FILED
June 4, 2018
INDIANA UTILITY
REGULATORY COMMISSION

INDIANA GAS COMPANY

d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.

(VECTREN NORTH);

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.

(VECTREN SOUTH);

AND

OHIO VALLEY HUB, LLC

(OVH)

IURC CAUSE NO. 45032-S21

DIRECT TESTIMONY

OF

STEPHEN A. ALLAMANNO

DIRECTOR – CORPORATE TAX AND PLANT ACCOUNTING

ON

TAX CUTS AND JOBS ACT OF 2017 – PHASE 2 SETTLEMENT

DIRECT TESTIMONY OF STEPHEN A. ALLAMANNO

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Stephen A. Allamanno. My business address is One Vectren Square, Evansville, Indiana 47708.

Q. By whom are you employed?

A. I am employed by Vectren Corporation ("Vectren"). Indiana Gas Company ("Vectren North") and Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") are subsidiaries of Vectren Utility Holdings, Inc. ("VUHI"), a holding company of Vectren Corporation. Ohio Valley Hub, LLC ("OVH") is a subsidiary of Vectren.

Q. What position do you hold with Petitioner Vectren?

A. I am Director – Corporate Tax and Plant Accounting for Vectren, the parent company of Vectren North and Vectren South. I hold the same position with another utility subsidiary of VUHI – Vectren Energy Delivery of Ohio, Inc. ("Vectren Ohio").

Q. Please describe your educational background.

A. I received a Bachelor's Degree in Business Administration with a major in Accounting from The Ohio State University in 1987. In addition, I received a Master's Degree in Business Administration with concentrations in Accounting and Finance from The Ohio State University in 1993. I am also a licensed CPA in the State of Indiana.

Q. Please describe your professional experience.

A. I have spent my entire professional career of approximately 29 years working in the field of corporate tax. From January 1988 to October 1998, I was employed by Cummins Inc. in Columbus, Indiana and was responsible for a variety of US Federal, State and Local, and International tax-related compliance and planning matters in positions of increasing responsibility. From October 1998 to March 1999, I served as Director – International Tax for Cardinal Health, Inc. in Dublin, Ohio, holding responsibility for all US tax aspects of the company's non-US operations. I returned to Cummins in May 1999 and remained with the company through July 2011. During this time, I served in a variety of roles, handling tax compliance, planning, and provision work for both domestic and international operations. From August 2011 through December 2013, I was employed as Vice President – US Tax for Technicolor USA, Inc. in Carmel, Indiana. During this time, I was responsible for managing all US tax matters for the company. From January 2014 through June 2017, I worked for AES US Services LLC in Indianapolis, Indiana, initially serving as Tax Director – US SBU and then later as Director – Regulatory Tax. As Tax Director – US SBU, I was responsible for managing all US perimeter tax matters for the company; as Directory – Regulatory Tax, I was focused more specifically on tax matters for the company's regulated utilities, Indianapolis Power and Light and the Dayton Power and Light Company. Finally, I joined Vectren Corporation in July 2017 as Director of Corporate Tax and Plant Accounting.

Q. What are your present duties and responsibilities as Director – Corporate Tax and Plant Accounting?

A. In my Corporate Tax role, I have management and oversight responsibility for all tax matters of Vectren and its subsidiaries, including compliance, planning, and provision matters relating to income taxes. In my Plant Accounting role, I have management and oversight responsibility for all fixed asset-related matters for Vectren and its subsidiaries, including compliance with the company's capitalization policy, as well as compliance and planning matters associated with the company's property tax filings.

Q. Are you familiar with the books, records, and accounting procedures of Vectren?

A. Yes, I am.

Q. Are Vectren's books and records maintained in accordance with the Uniform System of Accounts ("USOA") and generally accepted accounting principles ("GAAP")?

A. Yes.

Q. Have you ever testified before any state regulatory commission?

A. Yes. I have testified before the Indiana Utility Regulatory Commission on behalf of Indianapolis Power and Light in its base rate proceeding under Cause No. 44576. I have also testified before the Public Utilities Commission of Ohio in different proceedings on behalf of The Dayton Power and Light Company and Vectren Ohio.

Q. What is the purpose of your testimony in this proceeding?

A. I am providing an overview of the Internal Revenue Code ("IRC") rules regarding how excess accumulated deferred income tax ("EADIT") balances are returned to customers. In addition, I provide context regarding: 1) the patterns reflected in the annual EADIT amortization amounts illustrated in the Attachments to the Stipulation and Settlement Agreement ("Settlement Agreement") sponsored by Petitioner's witness J. Cas Swiz, and 2) expectations around when Vectren believes the annual EADIT excess amortization amounts—which are presently estimates—will be finalized.

Q. Are you sponsoring any exhibits in this proceeding?

A. No.

II. EADIT AMORTIZATION

Q. Please explain the EADIT liability created as a result of the Tax Cuts and Jobs Act of 2017 (the "Tax Act").

A. On December 22, 2017, the Tax Act was signed into law. Among other changes, the legislation reduced the US Federal Income Tax rate from 35% to 21%, effective January 1, 2018. Under US GAAP principles, accumulated deferred income tax ("ADIT") liabilities are reflected on a company's balance sheet at the value at which they are expected to be realized. Upon enactment of the Tax Act, the temporary differences giving rise to the ADIT balances for Vectren North, Vectren South, and OVH are anticipated to reverse at the new 21% tax rate. Consequently, each operation in question has recalculated its ADIT balances to reflect the value at which they will be realized under the new US Federal Income Tax rate. The difference between the ADIT balances as computed using the pre-Tax Act 35% tax rate and the re-measured ADIT balances stated at the newly-enacted 21% rate is referred to as EADIT.

