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

**DIRECT TESTIMONY**
**OF**
**RYAN P. HARPER**
**DIRECTOR & ASSISTANT CONTROLLER**

**ON**

**SECURITIZATION ACCOUNTING ENTRIES**

**SPONSORING PETITIONER'S EXHIBIT NO. 6,**
**ATTACHMENTS RPH-1 THROUGH RPH-4**

## DIRECT TESTIMONY OF RYAN P. HARPER

## I. INTRODUCTION

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

A. My name is Ryan P. Harper. My business address is 1111 Louisiana St, Houston, Texas 77002.

**Q. By whom are you employed?**

A. I am employed by CenterPoint Energy Service Company, LLC ("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 includes Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("Petitioner", "Company", or "CEI South").

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

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

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

A. I hold a Bachelor of Science in Accounting and a Master of Business Administration in Accounting from Indiana 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 in primarily financial planning and analysis roles since joining CenterPoint Energy, Inc.[1] in 2003, when I served as an analyst in the Corporate Financial Planning group. In 2011, I transitioned from that role to Division Finance Manager for CenterPoint Energy, Inc.'s Houston Electric business, CenterPoint Energy Houston Electric, LLC. Then, from 2014 until 2021, I served as Director of the Corporate Financial Planning group of CenterPoint Energy, Inc. until I was appointed

[1] For the sake of clarity, my testimony in this response refers to CenterPoint Energy, Inc. even though in certain situations I may be referring to one of its indirect subsidiaries.

to my current position as Director and Assistant Controller of CenterPoint Energy, Inc. in 2022.

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

A. I am Director & Assistant Controller for CenterPoint Energy, Inc., the ultimate parent company of CEI South. I hold the same position with two other utility subsidiaries of CenterPoint Energy, Inc. - Indiana Gas Company, Inc. d/b/a CenterPoint Energy Indiana North ("CEI North") and Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio ("CEOH").

**Q. What are your present duties and responsibilities as Director and Assistant Controller?**

A. I lead teams who are responsible for external reporting and other centralized accounting support services.

**Q. Are you familiar with the books, records, and accounting procedures of CEI South?**

A. Yes, I am.

**Q. Are CEI South's books, records, and accounting procedures maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts ("USOA") and Generally Accepted Accounting Principles ("GAAP")?**

A. Yes.

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

A. No.

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

A. The purpose of my direct testimony is to address certain requirements set forth in Ind. Code ch. 8-1-40.5 (the "Securitization Act") and 170 IAC 4-10-5 relating to CEI South's proposed securitization bond issuance. Specifically, my testimony provides:

1. Discussion of background on, and creation of, the Special Purpose Entity
2. An overview of the accounting for the total estimated Qualified Costs to be securitized
3. Accounting entries to be recorded throughout the remaining life of the Qualified Costs, starting with the issuance of a final Financing Order in this Cause and also including the decommissioning activities for A.B. Brown Generating Station Units 1 and 2 ("Brown Units 1 and 2")

**Q. Are you sponsoring any attachments with your testimony?**

A. Yes, I am sponsoring the following attachments:

- Petitioner's Exhibit No. 6, **Attachment RPH-1**: illustrative[2] accounting entries upon issuance of a final Financing Order in this Cause
- Petitioner's Exhibit No. 6, **Attachment RPH-2**: A.B. Brown regulatory assets included in Qualified Costs to be securitized
- Petitioner's Exhibit No. 6, **Attachment RPH-3**: illustrative accounting entries at issuance of the securitization bonds
- Petitioner's Exhibit No. 6, **Attachment RPH-4**: illustrative accounting entries after the securitization bond issuance, including:
    - Billing, collection and remittance of securitization charges (the Securitization of Coal Plants ("SCP") tariff)
    - Implementation of the Securitization Rate Reduction ("SRR") tariff
    - Implementation of the Securitization ADIT Credit ("SAC") tariff
    - Removal and restoration of Brown Units 1 and 2

**Q. Were your testimony and attachments in this proceeding prepared by you or under your supervision?**

A. Yes, they were.

[2] Amounts contained within the Attachments RPH-1, and RPH-3 – RPH-4 are illustrative, representative of estimates as of the date of this testimony, and subject to change.

