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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF DUKE ENERGY)
INDIANA, LLC FOR: (1) APPROVAL OF AN)
ADJUSTMENT TO ITS ELECTRIC SERVICE)
RATES THROUGH ITS TRANSMISSION,)
DISTRIBUTION AND STORAGE SYSTEM)
IMPROVEMENT CHARGE (“TDSIC”) RATE)
SCHEDULE, STANDARD CONTRACT RIDER)
NO. 65; (2) AUTHORITY TO DEFER 20% OF THE)
APPROVED CAPITAL EXPENDITURES AND)
TDSIC COSTS FOR RECOVERY IN)
PETITIONER’S NEXT GENERAL RATE CASE;)
AND (3) APPROVAL OF PETITIONER’S)
UPDATES TO ITS 7-YEAR ELECTRIC PLAN,)
PURSUANT TO IND. CODE § 8-1-39-9.)

CAUSE NO. 44720 TDSIC 4

APPROVED: OCT 09 2018

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Carol Sparks Drake, Administrative Law Judge

On April 25, 2018, Duke Energy Indiana, LLC (“DEI” or “Petitioner”) filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) requesting: (1) approval of an adjustment to its Transmission, Distribution, and Storage System Improvement Charge (“TDSIC”) Rate Schedule via Standard Contract Rider No. 65 (“TDSIC Rider”) to effectuate the timely recovery of 80% of capital expenditures and TDSIC costs associated with in-service eligible transmission, distribution, and storage system improvements; (2) authority to defer, as a regulatory asset, the remaining 20% of eligible and approved capital expenditures and TDSIC costs, with carrying costs, for recovery in Petitioner’s next general rate case; (3) approval of updates to DEI’s seven-year plan for eligible transmission, distribution, and storage system improvements (“TDSIC Plan”), pursuant to Ind. Code § 8-1-39-9; (4) approval to defer for future recovery through the TDSIC Rider 80% of eligible and approved capital expenditures and TDSIC costs in connection with the TDSIC Plan; and (5) approval to adjust Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

On April 25, 2018, Petitioner prefiled the direct testimony and exhibits of the following:

- William H. Fowler, Vice President Engineering and Technical Customer Relations – Carolinas by Duke Energy Carolinas, LLC;¹
- Donald E. Broadhurst, General Manager Transmission Construction and Maintenance for Duke Energy Business Services, LLC, Petitioner’s service company affiliate; and
- Diana L. Douglas, Director, Rates and Regulatory Planning for DEI.

That same day, DEI also filed a motion requesting the Commission to take administrative notice of certain exhibits Petitioner filed in Cause Nos. 44720 and 44720 TDSIC 3, along with a motion for protection of confidential and proprietary information. Both motions were granted in Docket Entries issued on May 15, 2018, with confidential treatment approved on a preliminary basis.

On May 11, 2018, DEI, on behalf of itself and the Indiana Office of Utility Consumer Counselor (“OUCC”), submitted an agreed procedural schedule for the Commission’s consideration in lieu of conducting a prehearing conference. On May 16, 2018, a Docket Entry was issued establishing the procedural schedule in this Cause.

On June 27, 2018, the OUCC prefiled the direct testimony and exhibits of Wes R. Blakley, a Senior Utility Analyst for the OUCC. On July 18, 2018, the OUCC filed a motion to correct designated pages of Mr. Blakley’s testimony. This motion was granted by a Docket Entry issued on July 30, 2018. No rebuttal testimony was filed.

A public evidentiary hearing was held in this Cause at 9:30 a.m. on August 10, 2018, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared at the hearing by counsel and offered their respective evidence, which was admitted without objection.

Based upon the applicable law and the evidence presented, the Commission now finds:

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published as required by law. DEI is a public utility as defined in Ind. Code §§ 8-1-2-1(a) and 8-1-39-4. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction over a public utility’s seven-year plan for eligible transmission, distribution, and storage improvements. Under Ind. Code ch. 8-1-39 and Ind. Code § 8-1-2-42, the Commission has authority over certain changes to Petitioner’s rates and charges; therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner’s Characteristics. DEI is an Indiana corporation with its principal office located in Plainfield, Indiana. Petitioner is engaged in the business of rendering retail electric utility service and owns, operates, manages, and controls, among other things, plant and equipment within Indiana used for the production, transmission, delivery, and furnishing of such service. DEI provides electric service to more than 825,000 customers in 69 Indiana counties. Petitioner also sells electric energy for resale to municipal utilities, Wabash Valley Power Association, Inc. (“Wabash Valley”), Indiana Municipal Power Agency (“IMPA”), Hoosier Energy Rural Electric Cooperative, Inc. (“Hoosier Energy”), and other electric utilities.

