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

FILED
May 10, 2022
INDIANA UTILITY
REGULATORY COMMISSION

DIRECT TESTIMONY
OF
JESSICA L. THAYER
DIRECTOR OF PROPERTY ACCOUNTING

ON

SECURITIZATION CRITERIA, PLANT ORIGINAL COST,
DEPRECIATION AND COST OF REMOVAL

SPONSORING PETITIONER'S EXHIBIT NO. 4,
ATTACHMENTS JLT-1 THROUGH JLT-7

DIRECT TESTIMONY OF JESSICA L. THAYER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jessica L. Thayer. My business address is 1111 Louisiana, Houston, Texas, 77002.

Q. By whom are you employed?

A. I am employed by CenterPoint Energy Service Company, LLC (the "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 (the "Petitioner", the "CEI South", or the "Company").

Q. On whose behalf are you submitting this direct testimony?

A. I am submitting testimony on behalf of CEI South.

Q. What is your role with respect to Petitioner CEI South?

A. I am Director of Property Accounting for CenterPoint Energy, Inc., the ultimate parent company of CEI South.

Q. Please describe your educational background.

A. I hold a Bachelor of Business Administration in Management from the University of Oklahoma and a Master of Business Administration with an emphasis in Finance from Sam Houston State University. I am also a Certified Public Accountant ("CPA") in the State of Texas.

Q. Please describe your professional experience.

A. I have been employed by the Service Company since 2006. My first role was as a Lead Accountant in the Property Accounting department. In 2009, I was promoted to Supervisor of Property Accounting, with responsibility for regulated electric operations.

I was promoted to Property Accounting Manager in 2011 and assumed responsibility for all CenterPoint Energy, Inc.'s fixed assets, including CEI South's fixed assets. In 2019, I was promoted to Director. I have responsibility for Property/Plant teams in Houston, Texas and Evansville, Indiana.

Q. What are your present duties and responsibilities as Director of Property Accounting?

A. My teams are responsible for the timely and accurate recording and reporting of fixed asset transactions, to include asset additions and retirements, for all the utility subsidiaries of CenterPoint Energy, Inc. In addition, my teams are responsible for the posting of depreciation, Allowance for Funds Used During Construction ("AFUDC"), and asset transfers.

Q. Have you ever testified before the Indiana Utility Regulatory Commission (the "Commission") or any other state regulatory commission?

A. No.

II. <u>PURPOSE AND SCOPE</u>

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

A. In my testimony, I address the criteria that an Indiana electric utility must meet to petition the Commission for authority to issue securitization bonds and collect associated securitization charges. In addition, I present the book values associated with the A.B Brown Power Plant Units 1 & 2 ("Brown Units 1 & 2"), including both current and projected gross plant balances; and current and projected depreciation. As part of total accumulated depreciation, I discuss the current and projected depreciation reserve corresponding to the cost of removal. I also provide the inflation adjustment to Petitioner's Witness Jeffrey T. Kopp's projected cost to decommission, demolish, and restore the Brown Units 1 & 2 site. Finally, I discuss the required mapping of applicable Qualified Costs to costs that are currently included in utility rates.

Q. Are you sponsoring any attachments in this proceeding?

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

- Petitioner's Exhibit No. 4, **Attachment JLT-1**: Jurisdictional Electric Rate Base
- Petitioner's Exhibit No. 4, **Attachment JLT-2**: Qualified Cost Plant Balances by FERC USOA as of 12/31/2021
- Petitioner's Exhibit No. 4, **Attachment JLT-3**: Projections of Plant Balances to be Retired and Reused
- Petitioner's Exhibit No. 4, **Attachment JLT-4**: Projections of Annual Depreciation and Cost of Removal Expense
- Petitioner's Exhibit No. 4, **Attachment JLT-5**: Mapping of Applicable Qualified Costs to Costs Currently in Utility Rates
- Petitioner's Exhibit No. 4, **Attachment JLT-6**: Net Book Value of Specific Retired Assets as of 12/31/2021
- Petitioner's Exhibit No. 4, **Attachment JLT-7**: Net Book Value of Specific Reused Assets as of 12/31/2021

