

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA)
GAS AND ELECTRIC COMPANY d/b/a VECTREN)
ENERGY DELIVERY OF IN DIANA, INC., FOR: (1))
AUTHORITY TO CONSTRUCT, OWN AND)
OPERATE A SOLAR ENERGY PROJECT AND A)
FINDING THAT SUCH PROJECT CONSTITUTES A)
CLEAN ENERGY PROJECT PURSUANT TO IND.)
CODE CH. 8-1-8.8; (2) ISSUANCE OF A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY FOR THE CONSTRUCTION OF THE)
SOLAR ENERGY PROJECT PURSUANT TO IND.)
CODE CH. 8-1-8.5; AND (3) AUTHORITY TO)
TIMELY RECOVER COSTS INCURRED DURING)
CONSTRUCTION AND OPERATION OF THE)
PROJECT IN ACCORDANCE WITH IND. CODE§ 8-)
1-8.5-6.5 AND IND. CODE§ 8-1- 8.8-11.)

CAUSE NO. 45086

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

SETTLEMENT TESTIMONY OF

CYNTHIA M. ARMSTRONG - PUBLIC'S EXHIBIT NO. 1

OCTOBER 11, 2018

Respectfully submitted,



Karol H. Krohn

Attorney No. 5566-82

Deputy Consumer Counselor

kkrohn@oucc.in.gov

Direct Telephone: 317-233-3235

SETTLEMENT TESTIMONY OF CYNTHIA M. ARMSTRONG
CAUSE NO. 45086
VECTREN SOUTH ELECTRIC

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

2 A: My name is Cynthia M. Armstrong. My business address is 115 West
3 Washington, Suite 1500 South, Indianapolis, Indiana 46204.

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC")
6 as a senior utility analyst in the Electric Division. A summary of my qualifications
7 can be found in Appendix A.

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

9 A: The purpose of my testimony in this proceeding is to provide a summary of and
10 support for the Settlement Agreement the OUCC reached with Vectren South
11 Electric ("Vectren") and Citizens Action Coalition ("CAC") collectively referred
12 to as the "Settling Parties" in this testimony and the proceeding, which will allow
13 Vectren to move forward with constructing the proposed 50 MW solar facility
14 ("Solar Project"). My testimony does not change the substance of the Settlement
15 Agreement. The OUCC believes that approval of the Settlement Agreement is in
16 the public interest and asks the Commission to find the Settlement Agreement to
17 be reasonable and in the public interest, and enter an order approving the
18 Settlement Agreement in its entirety.

1 **Q: What have you done to prepare your testimony supporting the Settlement**
2 **Agreement?**

3 A: I reviewed the Verified Petition, Testimony, Exhibits, and Data Responses
4 submitted by Vectren, the OUCC, and other intervenors in this Cause. I
5 participated in technical discussions with VSE staff on June 18, 2018, and August
6 9, 2018. I also participated in settlement discussions with Vectren staff on
7 September 20, 2018, and October, 3, 2018. I have reviewed the Stipulation and
8 Settlement Agreement and the filed Settlement testimony and exhibits from
9 Settling Parties.

10 **Q: Are you sponsoring any exhibits?**

11 A: Yes, together with Vectren witness J. Cas Swiz, I am sponsoring Joint Exhibit 1,
12 which is a copy of the Settlement Agreement. Because this Exhibit has
13 previously been filed separately with the Commission, it is not attached to my
14 testimony. This exhibit will be offered into evidence at the hearing.

15 **Q: Did all the parties in the case reach settlement?**

16 A: No. Alliance Coal, LLC., has not agreed with the terms of the Settlement.

17 **Q: Please briefly describe the facts and circumstances that led to the Settlement**
18 **Agreement.**

19 A: On May 4, 2018, Vectren filed a petition seeking a Certificate of Public
20 Convenience and Necessity ("CPCN") to construct a 50 MW solar facility in
21 Spencer County, Indiana, and to recover the associated construction and O&M
22 costs through its Clean Energy Cost Adjustment ("CECA") mechanism pursuant
23 to Indiana Codes § 8-1-8.5-6.5 and § 8-1-8.8-11. Once Vectren filed its petition,
24 the OUCC and Intervenors worked independently to identify and investigate the

