

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

JOINT APPLICATION OF CENTERPOINT)
ENERGY RESOURCES CORP., SOUTHERN)
COL MIDCO, LLC, AND SUMMIT UTILITIES)
OKLAHOMA, INC. FOR TRANSFER OF)
JURISDICTIONAL UTILITY ASSETS AND)
CUSTOMER ACCOUNTS PURSUANT TO)
OAC 165:45-3-5)

CAUSE NO. PUD 202100114

FILED
JUL 23 2021

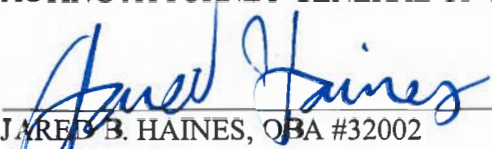
RESPONSIVE TESTIMONY OF BRICE D. BETCHAN
ON BEHALF OF
DAWN CASH, OKLAHOMA ATTORNEY GENERAL

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

Dawn Cash, the Acting Attorney General of Oklahoma, on behalf of the utility customers of this State, hereby submits the Responsive Testimony of Brice D. Betchan in the proceeding referenced above. The Attorney General urges close consideration of the testimony.

Respectfully submitted,

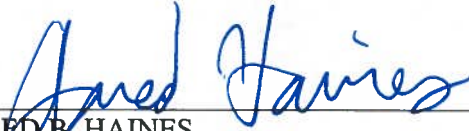
DAWN CASH
ACTING ATTORNEY GENERAL OF OKLAHOMA


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CERTIFICATE OF SERVICE

On this 23rd day of July, 2021, a true and correct copy of the *Responsive Testimony of Brice D. Betchan on Behalf of Dawn Cash, Acting Oklahoma Attorney General* was sent via electronic mail to the following interested parties:

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RESPONSIVE TESTIMONY

OF

BRICE D. BETCHAN

ON BEHALF OF

DAWN CASH,

ACTING OKLAHOMA ATTORNEY GENERAL

July 23, 2021

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I. Introduction

Q. PLEASE STATE YOUR NAME.

A. My name is Brice D. Betchan.

Q. PLEASE IDENTIFY YOUR EMPLOYER AND YOUR BUSINESS ADDRESS.

A. I am employed by the Oklahoma Office of the Attorney General (“Attorney General”). My business address is 313 NE 21st Street, Oklahoma City, Oklahoma 73105.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated summa cum laude from Southwestern Oklahoma State University with a Bachelor of Business Administration degree in Accounting and summa cum laude from Oklahoma State University with a Master of Science degree in Accounting. I was employed by Ernst & Young, LLP as an intern from January through March of 2015, then started fulltime as a staff member with Ernst & Young, LLP in January of 2016. I passed all four sections of the Certified Public Accountant examination, on my first attempt, by the end of 2015. I became a credentialed Certified Public Accountant in the State of Oklahoma in April 2017. I was a Tax Senior III before leaving Ernst & Young in January of 2020. I have been employed by the Attorney General since February of 2020 as a Certified Public Accountant in the Utility Regulation Unit. I have attached my curriculum vita as Exhibit BDB-1.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE OKLAHOMA CORPORATION COMMISSION?

A. Yes, I have previously testified before the Oklahoma Corporation Commission (“Commission”). My credentials were accepted at that time.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CAUSE?**

2 A. The purpose of my testimony is to detail Summit Utilities Oklahoma, Inc.’s (“SUO”)
3 proposal concerning CenterPoint Energy Resources Corporation’s (“CenterPoint”) legacy
4 Accumulated Deferred Income Tax (“ADIT”) and Excess Deferred Income Tax (“EDIT”)
5 balances. My testimony also recommends enhanced tracking of SUO’s ADIT and EDIT
6 balances.

7 **II. Accumulated Deferred Income Tax and Excess Deferred Income Tax**

8 **Q. WHAT IS ACCUMULATED DEFERRED INCOME TAX?**

9 A. ADIT represents deferred taxes owed to taxing authorities not yet paid due to differences
10 between book and tax treatment. The most obvious, and often largest difference for
11 utilities, is depreciation. Depreciation for book purposes is straight-line, or flat over asset
12 lives. Tax depreciation is often accelerated in the early years of asset lives. Utility
13 customers pay higher rates in the form of lower depreciation expense in the early years of
14 asset lives because rates are based on lower book depreciation amounts, even though the
15 utility can deduct the larger tax depreciation amounts on its tax return. The utility then
16 retains the difference, which represents the ADIT balance. The ADIT benefit has generally
17 been recognized as a rate base reduction since it represents a cost-free source of capital for
18 the utility.

