

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY)
("IPL") FOR AUTHORITY TO INCREASE RATES AND)
CHARGES FOR ELECTRIC UTILITY SERVICE AND FOR)
APPROVAL OF: (1) ACCOUNTING RELIEF, INCLUDING)
IMPLEMENTATION OF MAJOR STORM DAMAGE)
RESTORATION RESERVE ACCOUNT; (2) REVISED)
DEPRECIATION RATES; (3) THE INCLUSION IN BASIC RATES)
AND CHARGES OF THE COSTS OF CERTAIN PREVIOUSLY)
APPROVED QUALIFIED POLLUTION CONTROL PROPERTY;)
(4) IMPLEMENTATION OF NEW OR MODIFIED RATE)
ADJUSTMENT MECHANISMS TO TIMELY RECOGNIZE FOR)
RATEMAKING PURPOSES LOST REVENUES FROM DEMAND-)
SIDE MANAGEMENT PROGRAMS AND CHANGES IN (A))
CAPACITY PURCHASE COSTS; (B) REGIONAL)
TRANSMISSION ORGANIZATION COSTS; AND (C) OFF)
SYSTEM SALES MARGINS; AND (5) NEW SCHEDULES OF)
RATES, RULES AND REGULATIONS FOR SERVICE.)

CAUSE NO. 44576

IN THE MATTER OF THE INDIANA UTILITY REGULATORY)
COMMISSION'S INVESTIGATION INTO INDIANAPOLIS)
POWER & LIGHT COMPANY'S ONGOING INVESTMENT IN,)
AND OPERATION AND MAINTENANCE OF, ITS NETWORK)
FACILITIES)

CAUSE NO. 44602

TESTIMONY OF

BARBARA A. SMITH – PUBLIC'S EXHIBIT NO. 1

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

JULY 27, 2015

TESTIMONY OF OUCC WITNESS BARBARA A. SMITH
CAUSE NOS. 44576/44602
INDIANAPOLIS POWER AND LIGHT COMPANY

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

2 A: My name is Barbara A. Smith. My business address is 115 W. Washington Street,
3 Suite 1500 South, Indianapolis, Indiana 46204.

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

5 A: I am employed by the Indiana Office of the Utility Consumer Counselor
6 ("OUCC") as the Director of the Resource Planning and Communications
7 Division. My educational background, experience and preparations for this case
8 are detailed in Appendix A attached to this testimony.

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

10 A: The purpose of my testimony is to discuss the policy implications of Indianapolis
11 Power and Light Company's ("IPL") continued inability to satisfactorily address
12 the safety and reliability problems resulting from its downtown underground
13 network explosions. I also articulate the need for: (1) a management audit of IPL;
14 (2) the development and implementation of an effective and transparent
15 performance benchmarking system for the managerial, financial and technical
16 aspects of IPL's organization; and (3) an independent third-party audit of IPL's
17 asset management system.

18 **Q: Who will be testifying on behalf of the OUCC?**

19 A: My testimony identifies only the OUCC witnesses who address, in whole or in
20 part, the investigation. Mr. Michael Eckert identifies witnesses who exclusively
21 address IPL's request for new basic rates and charges. In addition to my

1 testimony, the following matrix identifies other OUCC witnesses and the topics
2 each will address regarding this investigation and the rate case.

OUCC WITNESS	ISSUES ADDRESSED
Ray Snyder	<ul style="list-style-type: none">• Various system component failures in IPL's downtown network.
Leon Golden	<ul style="list-style-type: none">• Noted deficiencies in IPL's asset management program.
Anthony Alvarez	<ul style="list-style-type: none">• Remaining risks in IPL's Central Business District.• Recommendations regarding major storm accounting treatment if the Commission approves IPL's request.
Edward Rutter	<ul style="list-style-type: none">• Level of O&M expenses related to underground lines.• Original cost and accumulated depreciation for certain accounts, subaccounts, and assets.• Discount rate used to determine fair value;• New or revised rate adjustment mechanism relative to DSM "lost revenues."

