

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

WES R. BLAKLEY – PUBLIC'S EXHIBIT NO. 7

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 27, 2015

TESTIMONY OF OUCC WITNESS WES R. BLAKLEY
CAUSE NO. 44576/44602
INDIANAPOLIS POWER AND LIGHT COMPANY

I. INTRODUCTION

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

2 A: My name is Wes R. Blakley, 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 a Senior Utility Analyst for the Office of Utility Consumer Counselor
6 ("OUCC"). For a summary of my educational background, experience and
7 preparation for this case, see Appendix A attached to my testimony.

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

9 A: First, I explain why Indianapolis Power and Light Company ("IPL" or
10 "Petitioner") should not be permitted special accounting treatment through its
11 proposed major storm restoration reserve account. Second, IPL has established a
12 *pro forma* revenue requirement of \$831,000 for Level 3 & Level 4 storms. I
13 demonstrate that IPL should not *also* be permitted to embed in rates an additional
14 \$1,292,000 per annum for a past storm¹ since such additional recovery is
15 improper and unwarranted. Finally, I demonstrate that IPL's proposal for
16 recovery of its deferred MISO non-fuel costs is inequitable since it does not offset
17 that deferral by the transmission revenues IPL received during the deferral period.

¹ The \$831,000 is the 5.5 average Petitioner proposes for a *pro forma* major storm expense (Level 3 & Level 4 storms), which includes test year Level 3 & Level 4 storm expense. The \$1,292,000 represents a two year amortization of the difference between the test year and the *pro forma* for Level 3 & Level 4 storms (\$3,415,000 - \$831,000 = \$2,584,000; \$2,584,000/2 = \$1,292,000).

II. MAJOR STORM DAMAGE RESERVE

1 **Q: Please summarize Petitioner's request for a Major Storm Damage Reserve**
2 **Account.**

3 A: The operating costs associated with restoring power to IPL's customers after a
4 major storm are embedded in rates as a *pro forma* operating cost. As such, IPL
5 bears the risk that the major storm restoration costs embedded in its rates will not
6 be sufficient to restore power to its customers. IPL proposes to shift the risk of
7 higher than anticipated operating expenses associated with major storms (Level 3
8 & Level 4 storms) from IPL to its ratepayers.

9 **Q: How does IPL propose to shift this risk?**

10 A: IPL would shift such risk by booking regulatory assets in any month when Level
11 3 or Level 4 storm expenses exceed any month's proportionate share of the *pro*
12 *forma* annual Level 3 & Level 4 storm expense. If in any single month a Level 3
13 or Level 4 storm were to hit and the cost of that storm is more than one-twelfth of
14 the *pro forma* Level 3 & Level 4 storm expense, the major storm expense above
15 one-twelfth of the *pro forma* level would be deferred as a regulatory asset.
16 Conversely, if the major storm level expense in a given month is below one-
17 twelfth of the *pro forma* level, a regulatory liability would be booked. Thus, IPL
18 seeks approval for special deferred accounting treatment for this single expense.

19 **Q: What amount does Petitioner embed in Level 3 & Level 4 storm expense?**

20 A: For Level 3 & Level 4 storms, Petitioner has proposed to embed in base rates a
21 *pro forma* level of expense of \$831,377, or approximately \$70,000 per month.
22 Therefore, if authorized by the Commission, Petitioner would book as a
23 regulatory asset monthly Level 3 or Level 4 storm expenses that are in excess of

1 \$70,000. (In any month where the major storm expense is below \$70,000,
2 Petitioner would book a regulatory liability). Petitioner would call the accounting
3 of these assets and liabilities a Major Storm Damage Restoration Reserve
4 Account.²

5 **Q: Does Petitioner propose to embed in rates any other storm damage expense?**

6 A: Yes. Using a 5.5 year average, Petitioner calculated a *pro forma* expense amount
7 for Level 1 & Level 2 storms of \$904,481 (IPL-OPER Schedule OM8), which is
8 not a part of the Storm Damage Reserve Account. In addition, IPL proposes to
9 embed an additional \$1,292,000 in rates, which represents a two year amortization
10 of the difference between test year Level 3 & Level 4 storm restoration costs of
11 \$3.415 million and the 5.5 year average costs (\$831,000) for Level 3 & Level 4
12 storms. Even though it would be recovered through rates, the \$1.292 million
13 figure would not be considered part of the *pro forma* expense for purposes of the
14 creation of any regulatory asset. In other words, IPL could experience less annual
15 major storm restoration costs than its combined *pro forma* revenue requirement of
16 \$2.1 million and still be booking a regulatory asset for major storm expense. This
17 proposed embedded amount will be discussed later in my testimony.

18 **Q: Does the OUCC agree with Petitioner's proposal for this special accounting**
19 **treatment?**

20 A: No. The special accounting treatment financially insulates IPL from the risks of
21 major storms. However, the cost of insulating IPL from that risk is to reassign that
22 risk to IPL's customers. As the operator of the assets affected by major storms,

² Testimony of James Cutshaw page 15, line 13.

1 IPL and not its customers is in a better position to manage those risks. Thus, the
2 shifting of these major storm risks is inappropriate.

3 Second, IPL's proposal would create a regulatory burden without any
4 enhancement of quality of service or customer benefit. The management,
5 accounting, and tracking of the regulatory assets and liabilities will create an
6 additional operating cost that will ultimately be borne by IPL customers. An
7 additional burden will be created for the OUCC, the Commission, and other
8 parties by having to verify the accuracy of the regulatory assets and liabilities
9 created between base rate cases. Since there is no cap or limit, IPL's regulatory
10 asset will be of unknown size. If the special treatment is approved by the
11 Commission, then any party that seeks to challenge the future amount of such
12 costs will have a difficult task because it will have to review multiple years of
13 monthly storm damage accounting. IPL has not demonstrated a substantial benefit
14 for customers to offset this higher administrative and regulatory cost.

15 The only financial benefit of this program is to IPL. IPL has not showed that the
16 creation of regulatory assets and liabilities for major storm expense will enhance
17 IPL's operations in any meaningful way. In fact, it could detract from its
18 operations. IPL's proposal to shift the risk of Level 3 & Level 4 storm expense to
19 the ratepayers appears to be based on the premise that IPL has no control over
20 whether a storm event qualifies as a Level 3 or Level 4 storm. In fact, IPL's
21 operation and management of its system, including the quality and effectiveness

1 of its tree-trimming program, may affect whether a storm event becomes a Level
2 3 or Level 4 storm, which could result in a regulatory asset. Whether a storm
3 event is a Level 3 or Level 4 storm, which would be eligible for special
4 accounting treatment, depends on the number of customers that have lost power
5 due to the storm. If IPL is granted the special accounting treatment for major
6 storms, a decline in IPL's efforts to prevent or restore customer outages would
7 provide IPL a *greater* opportunity to book a larger regulatory asset for its next
8 rate case. This proposed treatment should be considered a step backward as it
9 would reward poor preventative maintenance on IPL's part.

10 Moreover, IPL's request to single out major storm expense for special accounting
11 treatment is proposed without regard to other expense components or return
12 components that may change during the same period. Thus, it is single issue
13 ratemaking applied to a single operating and maintenance account.

14 Special accounting treatment is traditionally requested when known costs will
15 occur that will significantly erode the earnings of the utility. The major storm
16 reserve account throws these requirements out and gives us an open ended "sky-is
17 -the-limit" risk that is tilted in an extreme way against the ratepayers. The
18 ratepayers in this case will only benefit financially if the monthly major storm
19 expense falls below \$70,000. The potential benefit to IPL as a result of this risk-
20 shifting far outweighs the potential benefit to the ratepayers. Storm incidents must
21 be looked at on a case-by-case basis to actually see if the financial burden is great

1 enough to warrant recovery in some way. The Commission has the expertise to do
2 this. What must be done in a major storm occurrence is an analysis of IPL's
3 system, its maintenance practices and procedures and its overall financial well
4 being. IPL has and should continue to have the right to seek extraordinary relief
5 for what it believes to be extraordinary storm events. That is sound regulatory
6 practice and a far better alternative than IPL's proposed Major Storm Restoration
7 Reserve accounting treatment.

8 IPL's request for automatic special accounting treatment for major storms should
9 be rejected. We recommend the Commission reaffirm the traditional practice of
10 embedding a *pro forma* amount of major storm expense based on an historic
11 average. IPL then will, as traditionally done in Indiana, manage its utility business
12 with the resources granted. If a significant event were to occur, IPL can file a
13 Petition for immediate review of the situation based on severity of the occurrence
14 and maintenance and operation processes employed to mitigate such occurrences
15 and the overall financial impact on IPL.

III. PRO FORMA STORM EXPENSES

16 **Q:** Please explain IPL's *pro forma* storm expenses.

17 **A:** IPL has split its *pro forma* storm expense request into two pieces. The first piece
18 is the *pro forma* level of storm expense for Level 1 & Level 2 storms, which are
19 not considered major storms. These costs do not count toward the major storm
20 damage reserve. The second piece is the *pro forma* level of storm expense for
21 Level 3 & Level 4 storms, which are considered major storms. The restoration

1 expenses caused by Level 3 & Level 4 storms would count toward the major
2 storm damage reserve.

3 **Q: How did IPL calculate its *pro forma* level of storm expense for Level 1 & 2**
4 **storms?**

5 A: The Level 1 & Level 2 *pro forma* storm expense is calculated by averaging its
6 storm damage expense over 5.5 years from January 2009 through June 30, 2014.
7 The total amount of Level 1 & Level 2 storms over the 5.5 year period is
8 \$4,974,647,³ This results in a *pro forma* storm expense for Level 1 & Level 2
9 storms of \$904,481.⁴ IPL's test year expense for Level 1 & Level 2 storms is
10 \$1,193,000. IPL's proposed *pro forma* adjustment to Level 1 & Level 2 is thus
11 (\$287,000). The OUCC does not contest Petitioner's *pro forma* amount of Level 1
12 & Level 2 storm expense.

13 **Q: How did IPL calculate its *pro forma* level of storm expense for Level 3 &**
14 **Level 4 storms?**

15 A: The total amount of Level 3 & Level 4 storms over that same 5.5 year time period
16 is \$4,572,575. This results in a *pro forma* level of storm expense for Level 3 &
17 Level 4 storms of \$831,377.⁵ Because IPL's test year expense for Level 3 & Level
18 4 storms is \$3,415,000, IPL's proposed *pro forma* adjustment to Level 3 & Level
19 4 storms is (\$2,584,000).⁶

20 **Q: Does the OUCC agree with this level of *pro forma* expense for Level 3 & 4**
21 **storms?**

22 A: The OUCC does not contest a *pro forma* expense of \$831,377. However,
23 Petitioner does not actually limit its *pro forma* revenue requirement for Level 3 &

³ IPL Workpaper 1 - IPL Witness JLC Direct Testimony, page 1 of 1.

⁴ \$4,974,647 / 5.5 years = \$904,647

⁵ \$4,572,575 / 5.5 years = \$831,377

⁶ IPL Financial Exhibit IPL-OPER Schedule OM8.

1 4 storm expense to that amount. To reach the *pro forma* 5.5 year average for
2 Level 3 & Level 4 expense of \$831,000, Petitioner subtracted \$2,584,000 from
3 the \$3,415,000 test year amount. In a puzzling step, Petitioner proposes to also
4 recover the \$2,584,000 difference over a two year amortization period. (See IPL's
5 Schedule OM8). This means Petitioner would in effect have \$2,123,000
6 embedded in rates for Level 3 & Level 4 storm expenses, not the \$831,000
7 represented to be the 5.5 year average ($\$2,123,000 = \$831,000 + \$1,292,000$).

8 **Q: Please explain how Petitioner proposes to embed in rates more than the 5.5**
9 **year average for Level 3 & Level 4 storms.**

10 A: Line 3 of IPL's Schedule OM8 shows the *pro forma* adjustment decrease in the
11 test year expenses to match the 5.5 year average for both categories of storms.
12 Line 4 of that Schedule states "Less: Adjustment to amortize Level 3 & Level 4
13 storms excess over a two-year amortization period." This adjustment takes the
14 *pro forma* adjustment decrease, which is the difference between the 5.5 year
15 average and the test year Level 3 & Level 4 expense ($\$831,000 - \$3,415,000 =$
16 $\$2,584,000$), and divides it by two ($\$2,584,000 / 2 = \$1,292,000$). This
17 adjustment lowers the *pro forma* test year decrease for Level 3 & Level 4 storms
18 to \$1,292,000. Thus, Petitioner would recover over a two year period a large
19 portion of the Level 3 & Level 4 storm expense that was included in test year
20 expenses. The *pro forma* expense for Level 3 & Level 4 storms Petitioner
21 proposes is not \$831,000 but \$2,123,000. Petitioner is really asking to recover
22 annually more than twice its 5.5 year average for Level 3 & Level 4 storms.

Q: What is the *pro forma* decrease to test year expense including all storms and what is the *pro forma* decrease to test year expense when including the additional amortization of the Level 3 & Level 4 storms in the test year?

