

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC)
COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH)
PURSUANT TO INDIANA CODE CH. 8-1-40.5 FOR (1))
AUTHORITY TO (A) ISSUE SECURITIZATION BONDS; (B))
COLLECT SECURITIZATION CHARGES; AND (C) ENCUMBER)
SECURITIZATION PROPERTY WITH A LIEN AND SECURITY)
INTEREST; (2) A DETERMINATION OF TOTAL QUALIFIED)
COSTS AND AUTHORIZATION OF RELATED ACCOUNTING)
TREATMENT; (3) AUTHORIZATION OF ACCOUNTING)
TREATMENT RELATED TO ISSUANCE OF SECURITIZATION)
BONDS AND IMPLEMENTATION OF SECURITIZATION)
CHARGES; (4) APPROVAL OF PROPOSED TERMS AND)
STRUCTURE FOR THE SECURITIZATION FINANCING; (5))
APPROVAL OF PROPOSED TARIFFS TO (A) IMPLEMENT THE)
SECURITIZATION CHARGES AUTHORIZED BY THE)
FINANCING ORDER IN THIS PROCEEDING, (B) REFLECT A)
CREDIT FOR ACCUMULATED DEFERRED INCOME TAXES,)
AND (C) REFLECT A REDUCTION IN PETITIONER'S BASE)
RATES AND CHARGES TO REMOVE ANY QUALIFIED COSTS)
FROM BASE RATES; AND (6) ESTABLISHMENT OF A TRUE-UP)
MECHANISM PURSUANT TO INDIANA CODE § 8-1-40.5-12(c.))

CAUSE NO. 45722

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 9

TESTIMONY OF WITNESS SHAWN DELLINGER

AUGUST 3, 2022

Respectfully submitted,



T. Jason Haas

Attorney No. 34983-29

Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS SHAWN DELLINGER
CAUSE NO. 45722
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 W. Washington St., Suite
3 1500 South, Indianapolis, IN 46204.

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Senior
6 Utility Analyst in the Water/Wastewater division. My focus is on financing and other
7 financial matters. My educational background and experience are set forth in Appendix A.

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

9 A: I will address Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy
10 Indiana South's ("CEI South" or "Petitioner") request to earn a return at its weighted
11 average cost of capital ("WACC") on the initial equity contribution of approximately \$1.8
12 million to the special purpose entity ("SPE"). I recommend this return be set at the
13 investment returns that this capital subaccount generates.

14 **Q: What did you do to prepare your testimony?**

15 A: I reviewed CEI South's Petition and testimony, with a focus on CEI South witnesses Mr.
16 Brett A. Jerasa and Mr. Eric K. Chang. I reviewed discovery responses and participated in
17 the creation of discovery questions. I participated in pre-filing meetings with Petitioner and

1 attended the technical conference in this Cause on July 7, 2022. I also performed a
2 background study on various issues regarding securitization, including previous cases from
3 other jurisdictions.

II. CEI SOUTH'S EQUITY CONTRIBUTION TO THE SPECIAL PURPOSE ENTITY

4 **Q: Please describe the purpose and relevance of CEI South's equity contribution to the**
5 **SPE.**

6 A: Petitioner is making a capital contribution to the SPE equaling 0.5% of the par amount of
7 the borrowing. This is a contribution required to receive tax-exempt status on this funding,
8 and I have no objection to this 0.5% contribution amount.¹ Broadly, the purpose of this
9 equity injection is to provide an equity buffer in the event the collected amounts are not
10 sufficient to make the securitization bond payments, until this collection amount is trued-
11 up to the proper amount.² The contribution will remain with the SPE until the bonds are
12 retired.