3 **Q: Please summarize your findings and conclusions.**

4 A: Both IPL's rate case and the facts surrounding this investigation are a story of
5 misguided leadership. It is a story of IPL's unwillingness to be accountable –
6 managerially, financially, and technically. Unless the Commission acts with
7 determination, this story will most certainly end poorly, at least for the ratepayers
8 of IPL.

9 **Q: Briefly summarize the history of explosions or other events that have**
10 **occurred in IPL's downtown underground network.**

11 A: Since 2010 there have been 14 fires and/or explosions in IPL's downtown
12 underground network.¹ Many of these network events resulted in manhole covers
13 being catapulted into the air. Fortunately no one has been killed or injured, but the
14 inherent danger of that happening, especially in the pedestrian-heavy downtown
15 area, is obvious. The explosions have resulted in significant loss of electrical

¹ Public's Exhibit No. 2, Attachment RLS-3.

1 service to the downtown commercial and residential customers. A closer look at
2 the statistics reveals that between March 1, 2003 and April 1, 2015 there have
3 been hundreds of network failures with the vast majority a result of cable failures
4 – an indication that IPL has failed to properly maintain its underground
5 distribution system. (See testimony of OUCC witness Ray Snyder for more detail
6 regarding IPL's network asset failures.)

7 **Q: How has IPL responded to this emergency?**

8 A: Not promptly or proactively. For example, the "Independent Assessment of
9 Indianapolis Power and Light's Downtown Underground Network" by O'Neill
10 Management Consulting issued December 13, 2011 ("2011 O'Neill Report")
11 recommended various remedial measures IPL should undertake. Of particular
12 note is IPL's agreement to replace its downtown area manhole covers with
13 Swiveloc manhole covers. These replacements would certainly result in a reduced
14 risk of serious injury or death from underground explosions, even though it would
15 not necessarily address the underlying cause of the explosions themselves.
16 However, IPL's response to this critical safety matter is symptomatic of its
17 response to the underground explosions as a whole. Although IPL knew the
18 potential for more exploding manhole covers was a safety hazard, it had only
19 replaced 374 downtown network manhole covers out of a total 1214 as of March
20 30, 2015.²

² IPL response 1.a. to Commission Docket Entry dated March 24, 2015.

1 **Q: Is there any evidence that IPL has taken the initiative and implemented any**
2 **proactive measures to more promptly address the dangerous conditions**
3 **found with it's distribution system?**

4 A: It doesn't appear so. While IPL has agreed to take recommended remedial
5 measures in response to the 2011 O'Neill Report, prior to that report and even
6 since then, there is no evidence that IPL has taken any proactive initiative to
7 resolve the problems in an appropriately expedited manner. There is also no
8 evidence that IPL has expended any funds above the level it typically has spent in
9 routine maintenance in order to mitigate remaining safety and reliability concerns.
10 In fact, according to OUCC witness Edward Rutter, IPL's spending on the
11 operation and maintenance ("O&M") of its underground system has remained
12 relatively constant for the past twenty years, although one can reasonably assume
13 the dollars required to perform the same types of O&M tasks have increased over
14 this time period. Even more compelling is that IPL chose not to increase the
15 dollars spent on critical underground maintenance, even while explosions kept
16 occurring. IPL should have proactively and aggressively implemented an
17 enhanced, high priority effort to eliminate these hazardous conditions given the
18 gravity of the situation.

19 Rather than take a more proactive approach to these problems, IPL paid
20 IPALCO Enterprises, Inc. ("IPALCO") \$507M in dividends between 2010 and
21 2014.³ This is part of IPL's 20-year practice of paying large dividends to
22 IPALCO, an amount that grew to \$2.6B between 1994 and 2014.⁴ These decisions
23 demonstrate IPL has not appropriately prioritized its critical downtown

³ Public's Exhibit No. 13, Attachment ERK 34.

⁴ IPL response to IG DR 12-3 Attachment 1.