## II. BACKGROUND AND CREATION OF THE SPECIAL PURPOSE ENTITY

**Q. Please describe the Special Purpose Entity ("SPE").**

A. As referenced in Petitioner's Witness Brett Jerasa's testimony, the SPE will be a bankruptcy-remote, wholly owned, special-purpose subsidiary of CEI South formed for the limited purpose of issuing securitization bonds to finance CEI South's recovery of Qualified Costs related to the retirement of Brown Units 1 and 2 and owning the Securitization Property. The securitization bonds will be secured by the Securitization Property, and cash collections from Securitization Charges are the sole source of funds to pay principal and interest on the securitization bonds and ongoing costs. The bondholders will have no recourse to CEI South. In connection with the closing of the securitization bond offering, CEI South will make a capital contribution in the SPE, and, as discussed by Witness Jerasa, proposes a return on its capital contribution equal to CEI South's weighted average cost of capital. The capital contribution alone is not sufficient to permit the SPE to finance its activities without additional forms of credit enhancement and the SPE relies on the Securitization Property acquired, which includes the right to impose, bill, collect, and adjust a nonbypassable Securitization Charge applicable to all CEI South customers and classes under Ind. Code § 8-1-40.5-8(2) until the securitization bonds are paid in full and all other Qualified Costs have been recovered.

**Q. How will CEI South treat the SPE for accounting purposes?**

A. CEI South's and the SPE's accounting treatment for the securitization bonds will follow standard GAAP and the USOA. Following the Commission's Order in this Cause, if Petitioner's request is approved, CEI South will form and become the sole member of the SPE. Both CEI South and the SPE will maintain separate accounting records, requiring accounting entries in each of their own individual books.

**Q. Will CEI South consolidate the SPE for financial reporting purposes?**

A. Yes, CEI South has determined that consolidation is proper for this transaction. Per Deloitte Securitization Accounting 11th Edition[3], page 6:

[3] Link: Securitization Accounting: Eleventh Edition | Deloitte US or https://www2.deloitte.com/us/en/pages/risk/articles/securitization-accounting-insights.html

> "Not all special purpose entities (SPEs) are Variable Interest Entities ("VIEs"), but generally all securitization SPEs are VIEs. A VIE does not usually issue equity instruments with voting rights (or other interests with similar rights) with the power to direct the activities of the entity, and often the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional forms of credit enhancement or other financial support. If an entity does not issue voting or similar interests or if the equity investment at risk is insufficient, that entity's activities probably are predetermined or decision-making ability is determined contractually. Because securitization entities are typically insufficiently capitalized, with no (or little) true 'equity' for accounting purposes, they are generally VIEs. The investments or other interests that will absorb portions of a VIE's expected losses or receive portions of its expected residual returns are called variable interests."

CEI South's capital contribution is a variable interest as, by design, it absorbs any initial variability of the SPE. The SPE is considered a VIE primarily because the capital is insufficient to support its operations.

Per GAAP requirements for Consolidations within ASC 810-10-25-38 (Consolidations – Overall – Recognition)[4]:

> "A reporting entity shall consolidate a VIE when that reporting entity has a variable interest (or combination of variable interests) that provides the reporting entity with a controlling financial interest on the basis of the provisions in paragraphs 810-10-25-38A through 25-38J. The reporting entity that consolidates a VIE is called the primary beneficiary of that VIE."

Per ASC 810-10-25-38A:

> "A reporting entity with a variable interest in a VIE shall assess whether the reporting entity has a controlling financial interest in the VIE and, thus, is the VIE's primary beneficiary... A reporting entity shall be deemed to have a controlling financial interest in a VIE if it has both of the following characteristics:
>
> a. The power to direct the activities of a VIE that most significantly impact the VIE's economic performance
> b. The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The quantitative approach described in the definitions of the terms expected losses, expected residual returns, and expected variability is not required and shall not be the sole determinant as to whether a reporting entity has these obligations or rights.

