

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY)
("IPL") FOR AUTHORITY TO INCREASE RATES AND)
CHARGES FOR ELECTRIC UTILITY SERVICE AND FOR)
APPROVAL OF: (1) ACCOUNTING RELIEF, INCLUDING)
IMPLEMENTATION OF MAJOR STORM DAMAGE)
RESTORATION RESERVE ACCOUNT; (2) REVISED)
DEPRECIATION RATES; (3) THE INCLUSION IN BASIC RATES)
AND CHARGES OF THE COSTS OF CERTAIN PREVIOUSLY)
APPROVED QUALIFIED POLLUTION CONTROL PROPERTY;)
(4) IMPLEMENTATION OF NEW OR MODIFIED RATE)
ADJUSTMENT MECHANISMS TO TIMELY RECOGNIZE FOR)
RATEMAKING PURPOSES LOST REVENUES FROM DEMAND-)
SIDE MANAGEMENT PROGRAMS AND CHANGES IN (A))
CAPACITY PURCHASE COSTS; (B) REGIONAL)
TRANSMISSION ORGANIZATION COSTS; AND (C) OFF)
SYSTEM SALES MARGINS; AND (5) NEW SCHEDULES OF)
RATES, RULES AND REGULATIONS FOR SERVICE.)**

CAUSE NO. 44576

**IN THE MATTER OF THE INDIANA UTILITY REGULATORY)
COMMISSION'S INVESTIGATION INTO INDIANAPOLIS)
POWER & LIGHT COMPANY'S ONGOING INVESTMENT IN,)
AND OPERATION AND MAINTENANCE OF, ITS NETWORK)
FACILITIES)**

CAUSE NO. 44602

TESTIMONY OF

MICHAEL D. ECKERT – PUBLIC'S EXHIBIT NO. 5

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 27, 2015

TESTIMONY OF MICHAEL D. ECKERT
CAUSE NO. 44576/44602
INDIANAPOLIS POWER & LIGHT COMPANY

I. INTRODUCTION

1 **Q: Please state your name, employer, current position, and business address.**

2 A: My name is Michael D. Eckert. I am employed by the Indiana Office of Utility
3 Consumer Counselor (“OUCC”) as a Senior Utility Analyst in the Electric Division.
4 My business address is 115 W. Washington St., Suite 1500 South Tower,
5 Indianapolis, Indiana 46204. For a summary of my educational and professional
6 experience, and my preparations for this case, please see Appendix A attached to my
7 testimony.

II. PURPOSE OF TESTIMONY

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

9 A: I provide an overview and briefly introduce the OUCC witnesses whose
10 testimonies focus completely or primarily on the rate case issues in consolidated
11 Cause Nos. 44576/44602. (Please see the testimony of Ms. Barbara A. Smith for
12 an overview and introduction of the OUCC witnesses whose testimony focuses
13 completely or primarily on the investigation issues.) I will briefly explain the
14 OUCC’s process used to review and analyze Petitioner’s revenue requirements. I
15 also explain and support specific adjustments to rate case expense and certain
16 regulatory expenses. I have reviewed Petitioner’s proposed capital structure.
17 The OUCC has no adjustments to Petitioner’s proposed capital structure, except
18 for the cost of equity capital supported by OUCC witness Edward R. Kaufman.

III. OUCC WITNESS INTRODUCTION

1 **Q: Would you please introduce the OUCC's witnesses whose testimonies are**
2 **completely or primarily focused on the rate case issues in consolidated Cause**
3 **Nos. 44576/44602?**

4 **A:** Yes. The following OUCC Witnesses will testify primarily about rate case topics:

5 **Mr. Lafayette Morgan** testifies about revenue requirements and the overall
6 results of the OUCC's rate analysis. Mr. Morgan also provides support for
7 specific adjustments such as Employee Vacancies and Overtime Expense. Mr.
8 Morgan has incorporated the recommendations of other OUCC witnesses
9 regarding certain adjustments to revenues and expenses, original cost rate base,
10 and cost of equity capital. He summarizes the overall results of the OUCC's
11 analysis of Petitioner's revenue requirements.

12 **Mr. Wes Blakley** addresses the OUCC's concerns about Indianapolis Power &
13 Light Company's ("Petitioner" or "IPL") request for special deferred accounting
14 treatment for major storm restoration expenses. Mr. Blakley also addresses how
15 Petitioner has deferred over 100 million dollars of MISO non-fuel costs to be
16 recovered from future ratepayers. Mr. Blakley explains how and why the
17 jurisdictional MISO revenues earned by Petitioner during the deferral period
18 should be recognized and used to off-set the total amount of deferred non-fuel
19 MISO costs that IPL should reasonably recover through new base rates.

