DIRECT TESTIMONY OF BRIAN P. DAVEY
VICE PRESIDENT, RATES AND REGULATORY STRATEGY, INDIANA
ON BEHALF OF DUKE ENERGY INDIANA, LLC
CAUSE NO. 45749 BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Brian P. Davey, and my business address is 1000 East Main Street, Plainfield, Indiana.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Indiana LLC ("Duke Energy Indiana," "Petitioner" or "Company") as Vice President, Rates and Regulatory Strategy, Indiana.

Q. PLEASE DESCRIBE YOUR DUTIES AS VICE PRESIDENT, RATES & REGULATORY STRATEGY.

A. As Vice President, Rates and Regulatory Strategy, Indiana, I am responsible for regulated rate matters including the Company's various rider filings for Duke Energy Indiana.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor's of Science Degree in Accounting from Indiana University of Indianapolis. I joined Duke Energy Indiana (formerly Public Service Company of Indiana, Inc., a predecessor of the Company) as a staff accountant. I have held various positions in the Rate Department, Corporate Accounting and Financial Forecasting. In 1994, I was promoted to Cinergy's Financial Forecast manager and subsequently held manager and director positions in the Commercial Business Unit with Accounting, Budgeting and Forecasting responsibilities. In 2003, I was promoted to Assistant Controller. In 2005, I became General Manager of Budgets and Forecasts. In 2006, I became Duke Energy's General Manager of Financial Planning for U.S. Franchised Electric and Gas. In late 2006, my responsibilities were specifically related to the Midwest jurisdictions of U.S. Franchised Electric and Gas. In 2009, I assumed my current responsibilities. I am a Certified Public Accountant and a member of the Indiana CPA Society.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to explain the Company's proposed accounting and ratemaking treatment for certain estimated coal ash management (including post-closure) and closure costs for compliance with: 1) the U.S. Environmental Protection Agency's ("EPA") Coal Combustion Residuals ("CCR") rule ("CCR Rule") promulgated under the Resource Conservation and Recovery Act ("RCRA"); and 2) Indiana Department of Environmental Management ("IDEM") solid waste rules also promulgated as a result of RCRA. The coal ash management and closure compliance projects proposed by Duke Energy Indiana in this proceeding comprise the compliance project ("Coal Ash Compliance Project") for which a Certificate of Public Convenience and Necessity ("CPCN") and cost recovery pursuant to Indiana Code 8-1-8.4 ("Federal Mandate Statute") is sought to be approved in this proceeding.

I will discuss: 1) the Company's proposal to recover the retail jurisdictional portion of the Coal Ash Compliance Project costs, including the use of the Company's existing Standard Contract Rider No. 62 – Environmental Compliance Adjustment

("Rider 62") as the periodic rate adjustment mechanism for timely recovery; and 2) the Company's request for Commission approval to continue the use of deferral accounting for the Coal Ash Compliance Project costs, including the accrual of financing costs on an interim basis, to the extent the costs are not yet included in retail rates, and until such costs are reflected in Duke Energy Indiana's retail rates. I will also provide an estimate of the jurisdictional rate impacts of the Company's proposed Coal Ash Compliance Project.

In addition, I will describe the Company's accounting deferral request related to the expected future environmental compliance and retirement-related costs required for additional future obligations that are not currently included in the Coal Ash Compliance Project presented for CPCN approval in this proceeding.

Q. PLEASE EXPLAIN WHICH COAL ASH MANAGEMENT AND CLOSURE COSTS ARE THE SUBJECT OF THIS PROCEEDING?

A. The Company has included in this proceeding the estimated federally mandated coal ash management costs (including post-closure) and closure costs associated with the Coal Ash Compliance Project through 2030. These costs were not included in Cause No. 45253, the Company's most recent retail base rate case, or in Cause No. 45253 S1, which included coal ash management and coal ash closure costs for basins with IDEM-approved closure plans as of April 1, 2020.

The Company's proposed Coal Ash Compliance Project is discussed in the testimonies of Mr. Owen R. Schwartz and Mr. Timothy S. Hill. Coal Ash Compliance Project activities (and their attendant costs) will continue for thirty years following basin closure. The resulting federally mandated costs are being presented in the proposed Coal Ash Compliance Project, for which the Company is requesting approval in this proceeding. The testimony of Messrs. Schwartz and Hill further explain and support the mandated activities and projects included in the Coal Ash Compliance Project, the costs I have included in the rate impacts for the Coal Ash Compliance Project, and the Company's request for CPCN issuance under the Federal Mandate Statute for the Coal Ash Compliance Project.

