

FILED

December 21, 2017

INDIANA UTILITY
REGULATORY COMMISSION

Cause No. 45029

VERIFIED DIRECT TESTIMONY

OF

CHAD A. ROGERS

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

**VERIFIED DIRECT TESTIMONY OF CHAD A. ROGERS
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY**

1 **Q1. Please state your name, employer, and business address.**

2 A1. My name is Chad A. Rogers. I am employed by Indianapolis Power & Light Company
3 ("IPL" or "Company"), whose business address is One Monument Circle, Indianapolis,
4 Indiana 46204.

5 **Q2. What is your position with the Company?**

6 A2. I am a Senior Regulatory Analyst in Regulatory Affairs.

7 **Q3. Please describe your duties as Senior Regulatory Analyst.**

8 A3. I provide financial, technical and regulatory analysis and manage various regulatory
9 projects and filings.

10 **Q4. Please summarize your educational and professional qualifications.**

11 A4. I hold a Bachelor of Science Degree in Accounting and Finance from the Kelley School
12 of Business at Indiana University. I am also pursuing a Masters of Business
13 Administration Degree from the Lacy School of Business at Butler University. I received
14 my Certified Public Accountant ("CPA") license for the State of Indiana and have
15 fulfilled the necessary educational requirements to allow use of the CPA designation. I
16 have also attended various regulated utility training courses such as Edison Electric
17 Institute ("EEI") Utilities Accounting Courses (Intro and Advanced), EEI Electric Rates
18 Advanced Course, and PWC Rate Case Experience Course. I also am a member of the
19 Society of Utility and Regulatory Financial Analysts ("SURFA").

20 **Q5. Please summarize your prior work experience.**

1 A5. I have been an employee of IPL since April 2006, initially as a Senior Accountant and
2 later as Section Leader on the accounting and external reporting team. From June 2009
3 to September 2013, I worked as a Senior Analyst and later as a Section Leader in
4 Financial Planning and Analysis. I have been in my current role in Regulatory Affairs
5 since September 2013.

6 From February 2004 to April 2006, I was employed by Cinergy Corporation (now Duke
7 Energy). At Cinergy, I held a Senior Accountant role and was responsible for various
8 accounting, financial analysis, and financial reporting duties.

9 From January 2001 to January 2004, I was employed by KPMG LLP as a Senior
10 Associate in assurance services. In that position I was responsible for audits, reviews,
11 compilations, and control assessments for clients spread over a wide range of industries.

12 **Q6. Have you previously testified before the Indiana Utility Regulatory Commission**
13 **(“Commission”) or other regulatory agencies?**

14 A6. Yes. I provide testimony in IPL’s semi-annual Environmental Compliance Cost Recovery
15 Adjustment proceedings starting in Cause No. 42170-ECR-28. I also filed testimony in
16 Cause No. 44893, regarding IPL’s basic rates and charges.

17 **Q7. What is the purpose of your testimony in this proceeding?**

18 A7. The purpose of my testimony is to explain how the Company calculated several pro
19 forma adjustments to the test year and to support those adjustments, which I sponsor in
20 the following schedules:

1 **Rate Base**

2 IPL Financial Exhibit IPL-RB Schedule RB7 – Pro Forma Adjustment to Remove Per
3 Books Asset Retirement Cost.

4 **Operating Expenses**

5 IPL Financial Exhibit IPL-OPER, Schedule OM18 – Pro Forma Adjustment to Remove
6 Image-Building Advertising Costs.

7 IPL Financial Exhibit IPL-OPER, Schedule OM24 – Pro Forma Adjustment to Property
8 Insurance Expense.

9 IPL Financial Exhibit IPL-OPER, Schedule OM25 – Pro Forma Adjustment to Write-Off
10 of Preliminary Survey and Investigation Charges.

11 IPL Financial Exhibit IPL-OPER, Schedule OM26 – Pro Forma Adjustment to
12 Uncollectible Accounts Expense.

13 IPL Financial Exhibit IPL-OPER, Schedule OM27 – Pro Forma Adjustment to Public
14 Utility Fee.

15 **Q8. Were these schedules prepared or assembled by you or under your direction and**
16 **supervision?**

17 A8. Yes.

18 **Q9. Did you submit any workpapers?**

19 A9. Yes. I am sponsoring workpapers that support the financial schedules that I sponsor.

20 **Q10. Please describe IPL Financial Exhibit IPL-RB Schedule RB7, which removes asset**
21 **retirement cost from rate base.**

22 A10. As shown on IPL Financial Exhibit IPL-RB, Schedule RB-7, IPL is proposing to remove
23 \$59.999 million from Account 101 - Utility Plant in Service (line 7) and \$18.389 million
24 from Account 108 - Accumulated Depreciation (line 8) related to the legal Asset
25 Retirement Obligations (“ARO”) recorded under Financial Accounting Standards Board
26 (“FASB”) Accounting Standards Codification (“ASC”) 410 (formerly Statement of
27 Accounting Standard (“SFAS”) No. 143). IPL is removing these items because they are