[4] Link: 810-10-25 Recognition (fasb.org) or https://asc.fasb.org/section&trid=2197496

> Only one reporting entity, if any, is expected to be identified as the primary beneficiary of a VIE. Although more than one reporting entity could have the characteristic in (b) of this paragraph, only one reporting entity if any, will have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance."

CEI South has the power to direct the significant activities of the VIE and is most closely associated with the SPE as compared to other interests held by the bondholders. CEI South is, therefore, considered the primary beneficiary and will be required to consolidate the SPE in its consolidated financial statements.

## III. OVERVIEW OF ACCOUNTING OF TOTAL ESTIMATED QUALIFIED COSTS

**Q. Please describe the total estimated Qualified Costs to be securitized.**

A. As referenced in Witness Jerasa's testimony, Table RPH-1 below summarizes Brown Units 1 and 2 Qualified Costs to be securitized as of 2/28/2023, the date assumed for the issuance of the securitization bonds.[5]

**TABLE RPH-1:**

**SUMMARY OF BROWN UNITS 1 AND 2 QUALIFIED COSTS AS OF 2/28/2023**

| | | 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) |
| [4] | Regulatory Asset | 59,557,019 |
| [5] | Estimated Total Cost to Decommission, Demolish and Restore Site | 26,771,245 |
| [6] | Estimated Expert Support Costs | 885,000 |
| [7] | Estimated Cost to Issue Securitization Bonds | 4,691,778 |
| | Estimated Total Qualified Costs subject to securitization at issuance | $ 350,125,000 |

The total Qualified Costs to be securitized do not include investment tax credits ("ITCs") as there are no remaining ITCs related to Brown Units 1 and 2.

## IV. ACCOUNTING ENTRIES

[5] See explanation of use of February 28, 2023 in footnote 6.

**Q. Has CEI South previously requested or received an Order from the Commission approving the recording of a regulatory asset to recover the net book value of Brown Units 1 and 2 upon the planned retirement of these generating units?**

A. No.

**Q. What accounting entries does CEI South propose to make upon issuance of a final Financing Order in this Cause, but before the securitization bonds are issued?**

A. Upon issuance of a final Financing Order in this Cause, CEI South will record several entries which are reflected in Petitioner's Exhibit No. 6, Attachment RPH-1 and further explained below.

As shown in part (a) of Attachment RPH-1, CEI South will (1) derecognize the portion of the original cost of Brown Units 1 and 2, net of accumulated depreciation (excluding cost of removal, discussed separately below) from plant-in-service which will be authorized for recovery through securitization and (2) recognize that amount as a new regulatory asset.

(amounts in millions of dollars)

| | | |
|---|---|---|
| Dr. (Debit) Regulatory Asset (FERC Account 182.2) | 264 | |
| Dr. Accumulated Depreciation | 528[6] | |
| Cr. (Credit) Plant-in-service | | 792[7] |

[6] This entry assumes that the securitization bonds will be issued February 28, 2023. To the extent the bond issuance is later than that date, the relative total Qualified Costs and the Qualified Costs to be securitized will decrease by approximately $2.0 million per month. This represents one month's depreciation expense and the growth in the A.B. Brown regulatory assets. The precise monthly calculation is as follows:

| | |
|---|---|
| Increase (decrease) ($ in millions) | |
| Depreciation expense | ($2.143) |
| Cost of removal expense | (0.122) |
| MATS reg asset amortization expense | (0.115) |
| Dense Pack reg asset accrual | 0.299 |
| Net decrease | ($2.081) |

[7] Represents the original A. B. Brown cost net of $6 million portion (approximately $2 million of depreciation expense per month based on an assumed securitization bond issuance date of 2/28/23 or about 90 days after the assumed Financing Order date) that will remain in plant-in-service upon the receipt of the order.

The amount of the original cost of Brown Units 1 and 2 to remain in plant-in-service equals the amount of depreciation expense to be recognized between the date of the final Financing Order ("Financing Order date") and the anticipated date of the issuance of the securitization bonds. During that time, CEI South will record a cumulative $6 million[8] of depreciation expense based on the current approved depreciation rates, as reflected in the journal entry below. Monthly depreciation for the period will be approximately $2 million, which remains the same as the current approved monthly depreciation on the entire original cost of Brown Units 1 and 2.