In addition, Mr. Hill's testimony discusses expected, additional future environmental compliance and retirement-related obligations, as well as post closure costs that will occur after the Company's generating plants are retired. I will discuss the Company's request for accounting deferral treatment, with financing costs, for such obligations, later in my testimony.

II. PROPOSED ACCOUNTING AND RATEMAKING FOR COMPLIANCE PLAN COSTS

Q. PLEASE PROVIDE AN OVERVIEW OF COST RECOVERY FOR FEDERALLY MANDATED REQUIREMENTS UNDER INDIANA CODE 8-1-8.4.

A. Indiana Code § 8-1-8.4-7(c) provides for recovery of Commission-approved federally mandated costs that an energy utility incurs in connection with an approved compliance project undertaken as a result of federally mandated requirements. Indiana Code § 8-1-8.4-7(c)(1) provides that "Eighty percent (80%) of the approved federally mandated costs shall be recovered by the energy utility through a periodic retail rate adjustment mechanism that allows the timely recovery of the approved federally mandated costs."[1] Pursuant to Indiana Code § 8-1-8.4-4, federally mandated costs "means costs that an energy utility incurs in connection with a compliance project, including capital, operating, maintenance, depreciation, tax, or financing costs." Indiana Code § 8-1-8.4-7(c)(2) provides that the remaining "[t]wenty percent (20%) of the approved federally mandated costs, including depreciation, allowance for funds used during construction, and post in service carrying costs, based on the overall cost of capital most recently approved by the commission, shall be deferred and recovered by the energy utility as part of the next general rate case filed by the energy utility with the commission." Indiana Code § 8-1-8.4-7(c)(3) further provides that "[a]ctual costs that exceed the projected federally mandated costs of the approved compliance project by more than twenty-five percent (25%) shall require specific justification by the energy utility and specific approval by the commission before being authorized in the next general rate case filed by the energy utility with the commission."

Q. PLEASE PROVIDE AN OVERVIEW OF THE FEDERALLY MANDATED COSTS THAT WILL BE INCURRED IN CONNECTION WITH THE COMPANY'S PROPOSED COAL ASH COMPLIANCE PROJECT.

A. The federally mandated costs included in the Coal Ash Compliance Project proposed in this proceeding include costs associated with certain coal ash management (including post-closure) and closure projects incurred or to be incurred at the Company's Cayuga

[1] Indiana Code § 8-1-8.4-7(c)(1) also provides that the Commission shall adjust the energy utility's authorized net operating income to reflect any approved earnings for purposes of Indiana Code § 8-1-2-42(d)(3) and Indiana Code § 8-1-2-42(g)(3), also referred to generally as the fuel clause earnings test.

and Gibson generating stations and at the Company's retired Edwardsport, Gallagher and Wabash River generating stations, described in more detail by Mr. Hill. Additional costs associated with the projects include amortization of the closure costs included in the regulatory asset, ongoing post-closure maintenance and non-basin closure costs, taxes and financing costs.

Q. WHAT SPECIFIC APPROVAL ARE YOU ASKING FROM THE COMMISSION RELATED TO RATEMAKING IN THIS FILING?

A. As explained in the testimony of Mr. Schwartz, the EPA's CCR Rule and IDEM's solid waste management rules are both authorized by the federal RCRA and, as such meet the definition under Indiana Code 8-1-8.4 of a federally mandated requirement. As explained in the testimony of Mr. Hill, the Company's proposed Coal Ash Compliance Project consists of activities undertaken for direct or indirect compliance with the federally mandated requirements. The Company is therefore requesting authority from the Commission to recover the retail jurisdictional portion of the federally mandated costs of the Coal Ash Compliance Project pursuant to Indiana Code § 8-1-8.4-7. Specifically, the Company is requesting:

1. Approval from the Commission of the use of its existing Rider 62, for the timely recovery of 80% of the retail jurisdictional portion of Coal Ash Compliance Project costs including capital, operating, maintenance, depreciation, tax, or financing costs. The Commission has previously approved the use of the Company's Rider 62 to recover the retail jurisdictional portion of the costs for certain air-related environmental

compliance projects and in Cause Nos. 44765 and 45253 S1, for other federally mandated compliance projects under the CCR Rule at its generating facilities.