Q. Were these attachments prepared by you or under your supervision?

A. Yes, they were.

III. SECURITIZATION CRITERIA, QUALIFIED COSTS AND THE 5% TEST

Q. Please explain why the level of Qualified Costs is relevant to this proceeding.

A. Subject to meeting certain criteria, Ind. Code § 8-1-40.5-10(a) provides a threshold for Qualified Costs that an electric utility must meet to file a petition with the Commission for authority to issue securitization bonds, collect securitization charges, and encumber securitization property with a lien and security interest. Specifically, Ind. Code § 8-1-40.5-10(a) requires that Qualified Costs must be at least five percent (5%) of the electric utility's total jurisdictional electric rate base in order to petition the Commission for authority to pursue securitization under Ind. Code § 8-1-40.5 (the "Securitization Act").

Q. Please elaborate on the respective criteria that must be met under the Securitization Act.

A. Ind. Code § 8-1-40.5-3 requires that the utility own or operate electric generation used to serve Indiana customers; be subject to the jurisdiction of the Commission; and have no more than 200,000 retail electric customers at the time of filing a petition. Additionally, Ind. Code § 8-1-40.5-6 requires that the electric generation facility be retired from service not later than 24 months after filing a petition.

Q. Does the CEI South satisfy these criteria?

A. Yes, it does. In addition to owning electric generating assets such as Brown Units 1 & 2, CEI South is subject to the jurisdiction of this Commission, has approximately 150,000 electric customers, and has filed a petition in this cause within 24 months of when Brown Units 1 & 2 are scheduled to be retired.

Q. Please explain whether the Company's Qualified Costs are at least 5% of the electric utility's total jurisdictional electric rate base in accordance with Ind. Code § 8-1-40.5-10(a).

A. In Petitioner's Exhibit No. 4, Attachment JLT-1, I have calculated the jurisdictional electric rate base as of 12/31/2021, which totals $1,659,751,577. As described in further detail by Petitioner's Witness Brett A. Jerasa, the Estimated Total Qualified Costs total approximately $359,397,933. Dividing the Estimated Total Qualified Cost ($359,397,933) by CEI South's jurisdictional electric rate base ($1,659,751,577) equals approximately 21.6%, which exceeds the 5% threshold.

IV. ESTIMATED TOTAL QUALIFIED COSTS RELATED TO BROWN UNITS 1 & 2

Q. Please describe which of the individual components of the Estimated Total Qualified Costs you support in your testimony.

A. I support the following components related to Brown Units 1 & 2 from Table 1 of Petitioner's Exhibit No. 2 – the Direct Testimony of Witness Jerasa:

TABLE JLT-A

		Amount as of 2/28/2023
[1]	Brown 1 & 2 Original Cost	798,297,876
[2]	Accumulated Depreciation (excluding Cost of Removal)	(534,035,130)
[3]	Cost of Removal Reserve	(6,042,788)

Q. Please describe the costs shown in Table A above.

A. In Petitioner's Exhibit No. 4, Attachment JLT-2, I have provided the 12/31/2021 Brown Units 1 & 2 Original Cost, Accumulated Depreciation (excluding the Cost of Removal), and the Cost of Removal Reserve balances by Federal Energy Regulatory Commission ("FERC") Uniform System of Account ("USOA") number. While reused plant assets are excluded from the balances shown above in Table JLT-A, Attachment JLT-2 reflects the combination of Brown Units 1 & 2 assets to be retired and the plant assets to be reused. In Petitioner's Exhibit No. 4, Attachment JLT-3, I provide the 12/31/2021 overall Brown Units 1 & 2 balances, but also provide the breakdown into retired and reused asset components. In addition, Attachment JLT-3 projects each of these balances forward to 2/28/2023 by incorporating projected capital additions, retirements, depreciation, and cost of removal accruals. Capital additions, retirements, depreciation, and cost of removal accruals for the partial year of 2023 (year ending 2/28/2023) were estimated by multiplying annual projections by 2/12.