III. RISK AND RETURN OF THE EQUITY CONTRIBUTION

13 **Q: Is this equity contribution a similar risk profile to CEI South business operations as**
14 **a whole?**

15 A: No. The SPE structure, the nature of the collections process, and the totality of the
16 securitization process is designed to minimize the SPE's risk. This process is designed to
17 ensure the highest possible credit ratings. I am not aware of any default in a utility
18 securitization offering. This equity contribution must be considered extremely low risk.
19 CEI South, as a regulated utility, has a level of risk reflected within the return on equity

¹ Petitioner's Exhibit No. 3, Direct Testimony of Eric K. Chang, p. 19, lines 1-13.

² Petitioner's Exhibit No. 2, Direct Testimony of Brett A. Jerasa, p. 15, lines 6-16.

1 (“ROE”) component of the capital structure, which is determined by the Indiana Utility
2 Regulatory Commission (“Commission”). This ROE was determined in Cause No. 43839,
3 Final Order dated April 27, 2011, and was set at 10.4%. Further, CEI South’s debt is riskier
4 than the anticipated equity contributions to this SPE, since CEI South does not have the
5 highest rating (AAA), and all parties anticipate the bonds issued by the SPE will have the
6 highest rating.

7 **Q: Is it reasonable to assume the equity contribution is extremely low risk?**

8 A: Yes. With the true-up mechanism’s structure, it is hard to conceive a scenario where the
9 equity contribution would be at risk if the bonds are paid. Therefore, it is reasonable to
10 refer to this investment as extremely low risk.

11 **Q: What return on the equity contribution is Petitioner requesting?**

12 A: Petitioner requests 9.29%, which is a full return on its pre-tax WACC.³

13 **Q: Is this return in ratepayers’ interest?**

14 A: No. Applying this 9.29% return to a virtually risk-free investment is not in ratepayers’
15 interest. The WACC represents CEI South’s risk for both the equity and the debt portions
16 of its capital structure, both of which are higher than the risk on this equity infusion.

17 **Q: What return do you recommend?**

18 A: A return equal to the actual investment returns this capital account generates is appropriate.
19 The SPE will invest this capital contribution in short-term, readily accessible deposits, and
20 it is appropriate for CEI South to collect the returns this cash generates.

21 **Q: Is earning only an investment return reflective of the treatment of this equity
22 contribution in other similar securitization issues?**

23 A: Yes. Mr. Jerassa’s Attachment BAJ-4 shows a total of eight previous securitizations, and

³ Petitioner’s Exhibit No. 2, Direct Testimony of Brett A. Jerasa, p. 27, lines 16-17.

1 the overall average fee charged (or return on invested capital) was 2.34%.⁴ These returns
2 on the capital subaccount varied between 0% and 5.72%, and only two issues were above
3 3%. Based on these numbers, the average return is less than one fourth of what CEI South
4 is requesting in this Cause.

5 **Q: Do you know what these returns were based upon?**

6 A: Yes, in OUCC DR 4-3, the OUCC asked CEI South to provide a list of all securitization
7 transactions examined where the allowed return on invested capital was equal to the
8 utility's pre-tax WACC. The response, found in OUCC Attachment SD-1, lists ten
9 transactions, wherein there is some overlap between the issues discussed in Petitioner's
10 Attachment BAJ-4. None of transactions listed in CEI South's response to OUCC DR 4-3
11 provided a return at the pre-tax WACC on the full equity contribution. Three of the
12 transactions listed, for AEPTC 2019-1, CNP 2012-1, and CNP 2009-1, provided an equity
13 return only on amounts in excess of the 0.5% contribution. It is not anticipated that a
14 contribution above 0.5% will be required in the current Cause. This response demonstrates
15 there is no history of utilities realizing their pre-tax WACC on this contribution. There is
16 one offering, the ETR-2022-A offering, appearing to offer an equity return based upon this
17 response, however the language of the order shows the "then-authorized equity return" is
18 for amounts in excess of 0.5%, similar to the transactions discussed above. Please see
19 OUCC Attachment SD-2 for pages 43 and 44 of the relevant Financing Order.⁵

⁴ Please see tab BAJ-4 Ongoing Fee Comps in Mr. Jerasa's Attachment BAJ-4. This is the average return on the 8 transactions detailed in this attachment; the weighted return would be 2.27%.