1 issues and filed their Cases-in-Chief providing their respective positions on
2 Vectren's proposal on September 4, 2018. Since this time, the Settling Parties
3 have met and collaborated to seek a settlement of those issues raised in the
4 petition and in testimony filed before the Commission. The resulting Settlement
5 Agreement was filed with the Commission on October 10, 2018. The OUCC
6 would like to express its thanks to the Settling Parties for not only their attention
7 to this matter to reach resolution of the issues, but their exceptional willingness
8 to discuss and work through the many detailed and contentious issues raised.

9 **Q: Please summarize the Settlement Agreement.**

10 A: The Settlement speaks for itself, so I will focus on the major provisions important
11 to the OUCC. The Settling Parties propose, through the Settlement Agreement,
12 the following:

- 13 • A levelized rate of \$0.05452 per kWh will be used to determine the amount
14 to be recovered annually in the CECA mechanism. The agreed upon levelized
15 rate is based on the assumptions set forth in the attachment to Mr. Swiz's
16 settlement testimony. These assumptions include:
 - 17 ○ An assumed capital investment of \$76.174 million, to be placed in-
18 service in late 2020.¹
 - 19 ○ A depreciable life of the capital investment of 35 years.
 - 20 ○ An assumed level of O&M per year, with an assumed annual
21 escalation lower than originally projected by Vectren in this Cause.²

¹ Petitioner's Exhibit No. 11, Attachment JCS-S1, line 8.

² Petitioner's Attachment JCS-S1, line 74.

- 1 ○ An assumed level of property tax expense for the assets.³
- 2 ○ An anticipated level of Investment Tax Credits (ITCs) based on the
- 3 estimated investments made.⁴
- 4 ○ An assumed capital structure and lower Return on Equity (ROE) than
- 5 what would be achieved with Vectren's original proposal.⁵
- 6 ○ A State Income Tax rate of 4.9% and Federal Income Tax rate of
- 7 21%.⁶
- 8 ○ An assumed level of production ("Production Baseline") for the solar
- 9 facility.
- 10 • The levelized rate per kWh may be adjusted in a future base rate proceeding
- 11 to capture the impact of changes to the approved ROE. Additionally, if any
- 12 legislated adjustment is made to the statutory Indiana State and/or Federal
- 13 Income Tax Rates that results in a change to other approved tariff rates, the
- 14 levelized rate per kWh will be adjusted accordingly with these changes. The
- 15 levelized rate will also be adjusted in the event that Vectren receives any
- 16 liquidated damages from First Solar for failing to achieve the minimum
- 17 guaranteed capacity or guaranteed capacity established in the Engineering,
- 18 Procurement, and Construction ("EPC") Agreement.
- 19 • Since the rate agreed to is based on the Baseline Production, no reconciliation
- 20 of the Baseline Production and actual produced energy from the Solar Project

³ *Id.*, lines 77-84.

⁴ *Id.*, lines 12-15.

⁵ *Id.*, lines 87-92.

⁶ *Id.*, lines 17-18.

1 will occur. However, there are performance targets that the project must meet,
2 and ratepayers will be credited for any underperformance. In the event that
3 actual annual production from the Solar Project for a rolling three-year period
4 is less than 90% of the Production Baseline and such deviation is not due to
5 a force majeure event, Vectren shall credit the CECA in the next annual filing
6 in the amount of the Levelized Rate multiplied by the difference between the
7 rolling three-year period actual annual production and Production Baseline,
8 according to the calculation provided in the Settlement. The Production
9 Baseline may also be adjusted for the impacted year(s) to match the
10 recalculated levelized rate due to decreased Solar Project production if
11 Vectren received liquidated damages from First Solar for failing to meet the
12 minimum guaranteed capacity.

- 13 • Vectren will provide monthly reports documenting the status of the
14 construction of the Solar Project, including actual costs incurred to date,
15 projected costs through the end of the project, and anticipated completion (in-
16 service) date of the project.
- 17 • The CECA will recover: 1) the revenue requirement associated with the solar
18 projects approved in Cause No. 44909, and 2) the Solar Project revenue
19 requirement approved as a part of this proceeding. The CECA will be filed
20 annually, and the Solar Project will begin being included for recovery in the
21 second CECA annual filing.