Q. Please describe the capital projection process.

A. Capital projections for Brown Units 1 & 2 have been prepared for addition and retirement activities. Capital additions are comprised of both newly installed assets and replacement assets. New installation activities result only in capital additions. Replacement activities result in both capital additions and capital retirements. Projections for both new additions and replacements are developed on an annual basis, with monthly updates to the forecast resulting from new information. Attachment JLT-3 incorporates the expected annual capital additions for Brown Units 1 & 2 through 2023. Allocation of replacement dollars between additions and cost of removal related to retirements was estimated by using the three-year average of removal cost as a percentage of capital additions for years 2018-2020. Similarly, estimated planned retirements were calculated using a three-year average of retirements as a percentage of capital additions for years 2018-2020.

Q. What is the source of the book depreciation rates that have been utilized?

A. The book depreciation rates that have been utilized to calculate both jurisdictional electric rate base and undepreciated plant balances are the same depreciation rates that were approved in the Company's last base rate case (Cause No. 43839, Order issued April 27, 2011).

Q. Are the plant balances shown in Table JLT-A consistent with how these items will be reflected in the Company's accounting records as of 2/28/2023?

A. No, they are necessarily different. As explained by Petitioner's Witness Ryan P. Harper, most of the original cost of Brown Units 1 & 2 assets to be retired, net of accumulated depreciation, will be moved into a Regulatory Asset upon the issuance of a final Financing Order (the "Financing Order date") in this Cause. Approximately $6 million of the original cost of Brown Units 1 & 2 will remain in plant-in-service to cover the amount of depreciation expense that will be incurred on the approximately $798 million total gross Brown 1 & 2 plant cost between the Financing Order date and the date securitization bonds are issued, utilizing currently approved depreciation rates.

Q. Does the fact that there will be only a nominal amount of original cost, depreciation, and cost of removal accrual for Brown Units 1 & 2 after the Financing Order date create a disconnect with the 2/28/2023 Brown Units 1 & 2 plant balances shown in Table JLT-A?

A. No, it does not. Witness Harper explains why the 2/28/2023 plant balances shown in Table JLT-A reflect the estimated amounts to be securitized.

V. <u>REMOVAL AND RESTORATION (DECOMMISSIONING)</u>

Q. Does the Indiana Administrative Code (Administrative Code) provide guidance on what costs make up removal and restoration costs?

A. Yes. The Administrative Code defines removal costs as those costs incurred or expected to be incurred to physically remove retired utility generation facilities that have not already been recovered from customers.[1] Restoration costs are defined as those costs incurred or expected to be incurred to restore the site of retired utility generation facility to a reasonable state, that have not already been recovered from customers, and that have been found to be just and reasonable by the Commission.[2]

Q. Does the Company have estimates for removal and restoration costs for Brown Units 1 & 2?

A. Yes, Petitioner's Exhibit No. 5 – the Direct Testimony of Jeffrey T. Kopp provides the study and resulting cost projection to decommission, demolish, and restore the site at Brown Units 1 & 2, including environmental remediation. As Petitioner's Witness Kopp discusses in more detail, the estimated projection is $24,502,000 (in 2021 dollars).

Q. Does the estimated cost to decommission, demolish, and restore the site provided by Witness Kopp match the costs that are shown in Witness Jerasa's Table BAJ-1?

A. Yes, but on an inflation-adjusted basis. Commensurate with the 2023 securitization bond issuance, the 2021 cost projections contained in Witness Kopp's direct testimony equal $26,771,245 in 2023 dollars.[3] In accordance with Commission rules, these costs are then reduced by the total amount of Brown Units 1 & 2 cost of removal reserves that the Company will have already recovered from customers and set aside by 2/28/2023[4] for this purpose. The calculated difference between the inflated total cost to decommission, demolish, and restore the Brown Units 1 & 2 site and the accrued cost of removal reserve equals the net cost of removal and restoration described in

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[1] 170 IAC 4-10-4(e).