20 **Ms. Stacie Gruca** testifies and makes recommendations on the structure of IPL's
21 proposed Off-System Sales ("OSS") Margin Sharing Adjustment mechanism and
22 Capacity ("CAP") Cost Recovery Adjustment mechanism, including the amounts
23 IPL proposes to embed in its basic rates.

24 **Ms. Margaret Stull** provides testimony about why the Commission should reject
25 IPL's proposal to include IPL's net pre-paid pension asset in its rate base as of
26 June 30, 2014. Additionally, she testifies that the prepaid pension asset is not
27 used and useful utility property, nor does it qualify as working capital.

28 **Ms. Cynthia Armstrong** testifies about her analysis of the estimated
29 environmental capital and operating expense in IPL Witness John Reed's model
30 and why that amount may be understated.

31 **Mr. Bradley Lorton** provides additional support for the OUCC's recommended
32 9.2% cost of common equity for IPL as sponsored in the Direct Testimony of Mr.
33 Edward Kaufman. He also concludes that Petitioner will likely maintain its
34 current credit rating if the Commission orders the implementation of the OUCC's
35 recommended return on equity. Mr. Lorton reviews the credit rating reports for
36 Petitioner (IPL) and explains how those ratings are affected by the risks of
37 Petitioner's parent companies: IPALCO and AES.

1 **Mr. Edward Kaufman** testifies that IPL appears to request a 7.75% fair return
2 on equity but actually supports a 10.93% cost of equity. Mr. Kaufman
3 recommends that the Commission adopt the OUCC's proposed cost of equity of
4 9.20%. Mr. Kaufman discusses IPALCO's use of double leverage, Petitioner's
5 proposed fair rate of return, Petitioner's fair value rate base, and Dr. Avera's cost
6 of equity methodologies. Additionally, Mr. Kaufman discusses how the
7 Commission's investigation into IPL's ongoing investment in and operation and
8 maintenance of its network influences authorized cost of equity and the fair value
9 rate base.

10 **Mr. Glenn Watkins** testifies about the accuracy and reasonableness of IPL's
11 retail cost of service study and the allocation of revenue requirements to the
12 various rate classes. He also addresses IPL's proposed rate design, including the
13 proposed increases to residential fixed monthly charges.

IV. OUCC REVIEW AND ANALYSIS

14 **Q: Please provide an overview of the analytical process used to evaluate IPL's**
15 **revenue requirements.**

16 A: The process began with a review of IPL's actual operating revenues, operating
17 expenses, test year rate base figures, test year capital structure, and net operating
18 income for the test year.¹ Adjustments to the actual test year data were made
19 generally to reflect "fixed, known, and measurable" changes that will occur
20 within twelve months following the end of the test year.

21 **Q: Please describe the OUCC's review.**

22 A: As an investor-owned utility, Petitioner's rates and charges are regulated under
23 Ind. Code § 8-1-2-1 *et seq.* The OUCC reviewed Petitioner's case-in-chief,
24 including both the original and updated testimony, along with related exhibits,
25 accounting schedules, attachments and workpapers. OUCC staff conducted an
26 on-site accounting audit of Petitioner's books and records and gathered additional
27 financial information about IPL through discovery. The staff also reviewed

¹ See the Stipulation and Settlement Agreement In Lieu of Prehearing Conference in this Cause at page 7, paragraph 19, dated December 29, 2014.

1 written ratepayer comments. Finally, the staff participated in numerous internal
2 meetings to frame and discuss the issues of this case.

V. **OVERVIEW OF PETITIONER'S CASE AND OUCC REVENUE
REQUIREMENTS STUDY**

3 **Q: Please describe Petitioner, Indianapolis Power and Light Company.**

4 A: Petitioner's ultimate parent company is AES Corporation ("AES"), which is a
5 publically traded company on the New York Stock Exchange. AES has six
6 market-oriented Strategic Business Units ("SBU"s) and IPL is part of the United
7 States SBU. The U.S. SBU consists of 17 generation facilities and two utilities
8 (including IPL) in 9 states. AES U.S. Service Corporation (headquartered in
9 Indianapolis) is a service corporation that provides services to the U.S. operating
10 companies.

11 **Q: Please describe the regulated utility services IPL provides.**

12 A: IPL is an electric utility that provides electric service to 470,000 residential,
13 commercial, and industrial customers in Central Indiana. Petitioner owns,
14 operates, and maintains generation, transmission, and distribution assets for the
15 provisioning of electric service to its utility customers. IPL is subject to the
16 regulatory authority of the Commission and Federal Energy Regulatory
17 Commission.