1 A: The *pro forma* decrease from test year shown on line 3 Schedule OM8 for all
2 storms is (\$2,872,000). But amortizing the expense of the test year Level 3 &
3 Level 4 storm results in the *pro forma* decreases for all storms to be (\$1,580,000),
4 which appears on line 5, column 3 of Schedule OM8. This amount also appears
5 on IPL-OPER line 8 Schedule OM1, which is titled "Summary of Pro Forma
6 Adjustments to Electric Operation and Maintenance Expense for the Twelve
7 Months Ended June 30, 2014."

8 **Q: Do you agree with the adjustment to amortize the test year Level 3 & Level 4**
9 **storm net of the 5.5 year average that also includes that storm?**

10 A: Absolutely not. This would result in recovery of something in excess of the 5.5
11 year average, which Petitioner chose as its basis to set rates for storm restoration
12 expenses. This can also be viewed as over-recovery. IPL can only recover its test
13 year storm damage restoration expenses through its lawfully approved rates that
14 were in effect at that time. It is inappropriate to carry forward the test year amount
15 of Level 3 & Level 4 expenses that exceeds the 5.5 year average.

16 **Q: What is your recommendation for IPL's total *pro forma* storm expense?**

17 A: The *pro forma* decrease to storm expense shown on line 8 of OM1 should be
18 (\$2,872,000) not (\$1,580,000) as IPL proposed. IPL included its test year Level 3
19 & Level 4 storm restoration expense in its 5.5 year average, and IPL has included
20 this 5.5 year average in its *pro forma* revenue requirement. IPL should not *also* be
21 permitted to recover any portion of the same test year Level 3 & Level 4 storm
22 expense through amortization. I recommend this proposed two-year amortization

1 be disallowed and IPL's *pro forma* storm expense for all storms (Levels 1 through
2 4) be limited to the \$1,736,000 Petitioner has proposed. This amount of *pro forma*
3 storm expense is a reasonable and representative amount based on the 5.5 year
4 average.

IV. MISO RTO TRACKER

5 **Q: Please discuss IPL's request for a MISO RTO tracker.**

6 A: IPL proposes a new Regional Transmission Organization (RTO) Adjustment
7 Rider 26. It would include a test year level of expense of \$14.905 million for
8 MISO non-fuel costs. IPL would file every six months and adjust to recover
9 excess MISO cost over the base amount or adjust below the base amount for a
10 reduction of MISO cost. MISO transmission revenues would also be included as
11 an offset to the MISO costs. This request is similar to Duke Energy Indiana and
12 Vectren RTO trackers. As proposed, IPL will file a request later for approval of
13 its RTO tracker mechanism, which will recover its ongoing MISO non-fuel costs
14 net of MISO jurisdictional transmission revenues.

V. DEFERRED MISO EXPENSES

15 **Q: Please explain IPL's request for recovery of deferred MISO expenses.**

16 A: IPL has deferred MISO Non-fuel charges based on orders from Cause Nos.
17 42266, 42685 and 42962. These orders approved deferrals starting from
18 approximately 2002 and extended to the end of June 30, 2014, which is the end of
19 the test year in this Cause. IPL has deferred over \$102,770,000 of non-fuel MISO
20 charges over this period. IPL anticipates it will defer another \$14,905,000 of non-
21 fuel MISO costs by June 30, 2015. This will result in a total of \$117,675,000

1 MISO costs that have been deferred for approximately 12 years. In this rate case,
2 Petitioner requests authority to amortize this amount in six years resulting in a *pro*
3 *forma* amortization expense of \$19,613,000.

4 **Q: Were the amount of MISO costs Vectren and NIPSCO were permitted to**
5 **amortize comparable to the amount of MISO costs IPL seeks authority to**
6 **amortize?**

7 A: No. In Vectren's base rate case, Cause No. 43111, they were permitted a four-
8 year amortization with combined amortization of MISO Day 1 and Day 2 costs of
9 \$4,565,110. In NIPSCO's Cause No. 43969, NIPSCO was authorized a four-year
10 amortization of non-fuel MISO costs of \$9,608,159.⁷ By contrast, IPL seeks
11 authority to amortize over a slightly longer period of time (6 years) a much larger
12 amount (\$117,675,000). This amount reflects more than twelve years of deferred
13 MISO costs resulting in IPL's proposed annual amortization of \$19,613,000.

