

**DIRECT TESTIMONY OF SUZANNE E. SIEFERMAN
DIRECTOR, RATES AND REGULATORY PLANNING
DUKE ENERGY INDIANA, LLC
CAUSE NO. 45276
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION**

I. INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Suzanne E. Sieferman, and my business address is 1000 East Main
4 Street, Plainfield, Indiana 46168.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Duke Energy Indiana, LLC (“Duke Energy Indiana” or
7 “Company”) as Director, Rates and Regulatory Planning. Duke Energy Indiana is
8 a wholly owned, indirect subsidiary of Duke Energy Corporation (“Duke
9 Energy”).

10 **Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, RATES AND
11 REGULATORY PLANNING.**

12 A. As Director, Rates and Regulatory Planning, I am responsible for the preparation
13 of financial and accounting data used in Company rate filings and Petitions for
14 changes in fuel cost adjustment (“FAC”) factors and other tracking mechanisms.

15 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL
16 BACKGROUND.**

17 A. I am a graduate of Indiana University, holding a Bachelor of Science Degree in
18 Business, with a major in Accounting. I am a Certified Public Accountant

1 (“CPA”) and a member of the Indiana CPA Society. Since my employment with
2 the Company in 1990, I have held various financial and accounting positions
3 supporting the Company and its affiliates. Prior to my move to the Rates and
4 Regulatory Planning department in 2008, I held positions in Benefits Accounting,
5 Corporate Accounting, Business Unit Financial Reporting and External Reporting
6 groups.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. My testimony will explain the Company’s proposed accounting and ratemaking
10 treatment related to constructing, owning and operating a 16 MW Combined Heat
11 and Power (“CHP”) facility on land leased to Duke Energy Indiana by Purdue
12 University (“Purdue”) in West Lafayette, Indiana. As described in more detail in
13 the testimony of Mr. Mark E. Landseidel, the proposed 16 MW CHP Facility
14 consists of a single gas turbine generator (“GTG”) with a single heat recovery
15 steam generator (“HRSG”) to provide for 16 MW of electric power and
16 approximately 50,000 lb/hr of unfired steam plus a duct burner which can provide
17 for additional steam output to Purdue, at its discretion. These items collectively
18 will be referred to as the “Purdue CHP Facility.” I will provide an estimate of the
19 retail jurisdictional portion of the costs the Company proposes to defer for future
20 recovery under base rates, including the request for post-in-service AFUDC
21 continuation (“carrying costs”), deferred depreciation and deferred operation and
22 maintenance (“O&M”) costs. In addition, I will discuss the proposed ratemaking

1 treatment for the (1) fuel costs to be incurred by the Company for operating the
2 GTG, including gas transportation costs; (2) steam sales revenues received from
3 Purdue; (3) capacity value (if any) associated with the Purdue CHP Facility and
4 (4) federal investment tax credits (“ITC”) associated with the project. I will also
5 request Commission approval of a new depreciation rate to be used for this
6 facility. Lastly, I will provide an estimate of the associated rate impacts.

7 **II. REQUESTED RATEMAKING AND ACCOUNTING**
8 **TREATMENT RELATED TO THE COMPANY’S CONSTRUCTION**
9 **AND OPERATION OF THE PURDUE CHP FACILITY**

10 **Q. PLEASE SUMMARIZE THE RATEMAKING AND ACCOUNTING**
11 **TREATMENT DUKE ENERGY INDIANA IS REQUESTING FOR THE**
12 **PURDUE CHP FACILITY.**

13 A. The Company is requesting authority from the Commission to establish regulatory
14 assets to be held for recovery in a future base rate case for post-in-service carrying
15 costs, deferred depreciation, and deferred O&M (defined as O&M, property taxes
16 and insurance, and payroll taxes) for the Purdue CHP Facility once it is placed in
17 service until the costs are included in retail electric base rates. As discussed in the
18 testimony of Mr. Landseidel, the current cost estimate for the project, excluding
19 allowance for funds used during construction (“AFUDC”), is approximately \$56
20 million.