2. Continued authority from the Commission to use a regulatory asset (using the Federal Energy Regulatory Commission ("FERC") Code of Federal Regulations ("CFR") account 182.3) to accrue the 80% of the retail jurisdictional portion of the federally mandated costs of the Coal Ash Compliance Project that are eligible for rider recovery until they can be included in retail rates.

3. Continued authority from the Commission to accrue financing costs, including on any previously accrued financing cost amounts, on the 80% of the retail jurisdictional portion of the expenditures for the Coal Ash Compliance Project at rates equal to Duke Energy Indiana's most recently approved weighted average cost of capital ("WACC") – using the equity return approved by the Commission in the Company's most recent retail base electric rate case – until the costs are included in retail rates.

4. Continued authority from the Commission to accrue a regulatory asset (using FERC Code of Federal Regulations account 182.3) for the retail jurisdictional portion of the 20% of the federally mandated costs that are not eligible for timely rider recovery per the Federal Mandate Statute and for authority to accrue financing costs, including on any previously accrued financing cost amounts, at rates equal to Duke Energy Indiana's most recently approved WACC – using the equity return approved by the Commission in the Company's most recent retail base electric rate case – on the deferred 20% portion of the federally mandated costs until such costs are fully reflected in Duke Energy Indiana's retail base rates after a general retail rate case.

5. Continued authority for deferral accounting treatment, consistent with the treatment approved for the 20% portion of the federally mandated costs, for the retail jurisdictional portion of any such costs which exceed the estimate by more than 25%, until such time as the costs may be reviewed and included in base rates in a retail rate case, consistent with the Federal Mandate Statute requirements.

Q. WHAT IS THE COMPANY PROPOSING IN THIS PROCEEDING WITH RESPECT TO CONSTRUCTION WORK IN PROGRESS ("CWIP") RATEMAKING TREATMENT?

A. Upon Commission approval of the Coal Ash Compliance Project as federally mandated projects, Duke Energy Indiana is proposing to commence CWIP ratemaking treatment (*i.e.*, recovery of cash return on investment expenditures via a Rider rather than continued accrual of financing costs on the expenditures) via Rider 62 in the next practicable filing (anticipated to be Cause No. 42061 - ECR 40 to be filed in the fall of 2023) for the retail jurisdictional portion of the costs incurred as of the cut-off date for the rider for the Coal Ash Compliance Project costs incremental to amounts included in base rates and prior ECR riders, with accrued financing costs. Amounts included for return calculation purposes will reflect a reduction for accumulated amortization amounts as of each Rider 62 cut-off date. Consistent with the Commission's prior precedent, the Company will continue this ratemaking treatment until the Commission approves including these projects in a proceeding that involves the establishment of the Company's base retail electric rates and charges.

Q. WHAT ARE FINANCING COSTS?

A. Financing costs are one of the types of costs specifically defined under Indiana Code § 8-1-8.4-4 as a recoverable federally mandated cost. Generally, financing costs are accrued on capital construction projects in the form of allowance for funds used during construction ("AFUDC") (to the extent the costs are not already placed into rider rates for CWIP ratemaking recovery) until they are placed in service, at which time AFUDC accrual stops and post-in-service carrying cost accrual begins. As recognized in the Federal Mandate Statute and in prior Commission orders, financing costs are not only incurred and recoverable under the Federal Mandate Statute on capital construction projects which have specific in-service dates, but also on other federally mandated costs which are not yet included in a rider for timely recovery. Accordingly, financing costs, including on any previously accrued financing cost amounts, will be accrued on the coal ash closure costs included in the Company's Coal Ash Compliance Project (deferred in the regulatory asset due to the Company's Asset Retirement Obligation ("ARO") accounting), as well as project-related post closure maintenance expenditures, until the costs are recovered via rates.

