

**STATE OF INDIANA  
INDIANA UTILITY REGULATORY COMMISSION**

**VERIFIED PETITION OF SOUTHERN INDIANA GAS AND )  
ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY )  
INDIANA SOUTH (“CEI SOUTH”) FOR (1) AUTHORITY )  
TO MODIFY ITS RATES AND CHARGES FOR ELECTRIC )  
UTILITY SERVICE THROUGH A PHASE-IN OF RATES, )  
(2) APPROVAL OF NEW SCHEDULES OF RATES AND )  
CHARGES, AND NEW AND REVISED RIDERS, )  
INCLUDING BUT NOT LIMITED TO A NEW TAX )  
ADJUSTMENT RIDER AND A NEW GREEN POWER )  
RIDER (3) APPROVAL OF A CRITICAL PEAK PRICING )  
 (“CPP”) PILOT PROGRAM, (4) APPROVAL OF REVISED )  
DEPRECIATION RATES APPLICABLE TO ELECTRIC ) CAUSE NO. 45990  
AND COMMON PLANT IN SERVICE, (5) APPROVAL OF )  
NECESSARY AND APPROPRIATE ACCOUNTING )  
RELIEF, INCLUDING AUTHORITY TO CAPITALIZE AS )  
RATE BASE ALL CLOUD COMPUTING COSTS AND )  
DEFER TO A REGULATORY ASSET AMOUNTS NOT )  
ALREADY INCLUDED IN BASE RATES THAT ARE )  
INCURRED FOR THIRD-PARTY CLOUD COMPUTING )  
ARRANGEMENTS, AND (6) APPROVAL OF AN )  
ALTERNATIVE REGULATORY PLAN GRANTING CEI )  
SOUTH A WAIVER FROM 170 IAC 4-1-16(f) TO ALLOW )  
FOR REMOTE DISCONNECTION FOR NON-PAYMENT )**

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**PUBLIC’S EXHIBIT NO. 10-S**

**SETTLEMENT TESTIMONY OF OUCC WITNESS SHAWN DELLINGER**

**July 19, 2024**

Respectfully submitted,



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

**SETTLEMENT TESTIMONY OF OUCC WITNESS SHAWN DELLINGER, CRRA  
CAUSE NO. 45990  
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT  
ENERGY INDIANA SOUTH**

**I. INTRODUCTION**

- 1 **Q: Please state your name and business address.**
- 2 A: My name is Shawn Dellinger, and my business address is 115 West Washington Street,  
3 Suite 1500 South, Indianapolis, Indiana 46204. I am a Senior Utility Analyst for the  
4 Indiana Office of Utility Consumer Counselor (“OUCC”). Although I primarily work in  
5 the Water/Wastewater division, my focus is on financial issues.
- 6 **Q: Are you the same Shawn Dellinger who earlier filed direct testimony in this**  
7 **proceeding?**
- 8 A: Yes.
- 9 **Q: Have you reviewed the Stipulation and Settlement Agreement filed in this Cause on**  
10 **May 21, 2024 (“Settlement Agreement”), testimony supporting the settlement, and**  
11 **the rebuttal testimony Southern Indiana Gas and Electric Company d/b/a**  
12 **CenterPoint Energy Indiana South (“CEI South,” “Petitioner,” or “Company”) filed**  
13 **in this proceeding?**
- 14 A: Yes.
- 15 **Q: What is the purpose of your testimony?**
- 16 A: The purpose of my settlement testimony is to address the issue of Return on Equity  
17 (“ROE”) and support the ROE recommendation made in my direct testimony as compared  
18 to the ROE agreed upon in the Settlement Agreement.
- 19 **Q: Has anything in the Settlement Agreement, settlement testimony, or rebuttal**  
20 **testimony changed your positions or the recommendations you made in your direct**  
21 **testimony?**
- 22 A: No. I continue to recommend an ROE of 9.0% for CEI South Therefore, I oppose the  
23 excessive 9.8% ROE that CEI South, the CenterPoint Energy Indiana South Industrial

1 Group (“Industrial Group”), and SABIC Innovative Plastics Mt. Vernon, LLC (“SABIC”)  
2 (collectively, the “Settling Parties”) agreed upon.

