BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF DUKE ENERGY INDIANA, LLC FOR; (1) APPROVAL OF PETITIONER'S 6-YEAR PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION AND STORAGE SYSTEM IMPROVEMENTS, PURSUANT TO IND. CODE § 8-1-39-10; (2) APPROVAL OF A TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE IMPROVEMENT COST RATE ADJUSTMENT AND DEFERRALS, PURSUANT TO IND. CODE §§ 8-1-2-10, 8-1-2-12, 2-1-2-14, AND 8-1-39-1 ET SEQ; AND (3) APPROVAL OF A TARGETED ECONOMIC DEVELOPMENT PROJECT AND RECOVERY OF COSTS ASSOCIATED WITH THE PROJECT, PURSUANT TO IND. CODE §§ 8-1-39-10 AND 8-1-39-11	)	**CAUSE NO. 45647**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
PUBLIC'S EXHIBIT NO. 2
TESTIMONY OF OUCC WITNESS
KALEB G. LANTRIP

February 18, 2022

Respectfully submitted,

Jeffrey M. Reed
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Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS KALEB G. LANTRIP
CAUSE NO. 45647
DUKE ENERGY INDIANA, LLC

I. INTRODUCTION

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

A: My name is Kaleb G. Lantrip, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204. I am employed as a Utility Analyst in the Indiana Office of Utility Consumer Counselor's ("OUCC") Electric Division. A summary of my educational background and experience is included in Appendix A attached to my testimony.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to provide analyses and make recommendations on several proposals Duke Energy Indiana, LLC's ("DEI" or "Petitioner") requests for its case-in-chief supporting a 6-year Plan pursuant to the I.C. 8-1-39 statute. Specifically, I address DEI's proposals for ratemaking and accounting treatment for its Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Plan ("Plan or "TDSIC 2.0 Plan") and recommend the Indiana Utility Regulatory Commission ("Commission"):

1. Consider the overall affordability of DEI's Plan;
2. If the Commission approves any portion of DEI's Plan, approve Petitioner's proposed treatment to recover investments in-service as of the cut-off date;
3. Remove the equity component from Petitioner's proposal for post-in-service carrying costs ("PISCC") treatment to accrue both debt and equity financing on approved capital expenditures from the in-service date until such costs are included in the Company's rates through the TDSIC tracker ("Rider 65") or in base rates; and

4. Limit Petitioner's recovery of operations and maintenance ("O&M") expense to the amount DEI has justified as incremental expense above and beyond what was approved in its base rate case, Cause No. 45253.

5. Approve Petitioner's proposal to offset to depreciation expense through a rolling 5-year FERC Form 1 estimated retirement ratio and later reconciliation to actual retirements;

6. In light of the Affordability Statute, require DEI to recognize an offset in its revenue requirement for the return earned on the embedded net book value of retired assets which are no longer used and useful.

Q: What did you review to prepare your testimony in this cause?

A: I reviewed NIPSCO's petition, testimony, attachments, and workpapers provided in this filing, as well as petitioner's responses to intervenors' data requests. I also reviewed and compared the TDSIC filings in Cause No. 44720 to DEI's new proposal in this proceeding. In addition, I met with DEI's staff at a prefiling meeting on October 20, 2021.

Q: To the extent you do not address a specific item in your testimony, should it be construed to mean you agree with DEI's proposal?

A: No. My silence regarding any topic, issue, or item DEI proposes does not indicate my approval of those topics, issues, or items. Rather, the scope of my testimony is limited to the specific items addressed herein.

II. DEI'S ELECTRIC TDSIC HISTORY

Q: What is DEI's history with TDSIC plans?

A: DEI's current 7-year TDSIC plan was approved in Cause No. 44720 on June 29, 2016. Petitioner refers to the statutory requirement under I.C. 8-1-39-9(d) that a public utility may not file a petition under subsection (a) within nine (9) months after the date on which the Commission issues an order changing the public utility's basic rates and charges with respect to the same type of utility service. The Commission approved Petitioner's last rate case in Cause No. 45253, on June 29, 2020. The first TDSIC plan is set to expire on December 31, 2022, and its tenth update to the plan is currently pending approval before the Commission. On November 23, 2021, DEI filed this Cause requesting approval of a new 6-year TDSIC plan under I.C. 8-1-39-10(a).

Q: Has DEI addressed how it plans to account for 44720 TDSIC investments not captured in Cause No. 45253?

A: Yes, in response to a data request, DEI currently anticipates reconciling Cause No. 44720 non-base rate balances as a line item included within TDSIC Plan 2.0's revenue requirement rate calculation[1].

III. AFFORDABILITY

Q: Does the OUCC have concerns about the affordability of DEI's TDSIC 2.0 Plan and its impact on ratepayers?

A: Yes. The Indiana General Assembly declared a policy, through Indiana Code 8-1-2-0.5, that affordability of utility services for present and future generations of Indiana citizens should be protected when utilities invest in infrastructure necessary for system operation and maintenance.

Q: How does the issue of affordability tie into DEI's TDSIC 2.0 Plan request?

A: DEI is requesting recovery of costs associated with its approximately $2 billion of TDSIC Plan costs, which will be incrementally included and recovered in each annual TDSIC tracker as projects are completed and placed into service over the proposed 6-year period. The total estimated revenue requirement to be generated

[1] Attachment KGL-4: DEI's response to OUCC DR-4, p. 3.

by DEI's TDSIC 2.0 plan over the 6-year period is approximately $837[2] million, including the economic development projects subject to the 45647-S1 sub-docket in this Cause.

Q: Has Indiana's adoption of multiple trackers for cost recovery of investments and specific expenses led to increasing electric utility rates and concerns for Indiana electric utility ratepayers?

A: Yes. TDSIC trackers, like other Indiana trackers, encourage investment and permit the recovery of costs including O&M, taxes, depreciation plus a return on investment that allow utilities to increase earnings. Thus, TDSIC trackers and other riders implicates the issue of "affordability" for Indiana's utility ratepayers; thereby invoking the Commission's discretion within the statutory boundaries.

Q: What DEI riders besides the TDSIC tracker periodically adjust customers rates?

A: DEI has eight trackers that periodically adjust customer rates:

1) Fuel Cost Adjustment ("FAC");
2) Environmental Compliance Adjustment ("ECR");
3) Energy Efficiency Adjustment;
4) Credit Adjustment;
5) Regional Transmission Organization ("RTO");
6) Reliability Adjustment ("RA");
7) Federally Mandated Cost Rate Adjustment ("FMCA"); and
8) Renewable Energy Project Adjustment.

DEI files trackers on a routine basis that have collectively tended to increase DEI's customers' utility rates each year. In fact, DEI's base rate case in Cause No. 42359, order date May 18, 2004, established a $72.11 monthly residential charge for a customer using 1,000 kWh. This rate was in effect until new rates were established in Cause No. 45253, order dated June 29, 2020. However,

[2] Petitioner's Exhibit 6-A, p. 1, line 24, sum of columns.

immediately prior to that Order, DEI's residential customers were paying approximately $123[3] a month for 1,000 kWh. The monthly increase of approximately $51 (71%) was attributed to DEI's various trackers implemented between 2004 and 2019 with no full rate review of other costs or other economic considerations. The Commission's approval of cost recovery trackers outside base rate cases for many types of utility investments has led to a sequence of electric rate increases for DEI customers.

Q: How should affordability be considered?

A: In light of the Indiana General Assembly's stated policy, affordability should be a constant consideration for all Indiana jurisdictional utilities, as well as the Commission as it deliberates its decisions.

The OUCC understands safe and reliable utility systems are extremely important. However, at the same time customers are faced with increasing utility costs, they must also contend with stagnant or decreasing wages. In terms of affordability, this combination is unsustainable. These hardships are only worsened during periods of widespread economic turmoil as the country is currently experiencing due to the COVID-19 pandemic. In recognition of the importance of affordability, examining socialization, prioritization, and spreading cost recovery out over longer periods of time could help address the financial impact to the customer. The Commission also has statutory discretion that could alleviate some

[3] See Attachment KGL-2: Cause No. 44367 Duke Energy Indiana, LLC FMCA-4 OUCC Testimony of Kaleb G. Lantrip, p. 7.

of the financial burdens without impacting the utilities' ability to maintain safe and reliable systems while also earning a reasonable profit.

Consistent with the General Assembly's stated policy, the Commission should only approve necessary and reasonable requests for DEI to provide service at reasonable prices and take steps to moderate the imposition of higher rates over time.

IV. POST-IN-SERVICE CARRYING CHARGE

Q: What is DEI's proposal for PISCC on its TDSIC 2.0 Plan projects?

A: DEI witness Maria T. Diaz states in her testimony:

> In accordance with Indiana Code 8-1-39-9, the Company proposes that post-in-service carrying costs, which include both debt and equity financing be accrued on approved capital expenditures, including previously computed post-in-service carrying cost amounts, from the in-service date until such costs are included in the Company's rates under Rider 65 or in base rates and that the Commission approved the recovery of the accrued carrying costs.[4]

Q: Do you agree with Ms. Diaz' assertion that in accordance with Indiana Code 8-1-39-9, PISCC should be calculated at the weighted average cost of capital ("WACC") rate that includes both debt and equity in the carrying charge?

A: No. Indiana Code 8-1-39 does not define the PISCC rate. Indiana Code 8-1-39-9(b) states,

> A public utility that recovers capital expenditures and TDSIC costs under subsection (a) shall defer the remaining twenty percent (20%) of approved capital expenditures and TDSIC costs, including depreciation, allowance for funds used during construction, and post-in-service carrying costs, and shall recover those capital expenditures and TDSIC costs as part of the next general rate case that the public utility files with the commission.

[4] Petitioner's Exhibit No. 6, Direct Testimony of Maria T. Diaz, p. 6, lines 1-8.

Traditionally, the Commission has approved post-in-service charges on construction projects using the current Allowance for Funds Used During Construction ("AFUDC") rate of the utility, not the WACC. An example of this can be found in the AES Indiana Cause No. 44339, concerning AFUDC's purpose and use in a Certificate of Public Convenience and Necessity.[5] The WACC is the return "on" percentage that includes all the utility's capital including equity, long term debt, and zero-cost capital, but does not include short-term debt (which the AFUDC rate calculation includes). However, DEI is requesting the Commission authorize the WACC rate for calculating its post-in-service carrying charge deferral.

Q: What is your objection to including both the debt and equity cost rates for post-in-service deferral?

A: Petitioner's proposal is contrary to the U.S. Generally Accepted Accounting Principles ("GAAP'). GAAP does not permit the capitalization of incurred costs that are not charged to expense. In Ms. Diaz' testimony, she includes the Accounting Standards Codification ("ASC") 980-340-25-1 which states:

[5] See Attachment KGL-5: Cause No. 44339 Indianapolis Power and Light Company Eagle Valley CCGT CPCN Direct Testimony of James L. Cutshaw.

> Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise **shall capitalize all or part of an incurred cost that would otherwise be charged to expense** if both of the following criteria are met: (a) It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes and (b) Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost. A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. [*emphasis added.*]

With reference to PISCC, the only cost that would be charged to expense is the interest expense related to the debt portion of the PISCC calculation. The equity portion of PISCC does not get charged to expense and therefore is normally not included in the deferral of post-in-service AFUDC.

Q: What is the total dollar amount of the PISCC over the recovery periods of TDSIC 2.0?

A: The total amount of the PISCC is approximately $297 million of revenue requirement, of which the equity portion is about $237 million.[6] The billed amortization of revenue requirement is $141.7 million, of which $113.1 million is due to the equity portion.

Q: Has the Commission allowed the equity rate of a carrying charge to be deferred post-in-service in prior cases?

A: Yes. The Commission has allowed it in some prior cases including TDSIC. In further analyzing the respective statutes regarding affordability and TDSIC

[6] See Attachment KGL-3: Calculation of PISCC without equity portion.

recovery, GAAP only allows the debt portion of PISCC to be deferred and there is no requirement to defer the equity portion of any post-in-service carrying charge in GAAP, I recognize that the Commission has discretion to determine whether to allow equity recovery.

Q: What is the impact of this GAAP guidance on a utility's financial statements?

A: GAAP permits a charge to interest expense which reduces expenses and increases financial statement earnings to provide financial statement relief until the plant investment is included in rates. GAAP only permits costs that would otherwise be expensed for post-in-service capitalization. Equity does not impact an expense account and thus would not help increase financial statement earnings.

Q: What benefit does DEI receive by requesting deferral of the equity portion when it is not permitted by GAAP for financial statement relief.

A: DEI's proposal allows the company to recover more dollars from ratepayers than DEI is permitted to record on its income statement. If approved by the Commission, DEI will book a deferred asset for the amount until it is recovered later in a future rate proceeding. If the Commission grants deferred PISCC, it must permit the deferral of the debt portion of the carrying charge, per GAAP. The Commission does not have to permit the deferral of the equity portion for future recovery since it does not impact the current financial statements. The Commission has discretion in this decision and must determine whether, without this approval, DEI will suffer significant earnings erosion. It is essential to understand that, unlike debt cost, post-in-service deferral of equity does not improve earnings erosion because GAAP does not permit it to be included on the income statement.

Q: Would DEI need to increase its rates in a future rate proceeding if the deferral of equity is not approved?

A: DEI has not provided any evidence that it would be in financial distress without the additional deferral of equity.

V. TDSIC STATUTE ON PISCC

Q: What does the underlying TDSIC Statute, I.C. 8-1-39, use to describe the PISCC calculation.

A: I.C. 8-1-39-3 states,

> As used in this chapter, "pretax return" means the TDSIC revenues necessary to: (1) produce net operating income equal to the public utility's weighted average cost of capital multiplied by investments in eligible transmission, distribution, and storage system improvements; (2) pay state and federal income taxes imposed on the net operating income calculated under subdivision (1).

However, "pretax return" calculation is also later mentioned in the statute in I.C. 8-1-39-13,

> (a) For the purposes of calculating the TDSIC costs of a public utility, the commission shall determine an appropriate pretax return for the public utility. In determining the appropriate pretax return, the commission may consider the following factors: (1) The current state and federal income tax rates. (2) The public utility's capital structure. (3) The actual cost rates for the public utility's long-term debt and preferred stock. (4) The public utility's cost of common equity determined by the commission in the public utility's most recent general rate proceeding. (5) Other information that the commission determines is necessary.