21 **Q. WOULD YOU EXPLAIN AFUDC?**

22 A. AFUDC reflects the cost of borrowed or invested funds (*i.e.*, debt and equity)
23 used to finance utility plant during the construction phase of a project. These

1 costs are recorded and capitalized as part of the total cost of the project. The
2 FERC Uniform System of Accounts, which has been adopted by the Commission,
3 includes accounting guidance, instructions, and specific formulas for calculating,
4 determining, and applying the AFUDC rate. The FERC rules and guidance were
5 put in place to ensure consistency between utilities as to the method of calculating
6 AFUDC and were clarified by FERC's Accounting Release #13 to provide
7 guidance for situations involving use-restricted long-term debt held in trust or
8 other special funds. Duke Energy Indiana was granted permission from FERC on
9 August 12, 1996, to determine its AFUDC rate on a monthly basis, rather than on
10 an annual basis, as specified in the Uniform System of Accounts instructions.

11 **Q. TO WHAT EXTENT WILL POST-IN-SERVICE CARRYING COSTS BE**
12 **ACCRUED?**

13 A. The Company proposes accrual as a regulatory asset of post-in-service carrying
14 costs on the retail jurisdictional portion of the Purdue CHP Facility's capital
15 expenditures at the Company's AFUDC rates once the project is placed in service,
16 including accrual on previously computed AFUDC or post-in-service carrying
17 cost amounts, until such expenditures and post-in-service carrying costs are
18 recovered in the Company's retail base rates.

19 **Q. WILL THE COMPANY BE ACCRUING BOTH AFUDC AND POST-IN-**
20 **SERVICE CARRYING COSTS ON THIS PROJECT AT THE SAME**
21 **TIME?**

1 A. No. Once the Purdue CHP Facility is placed in service, the Company will
2 discontinue accruing AFUDC and will begin calculating the post-in-service
3 carrying costs using the Company's AFUDC rates.

4 **Q. IS THE COMPANY REQUESTING TO ACCRUE CARRYING COSTS ON**
5 **ANY OF THE DEPRECIATION, O&M, PROPERTY TAX OR PAYROLL**
6 **TAX DEFERRALS?**

7 A. No, only on the construction expenditures.

8 **Q. IS THE ACCOUNTING TREATMENT PROPOSED BY THE COMPANY**
9 **FOR POST-IN-SERVICE CARRYING COSTS, DEFERRED**
10 **DEPRECIATION, AND THE DEFERRAL OF O&M IN ACCORDANCE**
11 **WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
12 **(“GAAP”)?**

13 A. Yes. GAAP specifically discusses the accounting for a regulator's actions
14 designed to protect a utility from the effects of regulatory lag. Topic 980 of the
15 Financial Accounting Standards Board's Accounting Standards Codification
16 (“ASC”) covers the accounting guidance for regulated operations formerly
17 provided in Statement of Financial Accounting Standards No. 71. Costs
18 associated with regulatory lag can be capitalized for accounting purposes,
19 provided the provisions of ASC 980-340-25-1 are met. The guidance states:

20 Rate actions of a regulator can provide reasonable assurance
21 of the existence of an asset. An entity shall capitalize all or
22 part of an incurred cost that would otherwise be charged to
23 expense if both of the following criteria are met: (a) It is
24 probable (as defined in Topic 450) that future revenue in an
25 amount at least equal to the capitalized cost will result from

1 inclusion of that cost in allowable costs for ratemaking
2 purposes and (b) Based on available evidence, the future
3 revenue will be provided to permit recovery of the
4 previously incurred cost rather than to provide for expected
5 levels of similar future costs. If the revenue will be provided
6 through an automatic rate-adjustment clause, this criterion
7 requires that the regulator's intent clearly be to permit
8 recovery of the previously incurred cost. A cost that does
9 not meet these asset recognition criteria at the date the cost
10 is incurred shall be recognized as a regulatory asset when it
11 does meet those criteria at a later date.