3 **Q: If you do not address a specific item in your testimony, should this be construed to**  
4 **mean you agree with CEI South or the Settling Parties’ proposal?**

5 A: No. My silence on any issue, action, or adjustment should not be construed as an  
6 endorsement. Also, my silence in response to any actions or adjustments stated or implied  
7 by the Settling Parties should not be construed as an endorsement.

## II. SETTLEMENT RETURN ON EQUITY

8 **Q: What ROE do the Settling Parties propose?**

9 A: The Settling Parties propose a 9.8% ROE.

10 **Q: Do the Settling Parties address or demonstrate the reasonableness of the 9.8% ROE?**

11 A: The Settling Parties address the 9.8% ROE but not at length. In his settlement testimony  
12 for CEI South, Mr. Brett Jerasa states:

13 Q. IS THE ROE PROVIDED IN THE SETTLEMENT  
14 AGREEMENT REASONABLE?

15 A. Yes. Although the ROE is below the lower bound of Petitioner  
16 Witness Ann Bulkley’s recommended range of 10.00% to 11.00%,  
17 I recognize the Settlement Agreement represents negotiations  
18 among the Settling Parties regarding several otherwise contested  
19 issues. The Settlement Agreement, including an ROE of 9.80%,  
20 should be viewed by the rating agencies as constructive and should  
21 allow CEI South to attract capital at reasonable rates.<sup>1</sup>

22 For the Industrial Group, in his settlement testimony Mr. Michael Gorman states:

23 Q. HOW DOES THE AGREED UPON ROE COMPARE TO THE  
24 POSITIONS TAKEN BY THE PARTIES IN THIS CASE?

25 A. CEI South had requested an ROE of 10.4%, the OUCC had  
26 recommended an ROE of 8.8%, and on behalf of the Industrial  
27 Group, I had recommended an ROE of 9.2%. The Company’s  
28 current ROE, agreed to in the Settlement which resolved CEI  
29 South’s last base rate case, is 10.4%. Accordingly, the agreed upon  
30 9.8% in this case is well within the range of reasonableness

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<sup>1</sup> Petitioner’s Exhibit No. 14-S, Settlement Testimony of Brett Jerasa, p. 3, l. 16 to p. 4, l. 3.

1 identified by witnesses in this case. The agreed upon ROE is also  
2 consistent with other recent settlements, such as the NIPSCO Gas  
3 Rate settlement in Cause 45967, which recently settled at a 9.75%  
4 ROE, the AESI Electric settlement in Cause No. 45911 at 9.9%, and  
5 the I&M Electric settlement in Cause No. 45933 at 9.85%.<sup>2</sup>  
6

7 **Q: Do you agree with this proposal?**

8 A: No. I still recommend an authorized ROE of 9.0%, subject to the adjustment OUCC  
9 witness Eckert recommended. The simple fact that CEI South reduced its ROE request  
10 from 10.4% to 9.8% does not make the settled amount reasonable. The analysis in my  
11 direct testimony remains applicable and demonstrates the 9.8% ROE in the Settlement  
12 Agreement is too high and does not take into account the important considerations that  
13 additional OUCC witnesses and I raised in our direct testimony. These include  
14 considerations unique to this proceeding that have not been at issue in other recent rate  
15 cases before this Commission.

16 **Q: Does anything in Mr. Gorman's settlement testimony indicate that his original ROE**  
17 **recommendation is unreasonable?**

18 A: No. I note that a 9.2% ROE, as recommended in Mr. Gorman's direct testimony, is still  
19 within the appropriate range. I further note that the 60 basis point increase from 9.2% to  
20 the 9.8% in the Settlement Agreement would raise Petitioner's requested rate increase by

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<sup>2</sup> CenterPoint Industrial Group Exhibit No. 4, Settlement Testimony of Michael P. Gorman, p. 4, ll. 5-15.

1 approximately \$10.2 Million. In support of my analysis and continued recommendation, I  
2 address several issues raised by Ms. Bulkley in her rebuttal testimony.