The Commission used subsection 13(a) in AES Indiana's Cause No. 45264 initial plan filing order to explore the discretion it has in determining a pretax return, saying it may consider the five factors listed above. [7]

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[7] *In re Indianapolis Power and Light Company d/b/a AES Indiana.*, Cause No. 45264, Final Order p. 27 (Ind. Regul. Comm'n Mar. 4, 2020) ("Cause No. 45264").

To not address this section in favor of assuming the 8-1-39-3(1) interpretation of weighted average cost of capital supersedes this determination would remove the Commission's role of judgment in this matter.

Q: Have other utilities been granted recovery of the equity portion of deferred costs?

A: Yes. However, the OUCC's silence in other TDSIC filings concerning the equity portion treatment of deferred costs do not preclude the OUCC from addressing the issue in this cause. The flexibility granted the Commission in I.C. 8-1-39-13, coupled with the cumulative effects of TDSIC plans and the importance of affordability central to I.C. 8-1-2-0.5, along with GAAP accounting principles all support the Commission to exclude equity from DEI's PISCC recovery calculation and deny DEI's requested method.

VI. <u>TDSIC RATEMAKING</u>

Q: Under DEI's proposal, how are TDSIC costs going to be recovered through its revenue requirement?

A: Ms. Diaz explains that the TDSIC statute allows for the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. These expenditures would include eligible transmission and distribution system improvements incurred both while the improvements are under construction and post-in-service. These costs include, but are not limited to, depreciation expense, property taxes, pretax returns, O&M expenses, AFUDC, and PISCC and are recovered on a historical basis after the date in which actual costs are incurred.

Q: How does DEI propose to treat recovery of its TDSIC plan?

A: DEI is requesting recovery for expenditures for projects that are in-service at the time of the annual cut-off dates and is not requesting construction work in progress ("CWIP") treatment. This is consistent with the DEI's methodology in its current Cause No. 44720 TDSIC plan.[8] AFUDC treatment will cease until such project costs are included for recovery under the TDSIC rider, in base rates, or when the projects are placed in service.[9]

Q: Do you agree with DEI's proposed in-service treatment?

A: Yes, I support the Petitioner's proposed approach.

Q: How does DEI propose to treat TDSIC 2.0 costs not included for recovery in its Rider?

A: DEI is proposing to defer the remaining 20% of the retail jurisdictional portion until its next general retail electric base rate case, in accordance with Indiana Code 8-1-39-9(c). Under this provision, DEI requests the Commission approve the deferral for subsequent recovery of the retail jurisdictional portion of the remaining twenty (20%) of approved expenditures, AFUDC, PISCC, O&M, property taxes, and depreciation expense using a regulatory asset account until such costs are fully reflected in Petitioner's retail base rates after a general rate case. DEI requests carrying costs on the deferred costs identified above be accrued using DEI's overall WACC as most recently approved by the Commission.[10]

[8] Diaz, p. 4, line 22 through p. 5, line 4.

[9] Diaz, p. 5, lines 19-21.

[10] Diaz, p. 5, lines 5-18.

Q: What evidence did DEI provide to support O&M expense recovery in its proposed TDSIC plan?

A: Ms. Maria T. Diaz indicates that the O&M expenses are directly associated with the construction of the project.[11] The amount of these TDSIC O&M expenses is $131 million.[12] The OUCC sent a data request to petitioner inquiring whether this amount is above and beyond the O&M expenses embedded in its base rates, as approved in Cause No. 45253. Petitioner confirmed its O&M expenses in base rates were applicable to levels in a 2020 test year period and did not include these specific expenses which will be incurred starting in 2023, the first year of this new TDSIC plan.[13]

Q: Do you agree with DEI's proposed recovery of O&M expenses?

A: No. DEI responded to an OUCC data request for more support on this aspect of the plan. According to Petitioner, approximately 75% of these O&M costs are indirect project expenses of performing line transfers.[14] In my review of other utilities' electric TDSIC filings under the revised I.C. 8-1-39 statute, the only other O&M expense recovery requested was in NIPSCO's Cause No. 45557 regarding a lump sum related to an Automated Meter Infrastructure project, which was a new system for NIPSCO to administer.[15] When DEI's previous TDSIC plan in Cause No. 44720 was proposed before the Commission, it had been over a

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[11] Diaz, p. 10, lines 21-22.

[12] Diaz, p. 11, lines 9-10 and Petitioner's witness Jeremy K. Lewis's Exhibit 2-A, p. 1.

[13] See Attachment KGL-1: DEI's response to OUCC DR-2, p. 2.

[14] See Attachment KGL-4: DEI's response to OUCC DR-4, p. 1-2.

[15] *In re Northern Indiana Public Services Co. LLC*, Cause No. 45557, Final Order p. 33, 64-65 (Ind. Util. Regul. Comm'n Dec. 28, 2021) ("Cause No. 45557").

decade since its base rates were evaluated and adjusted in Cause No. 42359. It might be feasible that the expenses to operate and maintain infrastructure would increase over that period to correct any deterioration. However, with the recency of an approved TDSIC plan scheduled to conclude at the end of 2022, and a base rate case order on June 29, 2020, (Cause Nos. 44720 and 45253 respectively), existence of O&M costs over and above what are currently being recovered through the Rider 65 and in base rates is unsubstantiated.