18 **Q: What rate relief does Petitioner seek in this Cause?**

19 A: Petitioner's schedules calculate an overall increase in revenue of \$67,774,000²
20 based on a Fair Value Rate Base of \$4,101,416,000.³

² See IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ1, line 10.

³ See IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ1, line 1.

1 **Q: Does the OUCC's revenue requirement study indicate a need for additional**
2 **revenue in this Cause?**

3 A: The OUCC recommends IPL's base rate revenue be increased by no more than
4 \$5.916 million as shown in OUCC Witness Lafayette Morgan's testimony. This
5 amount is \$61.858 million less than Petitioner's request.

6 **Q: Are there other parties in this case that may propose revenue or expense**
7 **adjustments in addition to those proposed by the OUCC?**

8 A: Yes, there are numerous intervenors in this Cause, including various industrial
9 customers and the City of Indianapolis. Revenue or expense adjustments
10 proposed by these intervenors should be considered along with those proposed by
11 the OUCC.

VI. FUEL ADJUSTMENT CLAUSE ("FAC")

12 **Q: Did the OUCC accept Petitioner's recommended adjustment for fuel costs?**

13 A: Yes. The OUCC has accepted Petitioner's recommended levels for FAC revenue
14 and expenses.

15 **Q: Does the OUCC have any other recommendations regarding the FAC?**

16 A: Yes. The OUCC recommends that the Commission allow the continuation of the
17 agreement with IPL that allows the OUCC and intervenors to file their testimony
18 and report 35 days after IPL files its application and testimony.

VII. RATE CASE EXPENSE

19 **Q: What rate case expense adjustment did Petitioner propose?**

20 A: Petitioner's witness Mr. Craig A. Forestal states: "[t]he \$2.3 million pro forma
21 expense increase is included in the summary of electric operation and
22 maintenance expense adjustments on IPL Financial Exhibit IPL-OPER, Schedule

1 OM1, Line 15, column 2.” IPL Witness Forestal p. 15, lines 9-11. Thus,
2 Petitioner proposes to embed \$2.3 million of rate case expense into annual
3 revenue requirements.

4 **Q: Do you agree with Petitioner’s adjustment for rate case expense?**

5 A: No. I do not agree with Petitioner’s adjustment for rate case expense, specifically
6 the amount of expense for the Cost of Service Study (COSS) and the amortization
7 period for depreciation/demolition study expenses.

8 **Q: Did the OUCC review Petitioner’s invoices related to rate case expense?**

9 A: Yes. As part of the on-site review, OUCC staff reviewed all invoices incurred
10 through January 31, 2015 related to rate case expense. As of January 31, 2015,
11 Petitioner had spent a total of \$2,683,873 out of total estimated costs of
12 \$4,654,246 included in Petitioner’s case-in-chief.

13 **Q: Please explain the OUCC’s concerns in relation to Cost of Service and Rate
14 Design fees included in this case.**

15 A: In response to OUCC DR 40-05 (Attachment MDE-1), IPL stated it used Heid
16 Rate and Regulatory Services, Energy Group, Inc. and Concentric Energy
17 Advisors to perform cost of service analyses in this case. Petitioner also stated:

18 Due to their knowledge of and experience in Indiana, IPL hired
19 Heid Rate and Regulatory Services to perform an initial cost of
20 service analysis for a rate case. IPL subsequently hired Concentric
21 Energy Advisors to prepare the cost of service study and testimony
22 for IPL’s case-in-chief. Energy Group was used on a limited basis
23 to provide cost of service support as a result of Herb Vander
24 Veen’s knowledge and experience with IPL’s prior cost of service
25 studies.

26 This response lists three (3) cost of service consultants. However, IPL actually
27 used four (4) outside consultants for cost of service and rate design. In the
28 response to OUCC DR 77-1 (Attachment MDE-2), Petitioner provided a listing of

1 all consultants used for this rate case, the total rate case cost projected, and the
2 May 31, 2015 cost to date. Under cost of service study and rate design, Petitioner
3 listed the following companies with rate case costs incurred through May 31,
4 2015: Concentric Energy (\$482,594); Utilities International (\$49,838); Energy
5 Group, Inc. (\$6,626); and Heid Rate and Regulatory (\$229,763).

6 **Q: When were the expenses for cost of service and rate design incurred?**

7 A: From a review of the invoices, all costs for Energy Group, Inc. appear to be
8 incurred during 2013. All costs for Heid Rate and Regulatory were incurred on or
9 before August 31, 2013 (See Attachment MDE-3). All costs for Utilities
10 International appear to be incurred during 2014. All costs for Concentric Energy
11 appear to be incurred since the end of 2013.