### III. OUTSTANDING ISSUES

3 **Q: What was Mr. Gorman's original recommended ROE?**

4 A: In his direct testimony, Mr. Gorman testified the midpoint between his ROE models was  
5 9.45%. (Gorman Direct at page 99, lines 9-14). However, Mr. Gorman recommended an  
6 ROE of 9.20% because:

7 [T]he equity-thick capital structure proposed by CEI South, in  
8 conjunction with the additional unnecessary strain that it imposes  
9 on the affordability of CEI South's rates, warrants a return on equity  
10 of 9.20% that is 25 basis points lower than my market-based return  
11 on equity of 9.45%....<sup>3</sup>  
12

13 **Q: Does the Settlement Agreement modify the "equity-thick" capital structure?**

14 A: No. CenterPoint's capital structure remains unchanged by the Settlement Agreement. The  
15 "additional unnecessary strain" on affordability also remains.  
16

17 **Q: If the capital structure and strain on affordability remain unchanged, how does Mr.  
18 Gorman justify the 60 basis point upward adjustment to ROE in his settlement  
19 testimony?**

20 A: Mr. Gorman does not address this discrepancy in his settlement testimony. Instead of  
21 making the warranted downward adjustment discussed in his direct testimony, Mr. Gorman  
22 supports an upward adjustment of 60 basis points, notwithstanding the additional financial  
23 strain this will impose on ratepayers due to the unchanged capital structure.<sup>4</sup>

24 **Q: How does Mr. Gorman justify the reasonableness of the 9.80% ROE  
25 recommendation in his settlement testimony?**

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<sup>3</sup> CenterPoint Industrial Group Ex. 1, Direct Testimony of Michael P. Gorman, p. 99, ll. 9-14.

<sup>4</sup> *Id.*; Gorman Settlement Testimony, p. 4, ll. 10-11.

1 A: Mr. Gorman describes the testimonial positions of himself (9.20% ROE) and Ms. Bulkley  
2 (10.40% ROE), from which the mathematical midpoint is 9.80%.<sup>5</sup> He now claims a 9.80%  
3 ROE is reasonable because it is within the range “identified by witnesses in this case.”<sup>6</sup> It  
4 is, however, outside the range that either Mr. Gorman or I recommended on direct. Simply  
5 because 9.80% is the midpoint between these two Settling Parties’ recommended ROEs  
6 does not necessarily make it reasonable. CEI South’s testimonial 10.40% ROE is  
7 unreasonable, and nothing presented in Ms. Bulkley’s rebuttal caused me to change my  
8 opinion or persuaded me otherwise.

9 By not relying on a two-stage or multi-stage DCF model, Ms. Bulkley’s DCF  
10 analysis relies exclusively on mathematically impossible results in her constant growth  
11 DCF. Both Industrial Group witness Mr. Gorman and I provided more reasonable models  
12 that serve to be, if potentially biased to a higher result than would be expected, at least  
13 mathematically possible. Ms. Bulkley disregards the results of this approach.

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<sup>5</sup> See Gorman Settlement Testimony, p. 4, ll. 7-10.

<sup>6</sup> *Id.* ll. 10-11.

1 Ms. Bulkley's CAPM uses only adjusted betas and an unreasonable equity risk  
2 premium. These items produce CAPM results that are excessive and unreliable. In my  
3 direct testimony, I pointed out that her use of only raw betas, which was contrary to both  
4 my position and Mr. Gorman's position, inflated her return by 2.36% (236 basis points) in  
5 the CAPM (from 9.59% to 11.95%). Ms. Bulkley's unreasonable estimated market return  
6 added 5.17% (517 basis points) to the same result (from 6.78% to 11.95%). Both of these  
7 numbers are found in my direct testimony on page 4. Neither of these issues was  
8 compellingly rebutted or addressed in the Settlement Agreement. It is essential to also  
9 consider the non-settling parties' evidence, specifically the OUCC's, which suggests a  
10 reasonable range of outcomes (without Mr. Eckert's adjustment) would be between 8.70%-  
11 9.70%. (Dellinger Direct, page 5, Table SD-1).