¹ Based upon Mr. Fowler’s testimony, Duke Energy Carolinas, LLC is a subsidiary of Duke Energy Corporation and a utility affiliate of DEI.

3. Background to this Proceeding. On June 29, 2016, the Commission issued an Order in Cause No. 44720 (the “44720 Order”) approving DEI’s seven-year TDSIC plan and the TDSIC Settlement Agreement (the “TDSIC Settlement”) entered into on March 7, 2016, by and among DEI, the OUCC, Duke Industrial Group, Companhia Siderurgica Nacional, LLC, Steel Dynamics, Inc., Wabash Valley, IMPA, Hoosier Energy, and the Environmental Defense Fund (collectively the “Settling Parties”). In the 44720 Order, the Commission also (a) found the projects designated in Petitioner’s seven-year TDSIC plan (“TDSIC Plan”) are “eligible transmission, distribution, and storage system improvements” within the meaning of Ind. Code § 8-1-39-2 and eligible for TDSIC treatment in accordance with Ind. Code ch. 8-1-39; (b) authorized Petitioner to implement its TDSIC Rate Schedule pursuant to Ind. Code § 8-1-39-9(a) to recover 80% of eligible and approved capital expenditures and TDSIC costs; (c) authorized Petitioner to recover 80% of its \$1.408 billion TDSIC Plan costs through Petitioner’s proposed TDSIC cost recovery mechanism, the TDSIC Rider; (d) authorized Petitioner to defer 20% of eligible and approved capital expenditures and TDSIC costs with carrying costs under Ind. Code § 8-1-39-9(b) and recover the deferred capital expenditures and TDSIC costs as part of Petitioner’s next general rate case; and (e) approved DEI’s proposed allocation factors based on the revenue requirement by rate group from DEI’s last retail base rate case in Cause No. 42359.

On March 22, 2017, the Commission issued an Order in Cause No. 44720 TDSIC 1 (“TDSIC 1”) approving: (a) an adjustment to Petitioner’s TDSIC Rate Schedule via the TDSIC Rider to effectuate the recovery of 80% of approved capital expenditures and TDSIC costs in the amount of \$18,049,845; (b) the capital expenditures and TDSIC costs incurred for in-service TDSIC projects through June 30, 2016, and the forecasted TDSIC costs upon which the proposed factors were based; (c) Petitioner’s TDSIC Plan as updated in Cause No. 44720 TDSIC 1; (d) interim deferral and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with Petitioner’s updated TDSIC Plan through the TDSIC Rider and the deferral of 20% of eligible and approved capital expenditures and TDSIC costs, with carrying costs, in connection with the updated TDSIC Plan, for recovery in Petitioner’s next general rate case; and (e) an adjustment of Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect approved incremental earnings resulting from the TDSIC Rider, pursuant to Ind. Code § 8-1-39-13(b).

On October 17, 2017, the Commission issued an Order in Cause No. 44720 TDSIC 2 (“TDSIC 2”) approving: (1) an adjustment to Petitioner’s TDSIC Rate Schedule via the TDSIC Rider to recover 80% of the eligible and approved capital expenditures and TDSIC costs in the amount of \$63,216,347; (b) deferral as a regulatory asset, until such costs are included for recovery in Petitioner’s next general rate case, of \$15,804,086 which represents 20% of eligible and approved capital expenditures and TDSIC costs; (c) deferral on an interim basis and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with the TDSIC Plan through the TDSIC Rider; and (d) an adjustment of Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect incremental earnings resulting from the TDSIC Rider, pursuant to Ind. Code § 8-1-39-13(b).

On April 11, 2018, the Commission issued an Order in Cause No. 44720 TDSIC 3 (“TDSIC 3”) approving Petitioner’s TDSIC Plan as updated (“Updated TDSIC Plan”).

