

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY d/b/a VECTREN ENERGY)
DELIVERY OF INDIANA, INC. ("VECTREN SOUTH"))
FOR (1) ISSUANCE OF A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY FOR THE)
CONSTRUCTION OF A COMBINED CYCLE GAS)
TURBINE GENERATION FACILITY ("CCGT"); (2))
APPROVAL OF ASSOCIATED RATEMAKING AND)
ACCOUNTING TREATMENT; (3) ISSUANCE OF A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY FOR COMPLIANCE PROJECTS TO MEET)
FEDERALLY MANDATED REQUIREMENTS ("CULLEY)
3 COMPLIANCE PROJECT"); (4) AUTHORITY TO)
TIMELY RECOVER 80% OF THE COSTS INCURRED)
DURING CONSTRUCTION AND OPERATION OF THE)
CULLEY 3 COMPLIANCE PROJECTS THROUGH)
VECTREN SOUTH'S ENVIRONMENTAL COST)
ADJUSTMENT MECHANISM; (5) AUTHORITY TO)
CREATE REGULATORY ASSETS TO RECORD (A) 20%)
OF THE REVENUE REQUIREMENT FOR COSTS,)
INCLUDING CAPITAL, OPERATING, MAINTENANCE,)
DEPRECIATION, TAX AND FINANCING COSTS ON THE)
CULLEY 3 COMPLIANCE PROJECT WITH CARRYING)
COSTS AND (B) POST-IN-SERVICE ALLOWANCE FOR)
FUNDS USED DURING CONSTRUCTION, BOTH DEBT)
AND EQUITY, AND DEFERRED DEPRECIATION)
ASSOCIATED WITH THE CCGT AND CULLEY 3)
COMPLIANCE PROJECT UNTIL SUCH COSTS ARE)
REFLECTED IN RETAIL ELECTRIC RATES; (6))
ONGOING REVIEW OF THE CCGT; (7) AUTHORITY TO)
IMPLEMENT A PERIODIC RATE ADJUSTMENT)
MECHANISM FOR RECOVERY OF COSTS DEFERRED)
IN ACCORDANCE WITH THE ORDER IN CAUSE NO.)
44446; AND (8) AUTHORITY TO ESTABLISH)
DEPRECIATION RATES FOR THE CCGT AND CULLEY)
3 COMPLIANCE PROJECT ALL UNDER IND. CODE §§ 8-)
1-2-6.7, 8-1-2-23, 8-1-8.4-1 *ET SEQ.*, 8-1-8.5-1 *ET SEQ.*, AND)
8-1-8.8 -1 *ET SEQ.*)

CAUSE NO. 45052


INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

TESTIMONY OF

WES R. BLAKLEY – PUBLIC’S EXHIBIT NO. 4

AUGUST 10, 2018

Respectfully submitted,



Lorraine Hitz-Bradley
Attorney No. 18006-29
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 45052
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC.

I. INTRODUCTION

1 **Q: Please state your name, business address and employment capacity.**

2 A: My name is Wes R. Blakley and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204. I am a Senior Utility Analyst for
4 the Office of Utility Consumer Counselor ("OUCC"). My qualifications are
5 attached to this testimony as Appendix A.

6 **Q: Please describe the review and analysis you conducted in order to prepare**
7 **your testimony.**

8 A: I read the petition, reviewed data responses and prefiled testimony, exhibits and
9 schedules related to Southern Indiana Gas and Electric Company d/b/a Vectren
10 Energy Delivery of Indiana, Inc.'s ("Vectren") proposed accounting and
11 ratemaking treatment of its pollution control projects and its CCGT project. I also
12 reviewed the federally mandated compliance statute under Ind. Code ch. 8-1-8.4 as
13 it pertains to cost recovery.

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

15 A: The purpose of my testimony is to provide an analysis and make recommendations
16 in response to Vectren's proposed accounting and ratemaking treatment of its
17 pollution control projects and its CCGT project. I address Vectren's request to
18 establish a new rate recovery mechanism, identified as the Environmental Cost
19 Adjustment ("ECA"), for recovery of costs related to two pollution control

1 projects. I will also review and comment on Vectren's request for accounting and
2 ratemaking treatment pertaining to its CCGT project, wherein it seeks to include
3 associated costs in a future base rate case.