12 **Q: What are the OUCC's concerns with the timing of these rate case expense**
13 **payments for cost of service and rate design?**

14 A: As stated in Petitioner's response to OUCC's DR 40-05 (Attachment MDE-1),
15 Petitioner hired Heid Rate and Regulatory to perform an initial cost of service
16 analysis for a rate case. By a review of the invoice dates, it appears the work
17 performed by both Heid Rate and Regulatory and Energy Group, Inc. was
18 occurring concurrently. Subsequently, Petitioner hired Concentric Energy and
19 Utilities International to perform a cost of service and rate design work. Multiple
20 consultants working on cost of service and rate design at different times during
21 the preparation of a rate case raises questions as to whether there is duplication of
22 work being done.

1 **Q: Which Cost of Service/Rate Design consultant(s) presented Petitioner's cost**
2 **of service study in its case-in-chief?**

3 A: Concentric Energy presented Petitioner's cost of service and rate design.
4 Additionally, Utilities International provided support services to IPL in the final
5 four months leading up to IPL's rate case filing. Therefore, I have included in
6 rate case expense the costs associated with Concentric Energy and Utilities
7 International.

8 **Q: Does the OUCC recommend an adjustment to rate case expense for cost of**
9 **service and rate design?**

10 A: Yes. The OUCC recommends a downward adjustment to rate case expense in the
11 amount of \$236,389 to remove the costs associated with Energy Group Inc. and
12 Heid Rate and Regulatory. These costs were incurred to perform an initial cost of
13 service analysis for the rate case in 2013. The OUCC does not believe it is
14 appropriate for ratepayers to be required to pay for multiple studies.

15 **Q: What amortization period did Petitioner propose for rate case expense?**

16 A: Petitioner's witness Dennis Forestal states:

17 IPL proposes a two-year amortization period for all rate case
18 expenses, other than those for the demolition and depreciation
19 studies. The proposed two-year amortization period for such rate
20 case expenses reflects the period of time that the Company projects
21 the rates fixed in this proceeding will be in effect.
22

23 Direct Testimony of Dennis Forestal, pp. 14– 15.

24 Mr. Forestal also states:

25 IPL proposes a five-year amortization period for the rate case
26 expenses of the demolition and depreciation studies. IPL chose
27 five years for the amortization of these expenses because it may
28 not be necessary to have full demolition and depreciation studies in
29 each rate case.
30

31 *Id.* p. 15.

1 **Q: What are the OUCC's concerns related to these amortization periods?**

2 A: In response to OUCC DR 33-02 (Attachment MDE-4), IPL stated that it
3 "contemplates having a rate case contemporaneous with the projected April 2017
4 in service date of the Eagle Valley CCGT, which is currently under construction.
5 IPL has not yet determined when it expects to file a petition initiating this second
6 rate case." If IPL does not file its next rate case within 2 years of the final order
7 in this case, there is a possibility IPL could collect more in rate case expense
8 through rates than authorized in this case.

9 **Q: What does the OUCC recommend related to the amortization periods**
10 **proposed?**

11 A: It has been nearly 20 years since IPL filed its last rate case. (IPL's last rate case
12 was approved on August 24, 1995.) The OUCC recommends Petitioner amortize
13 rate case expense and depreciation/demolition expense over two years. This
14 amortization period is consistent with the Petitioner's proposal to file another rate
15 increase in two years and OUCC Witness Rutter's recommendation for IPL to
16 perform a new depreciation study in Petitioner's next rate case.

17 The OUCC also recommends IPL make a filing to reduce base rates by the
18 amount of rate case amortization expense (including demolition and depreciation
19 expense) included in base rates once the rate case expense has been fully
20 amortized. This will ensure ratepayers do not pay more in rate case expense than
21 the amount included as part of this case.

22 **Q: What is your overall recommendation regarding rate case expense?**

23 A: IPL's total cost for depreciation and demolition studies is \$248,000. Amortizing
24 this expense over 2 years provides an annual amortization of the cost of

1 depreciation and demolition studies of \$124,000 per year. IPL's total cost of all
 2 other rate case expenses is \$4,406,246. I recommend Petitioner's rate case
 3 expense be decreased by \$236,388 to eliminate expenses associated with multiple
 4 cost of service studies. My total for all other⁴ rate case expense is \$4,169,858.
 5 Amortizing this expense over 2 years results in an annual amortization of all other
 6 costs of \$2,084,929. My total pro forma adjustment to rate case expense is
 7 \$2,208,929 as shown below.