1 non-cash assets on the balance sheet which offset estimated costs of removal not yet
2 incurred or paid related to ash ponds, asbestos removal, and other required removal
3 obligations on the balance sheet. These required accounts are Account 182.3 Regulatory
4 Asset – ARO (a debit of \$39.226 million) and Account 230 – Asset Retirement
5 Obligation (a credit of \$80.836 million) and are not reflected in either rate base or capital
6 structure. The ARO amounts in the four balance sheet accounts (101, 108, 182.3, and
7 230) total \$0, and the income statement impact of any changes to these accounts is also
8 \$0. Without this adjustment, rate base would be overstated by \$41.610 million. After
9 these adjustments, all of the effects of legal ARO accounting have been eliminated from
10 the filing. Only the impacts of reflecting legal and non-legal retirement costs as a
11 component of depreciation expense/accumulated depreciation remain, which is the same
12 regulatory treatment as occurred prior to SFAS 143. This adjustment is consistent with
13 the treatment in IPL’s last rate case (Commission’s Order in Cause No. 44576 at p 25).

14 **Q11. Please describe IPL Financial Exhibit IPL-OPER, Schedule OM18, regarding**
15 **image-building advertising costs.**

16 A11. This schedule includes an adjustment to remove a total of \$2,226,000 of image-building
17 advertising costs included in Operating Expenses during the test year. These costs were
18 determined to fall outside of the material benefit rule set forth in 170 Indiana
19 Administrative Code (“IAC”) 1-3-4. The total adjustment consists of image-building
20 advertising costs of \$1,305,000 in Account 930.1 – *General Advertising Expense*,
21 \$879,000 in Account 930.2 – *Miscellaneous General Expense*, and \$42,000 in other
22 operating expense accounts.

23 **Q12. Please discuss how you determined and removed image-building advertising from**

1 **the Company's advertising expense.**

2 A12. The Company typically uses separate Federal Energy Regulatory Commission ("FERC")
3 accounts to separate image-building advertising from instructional and safety advertising.
4 Account 930.1 – *General Advertising Expense* is used for image-building and Account
5 909.1 – *Information and instructional advertising expenses* is used for instruction and
6 safety advertising as described in 170 IAC 1-3-4. In preparation for this filing, the
7 accounting team worked with the Company's Community Relations department to review
8 Account 909.1 and identify any image-building advertising that was improperly booked
9 to that account. The accounting team also reviewed the detail of other operating expense
10 accounts to identify any image-building advertising that was not recorded in account
11 930.1. Adjustments were made to reclassify any image-building advertising identified
12 before the books were closed for June 2017 that was initially recorded outside of FERC
13 930.1. The pro forma adjustments for the amounts recorded to Account 930.2 and the
14 other operating expense accounts resulted from the accounting team's review and relate
15 to items identified after the books were closed for June 2017.

16 **Q13. Please describe IPL Financial Exhibit IPL-OPER, Schedule OM24, which adjusts**
17 **property insurance expense.**

18 A13. In preparing to make this filing, IPL reviewed its insurance premiums and known
19 changes in its insurance needs. As a result, IPL has prepared adjustments to reflect this
20 analysis. Specifically, as detailed in the footnote to IPL Financial Exhibit IPL-OPER,
21 Schedule OM24, IPL is proposing adjustments to remove the expense for coverage for
22 the Eagle Valley coal fired units, which have been retired. Additionally, IPL is proposing
23 adjustments to add coverage for the new Combined Cycle Generating Turbine ("CCGT")

1 and the new environmental controls necessary to comply with the National Pollutant
2 Discharge Elimination System (“NPDES”) permitting requirements and the Coal
3 Combustion Residuals (“CCR”) Rule (Petersburg Bottom Ash System). The estimated
4 cost of such policies was provided to me by AES’s in-house insurance expert. If this net
5 adjustment is not made, the pro forma electric operation and maintenance expense
6 included in the determination of IPL’s electric operating income at present and at
7 proposed rates would be understated and not representative of future operating costs
8 during the period when the requested rates are expected to be in effect.