19 **Q. DO YOU AGREE WITH SUO THAT ADIT AND EDIT WILL BE ZERO AFTER**
20 **THE PROPOSED SALE FROM CENTERPOINT TO SUO?**

21 A. Yes. An asset sale, as agreed to by CenterPoint and SUO, would result in a taxable event
22 that would eliminate the deferred tax balances.

1 **Q. WHY ARE THE ADIT AND EDIT BALANCES IMPORTANT?**

2 A. ADIT and EDIT are significant rate base offsets. The effect of the transaction is to eliminate
3 such balances yet continue the rate base offsets for such pre-transaction amounts. The fear
4 is loss of any amount of such offsets to customers.

5 **Q. WHAT ARE CENTERPOINT'S ADIT AND EDIT BALANCES AS OF**
6 **DECEMBER 31, 2020 AND HOW DOES IT COMPARE TO CENTERPOINT'S**
7 **RATE BASE?**

8 A. As of December 31, 2020, CenterPoint's ADIT balance was (\$12,719,407). CenterPoint's
9 EDIT balance was (\$8,066,362). CenterPoint's rate base before ADIT and EDIT offsets
10 was about \$100,000,000, meaning ADIT and EDIT reduce rate base by more than 20
11 percent.

12 **Q. WHAT IS SUO'S PROPOSAL CONCERNING THE DEFERRED TAX**
13 **ATTRIBUTES OF CENTERPOINT?**

14 A. SUO proposes that for ratemaking purposes in Oklahoma, CenterPoint's existing
15 Oklahoma-related ADIT and EDIT continue to be treated as a reduction to rate base for
16 SUO.¹ SUO also notes that it will continue refunding EDIT credits in April 2022.²

17 **Q. DOES THE ATTORNEY GENERAL SUPPORT SUO'S POSITION?**

18 A. Yes. The Attorney General supports continuing the rate base offset for both ADIT and
19 EDIT. However, the Attorney General has concerns about tracking the legacy ADIT and
20 EDIT balances pre-closing and post-closing.

¹ Direct Test. of Steven E. Birchfield for Summit Utilities Oklahoma, Inc. 19:23, 20:1–2 (June 24, 2021).

² SUO's Response to AG-SUO-2-1, attached as Ex. BDB-2.

1 **Q. WHAT ARE THE ATTORNEY GENERAL’S CONCERNS ABOUT LEGACY**
2 **ADIT AND EDIT?**

3 A. The Attorney General issued discovery asking SUO for details of the legacy ADIT and
4 EDIT balances it proposes keeping as rate base offsets. SUO was unable to provide details
5 of how it would protect legacy ADIT and EDIT balances.³ The Attorney General is
6 concerned that the legacy ADIT and EDIT balances will not be sufficiently tracked from
7 CenterPoint’s last Performance Based Rate Change (“PBRC”) until SUO’s next filing
8 before the Commission. The Attorney General is also concerned about the income tax
9 normalization rules and how they may or may not apply to the legacy ADIT and EDIT
10 balances.

11 **Q. WHAT IS THE ATTORNEY GENERAL’S RECOMMENDATION?**

12 A. The Attorney General recommends requiring SUO track and reconcile the legacy ADIT
13 and EDIT balances from CenterPoint’s last PBRC filing in Cause No. PUD 202100054 to
14 any subsequent Commission filings by SUO. The Attorney General also believes that SUO
15 should separately track any post-closing ADIT created by SUO due to the Company’s
16 uncertainty of whether the income tax normalization rules will still apply to the legacy
17 ADIT and EDIT balances.⁴

³ SUO’s Response to AG-SUO-1-24, attached as Ex. BDB-3.

⁴ SUO’s Response to AG-SUO-1-25, attached as Ex. BDB-4.