Q: What do you recommend regarding Petitioner's request to recover O&M expenses?

A: I would recommend denial of DEI's O&M expenses in this Cause. However, if the Commission grants Petitioner's request, Petitioner bears the burden to demonstrate in its supporting documentation that these O&M costs are not duplicative of O&M Petitioner has already received through its general rate case allowance for costs of operation. Improved and replaced assets should, if any change, spur a lower threshold requirement for ongoing O&M costs.

VII. DEPRECIATION EXPENSE TREATMENT

Q: Is DEI requesting to change its approved accounting and ratemaking treatment for its TDSIC plan compared to what was approved in Cause No. 44720?

A: Yes. Petitioner is proposing to offset depreciation expense by netting the replaced/retired assets against the replacements/additions of new TDSIC assets. DEI is proposing to use a 5-year average of FERC Form 1 retirement ratios to project depreciation offsets and will reconcile the forecasted offsets to actual retirements in later filings.[16] The Commission has approved the use of average rate of retirement percentages in another TDSIC tracker[17].

Q: How does DEI propose to calculate the reduction of replaced project depreciation expense for its TDSIC projects?

A: Ms. Diaz provides Workpaper 4-MTD that demonstrates the reduction of depreciation expense by calculating an average of the last five years of transmission and distribution retirements on its FERC Form 1. In the case of transmission retirements, the average retirement rate is 21.1%[18]. When this is applied to the increases in transmission investment multiplied by the depreciation rate of 2.19%,[19] produces the average reduction in transmission depreciation expense because of retirement of retirement plant. The same calculation is used on distribution plant retirements with slightly different deprecation rate and average retirement rate.

Q: Do you agree with this proposed change to DEI's TDSIC recovery?

A: Yes. I support DEI's proposed change to reconcile forecasted depreciation offsets for retired assets against actual retirements. This recognition benefits ratepayers, as the utility is acknowledging that the customer is contributing to supporting the availability and costs of maintaining used and useful assets providing service on the system. The utility is receiving an incentive reduced regulatory lag on its

[16] See Attachment KGL-1, pp. 1 and 3.

[17] *In re NIPSCO for approval of TDSIC, Final Order* (Dec. 28, 2021), Cause No. 45557, pp. 65-66.

[18] Petitioner's WP-4 (MTD), column C.

[19] Petitioner's WP-3 (MTD), p. 1, line 10 and p. 2, line 10.

transmission and distribution assets providing this electrical service to customers, which accounts for the additional assets' costs being added for recovery. The replaced assets, which are no longer used and useful, are still recorded in regulatory rate base and are the basis for foundational base rates charged to customers. To have an intra-rate case rider to recognize additional improvements and repairs to the utility's system, while still collecting recovery on the replaced and retired assets would create reverse regulatory lag in the utility's favor until base rates are reset when evaluated in the next general rate case.

VIII. RETIRED PLANT

Q: What is DEI's treatment of retired TDSIC plant in this Cause?

A: As stated in the previous section, Ms. Diaz explains in her testimony, "[t]he Company has estimated and included depreciation expense reductions for retirements in this plan filing so as to not recover new and replacement project depreciation expense on both additions and the retired asset."[20].

Q: Do you have any objections to DEI's proposed retirement recognition?

A: Yes. In this Cause, DEI has agreed to recognize the reduction of depreciation expense from the retirement and replacement of TDSIC investment embedded in base rates but has not reduced revenue requirement for embedded net book value of the replaced TDSIC investment used to calculate a return "on" those investments. Because of this, DEI's rates are higher and less affordable than they should be. In DEI's proposal, it will reconcile the estimate with actual retirement

[20] Diaz, p. 8, lines 17-19.

data. However, when approved, the new TDSIC investments will earn a return "on" and a return "of" and include additional related expenses in the TDSIC tracker. Older, replaced infrastructure, which is no longer used and useful, will remain in base rates earning a return "on" the net book value and a return "of" as of the last base rate case which for DEI, was as of December 31, 2020, when Step 2 rates took effect per the final order in Cause No. 45253.

Q: Does reducing revenue requirement for replaced TDSIC investments impede the timely recovery of new TDSIC costs?

A No. All costs including capital costs, depreciation, O&M and associated taxes are fully recovered on the new investments in TDSIC trackers. The reduction from revenue requirement on costs associated with replaced TDSIC investments does not reduce the recovery on the new TDSIC investments. However, it would reduce the overall increase to DEI's customers and thereby improve the affordability of DEI's electric rates.

Q: Does the TDSIC statute prevent the recognition of ratemaking treatment on replaced investment that are still included in base rates?