⁵ Docket No. 52302, dated January 14, 2022 from the Public Utility Commission of Texas, "Application of Entergy Texas, Inc. for a Financing Order". The relevant language is on page 44 of 84, in section 72 (for the discussion of the return on contributions in excess of .5%) and section 73 (for discussion of the returns for contributions up to 0.5%). A complete copy of the Final Order can be found here:

https://interchange.puc.texas.gov/Documents/52302_44_1180627.PDF

IV. OUCC RECOMMENDATIONS

1 **Q: Please summarize your recommendation.**

2 A: I recommend the Commission set returns on the capital contribution at 0.5% of the
3 principal amount at the investment returns generated in this capital subaccount.

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

5 A: Yes.

Appendix A

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

2 A: I graduated from Indiana University with a degree in Biology, a minor in Economics and
3 a certificate from the Liberal Arts and Management Program (LAMP) which is an honors
4 certificate program through the Kelley School of Business and the College of Arts and
5 Sciences, at the time restricted to twenty-five (25) students per year. I received my MBA
6 from Indiana University with a concentration in finance. I am a member of Phi Beta Kappa
7 honor society for my undergraduate work and Beta Gamma Sigma honor society for my
8 master's program. I have been a member of Mensa for a number of years.

9 **Q: Please describe your work experience.**

10 A: My first jobs after graduating with my undergraduate degree were in New York in finance
11 at Grant's Interest Rate Observer, which is a financial newsletter and Lebenthal and Co.,
12 which was a municipal bond brokerage. I worked at and ultimately owned RCI Sales in
13 Indianapolis, which was a manufacturer representative/distributor in commercial and
14 institutional plumbing, for a number of years, leaving when I sold the company and merged
15 it into a competitor. After receiving my MBA, I worked at Amazon as a financial analyst
16 in their fulfillment division.

17 **Q: How long have you been at the OUCC?**

18 A: I have been in the Water Division since December of 2019. I was a Utility Analyst II until
19 May of 2022, when I was promoted to Senior Utility Analyst, which is current title. My
20 focus is financial issues, such as financings, ROE's, capital structures, and the like.

21 **Q: Have you previously testified before the Indiana Utility Regulatory Commission**
22 **("Commission")?**

23 A: Yes. I have testified before the commission regarding various aspects of finance.

4-3. Please refer to p. 20, lines 24-25 and Attachment BAJ-4 of Mr. Jerasa's direct testimony. Provide a list of all utility securitization transactions that were examined where the allowed return on invested capital was equal to the utility's pre-tax weighted average cost of capital (WACC).

Response:

As noted on page 20 of Petitioner's Exhibit No. 2 – the Direct Testimony of Witness Jerasa, the proposed WACC “return will compensate CEI South for investing the capital and provide a return in line with its opportunity costs – this capital will remain deposited with the indenture trustee for the life of the securitization bond [as a form of credit enhancement supporting the AAA rating] and [will not be available] to be invested in CEI South's capital program.

Precedent transactions vary in the return on invested capital deposited with the indenture trustee. Some examples are:

- PCG 2022-A (PG&E Wildfire Recovery Funding LLC Series 2022-A): authorizes an annual return at the weighted average interest rate on the recovery bonds
- DUK 2021-A (Duke Energy Carolinas NC Storm Funding LLC): authorizes an annual return equal to the interest rate on the longest maturing tranche
- ETR 2022-A (Entergy Texas Restoration Funding II LLC Series 2022-A): authorizes an annual return equal to ETI's then-authorized equity return on the capital contribution for the system restoration bonds
- ERCOT 2022 (Texas Electric Market Stabilization Fund N LCC): authorizes the release of any investment return on any amount contributed to the capital subaccount in excess of the required capital level
- DUK 2021-A: authorizes an annual return at the interest rate of the longest maturing tranche of the Storm Restoration Bonds
- EIX 2021-A: authorized an annual return at the weighted average interest rate on the Recovery Bond
- WEPCO 2021-1: authorized an annual return equal to the interest rate on the environmental trust bonds (or if more than one tranche, equal to the interest rate on the longest maturing tranche)
- AEPTC 2019-1: authorizes an annual return at AEP Texas' then-authorized equity return on the amount of invested capital in excess of 0.5% of the principal amount
- CNP 2012-1: authorizes an annual return at CenterPoint's then-authorized equity return on the amount of invested capital in excess of 0.5% of the principal amount
- CNP 2009-1: authorizes an annual return at CenterPoint's then-authorized equity return on the amount of invested capital in excess of 0.5% of the principal amount

principal and interest on the system restoration bonds and other costs, including fees and expenses, in connection with the system restoration bonds, as described in Entergy Texas's application. In accordance with the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Order related to the system restoration bonds in full and on a timely basis. The collection account will include the general subaccount, the capital subaccount, and the excess funds subaccount, and may include other subaccounts.

a. The General Subaccount

71. The indenture trustee will deposit the system-restoration-charge remittances that the servicer remits to the indenture trustee for the account of BondCo into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The indenture trustee will, on a periodic basis, apply moneys in this subaccount to pay expenses of BondCo, to pay principal and interest on the system restoration bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the system restoration bonds and all other components of the periodic payment requirement (PPR) (as defined in finding of fact number 87), and otherwise in accordance with the terms of the indenture.

b. The Capital Subaccount

72. When a series of system restoration bonds is issued, Entergy Texas will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of system restoration bonds, although the actual amount will depend on tax and rating agency requirements. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the system restoration bonds and all other components of the PPR. Any funds drawn from the capital account to pay these amounts due to a shortfall in the system-restoration-charge remittances will be replenished through future system-restoration-charge remittances. The

funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the system restoration bonds and all other components of the PPR. If Entergy Texas is required to make a capital contribution in excess of 0.5% of the original principal amount of any series of bonds, Entergy Texas will be authorized to receive an aggregate amount equal to the sum of the (i) actual amounts earned by the trustee from investment of the capital contribution (up to 0.5% of the original principal amount of such series) and (ii) an annual return at the authorized pre-tax return on equity established in Entergy Texas's most recent base-rate case on the remainder of the capital contribution for such series. The required revenue, if any, to provide the annual return at the pre-tax equity return established in Entergy Texas's most recent base-rate case is an ongoing qualified cost. Upon payment of the principal amount of all system restoration bonds and the discharge of all obligations that may be paid by use of system restoration charges, all amounts in the capital subaccount, including any investment earnings, will be released to BondCo for payment to Entergy Texas. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

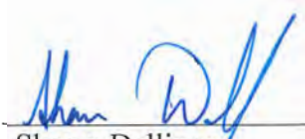
73. The capital contribution to BondCo should be funded by Entergy Texas. To ensure that ratepayers receive the appropriate benefit from the securitization approved in this Order, the proceeds from the sale of the system restoration bonds should not be applied towards this capital contribution. Because Entergy Texas funds the capital subaccount, Entergy Texas should receive the investment earnings earned through the indenture trustee's investment of that capital from time to time and should receive return of that capital after all system restoration bonds have been paid.

c. The Excess Funds Subaccount

74. The excess funds subaccount will hold any system-restoration-charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the system restoration bonds and to pay other PPRs (including, but not limited to, replenishing the capital subaccount). Any balance in or allocated to the excess funds subaccount on a true-up adjustment date will be subtracted from the periodic billing requirement (PBR) (as defined in finding of fact

AFFIRMATION

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



Shawn Dellinger
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor

Cause No 45722
CenterPoint Energy Indiana South

August 3, 2022

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC's Testimony* has been served upon the following parties of record in the captioned proceeding by electronic service on August 3, 2002.

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