STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY ("IPL"), AN INDIANA CORPORATION, FOR (1) CERTIFICATES THAT PUBLIC CONVENIENCE AND NECESSITY ("CPCN") WILL BE SERVED BY COMPLIANCE PROJECTS TO ALLOW IPL TO COMPLY WITH FEDERALLY MANDATED REQUIREMENTS AT PETERSBURG GENERATING STATION; (2) APPROVAL OF ASSOCIATED ACCOUNTING AND RATEMAKING TREATMENT, INCLUDING COST RECOVERY IN ACCORDANCE WITH IND. CODE § 8-1-8.4-7 AND AUTHORITY TO DEFER COSTS UNTIL SUCH COSTS ARE REFLECTED IN RATES; AND 3) TO THE EXTENT NECESSARY OR APPROPRIATE ISSUANCE OR MODIFICATION OF CPCN FOR THE USE OF CLEAN COAL TECHNOLOGY PURSUANT TO IND. CODE CH. § 8-1-8.7	)	**CAUSE NO. 44794**

OUCC PREFILED TESTIMONY

OF

WES R. BLAKLEY – PUBLIC EXHIBIT #4

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Lorraine Hitz-Bradley

Lorraine Hitz-Bradley, Atty. No. 18006-29
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Prefiled Testimony of Wes R. Blakley*** has been served upon the following counsel of record in the captioned proceeding by electronic service and/or by depositing a copy of same in the United States mail, first class postage prepaid, on October 04, 2016.

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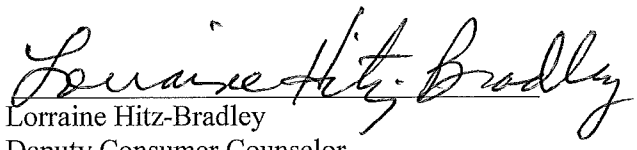

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DIRECT TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 44794
INDIANAPOLIS POWER AND LIGHT COMPANY

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Wes R. Blakley, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204.

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

A: I am a Senior Utility Analyst for the Indiana Office of Utility Consumer Counselor ("OUCC").

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to give an opinion concerning Indianapolis Power and Light Company's ("IPL" or "Petitioner") request for approval of its proposed accounting and ratemaking treatment for the National Ambient Air Quality Standards ("NAAQS") SO_2 Compliance Project and the Coal Combustion Residuals ("CCR") Compliance Project, collectively the "Compliance Projects" and recover it in its Environmental Compliance Cost Recovery Adjustment ("ECCRA").

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

A: I read IPL's prefiled testimony and reviewed Petitioner's exhibits and schedules in its case-in-chief. I prepared discovery questions and reviewed Petitioner's

responses to OUCC discovery requests and have met with IPL's representatives to discuss the matters I address in my testimony.

II. ECCRA AND FEDERALLY MANDATED COSTS

Q: What is IPL's proposal regarding its ECCRA and Federally Mandated Costs?

A: Using its Environmental Compliance Cost Recovery Adjustment ("ECCRA") tracker, IPL seeks to recover eighty percent (80%) of its capital, operating and maintenance expense, depreciation expense, tax and financing costs incurred as a result of the CCR NAAQS Projects in accordance with I.C. 8-1-8.4-7(c)(1). IPL also requests the creation of a regulatory asset for the remaining twenty percent (20%) of its approved federally mandated costs, including depreciation expense, 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, (Cause No. 44576) and recover those deferred costs in a future base rate case. The regulatory asset will have carrying costs applied according to I.C. 8-1-8.4-7(c) (2) until such costs are included in electric rates. IPL requests authority to create regulatory assets to record: 1) post-in-service allowance for funds used during construction ("AFUDC") for both debt and equity and 2) defer Operation & Maintenance ("O&M") and depreciation expenses associated with the Compliance Projects until such costs are reflected in the Company's retail electric rates or the ECCRA.

Q: Do you have any concerns with IPL using the ECCRA to recover the costs of its federally mandated projects?

A: No. IPL's ECCRA proceeding has been the tracking mechanism it uses for its qualified pollution control property ("QPCP") and clean coal technology ("CCT")

investments. Even though both CCR and NAAQS projects are not CCT per the statute, I believe it is reasonable to allow these investments to be recovered in the ECCRA because they are federally mandated costs that will run in conjunction with the CCT equipment.

Q: Is IPL's proposal to recover 80% of the cost of its federally mandated CCR and NAAQS projects in the ECCRA similar to its request to recover its CCT costs in the same tracker?

A: Yes. For 80% of the Compliance Projects cost, the recovery of cash revenue requirement is calculated in the same manner as its qualified pollution control property ("QPCP"). This includes 1) return "on" investment at the most current weighted cost of capital using the return on equity from the last rate order, and 2) depreciation and O&M expenses associated with the Compliance Projects. Similar to CCT costs, IPL has also included in its accounting treatment and ratemaking request: 1) post in service accounting treatment for AFUDC; 2) depreciation expense; 3) and O&M expense for costs that have yet to be included in its ECCRA or in a general base rate case.