12 **Q. DO YOU HAVE AN OPINION AS TO THE APPROPRIATENESS OF,**
13 **AND THE ACTION REQUIRED BY, THE COMMISSION TO ALLOW**
14 **FOR THE COMPANY'S REQUESTED ACCOUNTING TREATMENT**
15 **FOR THE PURDUE CHP FACILITY?**

16 A. Yes. In my opinion, deferral as regulatory assets of the post-in-service carrying
17 costs and deferred depreciation on the retail jurisdictional portion of the capital
18 costs of the Purdue CHP Facility and the deferral of O&M until such items can be
19 included in retail base rates is appropriate from a ratemaking perspective, and
20 such treatment will minimize the timing differences between cost recognition on
21 the Company's books and cost recovery. In order for the Company to establish
22 regulatory assets for post-in-service carrying costs, deferred depreciation, and
23 deferred O&M, it must be probable that such costs will be recovered through rates
24 in future periods. In order to satisfy the probability standard, the Commission's
25 Order in this proceeding should specifically approve the accounting and
26 ratemaking treatment proposed by Duke Energy Indiana.

1 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER COSTS**
2 **ASSOCIATED WITH THE INSTALLATION OF MICROGRID**
3 **EQUIPMENT THAT WILL ALLOW THE PURDUE CHP FACILITY TO**
4 **DISCONNECT FROM THE GRID?**

5 A. As discussed in the testimony of Mr. Adam J. Nygaard, Duke Energy Indiana and
6 Purdue have agreed to enter into an agreement under Standard Contract Rider No.
7 53 for Excess Facilities. This agreement will cover the microgrid equipment
8 required to disconnect, or “island,” Purdue in the event of a grid outage and will
9 be paid for by Purdue. The costs associated with the installation of microgrid
10 equipment is therefore not included in the costs being requested for recovery.

11 **Q. HOW DO YOU PROPOSE TO RECOVER THE NATURAL GAS FUEL**
12 **COSTS ASSOCIATED WITH THE GTG AT THE 16 MW PURDUE CHP**
13 **FACILITY?**

14 A. The Company will incur costs for the procurement and firm transportation of
15 natural gas used to power the GTG at the CHP site. Consistent with current
16 treatment of similar gas transportation and commodity costs, it is the Company’s
17 intent to include these fuel costs in the quarterly Fuel Cost Adjustment (“FAC”)
18 proceedings. These costs will be included in developing the fuel cost factor to be
19 applied to retail sales and will be reconciled in future periods as part of the
20 standard FAC reconciliation process.

21 **Q. WILL THESE NATURAL GAS COSTS BE ALLOCATED BETWEEN**
22 **RETAIL AND WHOLESALE JURISDICTIONAL SALES?**

1 A. Yes. These fuel costs will be allocated between retail and native wholesale
2 jurisdictional sales using the same methodology as is used for the other costs
3 included in the FAC (*i.e.*, developing a factor using total sales, then applying the
4 factor to billed retail sales).

5 **Q. WILL THE NATURAL GAS FUEL COSTS ASSOCIATED WITH THE**
6 **DUCT BURNER AT THE PURDUE CHP FACILITY BE INCLUDED IN**
7 **THE FAC?**

8 A. No. The Company will not incur costs for the procurement and firm
9 transportation of natural gas used to power the duct burner at the CHP site –
10 Purdue will incur these costs directly, and this portion of the natural gas will be
11 used solely to produce steam for Purdue. Therefore, these expenses won't be
12 included in the quarterly FAC proceedings.

13 **Q. DO YOU ANTICIPATE INCURRING ANY ENERGY CHARGES OR**
14 **CREDITS FROM THE MIDCONTINENT INDEPENDENT SYSTEM**
15 **OPERATOR (“MISO”) FOR THE PURDUE CHP FACILITY?**

16 A. No. As described in the testimony of Mr. Landseidel, the Purdue CHP Facility
17 will be interconnected on the distribution side of the Purdue substation; therefore,
18 it will not appear as a generation resource in the MISO Energy market, but rather
19 as a reduction of Duke Energy Indiana's load. As such, the Company does not
20 foresee being invoiced by MISO for energy market charges or credits. In the
21 event the Company did incur any such charges or credits from MISO, fuel-related
22 items would be included within the fuel cost in the Company's quarterly FAC

1 proceedings and non-fuel items would be included within the Company's annual
2 filings under Standard Contract Rider No. 68 – MISO Management Cost and
3 Revenue Adjustment rider.

4 **Q. PLEASE DESCRIBE HOW DUKE ENERGY INDIANA INTENDS TO**
5 **PASS THE REVENUES RECEIVED FROM STEAM SALES TO**
6 **CUSTOMERS?**

7 A. Duke Energy Indiana will be receiving revenue from Purdue for the delivery of
8 unfired steam from the Purdue CHP Facility, per the terms and conditions of the
9 Steam Purchase and Sale Agreement (provided as Petitioner's Exhibit 1-A to Mr.
10 Nygaard's testimony in this proceeding). The revenues from these steam sales to
11 Purdue will initially flow back to Duke Energy Indiana's customers through the
12 quarterly FAC filings until such time as they are included as a revenue credit in a
13 future retail base rate case.

14 **Q. WHY IS THE COMPANY PROPOSING TO INCLUDE THE REVENUES**
15 **RECEIVED FOR THE SALE OF STEAM FROM THE PURDUE CHP**
16 **FACILITY IN THE FAC FILING?**

17 A. Duke Energy Indiana will be receiving the revenue from the steam sales for the
18 Purdue CHP Facility as thermal energy is generated (*i.e.* steam sales are not tied
19 to capacity), thus it is appropriate to allocate the benefits of any net steam sales
20 proceeds to customers based on an energy allocator. FAC provides an
21 administratively efficient and transparent way to provide the revenue credits from
22 the Purdue CHP Facility steam sales to retail customers until they are included as

1 a revenue credit in the next retail base rate case.

2 **Q. PLEASE EXPLAIN THE PROPOSED RATEMAKING FOR THE**
3 **CAPACITY VALUE ASSOCIATED WITH THE PURDUE CHP**
4 **FACILITY.**

5 A. The Company plans to register the behind-the-meter Purdue CHP Facility with
6 MISO as a Load Modifying Resource (“LMR”). As an LMR, the CHP project
7 will be included with the Company’s supply resources in MISO’s annual capacity
8 auction. Net capacity costs and/or revenues from MISO’s annual capacity auction
9 are reflected in Duke Energy Indiana’s annual filings for Standard Contract Rider
10 No. 70 (“Rider 70”). This treatment is consistent with how the Company is
11 currently handling other behind-the-meter generation and/or LMRs registered
12 with MISO.

13 **Q. WILL DUKE ENERGY INDIANA’S CUSTOMERS BENEFIT FROM THE**
14 **FEDERAL INVESTMENT TAX CREDIT (“ITC”) MENTIONED IN THE**
15 **TESTIMONY OF MR. NYGAARD?**

16 A. Yes. Federal tax law allows utilities, among others, to claim a ten percent (10%)
17 ITC for investments in certain cogeneration technologies such as CHP. Any ITC
18 value that Duke Energy Indiana receives from its investment in the Purdue CHP
19 Facility will be flowed back to customers as soon as the Company is able to
20 utilize the ITC credit under applicable tax normalization rules. Duke Energy
21 Indiana is currently not in a position to utilize the ITC credits and is uncertain
22 exactly when it will be able to begin utilizing the credit, as this requires

1 knowledge of the future consolidated tax position for Duke Energy, which is
2 dependent on many variables. To the extent utilization begins prior to the next
3 base rate case, the Company will include this credit in the FAC until it is included
4 in base rates in a future retail rate case.

5 **Q. WHAT IS THE EXPECTED USEFUL LIFE OF THE PURDUE CHP**
6 **FACILITY AND DO YOU PROPOSE TO BASE THE DEPRECIATION**
7 **RATE FOR THE FACILITY ON THIS LIFE?**

8 A. The expected life of the proposed Purdue CHP Facility is thirty-five (35) years
9 and the Company proposes the depreciation rate for the facility be based on this
10 expected useful life. Because there are no similar generating facilities included in
11 the Company's most recently approved depreciation study, the Company requests
12 the Commission's specific approval of a new depreciation rate of 2.86%, based on
13 the expected thirty-five (35) year life, to be used for the Purdue CHP Facility until
14 it can be included in the depreciation study in a future base rate case.