12 **Q: Ms. Bulkley, Mr. Gorman, and you all produced results from your respective models**  
13 **that are both above and below the settled 9.80% ROE. Doesn't that make a 9.80%**  
14 **ROE reasonable?**

15 **A:** No. The models provide a large range of results. A 9.80% ROE is not a result that was  
16 within a range recommended by either Mr. Gorman (9.20%-9.65%; Gorman Direct at p.5  
17 lines 15-17) or the OUCC. I also have model results that are significantly below my  
18 recommendation of 9.0% (before the 20 basis point reduction OUCC witness Mr. Eckert  
19 recommends) and below my recommended range. Having the result of a model does not  
20 mean that result is by definition within a reasonable range. The recommended range is not  
21 necessarily equivalent to the highest and lowest results of the models used. The analyst  
22 must take into account a wide range of data, including the results of the models, to arrive  
23 at a range of reasonableness.

1 **Q: In his settlement testimony on page 4, lines 12-15, Mr. Gorman refers to the ROEs**  
2 **recently awarded for Northern Indiana Public Service Company's ("NIPSCO") Gas**  
3 **Utility (Cause No. 45967), AES Indiana (Cause No. 45911), and Indiana Michigan**  
4 **Power Company (Cause No. 45933). Should the Commission give weight to the ROEs**  
5 **in these cases?**

6 A: No. Each of these cases resulted in a global settlement agreement. By their very nature,  
7 settlement agreements are not precedential and cannot form the basis for the  
8 reasonableness of the ROE in other proceedings.

9 NIPSCO cited multiple settled cases as ostensible support for its proposed Low  
10 Income Assistance Program in Cause No. 45465. However, in rejecting NIPSCO's  
11 proposal, the Commission found:

12 Second, the USP [Universal Service Program] was the result of a  
13 settlement that, as such, is not binding precedent on the  
14 Commission. NIPSCO Gas' initial USP (Cause No. 42722,  
15 December 15, 2004), NIPSCO Gas' subsequent interim re-approval  
16 on December 6, 2006, NIPSCO Gas' extension of the 42722 USP  
17 program (Cause No. 40377, November 7, 2007), and Vectren  
18 Energy Delivery of Indiana's Gas USP program (Cause No. 40378,  
19 November 7, 2007) were all the result of settlement. By their nature,  
20 settlements are the result of compromise, and no one element of a  
21 settlement should be analyzed or considered precedent outside the  
22 context of that settlement.<sup>7</sup>

23 The Commission should, likewise, disregard Mr. Gorman's citation to ROEs from settled  
24 cases consistent with the Commission's discussion above and the Commission's long-  
25 standing position that settlements do not establish binding precedent outside the context of  
26 the case settled.

27 **Q: Conversely, is it appropriate for the Commission to consider its ROE analysis and**  
28 **the ROE the Commission found reasonable in the Order in Cause No. 45870?**

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<sup>7</sup> *In re Northern Indiana Pub. Serv. Co.*, Cause No. 45465, Final Order at 19 (Ind. Util. Regul. Comm'n Jun. 29, 2021).



1 A: Yes. Indiana American Water's most recent rate case, Cause No. 45870 (Order issued  
2 February 14, 2024), was fully litigated. Because that case was contested and the Order is  
3 so recent, this Order appropriately provides guidance concerning the Commission's  
4 analysis of a reasonable ROE. In finding that a 9.65% ROE was warranted, the  
5 Commission stated at pages 42-43:

6 In addition to the recommendations of these experts and while not  
7 determinative of the ROE in this case, we note the ROE awarded  
8 Indiana's vertically-integrated electric utilities outside of settled cases  
9 has been trending lower over time. *See, e.g.*, Indiana Michigan Power  
10 Company, 10.2% in Cause No. 44075 (2013); Indianapolis Power and  
11 Light Company, 9.85% in Cause No. 44576 (2016); Northern Indiana  
12 Public Service Company LLC, 9.75% in Cause No. 45159 (2019);  
13 Indiana Michigan Power Company, 9.70% in Cause No. 45235 (2020);  
14 and Duke Energy Indiana, LLC, 9.70% in Cause No. 45253 (2020). We  
15 also note that Petitioner's current ROE of 9.80% was approved in 2019  
16 pursuant to a settlement reached in Cause No. 45142. While we find the  
17 overall downward trend instructive, we also recognize the change in  
18 general economic factors, like the increase in interest rates, since these  
19 orders were issued.