(amounts in millions of dollars)

| | | |
|---|---|---|
| Dr. Depreciation expense | 6 | |
| Cr. Accumulated depreciation | | 6 |

This approach follows the GAAP requirements for accounting on abandonment within ASC 980-360-35-1 (Regulated Operations – Property, Plant, and Equipment – Subsequent Measurement), "When it becomes probable (likely to occur) that an operating asset or an asset under construction will be abandoned, the cost of that asset shall be removed from construction work-in-process or plant-in-service." Per PricewaterhouseCoopers Utilities and Power Companies accounting guide[9] issued in 2016 and partially updated in 2018, ("PwC Guide") section 18.7.1 Abandonments, "A regulated utility should recognize a loss on abandonment when it becomes probable that all or part of the cost of an asset will be disallowed from recovery in future rates and such amount is reasonably estimable. It should record the amount that the regulated utility expects to recover, if any, as a new regulatory asset." Probable is defined in the Master Glossary of GAAP as "The future event or events are likely to occur." The PwC Guide also addressed the issue of the impact on accounting for an abandonment when a plant continues to operate for a period after the criteria for abandonment recognition has been met. Per the PwC Guide,

[8] The $6 million is the estimated three months between the Financing Order date and the assumed issuance date of the securitization bonds multiplied by the monthly depreciation expense of approximately $2 million, which is the annual depreciation of approximately $27 million (see Petitioner's Exhibit No. 4, Attachment JLT-4) divided by 12.

[9] Link: Full guide PDF: Utilities and power companies guide (pwc.com) or https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/utilities_and_power_/utilities_and_power__US/up_pdf.html

> "…it would be acceptable to reclassify to a regulatory asset only that portion of the recovery expected to occur after the plant is abandoned. The regulated utility should record the reclassification and any related loss at the time the abandonment becomes probable, consistent with guidance in ASC 980-360-35. The utility should recognize the balance still classified in utility plant over the period remaining until the plant is abandoned. Therefore, in such situations, an adjustment to the estimated life of the asset and, accordingly, the rate of depreciation, is likely appropriate to recover the asset while it is still providing service."

This approach also follows the USOA guidance for account 182.2 Unrecovered plant and regulatory study costs, which states the account shall include "significant unrecovered costs of plant facilities where construction has been cancelled or which have been prematurely retired" when authorized by the Commission.

Per the PwC Guide, the amount of regulatory asset to be recognized when the abandonment is probable is based on the return likely to be provided. If full return is likely to be provided, then the recognized regulatory asset amount is based on the carrying basis of the abandoned plant less the amount of any cost disallowance; if partial or no return is likely to be provided, then the recognized regulatory asset amount is based on the present value of the future revenues expected to be provided to recover the allowable cost of the abandoned plant. The entries presented here reflect full return is provided, as CEI South will continue to earn a return on these assets until the issuance date of the securitization bonds, and therefore the regulatory asset is based on the carrying value of the abandoned plant to be securitized and does not require any present value discount for the future revenues to be recovered.

Upon issuance of a final Financing Order, there will also be accounting entries to address the other amounts in the Qualified Costs to be securitized. The new regulatory asset created by CEI South will also include the projected decommissioning costs, net of the cost of removal reserve, as shown in part (b) of Attachment RPH-1. The portion of the new regulatory asset associated with the decommissioning costs is offset with an accrued balance which will be paid upon retiring and fully decommissioning the Brown Units 1 and 2 assets. Amounts below are illustrative, representative of estimates as of the date of this testimony and are subject to change.

