

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA)
MICHIGAN POWER COMPANY (I&M), AN)
INDIANA CORPORATION, FOR APPROVAL)
OF AN ADJUSTMENT TO ITS RATES)
THROUGH ITS ENVIRONMENTAL COST)
RIDER (ECR) PURSUANT TO THE)
ONGOING REVIEW PROCESS APPROVED)
BY THE COMMISSION'S ORDER IN CAUSE)
NOS. 44871 AND 45235.)

CAUSE NO. 44871
ECR-04

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

TESTIMONY OF

WES R. BLAKLEY – PUBLIC'S EXHIBIT NO. 1

OCTOBER 1, 2020

Respectfully submitted,



T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 44871 ECR-4
INDIANA MICHIGAN POWER COMPANY

I. INTRODUCTION

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

2 A: My name is Wes R. Blakley and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am a Senior Utility Analyst for the Office of Utility Consumer Counselor
6 ("OUCC").

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

8 A: The purpose of my testimony is to review and comment on Indiana Michigan
9 Power Company's ("I&M") request to recover Rockport Unit 2 Selective
10 Catalytic Reduction ("SCR") Compliance Project construction and operation costs
11 through its Environmental Cost Recovery ("ECR") Rider (i.e. tracker).

II. REVIEW AND ANALYSIS

12 **Q: Please describe the review and analysis you conducted in order to prepare**
13 **your testimony.**

14 A: I read I&M's testimony, exhibits, and workpapers in its case-in-chief. I reviewed
15 the Indiana Utility Regulatory Commission's ("Commission") Cause No. 44871
16 ECR-3 Order, dated September 18, 2019.

17 **Q: Please describe generally the information contained in the workpapers.**

18 A: I&M's workpapers contain internal accounting system reports and spreadsheets
19 allocating or assigning costs to retail jurisdictional operations. These are mostly
20 the same workpapers provided in past proceedings.

1 **Q: What is I&M requesting?**

2 A: I&M is requesting the Commission adjust its current ECR factors previously
3 approved in Cause No. 44871 ECR-3 related to the costs of its Rockport Clean
4 Coal Technology Project being constructed by the American Electric Power
5 Service Corporation, on behalf of I&M, to retrofit Rockport Unit 2 with SCR
6 technology. The costs recovered in this filing include a return on construction
7 work in progress and completed plant investment, depreciation expense, operation
8 and maintenance expenses including consumables, taxes and reconciliations.

9 **Q: Has the Commission issued an Order in I&M's rate case, Cause No. 45235?**

10 A: Yes. The Commission issued its Cause No. 45235 Order on March 11, 2020,
11 approving I&M's rate increase.

12 **Q: Does the Commission's Cause No. 45235 Order affect this ECR filing?**

13 A: Yes. I&M's ECR-4 includes a reconciliation cutoff date of March 31, 2020.
14 Therefore, the following cost element changes, resulting from the Cause No.
15 45235 Order, are included in ECR-4: 1) a depreciation rate change from 10% to
16 12%; 2) a change in total company demand and energy allocation factors to be
17 charged to Indiana customers; 3) a cost of equity change to 9.7%, which alters the
18 overall weighted cost of capital; and 4) I&M's base rates include an embedded
19 amount of consumable expense related to the operation of its ECR Rider. For
20 approximately 68% of the month of March these new costs were in effect and
21 have been reflected in ECR-4.

1 **Q: Are there other issues in the Cause No. 45235 Order that affect this ECR**
2 **tracker?**

3 A: Yes. As a result of the Cause No. 45235 Order, I&M will submit its Phase II base
4 rates in January 2021. At that time, Step 1 ECR-4 rates will be instituted. Once
5 the Phase II rates are approved, most of Step 1 ECR-4 costs will be included in
6 base rates and, as a result, the ECR-4 revenue requirement will be changed in
7 I&M's Step 2 revenue requirement calculation.

8 **Q: Please explain I&M's Step 1 ECR-4 revenue requirement.**

9 A: The Step 1 revenue requirement includes a return "on" and a return "of" through
10 depreciation on Rockport Unit 2 SCR, plus a credit for embedded consumables in
11 base rates, and a variance credit for over-recovery of ECR revenues through the
12 reconciliation period ending March 31, 2020. This results in a \$8,457,908 Step 1
13 revenue requirement that will be billed starting January 1, 2021.