14 **Q: Has the OUCC voiced concern before about the possible size of IPL's**
15 **deferred MISO cost?**

16 A: Yes. In Cause No. 43426 (Phase II), OUCC witness Stacie R. Gruca expressed
17 concerns about the size of MISO costs deferred for future recovery, which stood
18 at \$49.9 million as of March 31, 2008. She testified that "Deferred accounting
19 authority should not be open-ended. Deferred accounting should be viewed as a
20 temporary measure to provide relief until necessary rate adjustments can be
21 made." If IPL considered its rates inadequate to cover some new cost, then it had
22 the option of filing a rate case. As Ms. Gruca said in that case, "deferrals should
23 cease and the utility should propose whatever rate relief it believes necessary to
24 ensure that current rates and revenues reflect the utility's cost of service." The

⁷ NIPSCO Cause No. 43969 Exhibit No. LEM-3 Adjustment DA-2, and DA-2A.

1 Commission's approval of deferred accounting authority in other cases should not
2 be construed as approval to stay out indefinitely and accrue unprecedented large
3 amounts to be recovered over much shorter periods of time.

4 **Q: What is your proposal with respect to the amortization of IPL's deferred**
5 **MISO costs?**

6 A: IPL's non-fuel MISO costs have been deferred for approximately 12 years. This
7 open-ended deferral has resulted in a massive \$117,675,000 deferral, which IPL
8 now requests to recover within only 6 years. Two previous utilities have had
9 requested amortization of these types of deferred costs with approximately \$4.5
10 million and \$10 million, respectfully as an annual amortization rate. IPL requests
11 an annual amortization rate of nearly \$20 million. A ten-year amortization period
12 would be less burdensome on ratepayers and more in line with the annual
13 recovery of deferred MISO expenses by other utilities.

14 **Q: A ten-year amortization period based on \$117,675,000 would result in a**
15 **revenue requirement of \$11,767,000 per year. Do you agree that should be**
16 **the revenue requirement?**

17 A: No. There is a better alternative that I will explain below. During most of the
18 more than twelve years IPL deferred its MISO costs, it also received MISO
19 transmission revenues. IPL deferred the costs to future periods to be paid by
20 future ratepayers. In contrast, IPL did not defer the MISO revenues. IPL booked
21 and realized the MISO revenues as accrued for the benefit of shareholders. The
22 MISO revenues should be used as an off-set to the MISO costs that IPL seeks to
23 recover.

Q: Are there different types of MISO transmission revenues?

1 A: Yes. IPL was asked in OUCC Data Request 56-1 to provide a breakdown of the
2 amount of non-jurisdictional and jurisdictional revenues included in its
3 Attachment 1 from DR-51-3(Attachment WRB-1). IPL stated in response to DR
4 56-1 that it would consider Schedule 26 revenues from MISO non-jurisdictional,
5 which it began receiving in June 2013. The remaining amount would be
6 considered "jurisdictional." Schedule 26 non-jurisdictional revenues from June
7 2003 till the end of the test year June 2014 can be observed in IPL workpapers
8 REV8 pages 5-7 (Attachment WRB-2). The total amount of MISO Schedule 26
9 non-jurisdictional revenues is \$1,715,636, and this amount has been removed
10 from test year revenues with a *pro forma* adjustment.⁸ All other revenues from
11 transmission of electricity of others included on Attachment WRB-1 from 2003
12 through the end of the test year June 2014 should be considered jurisdictional.

13 **Q: What is the total amount of jurisdictional MISO transmission revenue that**
14 **IPL has earned from 2003 through the end of the test year June 2014?**

15 A: The jurisdictional MISO transmission revenue that IPL has earned can be
16 calculated using the information received from IPL in OUCC Data Responses 51-
17 3 and 56-1. The total MISO transmission revenues received during the deferral
18 period from 2003 to the end of the test year June 30, 2014 was \$62,560,717. The
19 total amount of MISO Schedule 26 non-jurisdictional revenues for the same
20 period is \$1,715,636. Netting these two amounts leaves total jurisdictional MISO
21 transmission revenues for the period 2003 through June 2014 of \$60,845,081
22 (\$62,560,717-\$1,715,636).

⁸ The non-jurisdictional MISO Schedule 26 revenues relate to revenues paid to IPL from other transmission owners for use of its Schedule 26 transmission plant.