(amounts in millions of dollars)

| | | |
|---|---|---|
| Dr. Regulatory Asset (FERC Account 182.2) | 21 | |
| Dr. Accumulated Depreciation (Cost of Removal reserve) | 6 | |
| Cr. Accumulated Depreciation (decommissioning costs) | | 27 |

As shown in Table RPH-1 above, the Qualified Costs to be securitized also include some of CEI South's existing regulatory assets. These regulatory assets are associated with Mercury and Air Toxics Standards ("MATS") and dense pack investments at Brown Units 1 & 2, and include amounts for deferred depreciation, post in-service carrying costs as well as the 20% deferred portion of the revenue requirement for MATS spend approved in the Company's Environmental Cost Adjustment ("ECA") annual filings – Cause No. 45052 ECA-XX. Petitioner's Exhibit No. 6, Attachment RPH-2 reflects the specific regulatory asset amounts, including the estimated balance as of the assumed securitization bond issuance date. This combined balance of these unrecovered costs will be transferred to the new regulatory asset for inclusion with the other Qualified Costs to be recovered through securitization, as shown in part (c) of Attachment RPH-1.

(amounts in millions of dollars)

| | | |
|---|---|---|
| Dr. Regulatory Asset (FERC Account 182.2) | 59 | |
| Cr. Regulatory Asset (FERC Account 182.3) | | 59 |

The entries associated with the new regulatory asset result in a cumulative balance of approximately $344 million. The remaining $6 million of Qualified Costs, associated with issuing the securitization bonds and expert support costs, are incurred leading up to the issuance date of the securitization bonds and addressed in the next question.

**Q. What accounting entries are proposed upon issuance of the securitization bonds?**

A. There are balance sheet entries for both CEI South and the SPE, as reflected in Petitioner's Exhibit No. 6, Attachment RPH-3 and further explained below.

CEI South makes a total capital contribution to fund and form the SPE, as shown in part (a) of Attachment RPH-3.

(amounts in millions of dollars)

| CEI South: | | | SPE: | | |
|---|---|---|---|---|---|
| Dr. Investment in SPE | 2 | | Dr. Cash | 2 | |
| Cr. Cash | | 2 | Cr. Equity | | 2 |

Note: the $2 million above represents 0.5% of the initial aggregate principal amount of the securitization bonds ($350 million), as referenced in Witness Jerasa's testimony

The SPE then issues and sells the securitization bonds, as shown in part (b) of Attachment RPH-3. At this point the SPE incurs the $6 million of costs to issue the securitization bonds and for expert support, which brings the total issuance amount to $350 million.

(amounts in millions of dollars)

| SPE: | | |
|---|---|---|
| Dr. Regulatory Asset | 6 | |
| Cr. Cash | | 6 |
| | | |
| Dr. Cash | 350 | |
| Cr. Long term debt | | 350 |

CEI South then sells the new regulatory asset to the SPE; the purchase is funded by the securitization bond offering net proceeds, as shown in part (c) of Attachment RPH-3.

(amounts in millions of dollars)

| CEI South: | | | SPE: | | |
|---|---|---|---|---|---|
| Dr. Cash | 344 | | Dr. Regulatory Asset | 344 | |
| Cr. Regulatory Asset | | 344 | Cr. Cash | | 344 |

Additionally, the $6 million of original cost not recognized as a new regulatory asset (as referenced above) is assumed to be removed from CEI South's books once it is fully depreciated and physically retired.

(amounts in millions of dollars)

CEI South:

| | |
|---|---|
| Dr. Accumulated depreciation | 6 |
| Cr. Plant-in-service | 6 |

**Q. What accounting entries are proposed when Securitization Charges are billed, collected, and remitted?**

A. There are income statement and balance sheet entries for both CEI South and the SPE, as reflected in Petitioner's Exhibit No. 6, Attachment RPH-4 and further explained below.

CEI South, as the Servicer, bills customers for Securitization Charges, as shown in part (a) of Attachment RPH-4. The SPE recognizes revenue when customers are billed. Once Securitization Charges are collected from customers, CEI South recognizes a payable to the SPE and later remits the Securitization Charges to the indenture trustee, for the benefit of the SPE. Journal entries below are illustrative and simplified for presentation purposes.