II. ENVIRONMENTAL COST ADJUSTMENT

4 **Q: Please briefly explain Vectren's new ECA tracker.**

5 A: Vectren requests authority to establish an ECA tracker to recover costs associated
6 with two pollution control projects. The first project was approved in Cause No.
7 44446, Indiana Utility Regulatory Commission ("Commission") Order dated
8 January 28, 2015. This order permitted Vectren to construct equipment to comply
9 with Environmental Protection Agency ("EPA") Mercury and Air Toxic Standards
10 ("MATS") rule at its Culley Units ("MATS Compliance Project"). The order also
11 defined the MATS Compliance Project costs as federally mandated compliance
12 costs under Ind. Code § 8-1-8.4-4. Vectren was authorized to defer these costs as a
13 regulatory asset starting January 1, 2014, until: 1) the date the Commission
14 approves an order authorizing recovery of the costs through an adjustment
15 mechanism; or 2) Vectren's next base rate case (but not prior to 2020). Included in
16 this regulatory asset are construction costs, operation and maintenance ("O&M")
17 expenses, depreciation, taxes, and financing costs, as well as Allowance for Funds
18 Used During Construction ("AFUDC") and the accrual of post-in-service carrying
19 costs ("PISCC") once the investments are placed in service.

20 The second project to be included in the ECA is the investment associated
21 with Culley Unit 3 ("Culley 3 Compliance Project"), which Vectren is requesting

1 in order to be in compliance with the EPA's Coal Combustion Residuals Rule
2 ("CCR"). The compliance investment costs will be included in the ECA as
3 Construction Work in Progress ("CWIP") until the projects are completed. Once
4 complete, the entire investment, O&M expenses, depreciation, taxes and deferred
5 costs will be tracked in the ECA.

6 **Q: What are the costs of the two projects to be included in the new ECA tracker?**

7 A: The deferred costs approved in Cause No. 44446 associated with the MATS
8 Compliance Project investment, and requested for inclusion in the ECA tracker, is
9 \$67,293,812 as of December 31, 2017. Net of accumulated depreciation, the total
10 is \$60,891,723.

11 The Culley 3 Compliance Project investment is estimated to cost \$95
12 million to complete. Costs associated with the Culley 3 Compliance Project were
13 not included in the initial ECA rates because this project has not been approved
14 by the Commission. Vectren is requesting approval of this project and the
15 associated costs as in this Cause. The total cost of the two projects requested to
16 be recovered through the ECA is approximately \$162 million.

17 **Q: Does the OUCC have any concerns with Vectren's proposal to establish an**
18 **ECA tracker for recovery of federally mandated environmental compliance**
19 **project costs under Ind. Code § 8-1-8.4-4?**

20 A: Not at this time. Ind. Code § 8-1-8.4-4 permits the recovery of certified costs to
21 comply with federally mandated requirements. Certified costs include capital,
22 O&M, depreciation, tax, and financing costs. Vectren proposes its ECA
23 mechanism be an annual tracker with eighty percent (80%) of approved costs
24 recovered as a cash revenue requirement and twenty (20%) deferred until

1 Vectren's next base rate case. While the rate recovery mechanism requested here
2 is consistent with the requirements necessary to comply with the federally
3 mandated statute, the OUCC does not waive the right to question the recovery of
4 certain costs, accounting treatment, or policies adopted by Vectren in its tracker
5 proceedings.

6 **Q: What projects and associated costs does the OUCC recommend be permitted**
7 **federally mandated requirement tracker treatment?**

8 A: As discussed in the testimony of OUCC witness Lauren M. Aguilar, the OUCC
9 recommends costs associated with Vectren's MATS Compliance Project (project
10 previously approved in Cause No. 44446) be permitted for recovery through the
11 ECA tracker.

12 However, as further discussed in the testimony of Ms. Aguilar, the OUCC
13 recommends the Commission deny recovery of Vectren's Culley 3 Compliance
14 Project and associated costs through its proposed ECA.