9 **Q14. Please describe IPL Financial Exhibit IPL-OPER, Schedule OM25, which adjusts**
10 **the write-off of preliminary survey and investigation charges.**

11 A14. IPL prepares its financial statements on an accrual basis in accordance with the
12 accounting requirements of FERC. FERC guidelines require that “all expenditures for
13 preliminary surveys, plans, investigations, etc., made for the purpose of determining the
14 feasibility of utility projects under contemplation”¹ be recorded to Account 183
15 Preliminary survey and investigation charges. FERC guidelines further stipulate that
16 such costs be expensed to 426.5, Other Deductions, or to the appropriate operating
17 expense account if the work is abandoned. During IPL’s test period, the charges to
18 operating expenses for abandoned projects that had previously been recorded to Account
19 183 were much lower than our normal experience. As such, IPL is proposing to
20 normalize the expense by adjusting it to the average expense for the three-year period
21 ended June 30, 2017. If this net adjustment is not made, the pro forma electric operation
22 and maintenance expense included in the determination of IPL’s electric operating

¹ Title 18 of FERC Code of Federal Regulations, Part 101, Uniform System of accounts prescribed for public utilities and licensees subject to the provisions of the Federal Power Act, Definition of Account 183.

1 income at present and at proposed rates would be understated and not representative of
2 future operating costs during the period when the requested rates are expected to be in
3 effect.

4 **Q15. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM26, which adjusts**
5 **uncollectible accounts expense.**

6 A15. This adjustment calculates a pro forma level of electric uncollectible accounts expense,
7 derived by applying a historical write-off experience rate to total electric operating
8 revenues. To be consistent with the components considered in deriving the experience
9 rate, the pro forma total electric operating revenue for this computation is reduced by
10 sales for resale, rents from electric property, and miscellaneous electric revenue (other
11 than connect and reconnect charges).

12 The historical write-off experience rate is the ten-year average uncollectible rate with the
13 removal of the highest and lowest years, as was approved in IPL's last basic rates case,
14 Cause No. 44576. The 44576 Order (at 61) states: "The purpose of ratemaking is to
15 develop an overall revenue requirement that is reflective of utility operations going
16 forward. For uncollectible expense, this is best demonstrated by the ten-year average
17 uncollectible rate, with the removal of the two outlier years." The ten-year (2007-2016)
18 uncollectible rate with the removal of the highest (2007) and lowest (2012) years is
19 0.3562%.

20 The computation is first applied to pro forma total electric operating revenues at present
21 rates, and compared with test year total electric uncollectible accounts expense. The
22 \$353,000 pro forma expense decrease is included in the summary of electric operation

1 and maintenance expense adjustments on IPL Financial Exhibit IPL-OPER, Schedule
2 OM1, Line 26, column 2.

3 Next, the computation is applied to pro forma total electric operating revenues at
4 proposed rates, and compared with the original calculation at present rates. The \$443,000
5 pro forma expense increase is included in the summary of electric operation and
6 maintenance expense adjustments on IPL Financial Exhibit IPL-OPER, Schedule OM1,
7 Line 26, Column 3.

8 If these pro forma adjustments are not made, the expense level for uncollectible accounts
9 included in the determination of IPL's jurisdictional electric operating income at present
10 rates would be overstated and the expense level for uncollectible accounts included in the
11 determination of IPL's jurisdictional electric operating income at proposed rates would
12 be understated and not be representative of future operating costs during the period when
13 the requested rates are expected to be in effect.

14 **Q16. Please explain IPL Financial Exhibit IPL-OPER, Schedule OM27, which adjusts the**
15 **public utility fee.**

16 A16. This schedule computes the public utility fee expense based on pro forma total electric
17 operating revenues at present and proposed rates and adjusts the test year public utility
18 fee expense accordingly. IPL is assessed this fee annually by the State of Indiana. The
19 assessment is a function of the applicable annual electric sales revenue, which excludes:
20 capacity sales, sales for resale, rents from electric property, customer collection charges
21 and miscellaneous electric revenue. The computation of the assessment also reduces
22 applicable revenue by the amount of electric uncollectible accounts expense. This

1 adjustment reflects the currently effective public utility fee assessment factor of
2 0.1330868%. The computation is first applied to pro forma total electric operating
3 revenues at present rates, and compared with test year total electric expense. The
4 resulting \$349,000 pro forma expense increase is included in the summary of electric
5 operation and maintenance expense adjustments on IPL Financial Exhibit IPL-OPER,
6 Schedule OM1, Line 27, Column 2.

7 The computation is also applied to pro forma total electric operating revenues at proposed
8 rates, and compared with the amount calculated at present rates. The resulting \$165,000
9 pro forma expense increase is included in the summary of electric operation and
10 maintenance expense adjustments on IPL Financial Exhibit IPL-OPER, Schedule OM1,
11 Line 27, Column 3.

12 If these pro forma adjustments are not made, the expense level for public utility fees
13 included in the determination of IPL's jurisdictional electric operating income at present
14 and proposed rates would be understated and not representative of future operating costs
15 during the period when the requested rates are expected to be in effect.

16 **Q17. Does that conclude your verified pre-filed direct testimony?**

17 A17. Yes.

VERIFICATION

I, Chad A. Rogers, Senior Regulatory Analyst for Indianapolis Power& Light Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.


Chad A. Rogers

Dated: December 20, 2017