(amounts in millions of dollars)

| CEI South: | Dr. | Cr. | SPE: | Dr. | Cr. |
|---|---|---|---|---|---|
| Dr. Receivable from customer | 33 | | Dr. Receivable from CEI South | 33 | |
| Cr. Payable to SPE | | 33 | Cr. Revenue | | 33 |
| | | | | | |
| Dr. Cash | 33 | | | | |
| Cr. Receivable from customer | | 33 | | | |
| | | | | | |
| Dr. Payable to SPE | 33 | | Dr. Cash | 33 | |
| Cr. Cash | | 33 | Cr. Receivable from CEI South | | 33 |

Note: the $33 million illustrative above represents the assumed annual revenue requirement as referenced in Petitioner's Exhibit No. 2, Attachment BAJ-2

CEI South also incurs O&M costs as the Servicer, as shown in part (b) of Attachment RPH-4. The SPE recognizes the O&M as expense when billed by CEI South, and later remits cash to pay the servicing fee to CEI South and reimburse CEI South for other ongoing costs.

(amounts in millions of dollars)

| CEI South: | Dr. | Cr. | SPE: | Dr. | Cr. |
|---|---|---|---|---|---|
| Dr. Receivable from SPE | 1 | | Dr. O&M Expense | 1 | |
| Cr. Payable to third party | | 1 | Cr. Payable to CEI South | | 1 |
| | | | | | |
| Dr. Payable to third party | 1 | | | | |
| Cr. Cash | | 1 | | | |
| | | | | | |
| Dr. Cash | 1 | | Dr. Payable to CEI South | 1 | |
| Cr. Receivable from SPE | | 1 | Cr. Cash | | 1 |

Note: the approximate $1 million illustrative above represents the assumed annual amount as referenced in Petitioner's Exhibit No. 2, Attachment BAJ-2

The SPE also amortizes the regulatory asset and services the securitization bonds, as shown in part (c) of Attachment RPH-4. It recognizes the amortization expense at an amount which offsets the impact of the revenue, O&M and interest expense, resulting in no net income for the SPE in any given period. The income tax entries are discussed separately below.

Cash payments by the SPE for securitization bond interest and principal will be set according to the amortization schedule for the securitization bonds.

(amounts in millions of dollars)

<u>SPE:</u>

| | | |
|---|---|---|
| Dr. Amortization Expense | 17 | |
| Cr. Regulatory Asset | | 17 |
| | | |
| Dr. Interest Expense | 15 | |
| Cr. Interest Payable | | 15 |
| | | |
| Dr. Long term debt | 17 | |
| Dr. Interest Payable | 15 | |
| Cr. Cash | | 32 |

Note: the illustrative amounts above represent the assumed first-year totals as referenced in <u>Petitioner's Exhibit No. 2</u>, Attachment BAJ-2

Petitioner's Witness Matthew A. Rice's testimony describes the true-up mechanism, or adjustment, needed to address any variances between actual and approved recoveries from the SCP tariff. The accounting entries for the SPE associated with these variances are noted below, and also shown in part (a) of Attachment RPH-4. The over- or under-recovery variance will be calculated each month, and it allows the SPE to maintain no overall impact to net income for the period. CEI South will file to correct the SCP rate for any over- or under-collections at least one time per year over the life of the securitization bonds.

| If actual recoveries are greater <u>than approved amounts</u> | If actual recoveries are less <u>than approved amounts</u> |
|---|---|
| Dr. Revenue | Dr. Regulatory Asset |
| Cr. Regulatory Liability | Cr. Revenue |

The amortization of the regulatory asset and servicing of the securitization bonds also leads to accounting entries focused on the remaining deferred tax liability ("ADIT") balance associated with Brown Units 1 and 2. This ADIT balance remains on CEI South's books and is to be amortized over the life of the securitization bonds, as shown in part (d) of Attachment RPH-4.

(amounts in millions of dollars)

| | | |
|---|---|---|
| CEI South: | | |
| Dr. ADIT Liability | 2 | |
| Cr. ADIT Expense | | 2 |
| | | |
| Dr. Current Income Tax Expense | 2 | |
| Cr. Cash | | 2 |

Note: the approximate $2 million illustrative above represents the assumed first-year total as referenced in Petitioner's Exhibit No. 2, Attachment BAJ-4

This amortization of the ADIT liability also impacts the return to be provided to customers through the SAC tariff, which is explained in more detail later.

