

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren	)	
Energy Delivery of Ohio, Inc. for Approval	)	Case No. 18-0298-GA-AIR
of an Increase in Gas Rates	)	

In the Matter of the Application of Vectren	)	
Energy Delivery of Ohio, Inc., for Approval	)	Case No. 18-0299-GA-ALT
of an Alternative Rate Plan	)	

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**DIRECT TESTIMONY OF  
STEPHEN A. ALLAMANNO  
ON BEHALF OF  
VECTREN ENERGY DELIVERY OF OHIO, INC.**

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_____	Management policies, practices, and organization
<u>  X  </u>	Operating income
_____	Rate base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
_____	Other

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**Direct Testimony of  
Stephen A. Allamanno**

**I. BACKGROUND AND QUALIFICATIONS**

**Q1. Please state your name and business address.**

A. Stephen A. Allamanno, One Vectren Square, Evansville, Indiana 47708.

**Q2. What position do you hold with Vectren Energy Delivery of Ohio, Inc. (VEDO or the Company)?**

A. I am Director of Corporate Tax and Plant Accounting for Vectren Corporation (Vectren) and have responsibility for the corporate tax and plant accounting of certain of Vectren's subsidiaries, including VEDO.

**Q3. Please describe your educational background.**

A. I received a Bachelor's Degree in Business Administration with a major in Accounting from The Ohio State University in 1987. In addition, I received a Master's Degree in Business Administration with concentrations in Accounting and Finance from The Ohio State University in 1993. I am also a licensed CPA in the State of Indiana.

**Q4. Please describe your professional experience.**

A. I have spent my entire professional career of approximately 29 years working in the field of corporate tax. From January 1988 to October 1998, I was employed by Cummins Inc. in Columbus, Indiana and was responsible for a variety of US Federal, State and Local, and International tax-related compliance and planning matters in positions of increasing responsibility. From October 1998 to March 1999, I served as Director – International Tax for Cardinal Health, Inc. in Dublin, Ohio, holding responsibility for all US tax aspects of the company's non-US operations. I returned to Cummins in May 1999 and remained with the company through July 2011. During this time, I served in a variety of roles, handling tax compliance, planning, and provision work for both domestic and

1 international operations. From August 2011 through December 2013, I was employed as  
2 Vice President – US Tax for Technicolor USA, Inc. in Carmel, Indiana. During this time,  
3 I was responsible for managing all US tax matters for the company. From January 2014  
4 through June 2017, I worked for AES US Services LLC in Indianapolis, Indiana, initially  
5 serving as Tax Director – US SBU and then later as Director – Regulatory Tax. As Tax  
6 Director – US SBU, I was responsible for managing all US perimeter tax matters for the  
7 company; as Director – Regulatory Tax, I was focused more specifically on tax matters  
8 for the company’s regulated utilities, Indianapolis Power and Light and the Dayton  
9 Power and Light Company. Finally, I joined Vectren Corporation in July 2017 as  
10 Director of Corporate Tax and Plant Accounting.

11 **Q5. What are your present duties and responsibilities as Director of Corporate Tax and**  
12 **Plant Accounting for Vectren?**

13 A. In my Corporate Tax role, I have management and oversight responsibility for all tax  
14 matters of Vectren and its subsidiaries, including compliance, planning, and provision  
15 matters relating to income taxes. In my Plant Accounting role, I have management and  
16 oversight responsibility for all fixed asset-related matters for Vectren and its subsidiaries,  
17 including compliance with the company’s capitalization policy, as well as compliance  
18 and planning matters associated with the company’s property tax filings.

19  
20 **II. SUMMARY**

21 **Q6. What is the purpose and scope of your testimony in this proceeding?**

22 A. The purpose of my testimony is to present and support VEDO’s adjusted Federal income  
23 tax expense and property tax expense amounts included in the Company’s test year. In  
24 addition, I explain how the tax changes associated with the Tax Cuts and Jobs Act

(TCJA) of 2017 are incorporated into the calculations included in this filing. I am responsible for various Standard Filing Requirement schedules, identified with my name as witness, including but not limited to:

- Schedule 3.23 – Property Tax
- Schedule 3.24 – Federal Income Tax at Statutory Rate
- Schedule C-4 – Federal Income Tax Allocated and Adjusted
- Schedule C4.1 – Federal Income Tax Per Books and Allocated (Before Adjustment)

All of the above schedules were either prepared by me or under my direction and supervision.

### **III. FEDERAL INCOME TAX**

#### **Q7. Please explain Schedule C-3.23.**

A. Schedule C-3.23 indicates the pro forma adjustment needed to test year property tax expense. The test year property tax expense of \$10,586,977 prior to any pro forma adjustment indicated on Line 16 of Schedule C-3.23 does not include the property tax amounts associated with plant and equipment balances previously deferred by VEDO as part of its approved Capital Expenditure Program (CEP) under the provisions of House Bill 95 (HB95). The pro forma adjustment of \$6,698,316 reflected on Line 17 of Schedule C-3.23 is required to reflect the appropriate amount of VEDO's property tax expense for the test year now that these investments are included as part of rate base, as described by VEDO Witness J. Cas Swiz.