20  
21 Less than six months ago, the Commission found it reasonable to consider the  
22 ROEs awarded Indiana's vertically integrated electric utilities when determining an  
23 appropriate ROE for an Indiana water utility. The Commission is encouraged to consider  
24 Indiana America Water's awarded 9.65% ROE in determining this case's appropriate ROE.  
25 The Commission also found:

1 Our determination should also appropriately consider Petitioner's  
2 specific risk characteristics, such as the mitigation of risk associated  
3 with Petitioner's use of regulatory mechanisms, including a forecasted  
4 test year in this proceeding and the trackers approved for INAWC. In  
5 addition to the DSIC and SEI trackers, the Commission also approved  
6 in Cause No. 45043, a lead service line replacement program under Ind.  
7 Code ch. 8-1-31.6. The effect of these tracking mechanisms is to reduce  
8 the uncertainty of the earnings that an investor can expect. See Ind.  
9 Mich. Power Co., Cause No. 44075 at 42-43 (IURC Feb. 13, 2013).  
10 Moreover, in this case, INAWC is adding two major projects into rate  
11 base, along with substantial costs associated with its acquisition of Lake  
12 Station, which removes even more risk from Petitioner.

13  
14 Having taken into consideration the observable market data reflected in  
15 the record, and a general assessment of the investment risk  
16 characteristics of the water and wastewater utility industry, combined  
17 with a thorough understanding of the Indiana jurisdiction and its risk  
18 mitigation rate making mechanisms, and INAWC in particular, and the  
19 expert witness recommended range identified...<sup>8</sup>  
20

21 Similar to Indiana American Water, CEI South's risk is also mitigated by the use  
22 of numerous regulatory mechanisms, including a forecasted test year, approved trackers,  
23 and capital cost tracking mechanisms like the TDSIC, which is adding approximately \$900  
24 million to rate base in this case. Petitioner's Exhibit No. 4, Rawlinson Direct at 5-6. The  
25 Commission continues to have "a thorough understanding of the Indiana jurisdiction and  
26 its risk mitigation ratemaking mechanisms" and should apply a similar analysis in  
27 reviewing the reasonableness of the 9.80% ROE that only CEI South and a handful of its  
28 industrial customers tout as reasonable. A core principle of finance is that reduced risk  
29 should lead to a lowered expected return.

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<sup>8</sup> *In re Indiana American Water Company*, Cause No. 45870, Final Order at 43 (Ind. Util. Regul. Comm'n. February 14, 2024).

1 **Q: Is there additional evidence that suggests the Settling Parties' 9.80% ROE is**  
2 **unreasonable?**

3 A: In addition to the high end of my recommended ROE range being below 9.80% and the  
4 Commission's analysis and conclusion in the Indiana American Water Order, it is  
5 important to note that the OUCC and other consumer parties did not join this Settlement  
6 Agreement. The 9.80% ROE in this case is not a reasonable compromise for the  
7 concessions exchanged in the Settlement Agreement. This ROE does not address or incent  
8 CEI South to improve its poor customer service record and the additional concerns  
9 discussed by Mr. Eckert.

#### **IV. RECOMMENDATIONS**

10 **Q: What is your recommendation in this Cause?**

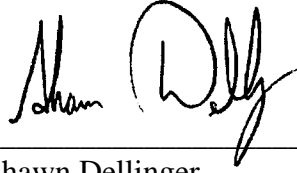
11 A: I recommend the Commission adopt the ROE recommendation in my direct testimony,  
12 subject to the additional recommendations of OUCC witness Michael Eckert.

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

14 A: Yes.

**AFFIRMATION**

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



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Shawn Dellinger  
Utility Analyst  
Indiana Office of  
Utility Consumer Counselor  
Cause No. 45990  
CenterPoint Energy Indiana South

07-19-2024  
Date

## **CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing has been served upon the following counsel of record in the captioned proceeding by electronic service on July 19, 2024.

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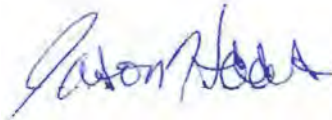
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