1 **Q: How are jurisdictional MISO revenues treated in IPL's MISO RTO tracker**
2 **known as Rider 26?**

3 A: IPL witness James L. Cutshaw states in his testimony that "The RTO Adjustment
4 factor is intended to timely recover the excess (deficit) of an estimate of the *net*
5 Non-Fuel Costs to be billed by MISO compared to the amount of such *net* costs
6 approved to be included in the determination of basic charges for service in this
7 proceeding." IPL witness Elaine K. Chambers shows the formula for the Rider 26
8 on Attachment 1(g) page 45 of 46. The formula includes current Non-Fuel Costs
9 as well an embedded level in base rates. Also included in this formula is the
10 netting of an embedded level of jurisdictional transmission revenue with the
11 embedded level of Non Fuel Costs as well as recognition of actual Non-Fuel
12 Costs and jurisdictional transmission revenues during the months of the tracker
13 (See Attachment 1(g) page 46 of 46, Item C). Thus, in its RTO tracker IPL
14 recognizes MISO jurisdictional transmission revenue as a reduction to MISO non-
15 fuel costs.

16 **Q: Does IPL demonstrate the netting of jurisdictional MISO transmission**
17 **revenues against MISO Non Fuel Cost anywhere else in this Cause?**

18 A: Yes. In response to OUCC Data Request 12-3, IPL provided OUCC DR-12-3
19 Confidential Attachment 1, which displays budgeted MISO non-fuel Costs and
20 the netting of these costs with estimated MISO transmission revenues.

Q: For purposes of its proposed tracker, IPL recognizes that jurisdictional transmission revenues should be netted with MISO non-fuel Costs.⁹ Did IPL net the transmission revenues against MISO costs during the 2003 through 2014 deferral period to arrive at its MISO cost deferral?

1 A: No. IPL did not net the transmission revenues it received during the deferral
2 period against its MISO costs. Likewise, IPL did not *defer* those transmission
3 revenues. Through a data request, the OUCC asked IPL for the amount of
4 transmission revenue it has deferred through the end of the deferral period. IPL
5 responded that "IPL has not deferred any MISO transmission revenues."
6 (Attachment WRB-3 Petitioner's Response to OUCC Data Request Q 51-2).
7 Thus, IPL has not recognized in any way the transmission revenues that should be
8 used as an offset to its MISO non-fuel costs.

9 **Q: In what Causes did IPL receive authority to defer MISO costs?**

10 A: I have reviewed orders on cases in which IPL was a party relating to approval of
11 accounting treatment for costs incurred as a result of taking transmission service
12 under MISO in Cause No. 42266 order dated December 11, 2002. A settlement
13 was approved in that order. Item C of the settlement refers to Joint Petitioners,
14 "shall be granted accounting authority by the Commission to defer its Midwest
15 ISO Administrative Adder Costs for subsequent recovery from its Indiana retail
16 electric customers in its future base retail electric rate cases." That provision also
17 included the following: "The OUCC reserves the right to challenge the
18 reasonableness of the deferred amount and to propose adjustments thereto in a

⁹ IPL's proposed tariff for the proposed tracker provides "The RTO Adjustment Factor may be further modified to reflect the difference between the actual and estimated Non-Fuel costs and RTO Adjustment revenues during the months of [TBD]." See IPL witness Elaine K. Chambers Attachment 1(g) page 46 of 46, Item C.

1 future base retail electric rate case.” Further, it provided “no Party shall object to
2 the discovery or use of transmission cost or transmission revenue information
3 related to the Joint Petitioner’s participation in the Midwest ISO on the ground
4 that such information is stale or not in the selected test year in such case.” Item F
5 Annual Accounting, discusses that “Joint Petitioner on an annual basis shall
6 provide a written accounting to the Commission and the OUCC which itemizes by
7 account the amount of its then-deferred Midwest ISO Administrative Adder
8 Costs, including any refunds thereof, and all transmission revenues received that
9 year by the Joint Petitioner from the Midwest ISO.” In Cause No. 42685 order
10 dated June 1, 2005, IPL and others petitioned the Commission for approval for the
11 recovery of costs related to MISO’s implementation of Real Time and Day Ahead
12 energy markets. In the ordering paragraphs, IPL and others were approved to
13 continue to “defer such MISO Costs as of the date of the filing of the Verified
14 Joint Petition in this Cause and may seek recovery of those costs as part of their
15 next base rate case, provided that they may not seek recovery of any interest or
16 other carrying charges on such costs.” Also in the ordering paragraph, Item 5
17 states “Request for the recovery of MISO Costs (that differ from fuel costs
18 properly recoverable under FAC proceedings) may be presented as part of each of
19 these Joint Petitioners next base rate case in which these MISO Costs can be
20 evaluated and *offset with other costs, revenues and earnings*[emphasis added].”