A: No. The TDSIC statute does not specifically mention this type of treatment; however, this does not prevent the reality that an excess recovery does occur when new plant investment gets full recovery outside a base rate case without acknowledging that the costs of the older plant, still embedded in base rates, will still be recovered even after removal. Proper ratemaking treatment under the circumstances presented would require corrective regulatory recognition. The Commission should recognize that cost recovery on property that is not "used and useful" in the provision of utility service is not consistent with regulatory theory and practice. Petitioner's proposal allows for recovery of funds to which it is not entitled and negatively impacts customer rates.

IX. OUCC RECOMMENDATIONS

Q: Please summarize your recommendations to the Commission in this Cause.

A: I recommend the Commission:

1) Consider the overall affordability of DEI's Plan;

2) If the Commission approves any portion of DEI's Plan, approve Petitioner's proposed treatment to recover investments in-service as of the cut-off date;

3) Remove the equity component from Petitioner's proposal for post-in-service carrying costs ("PISCC") treatment to accrue both debt and equity financing on approved capital expenditures from the in-service date until such costs are included in the Company's rates through the TDSIC tracker ("Rider 65") or in base rates; and

4) Limit Petitioner's recovery of operations and maintenance ("O&M") expense to the amount DEI has justified as incremental expense above and beyond what was approved in its base rate case, Cause No. 45253.

5) Approve Petitioner's proposal to offset to depreciation expense through a rolling 5-year FERC Form 1 estimated retirement ratio and later reconciliation to actual retirements;

6) In light of the Affordability Statute, require DEI to recognize an offset in its revenue requirement for the return earned on the embedded net book value of retired assets which are no longer used and useful.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from the Kelley School of Business of Indianapolis in 2014 with a Bachelor of Science in Business with majors in Accounting and Finance. I am licensed in the State of Indiana as a Certified Public Accountant. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Spring 2018 Conference held by New Mexico State University and the Intermediate Course Fall 2019 conference held by the Institute of Public Utilities at Michigan State University. In September 2019, I attended the annual Society of Depreciation Professionals conference held in Philadelphia and the Basics of Depreciation course.

Q: Have you previously testified before the Commission?

A: Yes.

Q: Please describe your duties and responsibilities at the OUCC.

A: I review Indiana utilities' requests for regulatory relief filed with the Indiana Utility Regulatory Commission ("Commission"). My scope of review is typically focused on accounting and utility ratemaking issues. This involves reading testimonies of petitioners and intervenors, previous orders issued by the Commission, and any appellate opinions to inform my analyses. I prepare and present testimony based on these analyses and make recommendations to the Commission on behalf of Indiana utility consumers.

AFFIRMATION

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

Kaleb G. Lantrip
Utility Analyst II
Indiana Office of Utility Consumer Counselor

Cause No. 45647
Duke Energy Indiana, LLC

Date: February 18, 2022

OUCC
IURC Cause No. 45647
Data Request Set No. 2
Received: January 18, 2022

OUCC 2.1

Request:

In Petitioner's Exhibit 6, page 8-9, witness Maria T. Diaz addresses the netting of depreciation on retired plant against the depreciation on new plant. Is Petitioner proposing to estimate the plant retirements for a future period as an offset in revenue requirement, then adjust for the actual calculations supporting the reductions for depreciation expense credits when reconciling periods in those future filings? If no, please explain.

Response:

In the rider filings used to set rates, the Company proposes to estimate depreciation expense credits as an offset to the forecasted depreciation expense included in the revenue requirement. In future rider filings, reconciliations will occur that true up the forecasted depreciation expense to actual depreciation expense including retirement credits.

Witness: Maria Diaz

OUCC
IURC Cause No. 45647
Data Request Set No. 2
Received: January 18, 2022

OUCC 2.2

Request:

In Petitioner's Exhibit 2, page 34-35, witness Jeremy K. Lewis addresses cost estimates for the TDSIC 2.0 plan, which includes project O&M estimates. Please provide additional support or information justifying the proposed for additional O&M expenses beyond the amounts approved in its recent Cause No. 45253 base rate case.

Response:

The amounts approved in the base rate case in Cause No. 45253 are for O&M levels applicable to a 2020 test period and did not include specific project O&M expenses which will be incurred starting in 2023, which is the year that TDSIC 2.0 projects are to commence as part of the execution of the TDSIC 2.0 plan. All O&M in the TDSIC 2.0 plan is incremental and directly related to capital projects. These expenses include inspection costs, line transfers, and other miscellaneous project-related expenses.

Witness: Maria Diaz / Jeremy Lewis

OUCC 2.3

Request:

In Maria T. Diaz's public workpaper 4-MTD, a five-year average of additions and retirements is used. Is Petitioner proposing to implement a retirement netting process using a five-year average of FERC Form 1 retirement data?

Response:

Yes, Duke Energy Indiana proposes to develop a 5-year ratio of retirements to additions using the most recent FERC Form 1's to implement the related depreciation expense credits.