<u>Description:</u>	<u>Amount (\$)</u>
Petitioner pro forma rate case expense (excluding depreciation and demolition study)	\$4,407
Less: Heid Rate and Regulatory Services & Energy Group, LLC	<u>236</u>
OUCG pro-forma rate case expense	4,171
Amortize 2 years	<u>2</u>
Total pro forma annual rate case (excluding depreciation and demolition study)	<u>\$2,086</u>
Petitioner pro forma depreciation and demolition expense	\$248
Amortize 2 years	<u>2</u>
Total pro-forma annual depreciation and demolition expense	<u>\$124</u>
OUCG total annual pro forma rate case amount	<u>\$2,210</u>

8 I also recommend IPL reduce base rates for the amortization of rate case
 9 expenses, including depreciation and demolition study expenses, once those
 10 amortization periods have expired.

⁴ "All Other rate case expense" is total rate case expense excluding the demolition and depreciation study expense (Petitioner definition – See Schedule OM 15).

VIII. CAPITAL STRUCTURE AND WEIGHTED COST OF CAPITAL

1 **Q: What Weighted Average Cost of Capital does Petitioner propose?**

2 A: Petitioner proposed a Weighted Average Cost of Capital (“WACC”) of 6.91%⁵,
3 which is based on a 10.93% cost of equity and a 5.67% cost of debt.

4 **Q: Does the OUCC accept Petitioner’s proposed Weighted Average Cost of**
5 **Capital?**

6 A: No. The OUCC accepts Petitioner’s proposed capital structure, but not its
7 proposed cost of equity capital. The OUCC proposes a 6.26%⁶ WACC based on
8 Mr. Kaufman’s recommended cost of equity of 9.20% and IPL’s 5.67% cost of
9 debt.

10 **Q: Did you update IPL’s proposed Capital Structure to reflect more current**
11 **balances?**

12 A: No, I did not update the capital structure because Petitioner has not updated its
13 rate base.

IX. REGULATORY EXPENSES

14 **Q: Did IPL have several regulatory proceedings going during the test year?**

15 A: Yes. Not including tracker proceedings, IPL had 4 regulatory proceedings that
16 were on-going or finishing up during the test year. Those four proceedings
17 included:

18 1) Cause No. 44242 (Petersburg Environmental Projects) - construction,
19 installation and operation of a Pulse Air Fabric Filter System on Units 2
20 and 3, and, on all Petersburg Units, other environmental controls and
21 monitoring equipment, including activated carbon injection (“ACI”),
22 sorbent injection, flue gas desulfurization (“FGD”) upgrade (Units I and 2)
23 and electrostatic precipitator (“ESP”) enhancements (Units 1, 3 and 4) and

⁵ Cause No. 44576, IPL Financial Exhibit IPL-CC, Schedule CC3.

⁶ Cause No. 44576, OUCC Witness Lafayette Morgan, Schedule LKM-18.

- 1 continuous emission monitoring at Petersburg (“Petersburg Project”);
- 2 2) Cause No. 44339 (Eagle Valley CCGT) - construct a 550-725 MW CCGT
3 at IPL’s Eagle Valley Generating Station and convert Harding Street Units
4 5 and 6 to natural gas;
- 5 3) Cause No. 44540 (Harding Street Unit 7 Conversion and National
6 Pollutant Discharge Elimination System (NPDES) costs) - convert
7 Harding Street Station Unit 7 to natural gas and to install the pipes and
8 other facilities necessary to supply natural gas to the refueled Unit 7 and
9 install wastewater treatment controls to meet both the Harding Street and
10 Petersburg Generating Stations new NPDES permit limits; and
- 11 4) 44478 (Blue Indy) - extend the electric facilities and install equipment in
12 accordance with an agreement between the City and IPL (“City-IPL
13 Agreement”) in relation to the City and Blue Indy Agreement.

14 **Q: Are these proceedings frequent and recurring?**

15 A: No. These proceedings are not frequent and are not recurring. The Petersburg
16 Environmental Projects and the Harding Street Unit 7 Conversion Project are the
17 types of proceedings and the type of costs that are incurred as environmental
18 regulations change. However, they are infrequent and do not occur annually. The
19 Eagle Valley CCGT and Blue Indy projects are non-recurring projects.

20 **Q: How many of these proceedings are still on-going as of March 27, 2015?**

21 A: Currently, only the Harding Street Unit 7 conversion proceeding is ongoing. The
22 other proceedings identified above have concluded.