4. Relief Requested in this Cause. Petitioner requested approval of updates to the TDSIC Plan for “eligible transmission, distribution, and storage system improvements” and its third cost recovery pursuant to Ind. Code § 8-1-39-9 using the rate adjustment mechanism the Commission approved in the 44720 Order. In accordance with Ind. Code § 8-1-39-9(a), Petitioner seeks an Order: (a) approving an adjustment to its TDSIC Rate Schedule to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs to be effective for bills rendered after a final order in this Cause until replaced by subsequently approved factors; (b) approving the capital expenditures and TDSIC costs incurred for in-service TDSIC projects through December 31, 2017, and the forecasted TDSIC costs upon which the proposed factors are based; (c) approving updates to the TDSIC Plan filed concurrent with DEI’s Petition, pursuant to Ind. Code § 8-1-39-9; (d) authorizing the interim deferral and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with Petitioner’s Updated TDSIC Plan through the TDSIC Rider and the deferral of 20% of eligible and approved capital expenditures, with carrying costs, and TDSIC costs, in connection with the Updated TDSIC Plan, for recovery in Petitioner’s next general rate case; and (e) adjustment of Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

5. DEI’s Case-In-Chief.

A. Mr. Fowler. Mr. Fowler testified the projects being implemented under the Updated TDSIC Plan have been approved by the Commission and meet the eligibility requirements in Ind. Code § 8-1-39-2. He testified that in this filing, DEI is updating its costs and requesting rate recovery for TDSIC Plan projects placed in service through December 31, 2017. Mr. Fowler testified that as of year-end 2017, capital costs incurred for the Updated TDSIC Plan were approximately 5% lower than estimated, including use of contingency and under-run. TDSIC project operation and maintenance (“O&M”) expenses associated with calendar year 2017 in-service projects were 18% under DEI’s Updated TDSIC Plan estimate.

Mr. Fowler testified that each TDSIC project undertaken has been for purposes of safety, reliability, or system modernization. He testified the projects being implemented are consistent with the Updated TDSIC Plan the Commission approved in TDSIC 3 and meet the requirements of Ind. Code § 8-1-39-2. Mr. Fowler explained that this Cause and future spring filings are for rate recovery and updates upon projects placed in-service during the prior calendar year, while Petitioner’s fall 2018 TDSIC filing will be for plan updates with no request for rate recovery.

Mr. Fowler testified the management and oversight structure for DEI’s TDSIC program is the same as described in previous TDSIC filings. He testified that for 2017, the Updated TDSIC Plan was executed within scope, schedule, and budget. The total spent on in-service investments in 2017 was \$196 million, compared to the \$229.8 million estimated for 2017. At the end of the second year of the seven-year TDSIC Plan, Mr. Fowler testified the cumulative investment in-service is \$276.5 million, compared to the 2017 cumulative cap of \$305.5 million under the TDSIC Settlement. Mr. Fowler stated DEI is on-track to complete the full seven-year TDSIC Plan. He noted movement of projects between years will continue, and as cost increases are managed, DEI’s

margin will continue to decrease with the TDSIC Settlement cumulative caps, but Petitioner remains confident in its ability to deliver on its commitment and the Updated TDSIC Plan.

Mr. Fowler explained that factors such as storms, vendor material delays, planned outages, resource challenges, technology changes, and standards changes are considered in DEI's project management and TDSIC oversight strategy to assure maximum plan performance and benefits to DEI's customers. He testified that in 2017, two significant items impacted TDSIC work plan performance. First, Duke Energy deployed a new work management system in August 2017. While he stated this system has tremendous long-term benefits by aligning all Duke Energy jurisdictions, this new technology resulted in a period of inefficiency as employees learned the new program. In addition, Petitioner deployed a high number of resources to the southeast to assist in storm restoration after Hurricane Irma in September 2017. Mr. Fowler testified that due to thorough planning and mitigation practices, these risks have had minimal impact on DEI's TDSIC Plan.

Mr. Fowler testified he had leadership responsibility for the distribution system circuit improvement portion of the TDSIC Plan throughout 2017, except for the distribution system circuit under-build which is physically attached to transmission infrastructure. He provided the in-service costs for TDSIC distribution system circuit projects completed during 2017 in Petitioner's Exhibit 1-B, with more detailed cost information shown in Petitioner's Confidential Exhibits 1-D and 1-E. Mr. Fowler testified that while the overall scope and intent of the Updated TDSIC Plan have not changed, as expected, some individual distribution system circuit improvement plan projects were advanced or delayed based on typical conditions such as customer requests, outage delays, weather, or difficult access; however, he stated no significant work scope was uncompleted. Mr. Fowler testified that costs from nineteen 2016 in-service projects are included in the 2017 recovery costs due to normal business accounting rules associated with invoice timing, reconciliation, etc. According to Mr. Fowler, this is expected and will continue throughout the Updated TDSIC Plan. He also testified there were distribution system circuit improvement projects advanced into 2017 from future years.