Q: After reviewing these orders, what is your recommendation concerning IPL's MISO costs deferred and MISO transmission revenues?

1 A: IPL has deferred MISO costs for more than twelve years for a total of
2 \$117,675,000. It also had MISO transmission revenues during that same period of
3 \$62,560,717. IPL's authority to defer costs was granted as an alternative to
4 implementing a tracker. In their current MISO trackers, Duke, Vectren and
5 NIPSCO each net their MISO transmission revenues against MISO costs. IPL
6 proposes the same treatment. In fact, in its own MISO tracker request in this
7 Cause, IPL has forecasted an amount of MISO transmission revenue to be netted
8 against MISO costs on a going forward basis. It is common practice to net
9 jurisdictional MISO revenues against MISO non-fuel costs. Just as it is
10 appropriate and just to offset net MISO transmission revenues against MISO costs
11 in the context of a tracker, it is appropriate and just to offset net MISO
12 transmission revenues against deferred MISO costs incurred during the period.
13 IPL has received approximately \$63 million in associated transmission revenues
14 during the same period of its more than 12 years of MISO cost deferral. These
15 revenues received by IPL should be used to offset the deferred costs it seeks from
16 its customers. If not, IPL will recover all \$118 million from its customers without
17 recognizing the revenues that would be netted against those costs under any
18 reasonable tracker. Such an outcome would not be fair to IPL's ratepayers and
19 would result in a financial windfall for IPL at the expense of its customers.

Q: How should the Commission calculate IPL's annual deferred cost amortization?

1 A: To recalculate IPL's annual deferred MISO cost amortization, the total deferred
2 MISO costs over the period of \$117,675,000 should be netted with associated
3 MISO jurisdictional transmission revenues of \$60,845,081. The total net deferred
4 MISO cost to be recovered in this case should then be \$56,829,919. This amount
5 amortized over six years results in a *pro forma* annual amortization of deferred
6 MISO cost of \$9,471,653.

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

8 A: Yes.

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: What review and analysis did you conduct to prepare your testimony?**

11 A: I read IPL's testimony and reviewed exhibits and schedules included in its case-
12 in-chief. I prepared discovery and reviewed IPL's responses to that discovery. I
13 met with IPL representatives in IPL's offices to discuss the matters I address in
14 this testimony. I also had discussions with other OUCC staff about issues in this
15 Cause.

Indianapolis Power & Light Company
Revenues from Transmission of Electricity of OthersOUCC DR 51-3 Attachment 1
IPL - Cause No. 44576Per FERC Form 1 Page 300
or G/L Activity 456200

| | | |
|----------------------------|-------------------------|--------------|
| GL Balance - December 2002 | <u><u> </u></u> | |
| GL Balance - December 2003 | <u><u>7,118,910</u></u> | |
| GL Balance - December 2004 | <u><u>4,118,985</u></u> | |
| GL Balance - December 2005 | <u><u>3,291,393</u></u> | |
| GL Balance - December 2006 | <u><u>5,302,070</u></u> | |
| GL Balance - December 2007 | <u><u>5,760,455</u></u> | |
| GL Balance - December 2008 | <u><u>5,892,144</u></u> | |
| GL Balance - December 2009 | <u><u>4,933,916</u></u> | |
| GL Balance - December 2010 | <u><u>5,352,474</u></u> | |
| GL Balance - December 2011 | <u><u>6,700,909</u></u> | |
| GL Balance - December 2012 | <u><u>4,924,952</u></u> | |
| GL Balance - December 2013 | <u><u>5,973,780</u></u> | |
| GL Balance - June 2014 | <u><u>3,190,729</u></u> | (six months) |
| GL Balance - June 2014 | <u><u>6,845,071</u></u> | (test year) |
| GL Balance - December 2014 | <u><u>6,500,663</u></u> | |