Q. TO WHAT EXTENT WILL FINANCING COSTS BE ACCRUED ON THE 80% OF THE PROJECT COSTS INCLUDABLE IN RIDER 62?

A. The Company proposes to accrue in a regulatory asset account the financing costs on any portion of the retail jurisdictional portion of the 80% of the Coal Ash Compliance Project expenditures included in this proceeding that are not yet earning a CWIP ratemaking return in Rider 62 and to continue the accrual, including on previously computed financing cost amounts, until such expenditures and accrued financing costs are recovered in the Company's retail rates (via Rider 62 or retail base rates). For GAAP accounting and reporting purposes, the Company will reflect in its income statement the deferral of incurred interest expense on the full amount of expenditures incurred during the cost deferral period and will then recognize in earnings the remaining cost of capital amounts on a pro rata basis as such amounts are included in billings to customers.

Q. DOES THE COMPANY HAVE CONTROLS IN PLACE TO ENSURE FINANCING COSTS ARE NOT ACCRUED ON THE SAME FEDERALLY MANDATED COSTS ONCE THEY ARE INCLUDED IN RIDER 62?

A. Yes, the Company has existing processes and controls in place for all its capital riders, including Rider 62, to stop the accrual of financing costs in the regulatory asset once the costs are included in rider rates to prevent the potential double-recovery of financing costs.

Q. PLEASE BRIEFLY DESCRIBE THE COMPANY'S RIDER 62.

A. In addition to CWIP ratemaking return on investment, Rider 62 provides for the recovery of related costs, including depreciation, amortization and other expenditures (recovery is currently related to certain federally mandated projects, as well as recovery of plan development costs and post-in-service carrying or other financing costs associated with the projects). Rider 62 is updated on a semi-annual basis using a June 30 and December 31 cut-off period for incurred expenditures and uses a forecast for the estimated costs of operating expenditures. The estimated costs are subsequently reconciled to actual costs, and any difference between actual amounts incurred for both return on investment and operating expenditures and amounts collected from customers is subsequently collected from or credited to customers, as appropriate.

Q. WHAT IS THE COMPANY REQUESTING IN THIS PROCEEDING RELATED TO ITS RIDER 62 FOR COAL ASH COMPLIANCE PROJECT COSTS OTHER THAN RETURN ON INVESTMENT?

A. Upon Commission approval of the Coal Ash Compliance Project included in this proceeding as federally mandated costs, Duke Energy Indiana is proposing to recover via Rider 62, 80% of the retail jurisdictional portion of the other federally mandated operating expenditures included in the approved Coal Ash Compliance Project, including amortization of expenditures included in regulatory assets and amortization of projected expenditures (including financing costs accrued), taxes, and post-closure maintenance expenditures. As discussed previously, the Company also requests that the Commission approve the deferral of the expenses associated with the Coal Ash Compliance Project on an interim basis until such costs are recovered in Rider 62. This treatment has been approved by the Commission in similar causes in the past and enables the Company to match revenue with the associated expenses that the revenues are intended to recover.

Q. WHAT IS THE COMPANY'S PROPOSED AMORTIZATION PERIOD FOR THE COSTS DEFERRED IN THE REGULATORY ASSET FOR THE COAL ASH CLOSURE PROJECT COSTS?

A. The Company proposes that all Coal Ash Compliance Project costs be amortized such that they will be fully recovered in 2038. The year 2038 was selected to ensure costs will be fully amortized by the time the Company's last operating coal unit at Gibson Station is retired in 2038, based on the retirement dates included in the depreciation study in the most recent base rate case. Because additional costs will be reflected in the rider as incurred as of each cut-off date, the Company proposes to use the appropriate period for each filing to ensure all costs are recovered by July 2038. For example, if the first rider filing is ECR 40, which would use a June 2023 cutoff with the expectation that it would be billed to customers beginning in January 2024, the Company would use an amortization period of 14.5 years to ensure the costs are fully collected by July 2038. This ensures no matter the timing of the incurrence of the costs, they will be recovered primarily from the customers who are benefitting while coal units are still operating. This is also how the Company has previously handled recovery of other deferred costs via amortization when additional costs are deferred over time in both ECR rider filings and the Company's Cause No. 43114 IGCC rider filings to ensure the costs are fully amortized by a date certain.

Q. WHY IS THE COMPANY REQUESTING APPROVAL TO USE RIDER 62 AS THE PERIODIC RETAIL RATE ADJUSTMENT MECHANISM FOR ITS FEDERALLY MANDATED COSTS?