Witness: Maria Diaz

March 22, 2019. Actual future bills will depend on any changes in the various tracking factors after March 22, 2019.

Duke Energy Indiana, LLC
Cause No. 44367 FMCA-4
Residential Customer Bill using 1,000 kWh

Description	kWh	Rate		$	% of Bill
Customer Charge				9.01	7.35%
Energy Charge for first 300 kWh	300	0.089116	(1)	26.74	21.80%
Energy Charge for Next 700 kWh	700	0.051948	(1)	36.36	29.66%
Base Customer & Energy Charge	1000			72.11	58.81%
FAC Rider	1000	0.014484	(1)	$ 14.48	11.81%
Integrated Coal Gasification Combined	1000	0.014814	(1)	14.81	12.08%
Environ Comp. Invest. Rider	1000	0.003142	(1)	3.14	2.56%
SO2, Nox, and Hg Emission	1000	-0.000002	(1)	0.00	0.00%
Transmission & Dist Infrastructure	1000	0.003667	(1)	3.67	2.99%
Energy Efficiency Revenue Adjustment	1000	0.004557	(1)	4.56	3.72%
Tax and Merger Credits Adjustment	1000	-0.001015	(1)	-1.02	-0.83%
MISO Rider	1000	0.0038	(1)	3.80	3.10%
Reliability Adjustment Rider	1000	0.000577	(1)	0.58	0.47%
Environ Comp. Op. Cost Adj.	1000	0.006078	(1)	6.08	4.96%
FMCA Rate Adjustment	1000	0.000042	(2)	0.04	0.03%
Renewable Energy Project Adj.	1000	0.000364	(1)	0.36	0.30%
Tracker Charges				$ 50.51	41.19%
Total Billing Amount				$ 122.62	100.00%
Base Customer & Energy Charge				$ 72.11	58.81%
Other Trackers (non FCA)				36.02	29.38%
FAC				14.48	11.81%
Total				$ 122.62	100.00%

(1) Per Duke Energy Indiana's Tariff as of March 22, 2019
https://www.duke-energy.com/home/billing/rates/electric-tariff

(2) FMCA Factor proposed in this filing for Rate RS.

TDSIC Investment Balance Estimated Post-In-Service Carrying Cost Calculation
($ in Thousands)

		6 Year TDSIC Plan								
Rate:	*5.77%*	2024	2025	2026	2027	2028	2029	2030	2031	Totals
DEI 80% Recovery		$ 5,127	$ 15,775	$ 26,378	$ 35,788	$ 29,466	$ 25,219	$ 16,031	$ 1,404	$ 155,188
DEI 20% Deferred		$ 1,284	$ 7,794	$ 18,418	$ 28,724	$ 34,208	$ 28,409	$ 22,929	$ -	$ 141,766
Total										296,954
Rate:	*1.54%*									
OUCC 80% Recovery		$ 1,092	$ 3,288	$ 5,423	$ 7,269	$ 5,813	$ 4,950	$ 3,047	$ 69	$ 30,882
OUCC 20% Deferred		$ 274	$ 1,645	$ 3,823	$ 5,886	$ 6,913	$ 5,603	$ 4,476		$ 28,620
										59,502
								Difference:		(237,452)

OUCC
IURC Cause No. 45647
Data Request Set No. 4
Received: February 3, 2022

OUCC 4.1

Request:

As a follow up on OUCC DR-2.2, please provide a breakdown of O&M expenses between inspection costs, line transfers, and miscellaneous expenses.

Response:

The breakdown of O&M expenses expected to be incurred during TDSIC 2.0 is comprised of approximately 7% of inspection costs, 75% of line transfers, 3% of galloping mitigation, and 15% of other miscellaneous expenses.

Witness: Jeremy Lewis

OUCC
IURC Cause No. 45647
Data Request Set No. 4
Received: February 3, 2022

OUCC 4.2

Request:

Please provide additional detail about Petitioner's decision-making process and factors considered in determining whether Petitioner ultimately determines a cost as either Labor or O&M.

Response:

In reference to the cost drivers outlined in Petitioner's Exhibit 2-A to the direct testimony of Mr. Lewis, the differentiating factor between "Labor" considered capital and "O&M" is whether the activity performed is directly related to the installation of a capital unit of property. All tasks directly related to the installation of a capital unit of property are considered capital "Labor", while all project expenses not incurred directly for this purpose are "O&M".

Witness: Jeremy Lewis

OUCC
IURC Cause No. 45647
Data Request Set No. 4
Received: February 3, 2022

OUCC 4.3

Request:

If Petitioner's TDSIC Plan and rider are approved in Cause No. 45647, please address the following with respect to TDSIC costs attributable to projects included Cause No. 44720:

a. Does Petitioner anticipate requesting a modification to DEI's TDSIC Rider 65 such that it will be permitted to recover TDSIC costs for the 44720 Plan and the 45647 Plan simultaneously?

b. Does Petitioner anticipate DEI's Cause No. 44720 non-base rate base balances will be reconciled as a line item included within the 45647 Plan's revenue requirement rate calculation?

c. If DEI's proposed treatment is other than described in OUCC DR 4.3(b), please explain Petitioner's proposed treatment.