23 **Q: How much did IPL incur for each of these four proceedings during the test**
24 **year?**

25 A: IPL incurred a total regulatory expense amount of \$641,919, which was booked to
26 accounts 921100 and 923100. The amount of costs incurred by IPL for each
27 cause during the test year is displayed in the table below.

Description:	Amount (\$)
Cause No. 44242	\$391,437.98 ⁷
Cause No. 44339	\$10,710.44 ⁸
Cause No. 44540	\$53,870.52 ⁹
Cause No. 44478	\$185,900.15 ¹⁰

1 **Q: What do you recommend regarding these regulatory expenses?**

2 A: The OUCC recommends that \$196,610.59 in regulatory expense be eliminated
3 from operation and maintenance expense because this amount reflects an
4 infrequent, or one-time, non-recurring expense. These are the costs associated
5 with Cause Numbers 44339 and 44478 which have been completed. The OUCC
6 is not proposing to remove the costs associated with Cause No. 44242 and 44540
7 environmental proceedings.

X. CONCLUSION

8 **Q: Does this complete your direct testimony?**

9 A: Yes, it does.

⁷ See Petitioner's response to OUCC Data Request 16-32 (OUCC DR 16-32 Attachment 1).

⁸ *Id.*

⁹ *Id.*

¹⁰ See Petitioner's response to OUCC Data Request 19-12.

APPENDIX A

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

2 A: My name is Michael D. Eckert and my business address is 115 W. Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a
6 Senior Utility Analyst in the Electric Division.

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

8 A: I graduated from Purdue University in West Lafayette, Indiana in December
9 1986, with a Bachelor of Science degree, majoring in Accounting. I am licensed
10 in the State of Indiana as a Certified Public Accountant. Upon graduation, I
11 worked as a Field Auditor with the Audit Bureau of Circulation in Schaumburg,
12 Illinois until October 1987. In December 1987, I accepted a position as a Staff
13 Accountant with the OUCC. In May 1995, I was promoted to Principal
14 Accountant and in December 1997, I was promoted to Assistant Chief
15 Accountant. As part of the OUCC's reorganization, I accepted the position of
16 Assistant Director of its Telecommunications Division in July 1999. From
17 January 2000 through May 2000, I was the Acting Director of the
18 Telecommunications Division. As part of an OUCC reorganization, I accepted a
19 position as a Senior Utility Analyst. As part of my continuing education, I have
20 attended the National Association of Regulatory Utility Commissioner's
21 ("NARUC") two-week seminar in Lansing, Michigan. I attended NARUC's
22 Spring 1993 and 1996 seminar on system of accounts. In addition, I attended

1 several CPA sponsored courses and the Institute of Public Utilities Annual
2 Conference in December 1994 and December 2000.

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

5 A: I read IPL's Petition and prefiled testimony in this proceeding, as well as relevant
6 Commission Orders. I have reviewed Petitioner's workpapers and its Minimum
7 Standard Filing Requirements ("MSFR") filing. In addition, I attended several
8 days of the OUCC field audit in Indianapolis from Monday February 26, 2015
9 through Tuesday March 3, 2015. I participated in numerous internal meetings
10 with various members of the OUCC staff regarding this proceeding and
11 participated in many teleconference calls with representatives of IPL. In addition,
12 I participated in the preparation of discovery questions, both formal and informal,
13 and reviewed Petitioner's responses to OUCC questions and Intervenors' (IPL
14 Industrial Group, Citizens Action Coalition of Indiana, Kroger Company, City of
15 Indianapolis), and Commission data requests, as well as examined pertinent
16 sections of Title 8 of Indiana Code and Title 170 of the Indiana Administrative
17 Code.

Data Request OUCC DR 40 - 05

Please provide the names of all outside consultants who have provided cost of service study work for the current rate case. If more than one consultant was used for the cost of service study, please provide a detailed explanation of why each consultant was hired.

Objection:

IPL objects to the Request on the grounds and to the extent the request seeks information that is confidential, proprietary, competitively-sensitive and/or trade secret. IPL further objects to the Request on the grounds and to the extent it solicits information that was prepared in anticipation of litigation or is otherwise subject to the attorney-client, work product or other applicable privileges. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

IPL used Heid Rate and Regulatory Services, Energy Group, Inc. and Concentric Energy Advisors to perform cost of service analysis.

Due to their knowledge of and experience in Indiana, IPL hired Heid Rate and Regulatory Services to perform an initial cost of service analysis for a rate case. IPL subsequently hired Concentric Energy Advisors to prepare the cost of service study and testimony for IPL's case-in-chief. Energy Group was used on a limited basis to provide cost of service support as a result of Herb Vander Veen's knowledge and experience with IPL's prior cost of service studies.