A. As explained previously, Rider 62 currently recovers the costs of previously-approved projects for compliance with previously-enacted or promulgated environmental rules, including the federally mandated CCR Rule compliance projects approved by the Commission in Cause Nos. 44765 and 45253-S1. Rider 62 can include these additional federally mandated costs, as well as any other future projects that may be required for compliance with these or other environmental rules. The Company's processes for the existing Rider are established, and the OUCC, Commission staff, and other stakeholders are familiar with the methodology used.

Q. HOW WILL THE AMOUNTS AT ISSUE IN THIS PROCEEDING THAT ARE INCLUDED IN RIDER 62 BE ALLOCATED TO CUSTOMERS?

A. The revenue requirement amounts are allocated to rate groups using the same coincident peak ("CP") demand allocation method adopted for production plant-related costs in the Company's most recent retail base rate case. Rates to be billed to individual customers within a rate group are developed by dividing the revenue requirement amounts by kilowatt-hour sales, except for industrial customers served under Rate HLF, for which non-coincident peak KW demand is used.

Q. WILL ANY CHANGES BE NEEDED TO THE RIDER 62 TARIFF TO SUPPORT THE INCLUSION OF THE FEDERALLY MANDATED ENVIRONMENTAL COSTS PROPOSED IN THIS PROCEEDING?

A. No.

Q. WILL THE FUEL CLAUSE EARNINGS TEST BE ADJUSTED FOR APPROVED EARNINGS ON THESE FEDERALLY MANDATED PROJECTS AS REQUIRED BY INDIANA CODE § 8-1-8.4-7(c)(1)?

A. Yes. The Company already has a process in place to increase the authorized net operating income used in the Fuel Clause Earnings Test for the incremental approved earnings from Rider 62. Including the Coal Ash Compliance Project expenditures in Rider 62 will ensure this requirement is met in an administratively efficient manner.

Q. TO WHAT EXTENT WILL COSTS BE DEFERRED AND CARRYING COSTS BE ACCRUED ON THE 20% OF THE PROJECT COSTS NOT INCLUDABLE IN RIDER 62?

A. Consistent with Indiana Code 8-1-8.4, upon Commission approval of the compliance projects included in the Coal Ash Compliance Project as federally mandated costs, the Company proposes the deferral of 20% of the retail jurisdictional portion of federally mandated costs in a regulatory asset and will accrue financing costs, including on any previously accrued financing cost amounts, until such costs are recovered in the Company's retail base rates. These carrying costs represent financing costs on the portion of federally mandated costs which cannot be included for timely recovery in a rider mechanism.[2]

III. RATE IMPACTS OF PROPOSED COAL ASH COMPLIANCE PROJECT

Q. PLEASE SUMMARIZE THE PROJECTED RATE IMPACTS OF THE FEDERALLY MANDATED COSTS ASSOCIATED WITH THE COAL ASH COMPLIANCE PROJECT PRESENTED IN THIS PROCEEDING.

A. The rate impact will vary based on a number of variables, including but not limited to, the following:

- The final costs of the compliance projects in the Coal Ash Compliance Project and related costs;

[2] While the Company does not currently anticipate exceeding its cost estimates by more than 25%, it has proposed similar deferral treatment for any such costs.

- The Company's actual financing costs during the period of the project expenditures;
- The actual capital structure, cost of capital rates, and revenue conversion factors in effect for the rider filings;
- Timing of the expenditures and approvals for recovery in Rider 62;
- Actual post-closure maintenance and other ongoing costs incurred;
- Actual allocation of costs to joint owners of Gibson Unit 5;
- Timing of the next retail base rate case.

The Company has based its rate impact calculation on the projected Coal Ash Compliance Project costs and timing presented in the testimony of Mr. Hill using the December 31, 2021 capital structure and cost rates and calendar year 2021 retail revenues, as presented in the testimony of Ms. Maria T. Diaz in Cause No. 42061 ECR 37. The rate impact calculation amortized the closure costs as described previously to fully recover the costs over the remaining life of the last coal unit at Gibson Station (2038) and the accrued financing costs on coal ash management costs over a three-year period. Coal ash management expenditures were treated as operating expenses and recovered over six months.

The total retail rate impact calculation on Attachment 3-A (BPD) shows a first-year rate increase of 1.31% in 2024 over the 2021 revenues, with a peak year total revenue increase of 1.31% (again, over the actual 2021 revenues) in 2024. Attachment 3-A (BPD) also shows the calculation of the estimated retail rate impact by year and customer class.