Mr. Fowler testified that at 2017 year-end, the actual total spent on in-service distribution system circuit investments, minus costs for carryover projects, was \$84.1 million compared to the 2017 forecast, with contingency applied, of \$86.7 million, for a total variance of 3% under forecast for these projects. Even though the overall portfolio of distribution system circuit improvement projects was under Petitioner's estimates for 2017, some individual projects had larger variances, as shown in Petitioner's Confidential Exhibit 1-D. Mr. Fowler testified that the distribution system circuit improvement project types with larger variances include: (1) Circuit Conditioning, (2) Line Voltage Regulator Controls Replacement, (3) General Switchgear, and (4) Deteriorated Conductor. He explained what drove the cost overage for each of these. He also testified that the approved contingency for 2017 was applied to the variances for these project types to bring each project within the acceptable tolerance for Association for Advancement of Cost Engineering ("AACE") Class 2 of 20% or less.

Mr. Fowler testified that as defined by AACE, contingency is an amount added to an estimate to allow for items, conditions, or events for which the state, occurrence, or effect is uncertain and that experience shows will likely result, in aggregate, in additional costs. Mr. Fowler stated Petitioner uses contingency to manage estimate uncertainty and risk that may result in a cost

increase. Similar to previously approved DEI TDSIC filings, contingency and under-run were applied to projects with increases greater than 20% to bring all TDSIC projects to within 20% as required for AACE Class 2 estimating standards.

Mr. Fowler testified that DEI's methodology and approach to variances, contingency, and yearly caps remains consistent with the TDSIC Settlement. Given the cumulative caps by year under the TDSIC Settlement, any unutilized project variances between actual annual costs and the caps are carried forward to subsequent years and used to offset future negative project variances or additional projects will be pulled from the alternate list. Based on 2017 actual in-service costs, \$29 million of unused cap will be carried over to future years. Mr. Fowler testified this represents the difference between the approved cumulative 2017 settlement cap of \$305.5 million and the 2017 cumulative in-service investments of \$276.5 million.

Mr. Fowler testified that DEI's methodology for recoverable O&M has not changed from what was included in its previous TDSIC filings, and there have not been significant changes to the estimated project O&M expenses included in previous TDSIC filings. These are O&M expenses that are directly related to the TDSIC capital projects. He also testified that Petitioner provided a comprehensive list of the projects in its Updated TDSIC Plan and their respective variances as part of its workpapers.

Mr. Fowler testified that the Black & Veatch risk profile analysis was recently updated to reflect assets that have gone into service during the first two years of Petitioner's TDSIC Plan, as well as including actual costs incurred and the estimated cost and project timing reflected in the Updated TDSIC Plan. He testified the analysis shows a 30% reduction in DEI's risk score which is similar to the benefits the TDSIC Settlement projected.

Mr. Fowler noted the Updated TDSIC Plan was approved by the Commission in reviewing the TDSIC 3 filing, and DEI's next full TDSIC Plan update will be included in its TDSIC 5 filing.

B. Mr. Broadhurst. Mr. Broadhurst testified that, generally, the Transmission Line, Transmission Substation, and Distribution Substation portions of the TDSIC Plan, which are the portions of the TDSIC Plan for which he has management oversight responsibility, are being executed within the scope and schedule identified in Cause No. 44720 and as updated in TDSIC 3. Although there are some variances in the cost estimates for individual projects, he testified actual costs continue to trend closely with DEI's overall estimate for the transmission line and substation costs identified in Cause No. 44720 and as updated in TDSIC 3.

Mr. Broadhurst testified that as of the end of 2017, DEI had placed 51 planned Transmission Line, Transmission Substation, and Distribution Substation projects in-service at a cost of \$108,426,073, which is 7% less than the \$116,689,616 anticipated, prior to the application of contingency. He testified that some of these projects were placed in-service near the end of 2017, and DEI plans to seek recovery of charges received after December 31, 2017, in its TDSIC 6 cost recovery filing scheduled for spring 2019. Mr. Broadhurst testified that due to outage constraints, a delayed component delivery, and national storm response, 13 projects did not go into service as planned by year-end 2017. These projects have been integrated into DEI's 2018 outage schedule with plans to place them in-service before the end of 2018. They are projected to be filed

as in-service projects in the TDSIC 6 recovery request. Mr. Broadhurst also testified that during 2017 a small portion of one line rebuild was incorporated from the alternate list into Petitioner's 2017 plan.