15 **Q: Does the OUCC recommend denial of any other projects in Vectren's request**
16 **for a Certificate of Public Convenience and Necessity ("CPCN")?**

17 A: Yes. OUCC witnesses Ms. Aguilar, Dr. Peter M. Boerger and Anthony A. Alvarez
18 recommend the Commission reject Vectren's request for a CPCN under Ind. Code
19 ch. 8-1-8.5 *et seq.* for a Combined Cycle Gas Turbine ("CCGT") project. I will
20 address Vectren's proposed CCGT accounting and ratemaking treatment below.

III. COMBINED CYCLE GAS TURBINE

1 **Q: Please briefly explain Vectren's proposed accounting and ratemaking**
2 **treatment as it pertains to its requested CCGT investment.**

3 A: Vectren is requesting a CPCN for a new CCGT to replace some of its coal units
4 that will be retired at the end of 2023. Vectren is not seeking to adjust customers'
5 rates to recover the costs of the CCGT prior to its next base rate case, which is
6 required to be filed by the end of 2023, per the Order in Cause No. 44910. Vectren
7 is requesting authority to defer depreciation and financing costs (or PISCC) related
8 to the CCGT investment from the date the CCGT is placed in service until
9 Vectren's next base rate case, at which time the CCGT investment and associated
10 costs would be reflected in retail electric rates.

11 **Q: More specifically, what cost does Vectren propose to defer during the post-in-**
12 **service period and what recovery treatment is it seeking in its next base rate**
13 **case for the CCGT project?**

14 A: According to Vectren witness Wayne D. Games, the estimated cost of the CCGT is
15 approximately \$781 million.¹ Vectren witness J. Cas Swiz lists the post-in-service
16 costs requested and their future treatment as follows:

- 17 1) Accrue PISCC on the CCGT at Vectren's currently approved weighted
18 average cost of capital ("WACC"), from its in-service date until the date of
19 a Commission order authorizing recovery of a return in Vectren's rates;
- 20 2) Defer the accrual of depreciation expense on the CCGT from its in-service
21 date until the date of a Commission order authorizing recovery in
22 Vectren's rates of depreciation expense;
- 23 3) Record PISCC and deferred depreciation as a regulatory asset in Account
24 182.3 Other Regulatory Assets;

¹ Testimony of Wayne Games, p. 27, line 23.

1 4) Amortize such regulatory asset as a recoverable expense for ratemaking
2 purposes over the estimated life of the CCGT commencing on the date of
3 the order authorizing recovery in Vectren's rates of a return on the CCGT
4 and depreciation expense; and

5 5) Include the unamortized portion of the regulatory asset in Vectren's rate
6 base upon which it is permitted to earn a return.

7 **Q: Do you have concerns with the recovery of the proposed deferred costs of the**
8 **CCGT project?**

9 A: Yes. I have concerns with Vectren using its WACC rate to accrue deferred post in
10 service capital costs on a construction project. After the completion of the CCGT
11 project, Vectren is requesting authority to accrue PISCC on the CCGT at its
12 WACC rate. The WACC rate is used to calculate the return on investments in the
13 calculation of base rates and in CWIP trackers like the transmission, distribution,
14 and storage system improvement charge ("TDSIC") tracker and the ECA tracker.
15 The statutes that govern trackers such as the federal mandated tracker, Ind. Code
16 ch. 8-1-8.4 and the TDSIC, Ind. Code ch. 8-1-39, require deferral of 20% of all
17 costs. Both statutes refer to the rate with which capitalized carrying costs costs
18 should be deferred "post in service carrying charge based on the overall cost of
19 capital most recently approved by the commission shall be deferred and recovered
20 by the energy utility as part of the next general rate case filed by the energy utility
21 with the commission."² The carrying charge rate previously approved by the
22 Commission in the 20% deferral of PISCC under these statutes has been the
23 WACC rate. This creates a deferral of earnings which are then grossed up for
24 taxes. The same statutes also mention AFUDC with regard to the 20% deferral.²

² Ind. Code §§ 8-1-8-4.7(c)(2), 8-1-39-9(b).