- 1 • All costs and recoveries associated with the Solar Project will be excluded
2 from the calculation of Vectren's electric revenue requirement in each rate
3 case over the life of the Solar Project. As part of this provision, the Solar
4 Project will be excluded from rate base in a future base rate case, and the
5 CECA revenue and expenses will be excluded from the calculation of the
6 revenue requirement in a future base rate case. In addition, all costs and
7 recoveries associated with the Solar Project will be excluded from the actual
8 Net Operating Income utilized for the quarterly Fuel Adjustment Clause
9 statutory earnings test.
- 10 • Any Renewable Energy Credits ("RECs") obtained by Vectren for energy
11 produced by the Solar Project will be utilized by Vectren in the best interest
12 of customers. This may include, with agreement with the OUCC and CAC,
13 selling some amount of RECs. The proceeds of any sale of RECs generated
14 by the project will be credited to ratepayers as an offset to recoverable costs
15 in the CECA.
- 16 • If a specific customer elects to pay directly for energy produced by the Solar
17 Project, Vectren agrees to sell this energy and the corresponding RECs at a
18 rate equal to the levelized rate per kWh, pursuant to a specific contract or rate
19 approved by the IURC; provided, however, that each of the Settling Parties
20 reserves the right to recommend a different rate for Commission approval.
21 All proceeds from the sale of energy produced by the Solar Project will be
22 credited to the CECA.

- 1 • If further investments are made in the future to either expand the Solar Project
2 or add technological improvements such as battery storage or investments to
3 extend the life of the facility beyond the agreed upon life of the Settlement,
4 these investments will be excluded from the Agreement.
- 5 • The settlement agreement is non-precedential.

6 **Q: Does the OUCC believe this Settlement Agreement is in the public interest?**

7 A: Yes. The OUCC believes this Settlement Agreement is in the public interest for
8 the following reasons.

- 9 1) The levelized rate set forth in the Settlement Agreement alleviates the
10 OUCC's concerns regarding the rate impact of the project. By agreeing to a
11 levelized rate of \$0.05452 per kWh, the rate that ratepayers will pay for the
12 project will be significantly less than Vectren's original proposal.⁷ The
13 Settlement Agreement also mitigates the rate impact of the project on
14 ratepayers, as the price charged to ratepayers will be fixed, with the exception
15 of any changes of the ROE during a base rate case or changes in tax rates.
- 16 2) The Settlement Agreement offers ratepayer protection from increases in
17 project construction or O&M costs over the 35 year time period. If Vectren
18 spends more than the planned \$76.174 million in capital costs, or if O&M
19 costs increase above the assumed amount, the company will still only collect
20 the levelized cost to which it has agreed.

⁷ See Witness Games' Direct testimony at 7, line 15.

- 1 3) The Settlement Agreement provides further ratepayer protection by ensuring
2 the Solar Facility will meet performance requirements. If the facility fails to
3 generate energy at the Baseline Production rate according to the requirements
4 set forth in the Settlement Agreement, then Vectren must credit ratepayers
5 for this shortfall.
- 6 4) The Settlement Agreement allows ratepayers to receive the benefit of any
7 liquidated damages Vectren receives from First Solar for failing to meet the
8 minimum guaranteed capacity of the Solar Facility.
- 9 5) The Settlement Agreement allows ratepayers to receive tax benefits of the
10 project earlier than what would be experienced through traditional rate
11 making.
- 12 6) Ratepayers will receive the full benefit of any solar RECs sold from the
13 facility via a credit to the CECA. Additionally, Vectren will seek agreement
14 from the OUCC and CAC prior to selling the RECs. The OUCC can address
15 any issues regarding claims of renewable energy provided to customers at
16 the time of such discussions. Therefore, the OUCC's initial concern about
17 Vectren making claims regarding the renewable energy it provides its
18 customers is resolved.
- 19 7) If Vectren executes a special contract with a large customer wishing to
20 purchase renewable energy from the facility to meet sustainability goals,
21 ratepayers will receive the full benefit of those sales via a credit to the CECA.
- 22 8) As a least-cost and must-run unit, the project has the potential to result in
23 fuel cost savings for customers.