1 **Q8. Please explain the basic premise under which the Federal income tax calculations**  
2 **have been made.**

3 A. The Federal income tax calculations have been made pursuant to the current version of  
4 the Internal Revenue Code (IRC) as revised and amended by the TCJA, which was  
5 signed into law on December 22, 2017. Among other changes, the TCJA reduced the  
6 Federal income tax rate from 35 percent to 21 percent effective January 1, 2018.

7 **Q9. Please describe Schedule C-3.24.**

8 A. Schedule C-3.24 summarizes the adjustments that must be made to current and deferred  
9 income tax expense in order to move from unadjusted test year income tax expense  
10 calculated using the pre-TCJA Federal income tax rate of 35 percent to pro forma test  
11 year income tax expense calculated at the new post-TCJA Federal income tax rate of 21  
12 percent. This Schedule also captures the credit associated with the annual excess deferred  
13 tax amortization, which is discussed later in my testimony.

14 **Q10. Please describe Schedule C-4.**

15 A. Schedule C-4 columns (A) through (C) first calculate Federal income tax expense  
16 pursuant to the provisions of the IRC *prior* to the enactment of the TCJA. Column (A)  
17 begins with book operating income before tax for the test year and proceeds to make  
18 various adjustments to account for differences between book income and income for tax  
19 purposes based on pre-TCJA tax law to arrive at a Federal taxable income amount for the  
20 period. As evidenced on Schedule C-4, the largest difference between book income and  
21 taxable income relates to differences between book depreciation and the amount of  
22 depreciation allowable for Federal income tax purposes. The other items detailed on  
23 Lines 15 through 30 on Page 1 of this schedule represent additional instances where the  
24 amounts indicated are taken into account for taxable income purposes at a different time

1 than they are for book purposes. Column (B) proceeds to make pro forma adjustments to  
2 the Column (A) balances to arrive at the appropriate test year totals, which are reflected  
3 in Column (C). The \$27,335,138 adjustment reflected in Column (B) on line 29 is  
4 appropriate for two reasons: (1) it relates to a one-time only re-measurement of a  
5 goodwill-related deferred tax liability associated with a change in the US Federal income  
6 tax rate and is therefore not a recurring item, and (2) VEDO's goodwill asset, established  
7 when Vectren purchased the gas assets from Dayton Power & Light in 2001, is not  
8 included in the ratemaking process, meaning any tax adjustments associated with it  
9 should be similarly excluded from test year calculations. Federal income tax expense in  
10 Columns (A), (B), and (C) is calculated at the pre-2018 corporate income tax rate of 35  
11 percent. Column (D) then incorporates changes to the amounts reflected in column (C)  
12 associated with the enactment of the TCJA. These changes reflect revisions to the  
13 deductibility of certain expense items for Federal income tax purposes, as well as the  
14 decline in the Federal corporate income tax rate to 21 percent effective January 1, 2018.  
15 As such, Column (E) illustrates both Federal taxable income and Federal income tax  
16 expense under the provisions of the TCJA as applied to pro forma test year amounts  
17 based on current customer rates. Column (F) shows the proposed adjustment to pre-tax  
18 income included in this filing and calculates the corresponding Federal income tax  
19 expense associated with that at the new Federal corporate income tax rate of 21 percent.

20 **Q11. Please describe Schedule C-4.1.**

21 A. Schedule C-4.1 indicates Federal taxable income and Federal income tax expense for the  
22 test year prior to any pro forma adjustments. Both the Federal taxable income and Federal  
23 income tax expense amounts reflected on this schedule are calculated under pre-TCJA  
24 Federal tax law.

1 **Q12. Please explain the normalization method of accounting used for income taxes and**  
2 **ratemaking purposes.**

3 A. For income tax return purposes, VEDO's depreciation expense deductions are calculated  
4 using accelerated rates provided for in the IRC. For regulatory and book accounting  
5 purposes, depreciation is calculated on a straight-line basis over the useful life of the  
6 relevant property using depreciation rates approved by the Commission. The regulatory  
7 and book treatment of depreciation included in the income tax component of cost of  
8 service is referred to as the normalization method of accounting and is required by the  
9 IRC. The difference between accelerated depreciation for tax purposes and normalized  
10 depreciation for book purposes creates a timing (also referred to as "temporary")  
11 difference. Ultimately over the life of the asset, the same amount of depreciation expense  
12 will be claimed for both book and tax purposes; however, the depreciation deductions  
13 taken in individual years will differ. The timing differences created by the use of different  
14 depreciation methods for book and for tax purposes are recorded on VEDO's balance  
15 sheet in an Accumulated Deferred Income Tax (ADIT) reserve account.

