

Memorandum

To: James Huston, Chairman

From: Jane Steinhauer, Energy Division Director

Date: November 27, 2024

Re: Summary Results of Periodic Review for Calendar Year 2023

Indiana Code § 8-1-2-42.5 requires the Commission to conduct a review of the basic rates and charges of all public, municipally owned, and cooperatively owned utilities. Utilities serving less than 8,000 customers are exempt from such a review as described in Indiana Code § 8-1-2-61.5.

Additionally, Indiana Code § 8-1-2-16 requires that a utility's accounting books and records be closed on the last day of December with the balance sheet and other information prescribed by the Commission filed on or before April 30 of the following calendar year. The Commission's administrative rules (170 IAC) prescribe the accounting and reporting requirements adopted by the Commission for each industry.

The Commission's Energy Division conducted the periodic review as described in the Commission's GAO 2018-01 ("GAO"). Part of this process is a Level 1 review, and if necessary, further review is conducted in Level 2. The Energy Division Staff analyzes the actual rate of return reported by the utilities to what the utilities are authorized to earn through Commission Orders for the investor-owned utilities. For the municipal utilities, the actual operating revenue is compared to the authorized operating revenues. The primary threshold for a Level 1 review, depending on the utility type, is if the actual return (i.e., investor-owned utilities) or actual operating revenue (i.e., municipally-owned, not-for-profit, and cooperatively-owned) exceeds authorized return or authorized revenue by 10% or more.

Data contained in the annual reports provided to the Commission was utilized by the Energy Division Staff to conduct a periodic review of the following gas utilities:

1. Citizens Gas
2. Indiana Gas Company, Inc.
3. Indiana Natural Gas Company, Inc.
4. Midwest Natural Gas Corporation
5. Northern Indiana Public Service Company
6. Ohio Valley Gas Corporation & Ohio Valley Gas Inc.
7. Southern Indiana Gas & Electric Company

All of the above natural gas utilities were within the designated Level 1 threshold standard as described in the GAO. Therefore, no natural gas utility was subject to a Level 2 review.

Data contained in the annual reports provided to the Commission was utilized by the Energy Division Staff to conduct a periodic review of the following electric utilities:

1. Anderson Municipal
2. Crawfordsville Municipal
3. Duke Energy Indiana
4. Frankfort Municipal
5. Indiana Michigan Power Company
6. Indianapolis Power & Light
7. Lebanon Municipal
8. Northern Indiana Public Service Company
9. Southern Indiana Gas & Electric Company

The following electric utilities exceeded the Level 1 threshold standard as prescribed in the GAO and was subject to a Level 2 review:

1. Anderson Municipal
2. Frankfort Municipal
3. Lebanon Municipal

The Commission's Energy Division Staff conducted a Level 2 review, which includes the collection of data and information beyond that contained in the utility's most recent annual report. For ratemaking purposes municipal utilities do not earn a return on their investment like investor-owned utilities. Rather, municipal utilities revenues are established to be sufficient enough to pay operating expenses, debt service or extensions and replacements, interest expenses, and working capital. Therefore, the authorized revenues must be sufficient to cover total expenses necessary to provide service. Staff concluded that the three electric utilities listed above passed the Level 2 threshold standard as described in the GAO. Therefore, no further action is required as outlined in the brief explanations below:

1. Anderson Municipal – The Level 1 threshold was exceeded by 21.35% based on Staff's comparison of authorized revenue requirement of \$76,514,148 approved in Cause No. 44308 (dated 03/26/14) to the actual revenues of \$92,846,488 reported in calendar year 2023. However, over the same time period, the comparison of Anderson's authorized revenue requirement to its actual total expenses or 2023 calendar year revenue requirement of \$98,820,561 is an under-collection of \$22,306,413 or a negative 29.15%. Therefore, no further action is necessary.
2. Frankfort Municipal – The Level 1 threshold was exceeded by 10.82% based on Staff's comparison of authorized revenue requirement of \$33,426,623 approved in Cause No. 44856 (dated 07/05/17) to the actual revenues of \$37,042,001 reported in calendar year 2023. However, over the same time period, the comparison of Frankfort's authorized revenue

requirement to its actual total expenses or 2023 calendar year revenue requirement of \$37,452,260 is an under-collection of \$4,025,637 or a negative 12.04%. Therefore, no further action is necessary.

3. Lebanon Municipal – The Level 1 threshold was exceeded by 37.41% based on Staff's comparison of authorized revenue requirement of \$20,189,356 approved in Cause No. 44142 (dated 09/12/12) to the actual revenues of \$27,741,466 reported in calendar year 2023. However, over the same time period, the comparison of Lebanon's authorized revenue requirement to its actual total expenses or 2023 calendar year revenue requirement of \$29,024,381 is an under-collection of \$8,835,025 or a negative 43.76%. Therefore, no further action is necessary.

The Energy Division will continue to monitor the financial health of all jurisdictional energy utilities.