Mr. Broadhurst provided the in-service costs for the Transmission Line, Transmission Substation, and Distribution Substation projects placed into service by December 31, 2017, in Petitioner's Exhibit 2-A and Confidential Exhibit 2-B. He testified that three projects required the application of contingency and under-run to bring their variances within 20%. Mr. Broadhurst testified that for 2017 in-service TDSIC substation and transmission line projects, there was an overall O&M positive variance of 13%. There was a negative O&M variance of 797% for Distribution System Substation Improvements due to \$62,064 being charged to O&M that was actually a capital expense. He stated these expenses will be transferred to the proper account which will eliminate this variance. There was a 5% overage in O&M for 2017 in-service Transmission System Substation Improvement projects, which was a \$5,656 charge to O&M that will be journaled to a capital expense, reducing the variance to 1%. Mr. Broadhurst testified that after the transfer of dollars from O&M to capital, which will be reflected in Petitioner's TDSIC 6 filing, 2017 O&M will be 14% under estimate.

Mr. Broadhurst testified the Updated TDSIC Plan remains on target with the caps in the TDSIC Settlement and that as DEI moves further into this plan, customers should experience improved reliability when aged equipment and deteriorating equipment are replaced. He noted that many of the projects include automated functionality that will shorten outage times and increase overall continuity of service. By executing the Updated TDSIC Plan, he testified DEI's system risk profile of the transmission and distribution system can be reduced by approximately 30% versus not implementing this plan. Mr. Broadhurst testified that the projects and programs in the Updated TDSIC Plan are reasonable, necessary, and justified by providing increased reliability and modernization benefits to Petitioner's customers.

C. **Ms. Douglas.** Ms. Douglas testified that Petitioner used the ratemaking treatment approved in the 44720 Order in developing the proposed TDSIC factors. She testified that in this proceeding Petitioner requests ratemaking approval of: (1) the amounts included in the TDSIC Rider for recovery of the TDSIC Plan costs; (2) the value of the TDSIC Plan investment on which Petitioner is authorized to earn a return; (3) the adjustment of Petitioner's retail electric rates via the proposed Rider 65 TDSIC Factors to include the revenue effect of such investment and cost recovery; (4) deferral of the remaining 20% of the expenditures with carrying costs, as approved in the 44720 Order, until Petitioner's next electric base rate case; and (5) adjustment of Petitioner's authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

Ms. Douglas testified the following costs were included in developing the TDSIC factors: 80% of the retail jurisdictional costs of (1) Petitioner's capital investment in TDSIC Plan projects that were in-service as of December 31, 2017 (the "Cutoff Date"), which will be recovered via depreciation; (2) 12 months of return on the net book value (original investment less accumulated depreciation) of the included in-service projects; (3) the depreciation incurred for the in-service projects during calendar year 2017; (4) O&M expenses, including fringe benefits and payroll taxes, incurred through the Cutoff Date for the in-service TDSIC Plan projects, less amounts already

included in the development of TDSIC 1 and TDSIC 2 rates; (5) the forecasted depreciation, O&M, and property tax expenses for July 2018 through June 2019 (12 months) related to the in-service projects included in the Updated TDSIC Plan; and (6) post-in-service carrying costs accrued for the in-service projects during calendar year 2017. In addition, an amount was included in rate development for 12 months of amortization of amounts incurred for plan development costs, to be amortized over three years. Ms. Douglas testified that the forecasted depreciation, O&M, and property tax expense will be trued-up to actual expenses in a future TDSIC Rider filing. She also testified the calculation includes a reconciliation of actual amounts of depreciation, O&M, and property tax expense incurred in calendar year 2017 to amounts previously forecasted in TDSIC 1 and TDSIC 2 for the same period, and reconciliation of the approved January through December 2017 revenue requirements, as approved in the TDSIC 1 and TDSIC 2 Orders, to actual customer billings for calendar year 2017 was also included in the calculation. This is the first time a revenue reconciliation has been included in Petitioner's TDSIC Rider. She testified costs related to wholesale customers and joint owners were removed from the costs for rate development. Ms. Douglas also testified that Petitioner plans to continue to make TDSIC Rider rate filings annually, each spring, covering in-service projects through December 31st of the prior calendar year, with the resulting rates to be billed to customers over a 12-month period.

Ms. Douglas provided tariff sheets reflecting the proposed TDSIC factors to be billed upon Commission approval. She also provided schedules supporting the proposed TDSIC factors. Ms. Douglas testified the total capital investment for in-service TDSIC projects as of the Cutoff Date was \$276,530,079, which is below the annual cumulative 2017 capital cost cap of \$305,500,000; therefore, no adjustments are needed to the investment amount to be included in the TDSIC Rider.