**Q. What accounting entries does CEI South propose to make when it implements the Securitization Rate Reduction ("SRR") tariff?**

A. When the securitization bonds are issued and Securitization Charges are implemented, there is a corresponding rate reduction tariff which facilitates removal of applicable Qualified Costs from rate base. As calculated in Table RPH-2 below, the SRR tariff is based on a revenue requirement which is a function of (1) the Qualified Costs removed from CEI South's rate base; (2) CEI South's weighted average cost of capital; and (3) recovery of depreciation and amortization expense. It is important to note how amounts related to the net plant and regulatory assets are captured in Table RPH-2. The net plant, including the cost of removal reserve, is reflected in both the subtotal of Qualified Costs and depreciation expense because it is currently in rates and earning a return. For the regulatory assets, on the other hand, eligible amounts are only included in amortization expense (and not in the subtotal of Qualified Costs) since they are not earning a return. This amortization expense is only for the MATS regulatory asset since the dense pack amounts are not in CEI South's current rates. However, the underlying investments associated with both MATS and dense pack regulatory assets are included in the net plant balance.

**TABLE RPH-2:**

**REVENUE REQUIREMENT FOR THE SRR TARIFF AS OF 2/28/2023**

| | | 2/28/2023 |
|---|---|---|
| [1] | Brown Units 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) |
| | Subtotal Qualified Cost | 258,219,958 |
| | Pre-tax weighted average cost of capital* | 7.66% |
| | Return on rate base | 19,779,649 |
| | Plus: Depreciation and Amortization - annualized | |
| | Depreciation Expense (excluding Cost of Removal)** | 25,721,104 |
| | Cost of Removal Expense** | 1,466,855 |
| | Amortization Expense for MATS Regulatory Asset*** | 1,376,761 |
| | Depreciation and Amortization - annualized | 28,564,719 |
| | Revenue requirement | $ 48,344,368 |

* From Cause No. 44909 – CECA 4

** As referenced in Petitioner's Exhibit No. 4, Attachment JLT-4

*** As referenced in Petitioner's Exhibit No. 6, Attachment RPH-2

As addressed in Witness Rice's testimony, the SRR tariff is effective upon implementation of the Securitization Charges. It is meant to remain in place until an order is received in CEI South's next general rate case.

CEI South's accounting entries supporting the annualized impact of the SRR tariff are reflected in Petitioner's Exhibit No. 6, Attachment RPH-4, part (e) and provided below.

(amounts in millions of dollars)

CEI South:

| | | |
|---|---|---|
| Dr. Revenue | 48 | |
| Cr. Receivable from customer | | 48 |
| Dr. Receivable from customer | 48 | |
| Cr. Cash | | 48 |

Note: the approximate $48 million illustrative above represents the assumed first-year total

Witness Rice's testimony also describes the true-up mechanism, or adjustment, needed to address any variances between actual and approved amounts returned to customers via the SRR tariff. The accounting entries for CEI South associated with these variances are noted below, and also shown in part (e) of Attachment RPH-4. The over- or under-recovery variance will be calculated each month. CEI South will true-up the SRR tariff annually and will review the overall impact following the next general rate case, with any further credit to or charge from customers via the SRR tariff until the difference is resolved.

| If actual rate reduction is greater <u>than approved amounts</u> | If actual rate reduction is less <u>than approved amounts</u> |
|---|---|
| Dr. Regulatory Asset | Dr. Revenue |
| Cr. Revenue | Cr. Regulatory Liability |

**Q. What accounting entries does CEI South propose to make when it implements the Securitization ADIT Credit ("SAC") tariff?**

A. When the securitization bonds are issued and Securitization Charges are implemented, there is also a separate tariff designed to provide customers a return on the remaining ADIT balance associated with Brown Units 1 and 2. This is done so that customers receive the full benefits of the remaining ADIT. We understand that in Indiana, ADIT is reflected in the capital structure as opposed to rate base; however, as Witness Jerasa explains, the net present value analysis presented in this case is based upon reflecting ADIT associated with the retired Brown Units 1 & 2 as a component of rate base. As such and to make certain that customers receive the full benefits of the ADIT in a fashion that matches the net present value analysis underlying the proposal, we have proposed the SAC tariff. In future rate cases and until it has been fully amortized, the remaining ADIT associated with the retired A.B. Brown Units will be addressed through the SAC tariff and will not be included in CEI South's ADIT that is included in its capital structure. As illustrated in Table RPH-3 below, the SAC tariff is based on a revenue requirement which is a function of (1) the ADIT balance as of the securitization bond issuance date; (2) the amortization schedule for the securitization bonds; and (3) CEI South's weighted average cost of capital, assuming ADIT is excluded from the capital structure.

