STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IEA GROUP'S REPLY TO OUCC'S DECEMBER 14, 2007 MSFR COMMENTS

<u>OUCC General Comments</u>:

- Add a section requiring provision of a confidentiality agreement, to be provided when testimony is filed, for companies who have information they wish to keep confidential.

<u>IEA Group Reply:</u>

IEA Group agrees to the requested provision of a confidentiality agreement.

<u>OUCC Specific Comments:</u>

1-5-8 *Working papers and data; revenues, expenses, and taxes*

- (17)(D) For allocated affiliate charges, a schedule showing the total staffing for each department allocating charges at the beginning of the test year and the end of the test year.

<u>IEA Group Reply:</u>

This is an additional requirement beyond the changes the technical group agreed upon. As the technical group previously agreed, utilities will provide a schedule of net charges by category or account for each affiliated company, including: (A) an explanation of the nature of service provided, (B) an explanation of the basis or pricing methodology for charges, and, (C) if allocated, a detailed explanation of the allocation methodology used and the specific allocation factors used. It is unclear what benefit is provided by a headcount of each department allocating charges. OUCC's comment should not be accepted.

1-5-10 *Working papers and data; rate base, utility plant in service*

- 10(d) An annual summary by sub-account of actual net plant additions to a utility's plant in service used to determine the plant in service rate base proposed by the utility, showing
  (1) Plant additions
  (2) Retirements, and
  (3) Other changes

  <u>for each year since the last rate base update</u> and, as available, for each month subsequent to the test year ending with the plant cutoff date.

IEA Group Reply:

The OUCC's proposed language does not indicate if the ratebase update should be from the last rate case or the last CWIP update. The annual changes since the last rate base update are already provided on the FERC Form 1 and/or the Annual Report to the IURC.

The technical group agreed to the following language for that last portion of this section: "for the test year and, as available, for the period subsequent to the test year ending with the plant cutoff date."

In regards to the period subsequent to the test year, the cost to provide the plant changes by sub-account by month outweighs the benefit, and having a cumulative summary for that period provides the information in enough detail for review and analysis. In addition, for Major Projects, the utility is required to file a monthly update of costs. OUCC's comment should not be accepted.

1-5-13 *Working papers and data; rate of return and capital structure*

- Expand to include all workpapers that support the cost of equity and fair rate of return estimation, including
  - If the Risk Premium model is used, all reports necessary to supported the estimated risk premium.
  - If any other cost of equity models are used, all reports used by the utility to derive its estimated cost of equity.
  - If a Comparable Earnings model is used and the proxy group contains more than 20 companies, the utility should provide on a computer CD a copy of the analysis used by the utility in whatever format or program was used to derive the estimated cost of equity or fair rate of return.

IEA Group Reply:

OUCC's requested information has not been previously included in the MSFR and historically has been addressed in discovery. Expanding the MSFR into the area of cost of equity and fair return makes the already demanding MSFR more time consuming, costly, and moves toward the "Maximum Standard Filing Requirements" rather than the Minimum. OUCC's proposed language regarding "…all reports necessary…" could require the provision of an unreasonably large amount of data not appropriate within the context of the MSFR and may be a likely source of dispute regarding MSFR compliance. OUCC's request for a "computer CD copy of the analysis used by the utility in whatever format or program was used to derive the estimated cost of equity or fair rate of return" may likely run afoul of license, ownership, and other proprietary issues. The MSFR is well suited to the acquisition of accounting information and calculations but is not the most appropriate means of acquiring all the information considered and used in the theoretical estimation of cost of capital and fair return by economic experts.

The IEA Group proposes the following compromise language.

1-5-14 *Working papers and data; other*
(h) Provide work papers for each model used to support the requested cost of equity and fair rate of return.

- 13(d) Add back the verbiage eliminated by the Strawman. Specifically, ***"…and as of the latest date reasonably available prior to the post filing date respectively,…."***

IEA Group Reply:

The above language was deleted in the Commission's suggested changes from new section (c) concerning the utility's capital structure and weighted average cost of capital. A capital structure for the time requested should not be mandatory unless there has been a financing or other significant activity since the end of the test year.

- 13(j) - This section should be expanded as follows: ***If the Parent company's debt is not rated but a subsidiary of the parent company is rated, provide all rating reports on the Parent's subsidiary whose debt is rated.***

IEA Group Reply:

The technical group already agreed upon the following language at the OUCC's request to this section: "If the parent company's debt is not rated, but a subsidiary of the parent company is rated and that subsidiary is used as a proxy for the parent company's rating, provide all rating reports on the parent's subsidiary whose debt is rated". The OUCC's proposed expansion is not needed.

Additional IEA Group Comments on Strawman:

1-5-4(g)

Insert the word "within" so as to say "all working papers shall be filed within fourteen days…"

1-5-8(a)(3)

Revise (A) and (B) to read "Operating revenues categorized by billed and unbilled" and "Sales or deliveries categorized by billed and unbilled". Delete (D) – "unbilled revenues." Knowing unbilled revenues without knowing unbilled quantities limits analysis. Also the way (A) is currently written, it is unclear if the revenues referred to in (A) include or exclude unbilled revenues.

1-5-8(a)(20)

Change to read "expenditures recorded to utility operations incurred by…" (this is the only one missed when the technical work group was adding the "recorded to utility operations" language to the other items in this section 8.)

CONCLUSION

The IEA Group appreciates the opportunity to provide these comments and recommends that the Strawman be modified to address the above-raised concerns.

Respectfully submitted,

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