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INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, LLC FOR APPROVAL OF A SOLAR SERVICES PROGRAM TARIFF, RIDER NO. 26, AND APPROVAL OF ALTERNATIVE REGULATORY PLAN ("ARP") AND DECLINATION OF JURISDICTION TO THE EXTENT REQUIRED UNDER IND. CODE 8-1-2.5-1, EST. SEQ.	)))))))	**CAUSE NO. 45145**

INDIANA OFFICE OF UTILITY CONSUMER COUSELOR

TESTIMONY OF

KALEB G. LANTRIP - PUBLIC'S EXHIBIT NO. 3

JANUARY 9, 2019

Respectfully submitted,

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TESTIMONY OF OUCC WITNESS KALEB G. LANTRIP
CAUSE NO. 45145
DUKE ENERGY INDIANA, LLC

I. INTRODUCTION

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

A: My name is Kaleb G. Lantrip, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204. I am employed as a Utility Analyst in the Indiana Office of Utility Consumer Counselor's ("OUCC") Electric Division. A summary of my educational background and experience is included in Appendix A attached to my testimony.

Q: What is the purpose of your testimony?

A: I address the proposed accounting treatment contained in Duke Energy Indiana, LLC's ("DEI") request for an Alternative Regulatory Plan ("ARP") for its commercial customer solar leasing program ("Program") and approval of a new tariff, Rider 26. Specifically, I address how DEI plans to account for Program costs separately from standard electric service rate recovery if its request is granted. I also address DEI's eligibility and treatment of solar investment tax credits. Lastly, consistent with the testimony of OUCC witnesses Ms. Lauren M. Aguilar and Mr. John E. Haselden, the OUCC recommends denial of DEI's petitioned requests. However, should the Indiana Utility Regulatory Commission ("Commission") approve DEI's requested relief, I specify the OUCC's recommendations to assure all Program costs, including DEI employee labor, receive "below the line" accounting treatment and are separate from amounts recovered through Petitioner's standard electric service rates.

Q: Please provide more detail concerning the areas you analyzed.

A: I reviewed DEI's petition and exhibits to understand the proposed accounting treatment for program cost responsibilities and allocations. I assisted in drafting discovery requests to DEI and reviewed DEI's responses. I participated in internal and external communications, including conference calls with DEI staff on October 29, 2018, November 26, 2018, and December 21, 2018, as well as a conference call with joint intervenor Citizen's Action Coalition ("CAC") on November 28, 2018, in order to assess the reasonableness and feasibility of DEI's proposed accounting treatment for its solar leasing program.

II. PROPOSED ACCOUNTING FOR SOLAR LEASING PROGRAM

Q: How does DEI propose to recover solar leasing program costs outside of Indiana Utility Regulatory Commission ("Commission") oversight?

A: DEI Witness Mr. Andrew S. Ritch testifies all costs and revenues associated with the proposed tariff will be treated as "below the line" for accounting and ratemaking purposes.[1] This treatment would separate the solar leasing program's financial activity from DEI's cost recovery on its standard electric service charges through base rates and trackers. Under this arrangement, DEI believes non-participating customers will not be subsidizing the

[1] *See* DEI Witness Andrew S. Ritch's testimony, page 5, lines 4-11.

Program since anticipated revenues generated from voluntarily participating customers will cover all Program costs.

Q: How does DEI propose to bill customers to reflect this separation of program costs from base rate allocation?

A: The petition and DEI's case-in-chief do not adequately address this issue. However, in responses to OUCC discovery requests, DEI explained each solar leasing customer in its Program may be billed manually in separate invoices for: (1) its net base rate use of energy, after reducing the customer's kWh usage by any excess solar generated kWh the customer supplied to DEI, and (2) other program fees for the solar leasing arrangement.[2] This manual billing practice should allow for the clear allocation of payments for the respective billing responsibilities of customers participating in DEI's solar leasing program and provide sufficient detail for the customers to understand how the net payment due was derived. However, DEI indicated it will continue to manually bill customers in separate invoices until its new system is capable of producing consolidated bills. The OUCC recommends customers have the option to continue to be separately billed for leasing charges rather than including these charges on bills for recovery of standard electric service costs. In addition, if customers opt into a consolidated billing, leasing charges for participating customers should be shown distinctly from the standard electrical service charges portion of their bill,

[2] *See* Attachment KGL-1: DEI's response to OUCC DR 1.13.

and that any excess generation netted from the leased installation be clearly illustrated on the bill.

Q: Does DEI propose using existing personnel to administer and coordinate its solar leasing program?

A: Yes. DEI proposes using its Distributed Energy Technology Department staff in the Large Account Management Organization, Community Relations Team, and Large Customer Solutions Team in reaching out to eligible customers to make them aware of the Program. When an eligible customer agrees to participate, DEI will work with third party solar developers to design, procure, and construct the solar arrays on the customer's site.[3]

Q: In regard to accounting of O&M costs, do you have concerns with this approach?