**TABLE RPH-3:**

**REVENUE REQUIREMENT FOR THE SAC TARIFF AS OF 2/28/2023**

| | | | 2/28/2023 |
|---|---|---|---|
| [1] | ADIT balance as of the Bond issuance date* | $ | 46,157,897 |
| [2] | Approx. remaining Bond balance, one year after issuance (as a % of total)* | | 96% |
| [3] | Pre-tax weighted average cost of capital** | | 9.29% |
| | Revenue requirement for first year after Bond issuance [1 x 2 x 3] | $ | 4,131,567 |

* As referenced in Petitioner's Exhibit No. 2, Attachment BAJ-4

** Based on only the debt and equity components of CEI South's actual capital structure from Cause No. 44909 – CECA 4

As addressed in Witness Rice's testimony, the SAC tariff is effective upon implementation of the Securitization Charges. It is meant to remain in place until the securitization bonds and ADIT balance are fully amortized.

CEI South's accounting entries supporting the annualized impact of the first year of the SAC tariff are reflected in Petitioner's Exhibit No. 6, Attachment RPH-4, part (f) and provided below.

(amounts in millions of dollars)

| | Dr. | Cr. |
|---|---|---|
| Dr. Revenue | 4 | |
| Cr. Receivable from customer | | 4 |
| | | |
| Dr. Receivable from customer | 4 | |
| Cr. Cash | | 4 |

Witness Rice's testimony also describes the true-up mechanism, or adjustment, needed to address any variances between actual and approved amounts returned to customers via the SAC tariff. The accounting entries for CEI South associated with these variances are noted below, and also shown in part (f) of Attachment RPH-4. The over- or under-recovery variance will be calculated each month. CEI South will true-up the SAC tariff annually over the life of the securitization bonds until the ADIT balance is fully amortized.

| If actual rate reduction is greater <u>than approved amounts</u> | If actual rate reduction is less <u>than approved amounts</u> |
|---|---|
| Dr. Regulatory Asset | Dr. Revenue |
| Cr. Revenue | Cr. Regulatory Liability |

**Q. What accounting entries does CEI South propose to make for the removal and restoration of Brown Units 1 and 2?**

A. The cost of removal and restoration were accrued and moved to the SPE as part of the Qualified Costs to be recovered through securitization. To the extent actual removal and restoration costs are aligned with this estimate, the accounting entry is reflected in <u>Petitioner's Exhibit No. 6</u>, Attachment RPH-4, part (g) and provided below.

(amounts in millions of dollars)

| | | |
|---|---|---|
| Dr. Accumulated depreciation (decommissioning costs) | 27 | |
| Cr. Cash | | 27 |

A. Note: the $27 million illustrative above represents the assumed amount included in the Qualified Costs to be recovered through securitization, as referenced in Table RPH-1

A. Witness Rice's testimony also describes the process needed to address any difference in actual removal and restoration costs compared to the approved estimate included as a Qualified Cost to be recovered through securitization. The accounting entries for CEI South associated with these variances are noted below, and also shown in part (g) of Attachment RPH-4. CEI South will seek to defer any difference and resolve it in its next general rate case.

| If actual costs are greater <u>than the approved estimate</u> | If actual costs are less <u>than the approved estimate</u> |
|---|---|
| Dr. Accumulated depreciation | Dr. Cash |
| Cr. Cash | Cr. Accumulated depreciation |

## V. <u>CONCLUSION</u>

**Q. Does this conclude your prepared written testimony?**

A. Yes, it does.

## 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

Ryan Harper, Director & Assistant Controller

5-6-22
Date

Petitioner's Exhibit No. 6, Attachments RPH-1 – RPH-4
provided in Excel format