1 9) The Settlement Agreement accomplishes the shared goals of the Settling
2 Parties to provide Vectren's customers with reasonably-priced Hoosier
3 Homegrown renewable energy.

4 10) Public policy supports the Settlement. By collaborating to resolve the issues
5 in this proceeding, the Settling Parties' Agreement also serves the public
6 interest by avoiding contentious and costly litigation. Each Settling Party is
7 invested in the development, operation and evaluation process of the entire
8 project and all parties, including the Commission, are able to stay on top of
9 all issues with detailed information obtained through the ongoing review
10 requirements. Given the agreement reached on the ratepayer benefits as
11 outlined in the Settlement Agreement, the OUCC believes the Settling
12 Parties struck a fair resolution of the divergent positions initially taken by the
13 Settling Parties. The OUCC therefore believes the Settlement Agreement is
14 supported by substantial evidence, is in the public interest and should be
15 approved.

16 **Q: What does the OUCC recommend?**

17 A: The OUCC recommends the Commission approve the Settlement Agreement
18 submitted by the Settling Parties in its entirety.

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

20 A: Yes.

APPENDIX A

1 **Q: Please summarize your professional background and experience.**

2 A: I graduated from the University of Evansville in 2004 with a Bachelor of Science
3 degree in Environmental Administration. I graduated from Indiana University,
4 Bloomington in May 2007 with a Master of Public Affairs degree and a Master
5 of Science degree in Environmental Science. I also completed internships with
6 Vectren's Environmental Affairs Department in the spring of 2004, with the U.S.
7 Environmental Protection Agency in the summer of 2005, and with the U.S.
8 Department of the Interior in the summer of 2006. I completed a 40-hour OSHA
9 Hazardous Operations and Emergency Response (HAZWOPER) Course in
10 January 2005. I have been employed by the OUCC since May 2007. As part of
11 my continuing education at the OUCC, I have attended the National Association
12 of Regulatory Utility Commissioners' (NARUC) week-long seminar in East
13 Lansing, Michigan, and completed 8-hour OSHA HAZWOPER refresher
14 courses. In April 2018, I became certified to perform opacity observations in
15 accordance with EPA Method 9, and I was re-certified in October 2018.

16 **Q: Please describe some of your duties at the OUCC.**

17 A: I review and analyze utilities' requests and file recommendations on behalf of
18 consumers in utility proceedings. Depending on the case at hand, my duties may
19 also include analyzing state and federal regulations, evaluating rate design and
20 tariffs, evaluating utilities' policies and practices, examining books and records,
21 inspecting facilities, and preparing various studies. Since my expertise lies in

1 environmental science and policy, I assist in many cases where environmental
2 compliance is an issue.

3 **Q: Have you previously provided testimony to the Indiana Utility Regulatory**
4 **Commission?**

5 A: Yes.

CERTIFICATE OF SERVICE

The undersigned counsel hereby certifies that *Indiana Office of Utility Consumer Counselor's Submission of the Settlement Testimony of Public's Exhibit No. 1* was filed through the Commission's Electronic Filing System ("EFS") and a copy was served electronically, via e-mail, upon the following counsel of record in this proceeding on October 11, 2018.

Steven W. Krohne
Ice Miller, LLP
Steven.Krohne@icemiller.com

Robert E. Heidorn
P. Jason Stephenson
Vectren Corporation
rheidorn@vectren.com
jstephenson@vectren.com

Nikki G. Shoultz
Kristina Kern Wheeler
Bose McKinney & Evans LLP
nshoultz@boselaw.com
kwheeler@boselaw.com

Jennifer A. Washburn
Citizens Action Coalition
jwashburn@citact.org



Karol H. Krohn
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PNC Center
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317-232-2494 – Telephone
317-232-5923 – Facsimile
317-233-3235 - Direct

AFFIRMATION

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



Cynthia M. Armstrong
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor

October 11, 2018

Date

Cause No. 45086
Vectren South Electric