A: Yes. DEI's proposal to utilize existing personnel for this Program creates an issue in accounting for O&M costs. Without further detail regarding how DEI plans to segregate labor costs, there is potential for program subsidization with cost-free labor already recovered through base rates and trackers.

Q: Did DEI address your concerns?

A: Yes. Although not sufficiently explained in testimony, in discovery, DEI indicated employees' time on program-related work would be accounted for separately from time spent on regularly scheduled duties.[4] This labor cost treatment would accurately account for the time spent on each activity and protect against excessive billing.

III. <u>SOLAR INVESTMENT TAX CREDIT ("ITC") TREATMENT</u>

Q: Is the solar leasing program eligible to receive tax benefits?

A: Yes, according to DEI's response to OUCC DR-2.1, DEI would be eligible for ITC and accelerated depreciation treatment for favorable tax recovery.

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[3] *See* DEI Witness Andrew S. Ritch's testimony, pages. 3-4.
[4] *See* Attachment KGL-1: DEI's response to OUCC DR 1.15.

Q: Will program participants receive any pass-through benefits from the solar leasing program's favorable tax treatment?

A: No. Although DEI stated in its petition "To the extent possible, Duke Energy Indiana will take advantage of any tax credits and provide the benefit of those credits to customers"[5], DEI's discovery responses suggest it will retain the full value of those tax benefits. In response to OUCC DR-2.2, DEI explained it will be the legal entity that recognizes the tax credits and benefits.[6] Further, in response to OUCC DR-1.25, DEI mentions the possibility of non-profits having an interest in the solar leasing program, but there is no other mention in testimony of a flow-through benefit on ITC credits recognized by DEI being used to offset leasing costs for the non-profit entities.[7]

Q: Is this retention of ITC benefits due to DEI's proposed below the line accounting treatment of program costs and revenues?

A: No. According to DEI's response to OUCC DR-2.3, there is no difference in eligibility for obtaining federal investment tax credits or accelerated depreciation benefits for investments in qualifying properties based on whether the benefit is reported above the line or below the line.[8] DEI claims the credits under Section 19 of the solar leasing contract, which addresses the treatment of taxes and incentives, makes DEI liable for all taxes due

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[5] *See* DEI Verified Petition, Cause No. 45145, pages 3-4.
[6] *See* Attachment KGL-1: DEI's response to OUCC DR 2.2.
[7] *See* Attachment JEH-1, DEI's response to OUCC DR 1.25.
[8] *See* Attachment KGL-1: DEI's response to OUCC DR 2.3.

and payable for the leased solar installations and entitled to claim all eligible credits and deductions due to that tax position.[9]

Q: Do you agree with DEI that it is eligible to claim these tax benefits?

A: Yes, as the owner of these installations, it is within DEI's rights to claim these tax benefits. However, I find that the petition's statement about providing these benefits to customers is not reflected in the written testimony or contract provisions. DEI's discovery responses do not clarify that DEI intends to use these credits to provide a benefit to leasing customers. The petition's claim is not supported or supplemented outside of that sentence, which leads to the conclusion that DEI is likely to retain these tax benefits. This lack of clarity in how the program will be run outside of the Commission's traditional regulatory structure is emblematic of the issues which the OUCC has with DEI's case-in-chief.

IV. RECOMMENDATIONS

Q: What does the OUCC recommend to assure all solar leasing program costs will be accounted for below the line as DEI proposes?

A: As specified in the testimony of OUCC witnesses Ms. Aguilar and Mr. Haselden, the OUCC recommends denial of DEI's petitioned requests. However, if the Commission approves the relief requested, the OUCC wants to be certain all Program costs, including DEI employee labor, receives "below the line" accounting treatment and is separate from amounts recovered through standard electric service rates. Therefore, if DEI's ARP petition is granted, the OUCC recommends the Commission require DEI to provide updates on the solar leasing program's progress and cost segregation in a compliance filing for this case. Additionally, the OUCC recommends DEI properly identify and account for program costs

[9] DEI's Exhibit 1-B (ASR), p. 12, Section 19.

in testimony at the time of DEI's next electric base rate case. Further, regarding DEI's billing practices for the solar leasing program, the OUCC recommends the Commission require DEI to allow customers the option to continue to be separately billed for solar leasing charges as opposed to including these charges on bills for recovery of standard electric service costs. If customers opt into a consolidated billing, the OUCC recommends DEI be required to clearly identify the split between DEI's standard electric service charges and below the line treatment of solar leasing program costs and revenues. The OUCC also recommends DEI clearly illustrate credits from the netting of excess generation resulting from leased installations on customer bills.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from the Kelley School of Business of Indianapolis in 2014 with a Bachelor of Science in Business with majors in Accounting and Finance. I am licensed in the State of Indiana as a Certified Public Accountant. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Spring 2018 Conference held by New Mexico State University.

Q: Have you previously testified before the Commission?

A: Yes.

Q: Please describe your duties and responsibilities at the OUCC.

A: I review Indiana utilities' requests for regulatory relief filed with the Indiana Utility Regulatory Commission ("Commission"). This involves reading testimonies of petitioners and intervenors, previous orders issued by the Commission, and any appellate opinions to inform my analyses. I then prepare and present testimony based on these analyses, and make recommendations to the Commission on behalf of Indiana utility consumers.