16 **Q13. Does the Federal rate reduction resulting from the TCJA impact VEDO's ADIT**  
17 **balance?**

18 A. Yes. US GAAP principles require the ADIT amount reflected on the balance sheet to be  
19 recorded at the value of the tax expected to be paid. Upon enactment of the TCJA, the  
20 temporary differences giving rise to VEDO's ADIT balance will reverse at the new  
21 corporate income tax rate of 21 percent. Consequently, VEDO has recalculated its ADIT  
22 balance to reflect the future reversals at the new Federal tax rate.



**Q14. What is the impact of re-measuring VEDO’s accumulated deferred income taxes?**

A. The re-measure of VEDO’s ADIT balances resulted in the creation of an excess deferred tax (EDT) balance on the company’s balance sheet. At December 31, 2017, VEDO’s EDT balance was approximately \$77.5 million.

**Q15. What happens to this excess deferred tax balance?**

A. The excess deferred tax balance is reclassified to a regulatory liability, denoting the expectation that it will be returned to customers in full over a defined period of time.

**Q16. Please describe the distinction between “protected” and “unprotected” excess deferred taxes and elaborate on how they will be returned to customers.**

A. The TCJA requires “protected” excess deferred taxes—which are those balances resulting from tax depreciation deductions taken pursuant to Sections 167 and 168 of the Internal Revenue Code—to be amortized by VEDO over “the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes.” See TCJA Subtitle C, Part I, Sec. 13001(d)(3)(B). While the amortization period for the normalized excess deferred tax balances will not be known with certainty until the Company’s calendar-year 2017 income tax return is completed, a reasonable estimate has been prepared for this filing based on currently available information. Ultimately, as prescribed under the provisions of the US Internal Revenue Code, the protected balances will be refunded to customers using the Average Rate Assumption Method (ARAM). The estimated “protected” balance for VEDO is approximately \$57.5 million at December 31, 2017.

The refund of “unprotected” balances is not prescribed in such a manner, and is subject to regulatory proceedings to dictate the amortization period. Refunds of excess deferred amounts relating to capital repairs deductions taken for tax purposes, which are

1 included as part of the “unprotected” balance and total approximately \$10.6 million, have  
2 also been calculated using the ARAM approach. The use of ARAM for capital repairs-  
3 related balances is appropriate due to the fact that those amounts are specifically linked to  
4 long-lived capital assets. Absent tax reform, the ADIT balances associated with the  
5 capital repairs deductions would have been realized gradually based on the remaining  
6 useful lives of the capital assets to which they relate, just as all other property, plant, and  
7 equipment-related balances would be. Aside from the protected and capital repairs  
8 deduction-related balances, all other “unprotected” excess deferred tax amounts—  
9 meaning balances resulting from items other than those relating to depreciation  
10 deductions taken pursuant to Sections 167 and 168 of the Internal Revenue Code—total  
11 approximately \$9.5 million and have been amortized using a straight-line approach over a  
12 thirty-year period. The amount of excess deferred tax amortization reflected in the test  
13 year equals the average annual total excess deferred tax amortization amount—including  
14 both the protected and unprotected components—experienced over the entire  
15 amortization period. VEDO Witness Swiz provides additional details explaining how  
16 VEDO proposes to refund these amounts in his testimony.

17 **Q17. Does the TCJA necessitate any specific accounting treatment requests in this case?**

18 A. Yes. As noted in the response to Question 9 and illustrated on Schedule C-3.24, VEDO is  
19 including credits of approximately \$2.6 million of excess deferred tax amortization in its  
20 adjusted test year income tax expense. Because of the uncertainty around the overall  
21 excess deferred balance and the requirements for the amortization of protected balances,  
22 specific accounting treatment will be required to align the credits issued to customers  
23 with the accounting on VEDO’s general ledger. To the extent the actual annual  
24 amortization differs from the estimated amount included in base rates, the amortization of

1 the unprotected excess deferred tax will be increased or decreased to ensure that the total  
2 amortization of protected and unprotected excess deferred tax is equal to the amount  
3 reflected in rates within this filing. This accounting treatment is necessary with respect to  
4 VEDO's protected balances to ensure VEDO remains in compliance with the tax  
5 normalization requirements of the IRC, thereby avoiding a tax normalization violation.  
6 VEDO Witness Swiz presents an alternative approach which would address both the  
7 uncertainty and the unique accounting compliance aspects of the excess deferred tax  
8 balance.

9  
10 **IV. CONCLUSION**

11 **Q18. Does that conclude your prepared direct testimony?**

12 A. Yes.

**This foregoing document was electronically filed with the Public Utilities**

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**Case No(s). 18-0298-GA-AIR, 18-0299-GA-ALT**

Summary: Exhibit 3.0 - Stephen A. Allamanno electronically filed by Ms. Rebekah J. Glover on behalf of Vectren Energy Delivery of Ohio, Inc.