1 infrastructure needs, especially given its intent to pay IPALCO a high percentage
2 of its net income each of the next three years.⁵ (See testimony of Edward R.
3 Kaufman, page 25 and Attachment ERK 36 CONFIDENTIAL.)

4 In addition, the 2011 O'Neill Report recommended IPL implement an
5 Asset Management Standard. IPL's parent company, AES Corporation ("AES"),
6 has a thorough and transparent Asset Management Standard that requires those
7 subsidiary companies that adopt the standard to document and maintain a long
8 term asset management strategy. Although IPL claims to have adopted the AES
9 Asset Management Standard, IPL's strategy is not documented, but, in IPL's
10 words, is just a "philosophy."⁶ Without a transparent, written asset management
11 strategy, it is virtually impossible for the Commission and other interested
12 stakeholders to evaluate IPL's asset management system's effectiveness or lack
13 thereof. (See testimony of OUCC Witness Leon Golden that discusses IPL's asset
14 management program and strategy.)

15 **Q: Why is IPL's response a concern to you?**

16 **A:** IPL is a regulated investor-owned utility subject to the precepts of Indiana law.
17 One such precept is the "regulatory compact." In exchange for an exclusive
18 territory and the right to an opportunity to earn a reasonable return on its
19 investment, the public expects the utility to provide "safe and reliable" service.

20 IPL serves the City of Indianapolis. The City of Indianapolis is one of the
21 largest cities in the United States and is the capitol and hub of economic
22 development for the State of Indiana. Indianapolis competes – successfully – for

⁵ Public's Exhibit No. 13, Attachment ERK 36 CONFIDENTIAL.

⁶ Public Exhibit No. 3, Attachment LAG-8.

1 convention and trade shows, the Super Bowl, the Big Ten Football Championship
2 game, and the NCAA Final Four. Downtown Indianapolis is a nerve center of
3 pedestrian-focused commercial and tourist-related activity. In this context, the
4 idea of "safe and reliable" service is critically meaningful to the residents of and
5 visitors to Indianapolis.

6 IPL's problem is that it is providing unsafe service to a large portion of its
7 customers. This unsafe service is a symptom of failed management, not merely a
8 failure of the downtown network. In exchange for this unsafe service, IPL
9 continues to funnel millions of dollars a year to its parent company, while at the
10 same time providing lip service to its asset management system in general and
11 inadequate prevention efforts to its exploding manholes in particular.

12 **Q: What do you recommend?**

13 **A:** IPL should be required to perform a management audit. As OUCC Witness Mr.
14 Edward Kaufman testifies, IPL has invested its earnings in its shareholders'
15 dividends, rather than the physical safety of the Indianapolis ratepayers. IPL's
16 poor financial and technical decision-making calls into question the viability of
17 IPL's current leadership. As a result, rather than wait for the next debacle, a
18 management audit is in order. The management audit should mirror the
19 Management Structure Review the Commission ordered the troubled Department
20 of Waterworks of the City of Indianapolis to perform. (IURC Emergency Order,
21 Cause No. 43645, p. 26)

22 Second, in conjunction with the management audit, IPL should be required
23 to initiate and maintain a performance benchmarking program. It has been said

1 that "you can't improve what you don't measure."⁷ It is time to begin to both
2 measure and, more importantly, to improve IPL's performance.

3 Again, the Commission can look to the instruction it gave to the troubled
4 Department of Waterworks of the City of Indianapolis:

5 In reviewing its management structure, the Department should also
6 consider whether it would be appropriate to adopt benchmarking
7 standards outlined in industry literature, such as the American
8 Water Works Association. The benchmarking standards to be
9 considered should extend beyond operation practices by including
10 management standards such as strategic and financial planning and
11 risk management.

12 We further understand that the Commission testimonial staff is recommending the
13 Commission order IPL to institute a benchmarking program and we strongly
14 support that recommendation.