1 **Q. WILL SUO’S LEGACY ADIT AND EDIT BALANCES DIFFER FROM**
2 **CENTERPOINT’S DECEMBER 31, 2020 BALANCES?**

3 A. Yes, for several reasons. First, any 2021 deferred tax activity will change the legacy ADIT
4 balance immediately before the sale from CenterPoint to SUO.⁵ Second, CenterPoint issued
5 EDIT credits to customers in 2021 which reduced the EDIT balance. Third, Oklahoma
6 reduced its state corporate tax rate from six percent to four percent for tax years beginning
7 after December 31, 2021.⁶ The tax rate change should be reflected on CenterPoint’s books
8 in Q2 2021, meaning both ADIT and EDIT will be revalued.⁷

9 **III. Conclusion**

10 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

11 A. The Attorney General supports SUO’s proposal to continue CenterPoint’s legacy ADIT
12 and EDIT rate base offsets. However, the Attorney General recommends enhanced tracking
13 of both balances. The Attorney General believes it is necessary to reconcile SUO’s legacy
14 ADIT and EDIT balances to CenterPoint’s last PBRC filing in a subsequent filing by SUO.
15 The Attorney General also believes it is necessary to separately track any newly created
16 ADIT balances of SUO due to SUO’s uncertainty of whether the tax normalization rules
17 apply to SUO’s legacy ADIT and EDIT balances.

⁵ The Attorney General refers to the ADIT balance “immediately before the sale” rather than “at the time of sale” because the ADIT balance is eliminated at the time of sale due to the gain on the asset sale.

⁶ House Bill 2960, 2021 Okla. Sess. Laws, ch. 492.

⁷ Accounting Standards Codification 740-10-45-15.

1 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

2 A. Yes. My testimony is limited to the subject matters discussed. The Commission and the
3 stakeholders should not infer my agreement with or support for a subject matter not covered
4 in this testimony.


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

6 A. Yes, it does.

AFFIDAVIT OF BRICE D. BETCHAN

STATE OF OKLAHOMA)
) ss
COUNTY OF OKLAHOMA)

I, Brice D. Betchan, do hereby swear/affirm that the foregoing testimony is true and correct to the best of my knowledge and belief.



Brice D. Betchan

Subscribed and sworn to/affirmed before me this 23rd day of July, 2021.





Notary Public

My Commission expires on 12/04/23.

BRICE D. BETCHAN, CPA

313 NE 21st Street
Oklahoma City, Oklahoma 73105
405-522-4412
brice.betchan@oag.ok.gov

Professional Experience

Oklahoma Office of the Attorney General

Certified Public Accountant

Oklahoma City, OK

Feb. 2020-Present

- Review and evaluate utility financial data
- Calculate ratemaking adjustments
- Provide expert witness testimony on regulatory matters

Ernst and Young

Tax Senior

Oklahoma City, OK

Jan. 2015-Jan. 2020

- Reviewed federal forms 720, 1040, 1065, 1120 and 1120S for public and large private clients
- Reviewed state tax filings for public and large private clients
- Reviewed tax provisions prepared in accordance with ASC 740 for public oil and gas clients
- Reviewed tax provisions prepared in accordance with ASC 740 for private Global 360 clients
- Supervised three to five staff members

Arledge & Associates

Audit Specialist

Edmond, OK

May 2014-Jul. 2014

- Performed audit procedures
- Drafted management discussion letters and audit opinions
- Performed first check review procedures

Education

Oklahoma State University

Master of Science

Summa Cum Laude

Stillwater, OK

Major: Accounting

Dec. 2015

Southwestern Oklahoma State University

Bachelor of Business Administration

Summa Cum Laude

Weatherford, OK

Major: Accounting

May 2014

Professional Certification

Certified Public Accountant

Professional Groups

National Association of State Utility Consumer Advocates Tax & Accounting Committee Member
National Association of State Utility Consumer Advocates Natural Gas Committee Member
Southwestern Oklahoma State University Everett Dobson School of Business & Technology Advisory Board Member

Ratemaking Courses

Michigan State University Institute of Public Utilities Accounting and Ratemaking Course

