witness Story sponsors the forecasted property taxes in her testimony.

Q. ARE INCOME AND OTHER TAXES ADJUSTED FROM THE LEVEL PRESENTED IN THE 2025 FORECAST?

A. Yes, all but property taxes are adjusted from the 2025 forecast based upon the revenue requirement. As discussed by Petitioner's Witness Behme, the revenue requirement calculation calculates state and federal income taxes based upon the statutory rates in effect at the end of the test year, and the pro-forma level of taxable income (in all instances) from the revenue requirement calculation.

Q. DOES THE FORECAST PROCESS RESULT IN A REASONABLE FORECAST OF REVENUES, EXPENSES, AND CAPITAL ADDITIONS?

A. Yes. This incorporates current business conditions as well as forecasted changes to ensure it aligns with how the Company intends to operate the business. Although forecasted years present unanticipated challenges, like those experienced in 2020 with the COVID-19 pandemic, the forecast process presents a comprehensive and reasonable forecast of Company operations based on what is reasonably foreseeable.

Q. WAS THIS SAME APPROACH TAKEN TO DEVELOP THE FORECAST FOR THE BRIDGE PERIOD?

A. Yes, the bridge period forecast was developed using the same approach for both the capital and operating components. Witness Behme uses a portion of the unadjusted forecast for the bridge period to recommend Phase 1 rates.

VI. RATE BASE COMPONENTS

Q. PLEASE EXPLAIN HOW OTHER COMPONENTS FOR THE FORECAST PROCESS WERE UTILIZED BY CEI SOUTH IN THE PREPARATION OF ITS REVENUE REQUIREMENT IN THIS PROCEEDING.

A. The capital forecast put forth for 2023, 2024, and 2025 was utilized to forecast rate base within this proceeding as of December 31, 2023, December 31, 2024, and December 31, 2025, as sponsored by Petitioner's Witness Behme. Rate base captures in-service investment, with construction work in progress ("CWIP") excluded from the Company's request; as such, the in-service investments used as the basis for the forecasted depreciation expense became the input into the forecasted rate base.

VII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

A. Yes, it does.

CAUSE NO. 45990

VERIFICATION

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

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH

Stephanie E Gray

Stephanie E. Gray
Manager, Indiana Electric Financial Planning & Analysis

11/28/23

Date

Attachment SEG-1 Provided Separately, In Native Format

Attachment SEG-2 Provided Separately, In Native Format

Attachment SEG-3 Provided Separately, In Native Format