**Cause Nos. 44576/44602
Attachment MDE-2
Page 1 of 1**

Line No.	Actuals - Months are Project to Date					Total Rate Case Projections (OUCC DR 77-1)	Total Rate Case Projections (OUCC DR 9.5)	IPL Workpaper OM15 - Total Projected	
	May 31, 2015	April 30, 2015	March 31, 2015	February 28, 2015	January 31, 2015				
1	Cost of depreciation and demolition studies:								
2	Depreciation (Gannett Fleming Valuation and Rate Consultants, LLC & WCK Consulting)	62,759	58,994	56,194	56,194	56,194	80,000	80,000	80,250
3	Demolition (Sargent & Lundy, LLC)	129,680	129,680	129,680	129,680	125,718	168,000	168,000	167,750
4	Total depreciation and demolition studies	192,439	188,674	185,874	185,874	181,912	248,000	248,000	248,000
5	Other Rate Case expenses:								
6	Legal								
7	Barnes & Thornburg LLP	871,128	869,757	530,876	530,876	490,575	1,736,540	1,736,540	1,929,488
8	Ice Miller	1,310	1,310	1,310	1,310	1,310	1,310	1,310	1,310
9	Total Legal	872,438	871,067	532,186	532,186	491,885	1,737,850	1,737,850	1,930,798
10	Fair Return (Financial Concepts and Applications, Inc)	90,700	90,200	90,700	86,400	82,300	131,000	125,000	101,000
11	Line Loss Study (E3 Consulting)	88,528	88,528	88,528	88,528	88,528	88,528	88,528	88,528
12	Cost of Service Rate Design:								
13	Concentric Energy	482,594	451,135	431,153	410,825	387,253	597,253	597,253	197,555
14	Utilities International	49,838	49,838	49,838	49,838	49,838	49,838	49,838	49,838
15	Energy Group, Inc	6,626	6,626	6,626	6,626	6,626	6,626	6,626	6,626
16	Heid Rate & Regulatory	229,763	229,763	229,763	229,763	229,763	229,763	229,763	229,763
17	Total Rate Design	768,821	737,362	717,380	697,051	673,480	883,480	883,480	483,782
18	Valuation Study (Concentric)	199,240	191,952	196,952	203,096	186,346	294,000	245,000	210,000
19	Accounting, Tax and Compensation Consulting								
20	Compensation Benchmarking Study (PWC)	55,000	55,000	55,000	55,000	55,000	55,000	55,000	165,000
21	Compensation MSFRs & Exhibits and review of adjustments and MSFRs (PWC)	297,941	297,941	297,941	297,941	294,940	297,941	297,941	347,000
22	Expense Scrub (PWC)	109,945	109,945	109,945	109,945	101,536	109,945	109,945	80,000
23	Tax Issues (Miller Chevalier & PWC)	10,011	10,011	10,011	10,011	10,011	10,011	10,011	155,011
24	Total Accounting and Tax Consulting	472,897	472,897	472,897	472,897	461,487	472,897	472,897	747,011
25	Other								
26	Pension/Post Retirement Issues (PWC)	199,699	199,699	199,699	199,699	199,699	224,699	224,699	189,275
27	Rate Case Rebuttal Witness (To Be Determined)	-	-	-	-	-	50,000	50,000	50,000
28	Other Issues/Unallocated (To Be Determined)	29,176	27,959	21,681	18,064	17,480	100,766	155,766	240,000
29	Contract Support for Rate Case	295,852	295,852	295,852	295,852	295,852	295,852	295,852	295,852
30	Postage & Printing	4,904	4,904	4,904	4,904	4,904	70,000	70,000	70,000
31	Total Other	529,631	528,414	522,136	518,519	517,935	741,317	796,317	845,127
32	Total pro forma cost of all other rate case expenses	3,022,255	2,980,419	2,620,778	2,598,678	2,501,961	4,349,071	4,349,071	4,406,246
33	Grand Total	3,214,694	3,169,093	2,806,652	2,784,552	2,683,873	4,597,072	4,597,072	4,654,246