Expert Witness Testimony

- Responsive Testimony on Behalf of Dawn Cash, Acting Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 202100081 “Application of Arkansas Oklahoma Gas Corporation for Approval of Its Performance Based Rate Plan Adjustments for the Twelve Months Ended December 31, 2020.”
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 20210057 “Application of Ft. Cobb Fuel Authority, LLC for Approval of Special Regulatory Treatment For Abnormal Gas Supply Costs Arising From Extreme Winter Weather and Waiver of Applicable Purchased Gas Adjustment Tariffs and Rules Under OAC 165:50 Specifying Methodology For Recover of Gas Supply Costs.”
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 20200097 “Application of Public Service Company of Oklahoma For Approval of The Cost Recovery of Facilities To Be Located at Ft. Sill; Approval For Future Inclusion in Base Rates; For Cost Recovery of Prudent Costs Incurred by PSO For the Facilities; Approval of a Temporary Cost Recovery Rider; and Such Other Relief The Commission Deems PSO is Entitled.”
- Direct Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 201700570, “Application Of Mike Hunter, The Attorney General of Oklahoma, To Lower the Rates and Charges for Natural Gas Service and Provide for any Refund Due to the Customers of Arkansas Oklahoma Gas Corporation Resulting from the Tax Cuts and Jobs Act of 2017.”
- Responsive and Settlement Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 202000051, “Application Of Arkansas Oklahoma Gas Corporation For Approval Of Its Performance Based Rate Plan Adjustments For The Twelve Months Ended December 31, 2019.”
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 202000021, “In The Matter Of The Application Of Oklahoma Gas And Electric Company For An Order Of The Commission Approving A Recovery Mechanism For Expenditures Related To The Oklahoma Grid Enhancement Plan.”
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 202000022, “Application of Oklahoma Natural Gas Company, A Division of One Gas, Inc. For Approval of its Performance Based Rate Change Plan Calculations for the Twelve Months Ending December 31, 2019, Energy Efficiency True-up and Utility Incentive Adjustments for Program Year 2019, and Changes or Modifications to Its Tariffs.”

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**SUMMIT UTILITIES OKLAHOMA, INC.'S RESPONSES TO OKLAHOMA ATTORNEY
GENERAL'S SECOND SET OF DATA REQUESTS**

AG-SUO-2

- 2-1** Please refer to the direct testimony of Steven E. Birchfield, page 19, line 19 through page 20, line 2. How does Summit propose to provide its Oklahoma customers with Excess Accumulated Deferred Income Tax credits in early 2022 that correspond to amounts that would have amortized in 2021 and would have been provided by CenterPoint Energy Resources Corp.?

Response: Summit proposes to refund the Excess Accumulated Deferred Income Tax credits associated with the 2021 amortization in the same way CenterPoint Energy Resources Corp would have refunded, by issuing one-time bill credits to customers in April of 2022.

Witness: Tyson Porter

Title: Director of Regulatory Finance & Rates

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**SUMMIT UTILITIES OKLAHOMA, INC.'S RESPONSES TO OKLAHOMA
ATTORNEY GENERAL'S FIRST SET OF DATA REQUESTS**

AG-SUO-1

- 1-24** Please refer to the direct testimony of Steven E. Birchfield, page 19, line 19 through page 20, line 2. Please provide a detailed explanation of the regulatory assets or liabilities Summit proposes to create to retain the customer benefits of Accumulated Deferred Income Tax and Excess Accumulated Deferred Income Tax.

Response: Summit is starting the process of the purchase price allocation and will be evaluating all options related to the ADIT/EDIT during the valuation process. Exact details are not available at this time due to the early stages of the process, but these will be shared when the proposed valuation is completed. SUO proposes that for ratemaking purposes that the existing Oklahoma-related ADIT and EDIT continue to be treated as a reduction to rate base.

Witness: Keith Mursch

Title: Controller

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**SUMMIT UTILITIES OKLAHOMA, INC.'S RESPONSES TO OKLAHOMA
ATTORNEY GENERAL'S FIRST SET OF DATA REQUESTS**

AG-SUO-1

- 1-25** Please refer to the direct testimony of Steven E. Birchfield, page 19, line 19 through page 20, line 2. Does Summit believe IRS normalization rules would continue to apply to any regulatory assets or liabilities designed to retain the customer benefits of Accumulated Deferred Income Tax and Excess Accumulated Deferred Income Tax? Please provide all support for Summit's response.

Response: Summit is still in the process of initial tax research related to the purchase transaction and how it will affect the purchase price valuation. Unfortunately, it is too early in the process to know what will be allowable by the IRS normalization rules, but Summit will ensure whatever path it takes is in compliance with the internal revenue code to not lose any benefits under the rule.

Witness: Keith Mursch

Title: Controller