14 **Q: Please explain I&M's Step 2 ECR-4 revenue requirement.**

15 A: Step 2 rates will be instituted when Phase II certification is approved by the
16 Commission, as to the amount of used and useful property that is complete and
17 included in I&M's base rates. Once this is determined, Step 2 ECR rates will
18 reflect the removal, from the ECR tracker, of the return "on" and "of" through
19 depreciation on the Rockport Unit 2 SCR included in Step 1 rates. Since
20 consumables are embedded in base rates, these costs will continue to be tracked in
21 the ECR Rider, adjusting for over/under recovery variances. Also continuing to be
22 calculated and included in the ECR Rider is the over/under recovery variance for
23 ECR revenues. The Step 2 factors will be implemented soon after the Cause No.
24 45235 Phase II rates are approved, and will include a \$5,465,368 credit.

1 **Q: If the forecasted costs included in ECR Step 1 are more than what the Phase**
2 **II certification process finds, will customers be credited for the overcharge?**

3 A: Yes. If actual ECR costs approved in Step 1 are below forecast, I&M will include
4 a credit for the over-recovery in the next ECR tracker filing. The Phase II
5 certification process reviews all plant investment to make sure it is used and
6 useful at the end of the test year, and if it is determined to be less than forecasted,
7 base rates will also be adjusted downward.¹

8 **Q: What revenue requirement does I&M propose in ECR-4?**

9 A: For Step 1 rates, the total jurisdictional revenue requirement I&M requests on
10 Rockport Unit 2 SCR project is \$8,457,908. This includes the jurisdictional IRP
11 credits. A typical residential customer using 1,000 kWh of electricity per month
12 will see a monthly rate increase of \$0.03 or 0.0%. For Step 2 rates, (\$5,465,368)
13 is removed from the ECR tracker as the Phase II rates are certified and approved
14 by the Commission and included in base rates. This amount also includes the
15 jurisdictional IRP credits. A typical residential customer using 1,000 kWh of
16 electricity per month will see a monthly rate decrease of \$1.45 or 1.0% from what
17 the customer is paying under Step 1.

III. CONCLUSION AND RECOMMENDATION

18 **Q: What do you conclude regarding I&M's ECR Step 1 and Step 2 adjustment**
19 **factors related to the Rockport Clean Coal Technology SCR project for the**
20 **relevant period?**

21 A: After reviewing I&M's calculations, I conclude I&M's estimated Step 1 and Step
22 2 ECR adjustment factors are not unreasonable.

¹ Cause No. 45235, Final Order dated March 11, 2020, page 80.

1 **Q: What do you recommend?**

2 A: I recommend the Commission approve I&M's proposed Step 1 and Step 2 ECR
3 adjustment factors.

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

5 A: Yes.

APPENDIX A

1 **Q: Please describe your educational background and experience.**

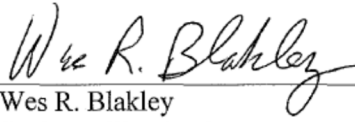
2 A: I received a Bachelor of Science Degree in Business with a major in Accounting
3 from Eastern Illinois University in 1987 and worked for Illinois Consolidated
4 Telephone Company until joining the OUCC in April 1991 as a staff accountant.
5 Since that time, I have reviewed and testified in hundreds of tracker, rate cases
6 and other proceedings before the Commission. I have attended the Annual
7 Regulatory Studies Program sponsored by NARUC at Michigan State University
8 in East Lansing, Michigan as well as the Wisconsin Public Utility Institute at the
9 University of Wisconsin-Madison Energy Basics Program.

10 **Q: Have you previously testified before the Commission?**

11 A: Yes.

AFFIRMATION

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

A handwritten signature in black ink, reading "Wes R. Blakley". The signature is written in a cursive style with a horizontal line extending to the right.

Wes R. Blakley
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor

Cause No. 44871 ECR-04
Indiana Michigan Power

October 1, 2020

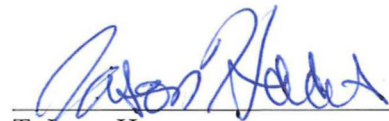
Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the ***OUCC TESTIMONY OF WES R. BLAKLEY*** has been served upon the following parties of record in the captioned proceeding by electronic service on October 1, 2020.

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