The projected rate impact does not include the cost of additional future compliance and retirement-related obligations for which the Company is seeking deferral authority as described below and in the testimony of Mr. Hill.

IV. PROPOSED ACCOUNTING FOR ADDITIONAL FUTURE CCR AND IDEM COAL ASH MANAGEMENT COSTS

Q. WHAT SPECIFIC APPROVAL ARE YOU ASKING FROM THE COMMISSION RELATED TO ACCOUNTING FOR COSTS TO BE INCURRED FOR ADDITIONAL FUTURE COAL ASH MANAGEMENT AND CLOSURE PROJECTS NOT INCLUDED IN THE COMPLIANCE PLAN?

A. As explained in the testimony of Mr. Schwartz, the EPA's CCR and RCRA Rules meet the definition under Indiana Code 8-1-8.4 of a federally mandated requirement. As explained in the testimony of Mr. Hill, there are additional future coal ash management costs for post-closure and closure compliance projects required to be undertaken for direct or indirect compliance with the federally mandated requirements, estimated at approximately $150 million. Mr. Hill explains that these costs will be incurred once the generating stations close. The Company is therefore requesting authority from the Commission to defer the retail jurisdictional portion of the federally mandated costs associated with these closure projects not included in the currently requested Coal Ash Compliance Project, support and estimates for which are presented in the testimony of Mr. Hill, with financing costs, for future rate recovery pursuant to Indiana Code § 8-1-8.4-7. Specifically, the Company is requesting:

- Authority from the Commission to accrue in a regulatory asset (using the Federal Energy Regulatory Commission ("FERC") Code of Federal Regulations ("CFR") account 182.3) the federally mandated future costs associated with these coal ash management and closure projects not included in the currently requested Coal Ash Compliance Project, until the costs are included in retail rates in a proceeding requesting a CPCN and specific cost recovery under the Federal Mandate Statute, a general rate case, or other appropriate proceeding.
- Authority from the Commission to accrue in a regulatory asset (using the Federal Energy Regulatory Commission ("FERC") Code of Federal Regulations ("CFR") account 182.3) the financing costs, including on any previously accrued financing cost amounts, on the federally mandated future costs associated with these coal ash management and closure projects not included in the currently requested Coal Ash Compliance Project, at rates equal to Duke Energy Indiana's most recently approved weighted average cost of capital ("WACC") – using the equity return approved by the Commission in the Company's most recent retail base electric rate case, until the costs are included in retail rates.

Q. IS THE COMPANY REQUESTING OTHER DEFERRAL AUTHORITY IN THIS PROCEEDING?

A. Yes. In addition to the deferral authority referenced above, the Company is also requesting authority from the Commission under its general accounting statutory authority[3] to accrue in a regulatory asset (using the Federal Energy Regulatory Commission ("FERC") Code of Federal Regulations ("CFR") account 182.3) expenses associated with plan development, engineering, financing and other expected future environmental compliance and retirement-related obligations until they can be presented to the Commission in a proceeding requesting approval and until costs are included in retail rates.

V. <u>CONCLUSION</u>

Q. IS THE ACCOUNTING TREATMENT PROPOSED BY THE COMPANY FOR THE ACCRUAL OF FINANCING COSTS AND INTERIM DEFERRAL OF COSTS RELATED TO THE 80% RECOVERY OF COAL ASH COMPLIANCE PROJECT COSTS IN RIDER 62, FOR DEFERRAL WITH FINANCING COSTS OF THE REMAINING 20% OF COAL ASH COMPLIANCE PROJECT COSTS, FOR DEFERRAL WITH FINANCING COSTS OF ANY EXCESS OVER 25% OF PROJECTED COAL ASH COMPLIANCE PROJECT COSTS, AND DEFERRAL WITH FINANCING COSTS OF ADDITIONAL FUTURE COAL ASH