[2] 170 IAC 4-10-4(f).

[3] IHS Markit March 2022 Consumer Price Index Projections: 2022 -- 6.18%; 2023 – 2.60%. The 1898 & Co. Decommissioning, Demolition and Restoration projected cost in 2021$ adjusted for inflation is $24,502,000 * (1+6.18%) * (1+2.60%) = $26,692,645. The cost of the 1898 & Co. study was $78,600. The total Decommissioning cost component of Qualified Costs is $26,692,645 + $78,600 = $26,771,245.

[4] As mentioned previously, depreciation expense and the cost of removal accrual will stop at the time securitization bonds are issued. Petitioner's Witness Harper explains why the 2/28/2023 plant balances shown in Table A reflect the estimated amounts to be securitized.

the rule.

Q. What is the current balance of the Company's cost of removal reserve for the portion of Brown Units 1 & 2 that is to be retired?

A. As shown in Petitioner's Exhibit No. 4, Attachment JLT-3, the Company's cost of removal reserve balance was ($4,444,457) as of 12/31/2021.

Q. What is the Company's projected cost of removal reserve for the portion of Brown Units 1 & 2 that is to be retired as of 2/28/2023?

A. As shown in Table JLT-A, the Company projects to have cost of removal reserves by 02/28/2023 totaling ($6,042,788) when depreciation accruals cease for Brown 1 & 2. The projected cost of removal reserves are detailed in Petitioner's Exhibit No. 4, Attachment JLT-3.

Q. Please explain why the Company's current cost of removal reserve for the portion of Brown Units 1 & 2 that is to be retired is insufficient to cover the costs of removal and restoration.

A. The Company's current cost of removal reserve for Brown Units 1 & 2 is based on accrual rates contained in the Company's last rate case (Cause No. 43839) and an assumed plant retirement date of 12/31/2032. As described in the testimony of Petitioner's Witness Harper, approximately $792 million in gross plant balances for Brown Units 1 & 2 are now expected to be transferred to a regulatory asset upon the issuance of a final Financing Order. Accordingly, cost of removal accruals will cease almost a decade earlier than previously assumed because associated Brown Units 1 & 2 plant balances will no longer reside in Property, Plant and Equipment.

Q. What provisions exist if the actual cost to decommission, demolish and restore the Brown Units 1 & 2 site is different than the amount included in Qualified Costs?

A. As discussed in the direct testimony of Petitioner's Witness Matthew A. Rice, CEI South will seek cost deferral and subsequent rate relief if the actual decommissioning and restoration costs exceed the amounts that are contained in Qualified Costs.

VI. PROJECTIONS BEYOND THE 2/28/2023 BOND ISSUANCE DATE[5]

Q. In addition to projecting the plant balances shown in Table JLT-A, have you provided projections beyond that date?

A. Yes, I have. Petitioner's Exhibit No. 4, Attachment JLT-3 provides projections of Brown Units 1 & 2 gross plant, accumulated depreciation (excluding cost of removal), and cost of removal reserves through 2032 utilizing the same methodology described previously.

Q. Did you prepare any additional extended projections?

A. Yes. I have also provided projections of annual depreciation and cost of removal expense if the accruals were to continue through 2032, as shown in Petitioner's Exhibit No. 4, Attachment JLT-4.

Q. Why was it necessary to provide projections for Brown Units 1 & 2 beyond 2023?

A. Projections of plant balances for the retired assets beyond 2023 are needed for purposes of performing the net benefit test calculation that is contained in the direct testimony of Petitioner's Witness Jerasa. Note that these extended projections assume no capital expenditures beyond 2023.