Heid Rate and Regulatory Services & Energy Group, LLC

Vendor	Invoice #	Amount	Invoice Date	Description
Heid Rate Service	2012-1	18,097.79	10/25/2012	Rate Consulting Services for IPL COSS Prep (\$17,325), Out of Pocket Expenses (\$772.79)
Heid Rate Service	2012-2	56,653.74	1/5/2013	Rate Consulting Services for IPL COSS Prep (\$55,260), Out of Pocket Expenses (\$1,393.74)
Heid Rate Service	2013-3	22,157.17	2/7/2013	Rate Consulting Services for IPL COSS Prep (\$21,105), Out of Pocket Expenses (\$1,052.17)
Heid Rate Service	2013-4	13,725.00	3/11/2013	Rate Consulting Services for IPL COSS Prep (\$13,725)
Heid Rate Service	20131-5	43,810.56	5/4/2013	Rate Consulting Services for IPL COSS Prep (\$42,750), Out of Pocket Expenses (\$1,060.56)
Heid Rate Service	2013-6	18,935.76	6/6/2013	Rate Consulting Services for IPL COSS Prep (\$18,540), Out of Pocket Expenses (\$395.76)
Heid Rate Service	2013-7	9,720.00	7/13/2013	Rate Consulting Services for IPL COSS Prep (\$9,720)
Heid Rate Service	2013-8	27,627.32	8/19/2013	Rate Consulting Services for IPL COSS Prep (\$26,550), Out of Pocket Expenses (\$1,077.32)
Heid Rate Service	2013-9	19,035.00	8/31/2013	Rate Consulting Services for IPL COSS Prep (\$19,035)
Energy Group, Inc.	13113	<u>6,626.00</u>	1/31/2013	General Consulting Services (\$5,300), Expenses (\$1,326): 1/10/13: Review of 1994 Workpapers, phone conference with E Chambers; 1/14/13: Initial CCOSS and Rate Design meeting; 1/15/13: Continue CCOSS and Rate Design meetings; 1/16/13: Meet with IPL CCOSS staff; 1/17/13: Prep of Memo to P. Garcia on history of averaging multi time period for monthly billing demand; 1/31/13: REview and analysis of changes in Kwh sales by rate class 1994 to 2011 and potential impact on 12 CP
Total Heid Rate & Regulatory and Energy Group, LLC Fees		236,388.34		

Data Request OUCC DR 33 - 02

Page 15, lines 6-9 of Mr. Forrestal's testimony states:

IPL proposes a five-year amortization period for the rate case expenses of the demolition and depreciation studies. IPL chose five years for the amortization of these expenses because it may not be necessary to have full demolition and depreciation studies in each rate case.

- a. How did IPL determine five years is an appropriate amount of time to amortize these expenses?
- b. Mr. Forrestal's testimony states the resulting rates in the current rate case (Cause No. 44576) are expected to be in force for a period of two years. (See question above.) When does IPL expect to file its second rate case after the current case in Cause No. 44576?
- c. If IPL does not file its second rate case within 5 years, please confirm IPL will recover in base rates an amount in excess of the demolition and depreciation study expenses included in this case.
- d. Will IPL reduce base rates by the amount of demolition and depreciation study amortization expense included in this case if IPL does not file its second rate case within 5 years?

Objection:

IPL objects to the Request on the grounds and to the extent it rests on a flawed legal premise. IPL's customers pay for retail electric service. IPL further objects to the Request on the grounds that it calls for speculation. Subject to and without waiver of the foregoing objections, IPL provides the following response.

Response:

- a. The longer amortization period was based on an expectation that the work done in this case could be used to some extent in the next basic rate case. The determination of five years also reflects an expectation of the period of time IPL projects may elapse between this case and the need to prepare new demolition and depreciation studies.
- b. Mr. Forestal referred to a period of two years because IPL contemplates having a rate case contemporaneous with the projected April 2017 in service date of the Eagle Valley CCGT, which is currently under construction. IPL has not yet determined when it expects to file a petition initiating this second rate case.
- c. IPL cannot confirm. Rates for electric service are necessarily based on a "snapshot" of utility revenues and costs at the time of ratemaking. Thus customers pay for utility service; they do not pay for, or acquire rights in, individual cost components reflected in the revenue requirement used to establish utility rates. The cost components used to establish just and reasonable rates for service will inevitably change from one ratemaking proceeding to the next. A decrease in one cost component may be offset by increases in other cost component. Factors such as weather and the local economy also impact

whether the utility's rates are sufficient to permit the utility to meet its operating expenses plus earn its authorized return. As a result, IPL cannot determine whether the revenue requirement established in this proceeding will be recovered through the rates fixed in this proceeding.

- d. IPL does not propose to adjust the rates established in this proceeding upon expiration of the amortization, outside the context of a basic rate proceeding. See response to subpart c.

AFFIRMATION

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



Michael D. Eckert
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor

July 27, 2015

Date

Cause No. 44576/44602
IPL