Q. Please describe the IRC rules regarding the amortization of EADIT.

A. The IRC separates EADIT balances into two categories: 1) "protected" EADIT, which is comprised of those balances associated with depreciable property, plant, and equipment, and 2) "unprotected" EADIT, which covers all other amounts. For EADIT balances that are protected in nature, the IRC requires the use of the Average Rate Assumption Method ("ARAM") to calculate the annual amortization amounts to be flowed back to customers. For unprotected EADIT balances, the IRC does not mandate the use of a particular methodology to determine the appropriate amount of amortization in a given year.

From a conceptual standpoint, ARAM results in EADIT balances being amortized and flowed back to customers over the remaining useful regulatory lives of the assets to which the EADIT relates. EADIT amortization itself begins at the point at which annual book depreciation deductions exceed the annual tax depreciation deductions for the assets in question. Stated differently, during periods in which property, plant, and equipment-related deferred tax liabilities ("DTLs") are increasing—meaning periods during which tax depreciation exceeds book depreciation—no EADIT amortization occurs. Conversely, once realization of the DTLs—which occur when book depreciation amounts exceed the associated tax depreciation amounts—begins, so too does the amortization and flow back of the related EADIT to customers. Thus, for newer assets with longer remaining regulatory lives, it is less likely that EADIT amortization will begin immediately, as DTLs grow during the early years of a depreciable asset's life due to accelerated depreciation methodologies employed for tax purposes. On the other hand, the older an asset is, the more likely it is for EADIT amortization to occur in current periods, as book depreciation amounts typically exceed tax depreciation amounts—resulting in DTL reversals—later during an asset's regulatory life, again due to the impact of accelerated depreciation methods used for tax purposes.

Q. Why is adherence to ARAM for the protected balances required?

A. Adherence to ARAM is required by the IRC with respect to protected balances; failure to do so results in a normalization violation, the penalty for which is the inability to claim accelerated depreciation for tax purposes. As noted previously, the IRC does not require the use of a specific methodology for flowing back unprotected EADIT balances. The Settlement Agreement states that the unprotected EADIT balances flow back to customers over a ten-year period on a straight-line basis.

Q. Please explain the differing amortization patterns for protected EADIT balances reflected in <u>Attachment 1</u> to the Settlement Agreement.

A. <u>Attachment 1</u> to the Settlement Agreement includes EADIT amortization schedules for Vectren South-Electric, Vectren South-Gas, Vectren North, and Ohio Valley Hub.

The schedules for Vectren South (both Electric and Gas) and Vectren North all indicate EADIT amortization of protected balances beginning in 2018. This is due to the fact that, as noted earlier in my testimony, these operations include a significant number of older assets for which established DTLs are reversing in 2018. Therefore, EADIT amortization of the related protected balances occurs in both 2018 and subsequent years.

However, Ohio Valley Hub's protected EADIT balances relate to assets acquired by the company in 2013, meaning they are in the early stages of their overall useful regulatory lives. Consequently, due to the use of accelerated depreciation for tax purposes, the associated DTLs will not begin to reverse until 2033, which also, then, becomes the year in which the protected EADIT balances begin to amortize and flow back to customers

Q. Are the annual EADIT amortization amounts reflected in <u>Attachment 1</u> to the Settlement Agreement subject to change?

A. Yes. The annual EADIT amortization amounts reflected in <u>Attachment 1</u> to the Settlement Agreement represent estimates based on the best information currently available and are expected to change as the Vectren group of companies[1] completes its US Federal Income Tax Return filing for calendar year 2017.

There are several factors resulting in the amounts reflected in Attachment 1 being estimates at this point in time. First, ARAM amortization for protected balances has been projected using an Excel-based model that, for practical purposes, has utilized certain high-level assumptions about matters such as applicable book depreciation rates due to the level of detail associated with a full-blown ARAM calculation. The company is currently working with a third-party provider, Power Tax, on an IT-based solution that will perform the more precise and final ARAM calculations by employing the requisite level of detail. The company expects to have this solution fully implemented in the coming months. In addition, the EADIT balances indicated in Attachment 1 use as their starting point the deferred tax balances according to the Vectren group's audited financial statements for the year ended December 31, 2017. The December 31, 2017 year-end deferred tax balances include certain estimates about calendar year 2017 book/tax differences that will be refined as the Vectren group's 2017 US Federal Income Tax Return is completed and filed later this year. Finally, it is possible that new guidance could be issued by the taxing authorities relating to changes associated with the Tax Act—most notably associated with tax depreciation methods—that could result in revisions to previously-calculated December 31, 2017 deferred tax balances. Vectren is required to file its 2017 US Federal Income Tax Return by October 15, 2018, at which point the calculations would be finalized.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

[1] Note here that the "Vectren group of companies" refers to Vectren Corporation and all of its subsidiaries that will be included in Vectren's 2017 US Consolidated Federal Income Tax Return.

VERIFICATION

I, Stephen A. Allamanno, Director, Corporate Tax and Plant Accounting at Vectren Corporation, affirm under the penalties of perjury that the statements and representations in the foregoing Direct Testimony are true to the best of my knowledge, information and belief.

Stephen A. Allamanno

Stephen A. Allamanno

Dated: 6/1/2018