[3] *See* Indiana Code §§ 8-1-2-10, -11, and -23. *See also, e.g.,* Cause No. 43956 ("Duke Indiana is authorized to defer for subsequent recovery the retail jurisdictional portion of the costs associated with the gas conversion 'Plan B' preservation costs through year-end 2011 and shall include such deferrals in the regulatory asset described in Finding Paragraph 6 below"); Cause No. 45564 ("CEI South is authorized to defer depreciation and to accrue PISCC related to the CT Project, including carrying costs based on its weighted average cost of capital, until such costs are recognized for ratemaking purposes through CEI South's base rates in its next general rate case. To the extent that reasonable pipeline costs allocated to CEI South's customers are not ultimately recovered through CEI South's FAC mechanism, we grant its alternative request for deferral of such costs until such costs are recovered through base rates following a general rate case"); Cause No. 44339 ("IPL is authorized to continue the accrual of AFUDC (both debt and equity) and to defer the accrual of depreciation expense on both Projects from the Project's 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"); and Cause No. 43426 ("In Phase I of this proceeding, IPL sought and was granted, approval to continue to defer these charges that were modified by the ASM pending the outcome of Phase II. Based on the evidence presented, the Commission finds that IPL should be permitted to continue deferral of these non-fuel Midwest ISO costs until IPL's next base rate case").

MANAGEMENT AND CLOSURE AND ENVIRONMENTAL COMPLIANCE AND RETIREMENT RELATED OBLIGATIONS NOT INCLUDED IN THIS PROPOSED COAL ASH COMPLIANCE PROJECT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")?

A. Yes. GAAP specifically discusses the accounting for a regulator's actions designed to protect a utility from the effects of regulatory lag. Topic 980 of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") covers the accounting guidance for regulated operations formerly provided in Statement of Financial Accounting Standards No. 71. Costs associated with regulatory lag can be capitalized for accounting purposes, provided the provisions of ASC 980-340-25-1 are met. The guidance states:

> Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity 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.

Q. DO YOU HAVE AN OPINION AS TO THE APPROPRIATENESS OF, AND THE ACTION REQUIRED BY, THE COMMISSION TO ALLOW FOR THE REQUESTED ACCOUNTING TREATMENT?

A. Yes. In my opinion, deferral in a regulatory asset of the retail jurisdictional portion of the federally mandated costs of the Coal Ash Compliance Project to comply with CCR and RCRA and of additional future costs until they can be proposed for recovery in in rider rates or base rates, is appropriate from a ratemaking perspective, and such treatment will minimize the timing differences between cost recognition on the Company's books and cost recovery. In addition, Indiana Code 8-1-8.4 specifically provides for the timely recovery of financing costs associated with federally mandated compliance projects. In order for the Company to defer the requested future expenses as a regulatory asset, it must be probable that such costs will be recovered through rates in future periods. To satisfy the probability standard, the Commission's Order in this proceeding should specifically approve the accounting and ratemaking treatment proposed by Duke Energy Indiana.

Q. WAS ATTACHMENT 3-A (BPD) PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information and belief.

Signed: Brian P. Davey
Brian P Davey

Dated: 7-19-2022

Duke Energy Indiana, LLC

Estimated Retail Revenue Requirement and Rate Impacts for
Coal Ash Compliance Plan Costs to be Included in Rider 62
(dollars in thousands)

Line No.	Description	Support Reference	2024	2025	2026	2027	2028	2029	2030	Total	Line No.
			(A)	(B)	(C)	(D)	(E)	(F)	(G)	(I)	
	Investment										
1	Return on Closure Costs and Accrued Financing Costs	WP-1	$ 6,951,223	$ 10,032,310	$ 10,367,855	$ 9,774,331	$ 9,610,975	$ 9,006,659	$ 8,098,339	$ 63,841,692	1
	Operating Costs										
2	Amortization of Closure Costs	WP-2	6,323,828	9,856,562	10,993,258	11,435,526	12,529,469	13,002,517	13,050,146	$ 77,191,306	2
3	Coal Ash Management Costs	WP-3	19,552,990	989,076	941,946	1,158,446	977,950	1,212,348	1,023,454	25,856,210	3
4	Amortization of Accrued Financing Costs on Closure Costs	WP-4A	2,111,406	2,935,626	3,874,224	2,291,531	1,561,006	779,979	409,518	13,963,290	4
5	Amortization of Accrued Financing Costs on Management	WP-4B	1,047,072	1,204,332	1,235,471	206,384	68,081	56,858	58,607	3,876,805	5
6	Total Operating Costs Revenue		29,035,296	14,985,596	17,044,899	15,091,887	15,136,506	15,051,702	14,541,725	120,887,611	6
7	**Total Revenue Requirement**		**$ 35,986,519**	**$ 25,017,906**	**$ 27,412,754**	**$ 24,866,218**	**$ 24,747,481**	**$ 24,058,361**	**$ 22,640,064**	**$ 184,729,303**	7
8	**Annual Revenue Requirement Increase (Decrease)**		**$ 35,986,519**	**$ (10,968,613)**	**$ 2,394,848**	**$ (2,546,536)**	**$ (118,737)**	**$ (689,120)**	**$ (1,418,297)**		8
9	**2021 Billed Revenues**	Cause No. 42061 ECR-37	$ 2,750,502,174	$ 2,750,502,174	$ 2,750,502,174	$ 2,750,502,174	$ 2,750,502,174	$ 2,750,502,174	$ 2,750,502,174		9
10	**Percent Increase for Total Revenue Requirement**	Line 7 / Line 9	**1.31%**	**0.91%**	**1.00%**	**0.90%**	**0.90%**	**0.87%**	**0.82%**		10
11	**Annual Percent Increase (Decrease)**		**1.31%**	**(0.39%)**	**0.09%**	**(0.09%)**	**(0.00%)**	**(0.02%)**	**(0.05%)**		11