Ms. Douglas testified that Petitioner's proposed revenue requirements do not exceed the two percent statutory revenue cap, so no additional revenue requirement reductions or cost deferrals are required. She explained the revenue conversion factors used to develop the revenue requirements for this filing and testified that Petitioner used the new, lower 21.0% federal income tax rate. She stated the tax amounts collected from Petitioner's customers when the federal income tax rate was 35.0% that were included in the deferred income tax accounts were recalculated using the 21.0% rate, with the difference reclassified into a separate regulatory liability account ("excess deferred income taxes"). To ensure DEI customers are not harmed by the reclassification from deferred income tax accounts, Ms. Douglas testified Petitioner included the balance of the excess deferred income tax regulatory liability account in the deferred income tax amount shown as a zero cost source of capital. Ms. Douglas testified this is a transparent way to show a continued benefit to DEI customers for return calculation purposes in the TDSIC Rider of the excess deferred income tax regulatory liability resulting from the Tax Cuts and Jobs Act of 2017 until the excess deferred income taxes are returned to customers.

Ms. Douglas testified that, consistent with the TDSIC Settlement, Petitioner will continue to collect revenues through the TDSIC Rider for the jurisdictional costs associated with the approved TDSIC projects until the costs of the TDSIC improvements that are in-service by the cut-off date for a future retail base rate case are included in base rates. Amounts deferred related to the TDSIC improvements will also be included in base rates at the time of this future base rate case. Ms. Douglas stated that if years remain in the Updated TDSIC Plan (or a new TDSIC plan) after the future retail base rate case order, the TDSIC Rider will be adjusted to use the new return

on equity and allocation factors approved in the subsequent retail base rate case and to include the costs related to approved TDSIC improvements in base rates.

Ms. Douglas testified that upon approval of the proposed factors, the monthly bill for a typical residential customer using 1,000 kilowatt hours (“kWhs”) per month will increase by \$1.61 or approximately 1.32% from their current total bill. For total retail, the average increase in revenue requirements is 0.96%, relative to revenue for the 12-months ended December 31, 2017.

Ms. Douglas also testified that, as requested by the OUCC in TDSIC 1 and included in the Commission’s Order in that Cause, Petitioner’s Exhibit 3-D shows the 20% deferral amounts from each TDSIC filing and the cumulative 20% amount deferred for future recovery in Petitioner’s next base rate case for in-service projects as of the Cutoff Date.

6. OUCC’s Evidence. Mr. Blakley testified that DEI adjusted its tax calculations to reflect the Tax Cuts and Jobs Act of 2017 by adjusting its tax calculations on the TDSIC revenue requirement to reflect the new 21.0% federal income tax rate going forward. The over collection of federal income taxes in TDSIC 2 will be refunded in DEI’s next annual TDSIC 6 cost recovery filing. Mr. Blakley testified that he verified Petitioner’s calculation of the total TDSIC cost incurred in connection with Petitioner’s TDSIC Plan to be recovered in TDSIC 4 matches the amount DEI proposes to recover. His calculation, including the reconciliation adjustment of \$9,884,165, yielded a total charge of approximately \$58,853,486 (or approximately \$31,351,870 for residential customers), which results in an increase of approximately \$1.61 in the monthly bill of a typical residential customer using 1,000 kWhs per month. According to Mr. Blakley, this includes Petitioner’s revenue requirements for transmission infrastructure improvement projects totaling \$14,462,971 and \$34,506,305 for distribution infrastructure improvement projects.

Mr. Blakley testified that when including other current DEI tracker costs with Petitioner’s base rates and charges and proposed TDSIC costs, a typical DEI residential customer using 1,000 kWhs per month will experience a bill of approximately \$123.93, which equates to an average cost per kWh of 12.93 cents.² He stated that tracker costs, excluding the fuel cost adjustment, make up approximately \$37.90 or 30.58% of the total costs included on a typical DEI residential customer’s bill.

Mr. Blakley testified that Petitioner provided a separate schedule showing the 20% deferred TDSIC costs DEI anticipates recovering in its next base rate case. As of TDSIC 4, this amount is \$62,474,738. He testified that Petitioner’s proposed TDSIC tracking factor calculations appear to comport with the ratemaking and accounting treatment the Commission authorized in the 44720 Order.