15 **Q. DOES THE PROPOSED DEPRECIATION RATE INCLUDE ANYTHING**
16 **FOR NET NEGATIVE SALVAGE OR DISMANTLING?**

17 A. No. The proposed rate is simply based on the thirty-five (35) year useful life. At
18 such time as a new depreciation study is completed, the depreciation rate will be
19 updated to reflect any estimated net negative salvage or dismantling costs
20 associated with the Purdue CHP Facility.

1

IV. CONCLUSION

2 **Q. WAS PETITIONER'S EXHIBIT 4-A PREPARED BY YOU OR UNDER**
3 **YOUR SUPERVISION?**

4 A. Yes.

5 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

6 A. Yes, it does.

Duke Energy Indiana, LLC

Estimated Retail Revenue Increase Attributable To
Duke Energy Indiana's Proposed Purdue CHP Facility
(Dollars In Thousands)

Line No.	Description	2023 (A)	2024 (B)	2025 (C)	2026 (D)	2027 (E)	Line No.
1	Return on Investment (1)	\$ 2,102	\$ 4,081	\$ 4,081	\$ 4,081	\$ 4,081	1
2	Depreciation (1)	796	1,592	1,592	1,592	1,592	2
3	Other Operating Expenses (1)(2)	1,311	2,622	2,622	2,622	2,622	3
4	Amortization of Deferred Post-in-Service Carrying Costs (3)	395	1,552	1,552	775	-	4
5	Amortization of Deferred Depreciation (3)	309	619	619	310	-	5
6	Amortization of Deferred Other Operating Expenses (3)	539	1,079	1,079	540	-	6
7	Total	<u>\$ 5,452</u>	<u>\$ 11,545</u>	<u>\$ 11,545</u>	<u>\$ 9,920</u>	<u>\$ 8,295</u>	7

- (1) Assumes Purdue CHP Facility would be placed into service 4/2022 and rates for next retail base rate case would go into effect 7/2023.
- (2) Includes O&M, property insurance, and property tax.
- (3) Amounts reflect amortization over 36 months beginning 7/2023.

Duke Energy Indiana, LLC

Estimated Retail Revenue Increase Attributable To
Duke Energy Indiana's Proposed Purdue CHP Facility
(Dollars In Thousands)

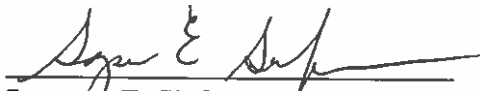
Line No.	Rate Group	Retail Allocation Percentage (1) (A)	Retail Revenues (2) (B)	2023 (C)	2024 (D)	2025 (E)	2026 (F)	2027 (G)	Line No.
1	RS	36.727%		\$ 2,002	\$ 4,240	\$ 4,240	\$ 3,643	\$ 3,047	1
2	CS	5.206%		284	601	601	516	432	2
3	LLF	17.897%		976	2,066	2,066	1,775	1,485	3
4	HLF	38.862%		2,119	4,487	4,487	3,855	3,224	4
5	Other	<u>1.308%</u>		<u>71</u>	<u>151</u>	<u>151</u>	<u>131</u>	<u>107</u>	5
6	Total	<u>100.000%</u>		<u>\$ 5,452</u>	<u>\$ 11,545</u>	<u>\$ 11,545</u>	<u>\$ 9,920</u>	<u>\$ 8,295</u>	6
<u>Percentage Rate Increase by Retail Rate Group</u>									
7	RS		\$ 1,094,012	0.2%	0.4%	0.4%	0.3%	0.3%	7
8	CS		128,207	0.2%	0.5%	0.5%	0.4%	0.3%	8
9	LLF		519,015	0.2%	0.4%	0.4%	0.3%	0.3%	9
10	HLF		836,695	0.3%	0.5%	0.5%	0.5%	0.4%	10
11	Other		<u>106,434</u>	0.1%	0.1%	0.1%	0.1%	0.1%	11
12	Total		<u>\$ 2,684,363</u>	0.2%	0.4%	0.4%	0.4%	0.3%	12

(1) As approved in Cause No. 42359, as adjusted for rate migrations.

(2) Total revenues billed for the twelve months ended June 30, 2019.

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information and belief.

Signed: 
Suzanne E. Sieferman

Dated: 8-9-19