Objection:

Duke Energy Indiana objects to subpart (a) of this request as the term "modification" is vague and ambiguous.

Response:

Subject to and without waiving or limiting its objections, Duke Energy Indiana responds as follows:

a. No. The Company does not anticipate having to change the language in the TDSIC Rider 65 as it currently makes references to plan costs in general and not costs by a particular plan.

b. At this time, the Company anticipates reconciling Cause No. 44720 non-base rate base balances as a line item included within the 45647 Plan's revenue requirement rate calculation.

c. Not applicable. See response to OUCC DR 4.3(a).

Witness: Maria Diaz

A14. Depreciation expense will be charged to Account 403, Depreciation Expense, with a corresponding credit to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

Q15. What process will IPL use to segregate O&M expenses that will be included in future ECCRA filings?

A15. The Company's accounting system uses project numbers, in conjunction with account numbers, to separate costs for accounting and reporting purposes. IPL's work management and timekeeping systems will facilitate this segregation of labor, materials and other expenses incurred for the operation and maintenance of a project.

Q16. What is AFUDC?

A16. AFUDC is the Allowance for Funds Used During Construction and represents the cost of funds used to finance utility plant during the construction phase of a project. These costs are recorded and capitalized as a part of the total cost of the project. AFUDC is defined in the USOA which has a specific formula for calculating and determining the AFUDC rate.

Q17. What procedures exist regarding the accounting for AFUDC and depreciation as of the in-service date of a construction project?

A17. Unless special authorization is obtained, when plant or a portion thereof previously under construction is placed in service, the accrual of AFUDC on such property ceases. Also, the recording of depreciation expense begins on the in-service date and continues over the anticipated life of the plant.

Q18. Will IPL continue to incur capital costs on a construction project after its in-service date?

A18. Yes, it will. The cost of capital continues throughout the life of utility plant. This cost is recognized during the construction period by the inclusion of AFUDC as a component of construction costs. After new plant is placed in service and included in rate base, this cost is recovered through the opportunity to earn a fair return on the value of that plant investment. Moreover, once the project is placed in service, the depreciation relating to the project qualifies for inclusion in the utility's recoverable operating expenses for ratemaking purposes.

Q19. What specific relief is IPL seeking with respect to the continuation of AFUDC and the deferral of depreciation?

A19. IPL requests that the Commission authorize the Company:

- To continue the accrual of AFUDC (both debt and equity) and to defer the accrual of depreciation expense on the Projects from its in-service date(s) until the date of a Commission order authorizing recovery of a return and including depreciation expense thereon in IPL's recoverable operating expenses;

- To record such post-in-service AFUDC (both debt and equity) and deferred depreciation as regulatory assets in Account 182.3 Other Regulatory Assets;

- To amortize such regulatory assets as a recoverable expense for ratemaking purposes over the estimated life of the Projects commencing on the date of the order authorizing recovery of a return on the Projects and including depreciation expense thereon in IPL's recoverable operating expenses; and

- To include the unamortized portion of the regulatory assets in IPL's rate base upon which it is permitted to earn a return.

Harding Street 5&6 Refueling Accounting and Ratemaking Treatment

Q20. You stated that IPL is requesting timely recovery of 80% of the costs of the Harding Street 5&6 Refueling and deferral of the remaining 20% under I.C. 8-1-8.4. Will these costs be incurred as a result of a federally mandated requirement as defined in this statute?

A20. Yes. As explained by Witnesses Crawford and Oliger, IPL cannot continue to operate Units 5 and 6 at its Harding Street Station beyond April 16, 2016 without investing in infrastructure to reduce emissions at this facility to a level that complies with the United States Environmental Protection Agency's ("USEPA") Mercury and Air Toxic Standards ("MATS") rule. The statute specifically identifies any other law, order, or regulation administered or issued by the USEPA can be determined by the Commission to be a federally mandated requirement.

Q21. You also stated the IPL is requesting the timely recovery through the Company's ECCRA mechanism. Please explain how it functions.

A21. Subsequent to approval of IPL's original CPCN and associated rate recovery mechanism in Cause No. 42170, as modified in Cause Nos. 42700 and 43403, IPL has made periodic filings to reflect clean coal technology ("CCT") investments in rates at approximately six month intervals. The result is an ECCRA Factor that is a charge per kilowatt-hour ("kWh") determined by dividing the amount of costs to be timely recovered, which are

CERTIFICATE OF SERVICE

This is to certify that a copy of ***OUCC Public's Exhibit No. 2 Testimony of OUCC Witness Kaleb G. Lantrip*** has been served upon the following parties of record in the captioned proceeding by electronic serve on February 18, 2022.

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