1 As I will explain, Vectren should be required to use the post-in-service AFUDC
2 rate.

3 **Q: What is AFUDC?**

4 A: AFUDC is the cost of funds, both equity and debt, used to finance construction
5 projects. These funds accrue during the construction period and are capitalized as
6 part of the total cost of utility plant. Interest expense is credited for the interest
7 portion and other income is credited for the equity portion. Capitalization of
8 AFUDC is performed to reflect that one of the cost components of construction is
9 the cost of capital used to construct the asset. The impact of AFUDC is to help
10 earnings and financial position during the period of construction. Normally, a
11 utility receives no compensation for this until it files for a rate increase and the
12 capitalized AFUDC is included in rate base.

13 **Q: If the Commission approves Vectren's proposed CCGT, why should it be**
14 **required to use the post-in-service AFUDC rate for the post in service**
15 **capitalization of the costs of funds?**

16 A: Vectren should be required to use the post-in-service AFUDC rate until the time
17 new rates are implemented. During construction, Vectren will capitalize AFUDC
18 to its CCGT project. Later, Vectren will file a rate case in order to capture the
19 CCGT investment in its rates, but there will be a timing difference between the
20 completion date of the CCGT and the time it is actually included in rates. This
21 timing difference is the post-in-service period. It usually lasts less than a year, but
22 could take longer because of delays in a final order. Because of this delay, utilities
23 will request a continuation of AFUDC and permission to defer depreciation. The
24 post-in service accounting treatment for AFUDC and depreciation helps utilities

1 with their financial statements by delaying the impact of expenses until the rates
2 are in effect. AFUDC is used to capitalize costs to construction projects either
3 during construction or post-in-service, not the WACC rate.³ The purpose of
4 WACC is in the calculation of a return on investment, which creates the bottom
5 line earnings that are grossed-up for federal income taxes.

6 **Q: What does the OUCC recommend with regard to Vectren's proposed**
7 **accounting and ratemaking treatment?**

8 A: The OUCC recommends the Commission:

- 9 1) Permit Vectren to establish a new ECA mechanism for recovery of its
10 federally mandated MATS Compliance Project costs under Ind. Code § 8-1-
11 8.4-4;
- 12 2) Deny recovery of Vectren's Culley 3 Compliance Project costs through its
13 proposed ECA mechanism; and
- 14 3) Deny recovery of Vectren's CCGT project costs. However, if the CCGT
15 project is approved, require the post-in-service AFUDC rate be used until the
16 time new rates are implemented.

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

18 A: Yes.

³ For example, see Cause No. 45029, IPL Rate Case, with reference to Eagle Valley CCGT.

APPENDIX A

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

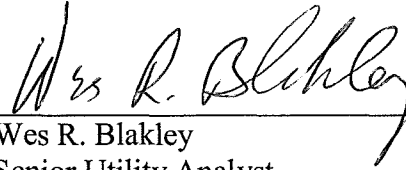
2 A: I received a Bachelor of Science Degree in Business with a major in Accounting
3 from Eastern Illinois University in 1987 and worked for Illinois Consolidated
4 Telephone Company until joining the OUCC in April 1991 as a staff accountant.
5 Since that time I have reviewed and testified in hundreds of tracker, rate cases and
6 other proceedings before the Commission. I have attended the Annual Regulatory
7 Studies Program sponsored by NARUC at Michigan State University in East
8 Lansing, Michigan as well as the Wisconsin Public Utility Institute at the
9 University of Wisconsin-Madison Energy Basics Program.

10 **Q: Have you previously testified before the Commission?**

11 A: Yes.

AFFIRMATION

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



Wes R. Blakley
Senior Utility Analyst

Indiana Office of Utility Consumer Counselor

August 10, 2018

Date

Cause No. 45052
Vectren South Electric

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC TESTIMONY OF WES R. BLAKLEY* has been served upon the following parties of record in the captioned proceeding by electronic service on August 10, 2018.

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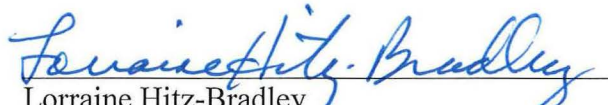
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