7. Statutory Requirements. Ind. Code § 8-1-39-9(a) permits a public utility that provides electric utility service to petition the Commission for approval of the utility’s periodic adjustment of its basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. This subsection further provides that the petition must: (1) use the customer class revenue allocation factor based on firm load approved in the public utility’s most

² The numbers referenced are from the corrected testimony of Mr. Blakley filed on July 18, 2018.

recent retail base rate case order; (2) include the utility's seven-year plan; and (3) identify projected effects of the seven-year plan on retail rates and charges. Ind. Code § 8-1-39-9(b) provides that the public utility shall defer the remaining 20% of approved capital expenditures and TDSIC costs, including depreciation, allowance for funds used during construction, and post-in-service carrying costs, and shall recover those capital expenditures and TDSIC costs as part of its next general rate case. Ind. Code § 8-1-39-9(c) provides that a public utility may not file a petition under subsection (a) within nine months after the Commission issues an order changing the utility's basic rates and charges with respect to the same type of utility service. Ind. Code § 8-1-39-9(d) provides that a public utility that implements a TDSIC under this chapter shall petition the Commission for review and approval of its basic rates and charges before the expiration of its seven-year TDSIC plan. Ind. Code § 8-1-39-9(e) provides that a public utility may file a petition under this section not more than once every six months.

8. Commission Discussion and Findings Regarding TDSIC 4. DEI submitted its Verified Petition and supporting testimony and exhibits to demonstrate compliance with the requirements of Ind. Code § 8-1-39-9 and the 44720 Order.

A. Past and Future Rate Case Timing and TDSIC Timing. Ind. Code § 8-1-39-9(c) states that “[e]xcept as provided in section 15 of this chapter, a public utility may not file a petition under subsection (a) within nine (9) months after the date on which the commission issues an order changing the public utility’s basic rates and charges with respect to the same type of utility service.” DEI’s most recent retail electric base rate order changing basic rates and charges was issued in 2004 in Cause No. 42359. DEI filed its petition in this Cause on April 25, 2018. The Commission, therefore, finds that DEI’s petition in this Cause was filed more than nine months after Petitioner’s last general rate case in accordance with Ind. Code § 8-1-39-9(c).

Ind. Code § 8-1-39-9(e) states that “[a] public utility may file a petition under this section not more than one (1) time every six (6) months.” DEI filed its petition in this Cause consistent with the terms of the TDSIC Settlement approved in the 44720 Order and not within six months of its TDSIC 3 filing. Mr. Fowler testified that Petitioner plans to make its TDSIC 5 filing in fall 2018 with a full TDSIC Plan update. This is consistent with the TDSIC filing timeline approved in TDSIC 1. The Commission finds Petitioner’s TDSIC 4 filing is consistent with Ind. Code § 8-1-39-9(e) and reasonable.

B. Petitioner’s Updated TDSIC Plan. The Commission approved Petitioner’s Updated TDSIC Plan in TDSIC 3 on April 11, 2018. As described in the testimony and exhibits of Mr. Fowler and Mr. Broadhurst, Petitioner provided a progress update in this Cause on that plan. This testimony demonstrated Petitioner is executing the Updated TDSIC Plan as approved and confirmed the overall scope and intent of the TDSIC Plan has not changed. The OUCC’s witness Blakley voiced no concerns. The Commission finds Petitioner is executing its TDSIC Plan pursuant to the TDSIC Settlement approved in the 44720 Order and the Updated TDSIC Plan approved in TDSIC 3.

C. Capital Expenditures and TDSIC Costs. Petitioner’s total capital investment for its TDSIC projects placed into service through December 31, 2017, was \$276,530,079, of which the retail portion was \$271,347,943. This amount was below the

cumulative 2017 capital cost cap of \$305,500,000 agreed to in the TDSIC Settlement and approved in the 44720 Order. DEI's witnesses explained why the project variances were reasonable and justified as required by statute. The OUCC expressed no concerns with Petitioner's 2017 spending for transmission or distribution projects. Based upon the evidence presented, the Commission finds \$217,078,355, which equates to 80% of the approved capital expenditures, is the DEI investment eligible for TDSIC Rider recovery.

D. TDSIC Factors. In Petitioner's Exhibit 3-A, DEI provided the TDSIC factors by rate code based on the calculated revenue requirements, including for the first time a reconciliation of prior TDSIC factors. Petitioner's Exhibit 3-B shows these factors were designed to collect \$58,853,486 from retail customers over the next 12-months. Mr. Blakley testified the proposed TDSIC factor calculations appear to comport with the ratemaking and accounting treatment the Commission authorized in the 44720 Order as a result of the TDSIC Settlement.