15 Third, IPL should be required to retain an independent third-party to audit
16 IPL's asset management system. Neither the accuracy level of the system data nor
17 how that data is used by field personnel to make critical decisions is transparent.
18 As OUCC Witness Golden explains, IPL has disclosed issues with asset data
19 transfer between its many systems, such as dropped inspection records and fields
20 not populating properly. In addition, the system(s) does not seem to include
21 critical inspection or maintenance data regarding IPL's underground cables which
22 appear to be responsible for the majority of the underground failures.

23 **Q: Do you believe the findings from this investigation impact IPL's rate case?**

24 **A:** Yes and no. Regardless of this investigation's outcome, IPL is entitled to rates
25 that allow it to pay its expenses and provide an opportunity for it to earn a fair

⁷ Lord Kelvin (Sir William Thomson) <http://zapatopi.net/Kelvin/quotes/>

1 return on its investments. Having said that, the Commission is well aware that
2 ratemaking is as much an art as it is a science. At most, adjustments to base rates
3 involve a range of reasonableness based upon various pro forma adjustments.
4 Certainly, the appropriate Return on Equity can best be described as being within
5 a certain range. This Commission has, on occasion, found that deciding on a
6 number at the lower end of the range to reflect the Commission's displeasure with
7 the utility's management, is designed to encourage improved performance in the
8 future. IPL has indicated it intends to file another base rate case in the near future.
9 This future rate case filing provides the Commission an opportunity to evaluate
10 whether IPL has made the necessary adjustments that this investigation demands
11 be imposed on IPL at this time.

12 **Q: Does that conclude your testimony?**

13 **A: Yes.**

APPENDIX A

1 **Q: Please describe your educational background and experience.**

2 A: I received a Bachelor of Science degree, *magna cum laude*, from Indiana
3 Wesleyan University. I also earned an Associate's Certificate in Project
4 Management through George Washington University. I was employed by Vectren
5 Energy Delivery of Indiana, Inc. ("Vectren")⁸ from 1987 through 2006 in various
6 capacities, including supervisor of distribution planning. My responsibilities
7 included planning installation of new natural gas pipelines, making pipeline
8 replace/repair decisions, as well as development, implementation and support of
9 new data repositories such as asset management and compliance systems, support
10 of Geographic Information System ("GIS") mapping, capital work order systems,
11 outage management systems and storm outage. My experience with both
12 infrastructure installations and engineering technology tools give me a unique
13 basis on which to analyze IPL's requests in this case. My professional experience
14 as a member of an Indiana electric utility management team with direct customer
15 contact helped me develop a broad understanding of consumer interests, including
16 the value placed on reliable service and the impact rate increases have on
17 consumers. I joined the OUCC as a Utility Analyst in the Electric Division in
18 October 2006 and was promoted to my current position in April 2009. On behalf
19 of the OUCC, I have led many case teams in complex cases, including electric
20 and natural gas Transmission, Distribution, and Storage System Improvement
21 Charge ("TDSIC") cases, Certificate of Public Convenience and Necessity cases,

⁸ Formerly Indiana Gas Company.

1 critical infrastructure as well as demand side management and renewable energy
2 cases.

3 **Q: Have you previously testified before the Indiana Utility Regulatory**
4 **Commission ("IURC")?**

5 A: Yes. I have testified in both gas and electric cases, including Vectren's original
6 IURC Cause No. 44429 and 44430 TDSIC cases, where Vectren requested
7 approval of 7-Year TDSIC Plans, pursuant to Ind. Code § 8-1-39-10(a). I also
8 testified or participated in the following TDSIC cases: IURC Cause Nos. 44370
9 (NIPSCO electric), 44403 (NIPSCO gas), 44526 (Duke Energy Indiana), 44542
10 (I&M).

11 **Q: What did you do to prepare for your testimony?**

12 A: I reviewed the Petitioner's testimony, exhibits, and discovery responses. I also
13 researched various aspects of this case and discussed the case with certain OUCC
14 staff members. I attended technical conferences with the Petitioner and other
15 parties.

AFFIRMATION

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

Barbara A. Smith

Barbara A. Smith
Director, Resource Planning and Communications Division

Indiana Office of Utility Consumer Counselor

July 27, 2015

Date

Cause No. 44576/44602
IPL