IPL

Revenues per MR File

Remittance Advice Received at beginning of following month and t

Inserted additional row at beginning of Summary tab in MR file and
 Copied values to test row below to make sure column headings the:

| Month in | Activity | TLR | ATC Ntwk | Sch 18 | Sch 19 | Sch 21 | Sch 22 | Sch 26 | Sch26 TLR | Sch 33 | Sch 36 | Sch 37 | |
|---------------|----------|------------------------------|-------------|-----------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|------------|---------------------|---------------------|---------------------|
| Acct YTD file | Month | MISO File name | TLR Revenue | ATC Network Service Revenue | Schedule 18 Revenue | Schedule 19 Revenue | Schedule 21 Revenue | Schedule 22 Revenue | Schedule 26 Revenue | SCH26 TLR | Schedule 33 Revenue | Schedule 36 Revenue | Schedule 37 Revenue |
| Feb-13 | Jan-13 | mr005ipl_2013010100est30.xls | \$ (135.01) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Mar-13 | Feb-13 | mr005ipl_2013020100est20.xls | \$ (342.08) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Apr-13 | Mar-13 | mr005ipl_2013030100est25.xls | \$ (137.94) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| May-13 | Apr-13 | mr005ipl_2013040100est25.xls | \$ (31.18) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Jun-13 | May-13 | mr005ipl_2013050100est20.xls | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Jul-13 | Jun-13 | mr005ipl_2013060100est25.xls | \$ (146.69) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 150,204.13 | \$ (4.99) | \$ - | \$ - | \$ 1,533.50 |
| Aug-13 | Jul-13 | mr005ipl_2013070100est25.xls | \$ (29.28) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 176,987.74 | \$ (0.99) | \$ - | \$ - | \$ 1,533.50 |
| Sep-13 | Aug-13 | mr005ipl_2013080100est30.xls | \$ (18.88) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 171,397.99 | \$ (0.52) | \$ - | \$ - | \$ 1,533.50 |
| Oct-13 | Sep-13 | mr005ipl_2013090100est20.xls | \$ (28.79) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 162,713.61 | \$ (0.79) | \$ - | \$ - | \$ 1,533.50 |
| Nov-13 | Oct-13 | mr005ipl_2013100100est40.xls | \$ (14.26) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 125,910.63 | \$ (0.39) | \$ - | \$ - | \$ 1,533.50 |
| Dec-13 | Nov-13 | mr005ipl_2013110100est35.xls | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 123,429.97 | \$ - | \$ - | \$ - | \$ 1,533.50 |
| Jan-14 | Dec-13 | mr005ipl_2013121900est50.xls | \$ (173.48) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 138,789.79 | \$ (17.60) | \$ - | \$ - | \$ 1,533.50 |
| Feb-14 | Jan-14 | mr005ipl_2014010100est35.xls | \$ (13.84) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 144,290.02 | \$ (1.46) | \$ - | \$ - | \$ 1,535.89 |
| Mar-14 | Feb-14 | mr005ipl_2014020100est40.xls | \$ (528.76) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 125,307.24 | \$ (33.37) | \$ - | \$ - | \$ 1,535.89 |
| Apr-14 | Mar-14 | mr005ipl_2014030100est25.xls | \$ (368.98) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 133,538.04 | \$ (15.24) | \$ - | \$ - | \$ 1,535.89 |
| May-14 | Apr-14 | mr005ipl_2014040100est25.xls | \$ (102.72) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 115,402.22 | \$ (0.43) | \$ - | \$ - | \$ 1,535.89 |
| Jun-14 | May-14 | mr005ipl_2014050100est20.xls | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 135,104.28 | \$ - | \$ - | \$ - | \$ 1,535.89 |
| Jul-14 | Jun-14 | mr005ipl_2014060100est30.xls | \$ (2.37) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 162,764.29 | \$ (0.06) | \$ - | \$ - | \$ 1,705.69 |
| | | | | | | | | | \$ 1,715,635.82 | | | | |
| | | | | | | | | | pro forma adjustment | | | | |

Data Request OUCC DR 51 - 02

Please state, on the same year by year basis as the above question (start of MISO non-fuel cost deferral to the end of the test year, June 30, 2014) any refund and each deferred MISO transmission revenue by charge type. Please note this request does not ask for general ledger detail.

Objection:

IPL objects to the Request on the grounds and to the extent it is vague and ambiguous, particularly with respect to the word "refund" as it would relate to "deferred MISO transmission revenue by charge type". Subject to and without waiver of the foregoing objections, IPL provides the following response.

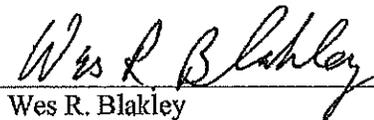
Response:

IPL has not deferred any MISO transmission revenues.

While a specific refund does not come to mind, IPL would have treated such refund in the same manner as the revenue or expense charge type to which it referred. If the OUCC has a specific refund in mind, please identify it.

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

July 27, 2015

Date

Cause No. 44576/44602
IPL