The Commission finds that based on the evidence, the TDSIC factors proposed in Petitioner's Exhibit 3-A were correctly calculated and should be approved.

E. Deferred Costs. DEI asked to defer and recover 80% of the post-in-service carrying costs, depreciation, and taxes associated with the approved TDSIC projects through the TDSIC adjustment factor. DEI also asked to defer and recover the remaining 20% of the capital expenditures, in the amount of \$54,269,588, and other TDSIC costs associated with the approved TDSIC projects, with carrying costs, as shown in Petitioner's Exhibit 3-D, until Petitioner's next base rate case. The Commission finds these costs are reasonable, and DEI's proposed accounting and ratemaking for the costs should be approved. Consistent with the Commission's Order in TDSIC 1, Petitioner shall continue including in its TDSIC filings a separate schedule providing the calculation of total 20% deferred costs DEI intends to recover in its next base rate case as a result of each TDSIC tracker filing, as well as a running total of the 20% deferred costs DEI intends to recover in this rate case.

F. Adjustment of Return Earned. As provided for in Ind. Code § 8-1-39-13(b), DEI requests the Commission increase the authorized net operating income initially approved in Cause No. 42359, and modified by subsequent Commission orders, to include the earnings associated with the TDSIC projects for purposes of the Ind. Code § 8-1-2-42(d)(3) earnings test. Based on the Commission's review of the TDSIC statute and the evidence in this Cause, the Commission finds DEI's requested adjustment of its return to reflect the incremental earnings of the TDSIC Rider is reasonable and should be approved.

G. Effect on Petitioner's Customers. Petitioner's Exhibit 3-C shows the impact of the proposed TDSIC factors on the monthly bill of a residential customer using 1,000 kWhs. Upon approval, this monthly bill will increase by \$1.61 or approximately 1.32% from the current total bill. Mr. Blakley testified he verified these calculations. For total retail, the average increase in revenue requirements is 0.96% relative to revenue for the 12-months ended December 31, 2017.

9. Confidential Information. On April 25, 2018, Petitioner filed a motion for protection of confidential and proprietary information along with supporting affidavits

demonstrating a need for confidential treatment for: (i) information related to the timing of DEI's prospective transmission projects; (ii) sensitive and detailed cost estimates for DEI's transmission and distribution projects; (iii) DEI's actual TDSIC Plan costs for its transmission and distribution projects; and (iv) sensitive load data involving certain special contracts approved by the Commission. On May 15, 2018, the Presiding Officers preliminarily determined certain information should be subject to confidential procedures. The Commission finds such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Petitioner's proposed adjustment to its TDSIC Rate Schedule via the TDSIC Rider (Standard Contract Rider No. 65) to be applicable for bills beginning with the first billing cycle following approval of this Order is approved.

2. Petitioner is authorized to recover 80% of the eligible and approved capital expenditures and TDSIC costs in the amount of \$217,078,355 incurred in connection with DEI's eligible transmission, distribution, and storage system improvements, plus the other TDSIC costs presented in the testimony of Ms. Douglas.

3. Petitioner is authorized to defer, as a regulatory asset, \$54,269,588, representing 20% of eligible and approved capital expenditures and TDSIC costs, plus 20% of the other TDSIC costs presented in the testimony of Ms. Douglas, for a total deferral of \$62,474,738, and record ongoing carrying charges based on the current overall weighted cost of capital on all deferred TDSIC costs until such costs are included for recovery in Petitioner's next general rate case.

4. Petitioner is authorized to defer on an interim basis and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with the Updated TDSIC Plan through Standard Contract Rider No. 65.

5. Petitioner shall continue including in its TDSIC filings a separate schedule that provides the 20% deferred amounts from each of DEI's TDSIC tracker filings that DEI intends to recover in its next base rate case, as well as a running total of the cumulative 20% amount deferred for future recovery in DEI's next base rate case.

6. Petitioner is authorized to adjust its authorized return to reflect approved earnings associated with the TDSIC for purposes of Ind. Code § 8-1-2-42(d)(3), pursuant to Ind. Code § 8-1-39-13(b).

7. Prior to implementing the authorized rates, Petitioner shall file the TDSIC Rider (Standard Contract Rider No. 65) under this Cause for approval by the Commission's Energy Division. Such rates shall be effective for the first billing cycle on or after the date of approval.

8. The information Petitioner filed in this Cause pursuant to its motion for confidential treatment is deemed confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

9. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:

APPROVED: OCT 09 2018

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



Mary M. Becerra
Secretary of the Commission