Duke Energy Indiana, LLC

Estimated Retail Revenue Requirement and Rate Impacts for
Coal Ash Compliance Plan Costs to be Included in Rider 62
(dollars in thousands)

Line No.	Description		2024 (A)	2025 (B)	2026 (C)	2027 (D)	2028 (E)	2029 (F)	2030 (G)	Total (I)	Line No.
1	Total Revenue Requirement (page 1 line 7)		$ 35,986,519	$ 25,017,906	$ 27,412,754	$ 24,866,218	$ 24,747,481	$ 24,058,361	$ 22,640,064		1
	Rate Code	**Allocation (1)**									
2	RS	42.13%	$ 15,161,120	$ 10,540,044	$ 11,548,993	$ 10,476,138	$ 10,426,114	$ 10,135,787	$ 9,538,259		2
3	CS	5.17%	1,860,503	1,293,426	1,417,239	1,285,583	1,279,445	1,243,817	1,170,491		3
4	LLF	20.72%	7,456,407	5,183,710	5,679,923	5,152,280	5,127,678	4,984,892	4,691,021		4
5	HLF	30.77%	11,073,052	7,698,010	8,434,904	7,651,335	7,614,800	7,402,758	6,966,348		5
6	All Other	1.21%	435,437	302,716	331,695	300,882	299,444	291,107	273,945		6
7	Total	100.00%	$ 35,986,519	$ 25,017,906	$ 27,412,754	$ 24,866,218	$ 24,747,481	$ 24,058,361	$ 22,640,064		7
	Percent Increase for Total Revenue Requirement										
	Rate Code	**2021 Billed Revenues**									
8	RS	$ 1,196,464,038	1.27%	0.88%	0.97%	0.88%	0.87%	0.85%	0.80%		8
9	CS	132,908,554	1.40%	0.97%	1.07%	0.97%	0.96%	0.94%	0.88%		9
10	LLF	528,533,224	1.41%	0.98%	1.07%	0.97%	0.97%	0.94%	0.89%		10
11	HLF	747,510,703	1.48%	1.03%	1.13%	1.02%	1.02%	0.99%	0.93%		11
12	All Other	145,085,655	0.30%	0.21%	0.23%	0.21%	0.21%	0.20%	0.19%		12
13	Total	$ 2,750,502,174	1.31%	0.91%	1.00%	0.90%	0.90%	0.87%	0.82%		13
	Annual Percent Increase (Decrease)										
14	RS		1.27%	(0.38%)	0.08%	(0.09%)	(0.00%)	(0.02%)	(0.05%)		14
15	CS		1.40%	(0.42%)	0.09%	(0.10%)	(0.00%)	(0.03%)	(0.05%)		15
16	LLF		1.41%	(0.42%)	0.09%	(0.10%)	(0.00%)	(0.03%)	(0.06%)		16
17	HLF		1.48%	(0.44%)	0.10%	(0.10%)	(0.00%)	(0.03%)	(0.06%)		17
18	All Other		0.30%	(0.09%)	0.02%	(0.02%)	(0.00%)	(0.01%)	(0.01%)		18
19	Total		1.31%	(0.39%)	0.09%	(0.09%)	(0.00%)	(0.02%)	(0.05%)		19

(1) as approved Cause No. 45253