OUCC
IURC Cause No. 45145
Data Request Set No. 1
Received: October 31, 2018

OUCC 1.13

Request:

Please confirm that DEI intends to manually bill the customers who participate in this program.

Response:

Yes, until Duke Energy Indiana's billing system is capable of producing the bills of customers who participate in this program.

OUCC
IURC Cause No. 45145
Data Request Set No. 1
Received: October 31, 2018

OUCC 1.15

Request:

Please explain how DEI intends to account for employee or DEI paid affiliate time for working on this program. Additionally, please provide the following (provide estimates if exact figures are not known) regarding DEI employees or employees of DEI paid affiliates who may work on this program.

a. Number of (i) DEI employees, and (ii) employees of DEI paid affiliates expected to work on this program;

b. Salary class (or hourly rate) of each employee identified above, separated by DEI employees and employees of DEI paid affiliates;

c. The total annual dollar amount DEI expects to pay its employees for work on this solar leasing program

d. Percentage of time DEI estimates each of its employees will work on this solar leasing program;

e. The dollar amount DEI expects to pay employees of other Duke affiliates for work performed for this solar leasing program.

Response:

Duke Energy Indiana will be sure to protect other customers from subsidizing the participants in this program and to that end, intends to allocate time associated with employees working on this program in the following way:

All program-related activities prior to deal execution will share one accounting string. Such tasks include, but are not limited to:

1. Business Development and Deal Origination
2. Deal Structuring and Analysis
3. Project Engineering

Each individual transaction will have a unique accounting string. Specific transaction-related tasks include, but are not limited to:

1. Material Procurement
2. Facility Construction
3. Facility Operation and Maintenance
4. Agreement Administration

a. Exact employee requirements will depend on the type of participation/project requested by participating customers. The Distributed Energy Technologies Department (an internal Duke Energy group) that supports Duke Energy Indiana will assist in the facilitation of this program, led by approximately four team members. Additionally, Duke Energy employees involved with engineering, project execution, and analytics will be available to assist with the facilitation of this program. Those employees number approximately eight.

While not known for sure at this time, the Company estimates that this program may require employees consisting of a Business Development Manager, a Lead Engineer, and a Lead Analyst.

It is not expected this program will be the sole responsibility of any individual employee but that shared support over the course of a year by multiple employees will administer the program. To the extent necessary, employees of other organizations within Duke Energy Indiana may be needed to assist with certain customer transactions.

b. Please see the Company's response to subpart (c) for the information maintained by the Company in the normal course of business at this time.

c. Should the anticipated number of employees be required for this program, their salaries are provided below (note these figures are their entire salaries and it is not anticipated that they will spend their full time on this program at this time):

Business Development Manager	$150,000
Lead Engineer	$130,000
Lead Analyst	$130,000
Total Annual Dollar Amount:	$410,000

d. As noted above, the Company does not currently anticipate that the above employees will need to support this proposed program full time. Instead, the expected percentage of employee time is as follows:

Percentage of Individual Employee	
Business Development Manager	50%
Lead Engineer	50%
Lead Analyst	25%

e. Duke Energy Indiana does not expect to pay employees of other Duke Energy affiliates for work performed for this solar leasing program.

OUCC
IURC Cause No. 45145
Data Request Set No. 2
Received: November 7, 2018

OUCC 2.2

Request:

Does DEI expect that the solar projects built under the authority granted in this proceeding will be eligible for federal investment tax credits and benefits resulting from the tax effects of accelerated depreciation? If so, please identify the legal entity upon whose tax filing those benefits will be recognized. If not, please explain why not.

Response:

Yes. Duke Energy Indiana expects that these solar projects will be eligible to receive the tax credits and benefits. Duke Energy Indiana will be the legal entity that recognizes the tax credits and benefits.

OUCC
IURC Cause No. 45145
Data Request Set No. 2
Received: November 7, 2018

OUCC 2.3

Request:

Is there a difference in eligibility for obtaining federal investment tax credits and benefits resulting from the tax effects of accelerated depreciation credits that DEI builds above-the-line (and puts in rate base) versus those built below-the-line (as proposed in this proceeding)? If so, please explain that difference and how it arises.

Response:

No, there is no difference in Duke Energy Indiana's eligibility to claim federal investment tax credits or accelerated depreciation benefits for investments in qualifying property based on whether the benefit is reported above or below the line for financial reporting purposes.

AFFIRMATION

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

Kaleb G. Lantrip

Kaleb G. Lantrip
Utility Analyst II
Indiana Office of Utility Consumer Counselor
Cause No. 45145
Duke Energy Indiana, LLC

1-9-19

Date

CERTIFICATE OF SERVICE

The undersigned counsel hereby certifies that a copy of ***Indiana Office of Utility Consumer Counselor Testimony of Kaleb G. Lantrip – Public's Exhibit No. 3*** was served via electronic mail on all counsel of record herein on this 9th day of January, 2019:

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