VII. MAPPING OF APPLICABLE QUALIFIED COSTS

Q. Have you mapped the estimated Qualified Costs to the costs currently contained in utility rates, as applicable, in accordance with 170 IAC 4-10-5(c)(1)?

A. Yes, as applicable.

Q. Please explain.

A. The Regulatory Asset, Estimated Total Cost to Decommission, Demolish and Restore Site, Estimated Witness Support and Estimated Costs to Issue Securitization Bonds

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[5] As noted in the direct Testimony of Witness Jerasa, the bond issuance date of 2/28/2023 is not known at this point and may end up being shifted.

costs shown in Table BAJ-1 of Petitioner Jerasa's direct testimony, reflect costs that have never been part of utility rates. Therefore, mapping for these costs is not applicable.

Q. For what Qualified Costs is mapping applicable?

A. Mapping is applicable for Qualified Costs that currently reside in utility rates are costs associated with direct investment in the Brown Units 1 & 2 assets, including associated Mercury Air Toxic Standards ("MATS") investments.

Q. Have you mapped these applicable Qualified Costs back to costs contained in utility rates?

A. Yes, I have. Petitioner's Exhibit No. 4, Attachment JLT-5 identifies 12/31/2021 gross plant balances for Brown Units 1 & 2 that are consistent with the costs underlying the final rates resulting from the Company's last rate case (Cause No. 43839). In addition, Attachment JLT-5 shows the portion of MATS-related costs currently being recovered through Environmental Cost Adjustment ("ECA") rates in Cause No. 45052-ECA XX. Finally, Attachment JLT-5 shows the subsequent expected progression of additions and retirements to the 12/31/2021 balances that ultimately culminate in the $798,297,876 Brown Units 1 & 2 Original Cost at 2/28/2023 that is shown in Table JLT-A, above.

VIII. ASSETS TO BE RETIRED AND ASSETS TO BE REUSED

Q. Have you identified the generating assets that will be retired as required by 170 IAC 4-10-5(c)(3)?

A. Yes, I have. Petitioner's Exhibit No. 4, Attachment JLT-6 provides the Net Book Value as of 12/31/2021 of the specific Brown Units 1 & 2 assets that are to be retired.

Q. Have you provided the Net Book Value of these assets as of the date of retirement?

A. Yes. Petitioner's Exhibit No. 4, Attachment JLT-3 projects the 2/28/2023 Net Book

Value of the assets to be retired.[6]

Q. Will the Company be retiring all the Brown Units 1 & 2 assets?

A. No. When the Company made the decision to retire Brown Units 1 & 2, it carefully analyzed what assets could be redeployed/reused at the Brown site.

Q. Please elaborate.

A. Black and Veatch completed an initial assessment on September 28, 2020 of what Brown Units 1 & 2 equipment and systems could be reused to meet the equipment requirements for the new CTs proposed for the Brown site. In addition, Company engineering personnel assessed what other assets at the Brown site would be needed to support the other existing Brown CTs and the overall site itself.

Q. Has the Company quantified the value of the assets that will be reused?

A. Yes. Similar to the above, Petitioner's Exhibit No. 4, Attachment JLT-7 identifies the Net Book Value as of 12/31/2021 of the specific Brown Units 1 & 2 assets that are to be reused, while Attachment JLT-3 provides the 2/28/2023 projected Net Book Value of the reused assets. Assets identified for reuse will still be in operation at the Brown plant in support of existing combustion turbines (CTs) and anticipated new CTs proposed in Cause No. 45564.

IX. CONCLUSION

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

[6] As mentioned previously, depreciation expense and the cost of removal accrual will stop at the time securitization bonds are issued. Petitioner's Witness Harper explains why the 2/28/2023 plant balances shown in Table JLT-A reflect the estimated amounts to be securitized.

Cause No. 45722

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

Jessica Thayer

Jessica Thayer, Director Property Accounting

5-3-2022

Date

Petitioner's Exhibit No. 4, Attachments JLT-1 – JLT-7
provided in Excel format