Q: Please explain IPL's request to create a regulatory asset on 20% of all CCR NAAQS costs.

A: IPL requests to defer as a regulatory asset 20% of the calculated revenue requirement, including a return grossed up for income taxes. This request also includes a deferral of 20% of depreciation and O&M expenses. IPL is proposing the deferrals have a carrying charge applied to them at IPL's weighted cost of capital and the carrying charge is also deferred and compounded until IPL's next base rate case.

Q: Did IPL calculate the rate making impact of the 20% deferral of revenue requirements related to the CCR and NAAQS projects that would be recovered later in a future base rate case proceeding?

A: Yes. IPL witness Mr. James Cutshaw testified regarding the anticipated rate impact of the 20% deferral in a future rate case and stated that "[t]he third page of Petitioner's Attachment JLC-1 shows the relevant calculation, in which I assumed that a rate order reflecting the regulatory asset in rate base and the amortization of the regulatory asset in operating expenses would be effective January 1, 2021." Direct Testimony of Mr. Cutshaw, p. 19, line 14.

Q Are there differences between the calculations of the 20% deferred costs IPL has requested and the 20% deferred costs calculation traditionally received for a construction project whose costs are not in rate base?

A: Yes. IPL has chosen to calculate the 20% deferred costs as a revenue requirement instead of capitalizing them to rate base. Traditionally, when a large construction project is started, capital costs in the form of AFUDC are capitalized to the project. When the project is completed, utilities must stop the recording of AFUDC and start recording depreciation expenses on the project. Since the construction project is not in base rates, utilities can request 1) the Commission create a regulatory asset for the continuation of AFUDC, called "post in service AFUDC", 2) and the deferral of the project depreciation expense for later recovery in a rate case. At the time of its next base rate case, the deferrals of post-in-service AFUDC and deferred depreciation will be amortized and recovered over the life of the asset through amortization, with the unamortized portion of the deferrals included in rate base to earn a return "on", grossed-up for taxes. The 20% deferral of costs that are not included for tracker recovery can be viewed as a construction project whose cost

will not be included in base rates until the next base rate case. I.C. 8-1-8.4-7(c)(2) discusses the recovery of Commission-approved costs deferred until a future base rate case, including federally mandated costs defined in I.C. 8-1-8.4-4(4)(a) as capital, O&M, depreciation, tax or financing costs plus AFUDC and post-in-service carrying costs. These costs are in addition to the traditional costs normally permitted to be deferred when a construction costs is complete, but not yet in base rates.

Q: Do you have any concerns with IPL's proposed ratemaking treatment (regulatory asset) for the 20% deferral of revenue requirements as a regulatory asset that would be recovered in a future base rate case?

A: Yes. Mr. Cutshaw depicts on JLC-1 IPL's calculation of deferred revenue requirements and shows the future rate impact of the 20% deferred costs. From ECR-29 through ECR-37, IPL has displayed in this calculation its revenue requirements, including a return grossed-up for taxes, depreciation and O&M. As Mr. Cutshaw testified, these estimated revenue requirements will be included as a regulatory asset in its next base rate case (possibly in 2021). The amount of the regulatory assets accumulated through 2021 will contain federal income taxes grossed up for the 20% deferred return. The gross income taxes with the 20% deferred return will be included in rate base in 2021, which will then be grossed up for taxes again. I believe that IPL should not gross up federal income taxes on its regulatory assets that will later be grossed up for federal income taxes in a future base rate case proceeding. IPL's proposal results in it recovering taxes on the same earnings twice, which is not sound regulatory policy. When a regulatory asset receives rate base treatment, the earnings calculated on the regulatory asset should

be grossed up for taxes at the time the earnings are converted to a cash revenue requirement, either at the time of a base rate case or in a tracker where that specific regulatory asset is eligible for cash revenue requirement recovery.

Q: Mr. Cutshaw testifies, beginning on page 21, line 4, that the Compliance Projects could be included in the upcoming future base rate case, which would reduce the size of any regulatory assets. Would you be in favor of coming to an agreement to include these projects in the next rate case?

A: Yes. I think it is a good idea to include these costs in base rates as soon as possible in order to minimize the deferral size, because the effect of the constant compounding of carrying costs creates large regulatory assets which utilities may seek to earn a return "on" and a return "of" in future base rate cases.

III. RECOMMENDATIONS

Q: What are your recommendations in this Cause?

A: I recommend that: 1) IPL's regulatory assets should be grossed up for income taxes at the time of its next base rate case and not during the deferral periods and 2) the Commission not determine the type and manner of the rate recovery for the regulatory assets in this Cause, but make that determination in Petitioner's next base rate case proceeding.

Q: Does that conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

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

AFFIRMATION

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

Wes R. Blakley

By: Wes R. Blakley
Indiana Office of
Utility Consumer Counselor

10/4/14
Date: