FILED December 3, 2019 INDIANA UTILITY REGULATORY COMMISSION

#### STATE OF INDIANA INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER	:	
COMPANY, AN INDIANA CORPORATION, FOR	:	
AUTHORITY TO INCREASE ITS RATES AND	:	
CHARGES FOR ELECTRIC UTILITY SERVICE	:	
THROUGH A PHASE IN RATE ADJUSTMENT; AND	:	
FOR APPROVAL OF RELATED RELIEF INCLUDING:	:	
(1) REVISED DEPRECIATION RATES;	:	<b>CAUSE NO. 45235</b>
(2) ACCOUNTING RELIEF; (3) INCLUSION IN RATE	:	
BASE OF QUALIFIED POLLUTION CONTROL	:	
PROPERTY AND CLEAN ENERGY PROJECT;	:	
(4) ENHANCEMENTS TO THE DRY SORBENT	:	
INJECTION SYSTEM; (5) ADVANCED METERING	:	
INFRASTRUCTURE; (6) RATE ADJUSTMENT	:	
MECHANISM PROPOSALS; AND (7) NEW SCHEDULES	:	
OF RATES, RULES AND REGULATIONS	:	

#### WALMART INC.'S SUBMISSION OF EXCEPTIONS TO INDIANA MICHIGAN POWER COMPANY'S PROPOSED ORDER

Walmart Inc. ("Walmart"), by counsel, respectfully submits the attached limited Exceptions, shown in redline format, to the Proposed Order filed on November 11, 2019, by Indiana Michigan Power Company ("I&M" or "Company"). The attached Exceptions reflect Walmart's recommendations for the Indiana Utility Regulatory Commission's ("Commission") consideration in this matter.

Please note that Walmart has only included the pertinent sections of I&M's Proposed Order to which Walmart specifically takes exception; the fact that Walmart has not addressed each and every section of the Company's Proposed Order does not indicate Walmart's acceptance of I&M's position on the issues not expressly addressed by these Exceptions. That said, unless specifically modified by these Exceptions, Walmart does adopt each party's summary of its own testimony and evidence as presented in each party's respective post-hearing filings. Respectfully submitted,

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Dated: December 3, 2019

#### **CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing document has been served by electronic mail, hard copies available upon request, this 3<sup>rd</sup> day of December.

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made since depreciation rates were last approved. There is no change to the estimated useful life of the Rockport units in this case. Further, Ms. Medine did not offer an alternative estimated useful life for the Rockport units. She also does not object to the inclusion of the additional investment in the calculation of the depreciation accrual rates for steam generation. As a result, we reject Ms. Medine's arguments and find that the proposed rates for steam production should be approved.

# G. <u>Rockport Enhanced DSI</u>.

1. <u>Joint Municipal Group</u>. Constance T. Cannady testified on behalf of the Joint Municipal Intervenors with respect to the depreciation accrual rate for Petitioner's proposed enhanced DSI project at the Rockport plant. She testified that Petitioner is proposing a 12% depreciation rate for the enhanced DSI system on Unit 1 and a 20% rate for the system on Unit 2. She disagreed with this proposal and testified that the investment should be recovered over no less than ten years pursuant to Indiana Code § 8-1-2-6.7(b). Cannady, 3-4, 11-18.

2. <u>Rebuttal</u>. Mr. Cash noted that Ms. Cannady is mistaken concerning the Company's proposal. He said she has confused the depreciation rate for the enhanced DSI project with the rate for the selected catalytic reduction system ("SCR"). He explained the 12% and 20% rates are the proposed rates for the SCR. Cash Rebuttal, 4. He testified that no depreciation rate was calculated specifically for the enhanced DSI project. *Id.*, 4-5. Accordingly, he said the general depreciation rates approved for Rockport would apply. *Id*.

3. <u>Discussion and Finding</u>. It appears that Ms. Cannady is confused about the depreciation rates being proposed. Petitioner did not propose the rates to which Ms. Cannady objects. The enhanced DSI project is included in the total Rockport Unit 2 investment and the same depreciation rates that are approved for Rockport Unit 2 will apply to the enhanced DSI project. Cash Rebuttal, 5. Furthermore, we disagree with Ms. Cannady's contention (p. 15) that the minimum recovery prescribed by Indiana Code § 8-1-2-6.7(b) is ten years. This statutory provision provides for depreciation of certain technology "over a period of not less than ten (10) years or the useful economic life of the technology, whichever is less . . . ". Accordingly, we find Ms. Cannady's objection should be rejected and the Company's proposal should be approved.

## 8. <u>Fair Rate of Return</u>.

**A.** <u>I&M.</u> Mr. Hevert said his analyses indicate that I&M's cost of equity ("COE") currently is in the range of 10.00 percent to 10.75 percent. Hevert Direct, 2. He testified based on the quantitative and qualitative analyses discussed throughout his Direct Testimony, 10.50 percent is a reasonable estimate of I&M's cost of equity.

In developing his recommendation Mr. Hevert relied on several widely accepted methods: (1) the Constant Growth Discounted Cash Flow ("DCF") model; (2) the traditional and empirical forms of the Capital Asset Pricing Model ("CAPM"); and (3) the Bond Yield Plus Risk Premium approach. Hevert Direct, 3-4. Mr. Hevert testified his

analyses recognize that estimating the COE is an empirical, but not entirely mathematical exercise; it relies on both quantitative and qualitative data and analyses, all of which are used to inform the judgment that inevitably must be applied.

He said no single model is more reliable than all others under all market conditions, and all require the use of reasoned judgment in their application, and in interpreting their results. He stated therefore, that the results of each return on equity ("ROE") model must be assessed in the context of current and expected capital market conditions, and relative to other appropriate benchmarks. Hevert Direct, 4. Mr. Hevert explained that since 2014, the DCF model has produced results consistently and meaningfully below authorized returns and explained that the model's underlying structure and assumptions are not compatible with the recent capital market and economic environment. Hevert Direct, 5, 8. Mr. Hevert testified we should carefully consider the range of results the DCF model produces in arriving at ROE recommendations. *Id.*, 9.

He discussed his proxy group and explained his recommendation takes into consideration the risk factors associated with: (1) the Company's generation portfolio and related environmental regulations; (2) customer concentration; and (3) the Company's planned capital expenditures and the effect, if any, of certain regulatory mechanisms. In addition to the methods noted above, Mr. Hevert calculated the costs of issuing common stock (that is, "flotation" costs), and considered evolving capital market and business conditions, including changes in Federal Reserve monetary policy and increases in current and projected government bond yields. He stated although those factors are very relevant to investors, their effect on the Company's Cost of Equity cannot be directly quantified. Therefore, he said although he did not make explicit adjustments to his ROE estimates, he considered those factors in determining where the Company's cost of equity falls within the range of analytical results. Hevert Direct, 3-4.

As to I&M's proposed capital structure for the test year ending December 31, 2020, which (on the basis of investor-supplied capital) includes 46.80 percent common equity and 53.20 percent long-term debt, Mr. Hevert concluded the Company's proposal is consistent with the capital structures that have been in place over several fiscal quarters at comparable operating utility companies. Hevert Direct, 57. Given the consistency of its proposal with similarly situated utility companies, he concluded the Company's proposed capital structure is reasonable and appropriate. Regarding the cost of debt, Mr. Hevert said he understands that the Company's projected weighted average cost of long-term debt at the end of the test year is 4.54 percent, which he believes is reasonable and appropriate. *Id.*, 3, 56-58.

**B.** <u>OUCC.</u> Mr. D. Garrett testified an analysis of an appropriate awarded ROE for a utility should begin with a reasonable estimation of the utility's cost of equity capital. He explained in estimating the Company's cost of equity, he performed a cost of equity analysis on a proxy group of utility companies with relatively similar risk profiles. Based on this proxy group, he evaluated the results of the two most common financial models for calculating cost of equity in utility rate proceedings: the CAPM and DCF Model. He stated applying his chosen inputs and assumptions to these models indicates

that the Company's estimated cost of equity is about 6.5%. D. Garrett (Part 1), 10-11; also Garrett, 29-83. Mr. Garrett recommended however, the Commission award an ROE of 9.1%, which he said is within a reasonable range of 9.0% - 9.5%. D. Garrett (Part 1), 11.

Mr. Garrett criticized Mr. Hevert's terminal growth rate, equity risk premium, bond yield plus risk premium model, and discussion of capital market environment. D. Garrett (Part 1), 14-19. He discussed the legal standards and awarded returns. *Id.*, 20-29.

**C.** <u>Industrial Group.</u> IG witness Gorman used the following models to estimate I&M's cost of common equity: (1) a constant growth DCF model using consensus analysts' growth rate projections; (2) a constant growth DCF using sustainable growth rate estimates; (3) a multi-stage growth DCF model; (4) a Risk Premium model; and (5) a CAPM.

Based on his analyses, IG witness Gorman recommended I&M's current market cost of equity to be no higher than 9.00%. Gorman, 93. He testified a return on common equity of 9.00% is the high-end of his estimated range of 8.50% to 9.00%, which he said reflects the current low capital market cost for a utility with risks similar to I&M. He said his return on equity estimates reflect observable market evidence, the impact of Federal Reserve policies on current and expected long-term capital market costs, an assessment of the current risk premium built into current market securities, and a general assessment of the current investment risk characteristics of the electric utility industry and the market's demand for utility securities. *Id.*, 94. He said his recommended overall rate of return will support an investment grade bond rating for I&M. *Id*.

IG witness Gorman said he found the Company's proposed capital structure weight is reasonable and therefore produces an overall cost of capital which is appropriate for rate-setting purposes and took no exception to the Company's embedded cost of debt for 2020. Gorman, 61.

Mr. Gorman testified Mr. Hevert's analyses produce excessive results for various reasons, including the following: 1) his constant growth DCF results are based on unsustainably high growth rates; 2) his CAPM is based on inflated market risk premiums; 3) his empirical CAPM is based on a flawed methodology; and 4) his Bond Yield Plus Risk Premium studies are based on inflated utility equity risk premiums. Gorman, 98-128.

**D.** <u>Other IntervenorsWalmart.</u> Walmart witness Chriss provided Walmart's perspective as a nation-wide electricity consumer and did not perform a cost of equity analysis but recommended the Commission closely examine the ROE in light of customer impact, use of the future test year and recent ROE decisions approved by the Commission and nationwide. Chriss, 4, 7-14. In this regard, Mr. Chriss noted that the Company's requested ROE increase from the current authorized ROE of 9.95% to 10.5%, using the Company's proposed rate base constant, cost of debt, and capital structure, would result in an impact on customers of approximately \$13.8 million, or 8.1% of the Company's claimed revenue deficiency. *Id.* at 9. Furthermore, Mr. Chriss offered evidence that the Company's proposed ROE is significantly higher than ROEs approved by the Commission since 2016, noting that the average of Commission-approved ROEs since 2016 is 9.94%. In comparison with ROEs approved by other regulatory commissions, Mr. Chriss demonstrated that the average and median of 125 electric utility rate case ROEs approved by regulatory commissions since 2016, as reported by S&P Global Market Intelligence ("S&P Global"), was 9.6%, with a range of reported ROEs from that period of 8.4% to 11.95%. *Id.* at 11. Mr. Chriss further explained that for vertically-integrated utilities reported by S&P Global over the same time period, the average reported ROE was 9.73%, which has remained relatively stable over that time. *Id.* at 11-12 Mr. Chriss concluded that the Company's requested ROE and ROE range are therefore contrary to broader electric industry trends. *Id.* at 11.

**E.** <u>39 North.</u> <u>39 North</u> witness Cearley also did not perform a cost of equity analysis but recommended the Commission recognize I&M's customer satisfaction scores in adopting a return. Cearley, 8-9.

**E.F. Rebuttal.** Mr. Hevert explained there are several methodological, theoretical, and practical reasons why the Opposing ROE Witnesses' recommendations are unduly low. He said because the Opposing ROE Witnesses give meaningful weight to their DCF-based results, it is not surprising that their recommendations fall well below currently authorized returns. He added given their common reliance on the DCF method, it also is not surprising that the Opposing ROE Witnesses' recommendations generally fall within a narrow range. Mr. Hevert stated the fact that the Opposing ROE Witness recommendations are similar does not mean their approaches and conclusions are reasonable. Hevert Rebuttal, 4-5.

He stated in some cases, the Opposing ROE Witnesses' recommendations stem from unreasonably low DCF estimates, which themselves are the result of tenuous assumptions. He said there is no reasonable basis to assume the current volatile capital market environment will remain in place in perpetuity. Mr. Hevert testified we cannot conclude the recent levels of utility valuations are due to a fundamental and permanent change in the risk perceptions of utility investors, as the Opposing ROE Witnesses' recommendations assume. He said those valuation levels are more likely related to the "reach for yield" that often occurs during periods of low Treasury yields. Hevert Rebuttal, 3.

Mr. Hevert also explained certain of the Opposing ROE Witnesses' recommendations are fundamentally disconnected from their own analyses and conclusions, and are far removed from observable and relevant data. Hevert Rebuttal, 4. He said although Mr. Gorman suggests the Cost of Equity has fallen to a level that supports his recommendation, observable data does not support this position. Hevert Rebuttal, 5.

Mr. Hevert stated the Opposing ROE witnesses are not consistent with returns authorized by the Commission and elsewhere in the U.S. He <u>explained opined that</u> if the Commission were to authorize a return of 9.10 percent or lower as the Opposing ROE

Witnesses recommend, it would represent a significant departure from returns previously authorized by the Commission. Hevert Rebuttal, 5-6; Chart 1.

Mr. Hevert testified the financial community carefully monitors utility companies' financial conditions, both current and expected as well as the regulatory environment in which those companies operate. He said a consequence of an authorized ROE in the range of the Opposing ROE Witnesses' recommendations would be to increase investors' perceptions of regulatory risk. Hevert Rebuttal, 6.

Mr. Hevert also noted the Company expects its Network Integration Transmission Services ("NITS") costs to increase by about \$48 million in 2021, just one year beyond the Test Year in this Cause and pointed out Mr. Williamson's statement that absent the ability to recover the increased NITS cost, the Company's earned Return on Common Equity would fall by about 1.90 percentage points (190 basis points). Hevert Rebuttal, 94. Mr. Hevert stated that because operating cash flow is directly related to income, the earnings erosion brought about by the inability to recover increased NITS costs will put downward pressure on I&M's financial profile, increasing the financial community's perceptions of the Company's risk. Mr. Hevert said the combination of the Opposing witnesses' unduly low ROE recommendations and the increased likelihood of underearning absent the timely recovery of increased NITS costs suggests returns that are far too low to be considered reasonable. *Id.*, 94-95.

Mr. Hevert concluded based on the analyses discussed throughout his direct and rebuttal testimony, the reasonable range of ROE estimates is from 10.00 percent to 10.75 percent, and within that range, 10.50 percent is a reasonable and appropriate estimate of I&M's Cost of Equity. *Id.*, 96.

**F.G.** Discussion and Finding. The rate of return for a utility must be comparable to the return on investments in other enterprises having corresponding risks, sufficient to assure confidence in the financial integrity of the utility, maintain support of the utility's credit, and attract capital. *Bluefield Waterworks & Improvements Co. v. Pub. Service Comm. of West Virginia*, 262 U.S. 679, 43 S.Ct. 675 (1923); *Federal Power Comm. v. Hope Natural Gas. Co.*, 320 U.S. 591, 64 S.Ct. 281 (1944).<sup>9</sup>

In order to meet the requirements set forth in *Bluefield* and *Hope*, the parties proposed various returns using the DCF model and other methods as bases for their positions. Mr. Hevert's analysis produced a range of 10.0% to 10.75%. He recommended the Commission adopt a cost of common equity of 10.50%. Mr. Garrett's estimated cost of equity is about 6.5%. He recommended a return on common equity of 9.10% based on a range of 9.00% to 9.50%. Mr. Gorman's analysis produced a range of 8.50% to 9.00%. He recommended a COE of 9.00%.

The Commission recognizes that the cost of equity cannot be precisely calculated and estimating it requires the use of judgment. Due to this lack of precision, the use of multiple methods is desirable because no single method will produce the most reasonable

<sup>&</sup>lt;sup>9</sup> See also *Re Indianapolis Power & Light Co.*, Cause No. 44576, p. 41 (IURC 3/16/2016).

result under all conditions and circumstances. In particular, substantial record evidence indicates that in the current capital market environment Constant Growth DCF-based models should be viewed with caution, because they do not adequately reflect changing capital market conditions and high levels of instability, whereas Risk Premium-based methods directly reflect such changes and measures of risk. We note that the OUCC and IntervenorCompany's recommendations are inconsistent with recent ROE decisions approved nationwide for investor-owned electric utilities. While we do not base our conclusion on national averages, this the evidence presented in this proceeding from both the Company and Walmartinformation illustrates the dramatic departure from Commission and other precedent these parties that the Company urges the Commission to adopt. Specifically, as demonstrated in testimony and at the evidentiary hearing, it is clear that the trend in approved ROEs for vertically-integrated utilities, both in Indiana and nationwide, is much lower than what the Company requests in this case. Additionally, While financial strength is important necessary for a utility to attract capital at a reasonable cost in order to make the investments necessary to for the utility to fulfill its service obligations at a reasonable cost, the evidence in this case indicates that investor-owned utilities similar to the Company and located in similar regulatory jurisdictions have been awarded reasonable and fair ROEs well below the Company's requested range. Tr., C-21-32. In additional to it constituting a significant change in Indiana utility regulatory policy, the significant decrease increase in ROE recommended requested by the OUCC and IntervenorsCompany would likely be viewed as a negative development, putting significant downward pressure on the Company's credit ratingscustomers through the imposition of unnecessary and unreasonable incremental revenue obligations. See Hevert RebuttalChriss, 41-438-9.

The Commission has considered the analytical results based on a proxy group of electric utilities, as well as the risk factors associated with: the Company's generation portfolio and environmental regulations; customer concentration; the Company's planned capital expenditures and the effect, if any, of certain regulatory mechanisms; and the costs of issuing common stock. Furthermore, as shown by Mr. Lucas, I&M's business and residential customer satisfaction scores have increased which is notable given the evolving needs and expectations of customers. Lucas Rebuttal, 32–33.

Having taken into consideration the foregoing factors and observable market data reflected in the record, the Commission finds that a ROE in the range of 10.00 percent to 10.75 percent represents the range of returns required by equity investors under current and expected market conditions would impose upon the Company's ratepayers unnecessary and unwarranted risks not supported by evidence and not consistent with comparisons of other similarly-situated utilities. Accordingly, taking into When consideration all of the evidence presented in this proceedinging the challenges faced by the Company, we further find and conclude that a 9.7310.5% ROE is fair and reasonable.

**G.H. Overall Weighted Cost of Capital.** Mr. Hevert's testimony regarding the Company's capital structure was not challenged. Having reviewed his testimony and that of Mr. Gorman we find the Company's Test Year capital structure is consistent with industry practice and supports I&M's financial integrity. Based on these findings and

after having given effect to the ROE authorized above, the Commission finds that Petitioner's capital structure and weighted cost of capital is as follows:

Description	Total Company <u>Capitalization</u>	Percent of <u>Total</u>	Cost <u>Rate</u>	Weighted Average Cost <u>of Capital</u>
Long Term Debt	\$ 2,926,531,185	42.69%	4.54%	1.94%
Common Equity	\$ 2,574,496,077	37.55%	10.50%	3.94%
Customer Deposits	\$ 37,972,608	0.55%	2.00%	0.01%
ACC. DEF. FIT	\$ 1,297,621,545	18.93%	0.00%	0.00%
ACC. DEF. JDITC	\$ 18,960,268	<u>0.28%</u>	7.33%	0.02%
Total	<u>\$    6,855,581,684</u>	100.00%		<u>5.91%</u>

The Commission accepts I&M's proposal to establish its authorized net operating income by multiplying the overall weighted average cost by the original cost Test Year rate base.

## 9. <u>Disputed Test Year Revenue.</u>

#### A. <u>Customer Count Adjustment.</u>

1. <u>OUCC.</u> Mr. Watkins stated that, based on informal discussions with I&M, it was determined there was an error in developing the forecasted test year billing determinants as it relates to the number of customers and number of bills. Watkins, 49. He explained the Company corrected its forecasted billing determinants by rate schedule, which has the effect of increasing the number of customer bills for most rate schedules, which in turn, increases customer charge revenue at current rates. *Id.* 

2. <u>Rebuttal.</u> Mr. Nollenberger stated Mr. Watkins used the updated Test Year number of bills to re-compute forecasted Test Year revenues, resulting in an increase to forecasted Test Year revenues of \$3,758,305. He said I&M agreed with this change to Test Year revenues. Nollenberger Rebuttal, 42.

3. <u>Discussion and Finding.</u> We find the use of the updated Test Year number of bills to be appropriate. We note that while this update does not change the Company's overall revenue requirement, it does reduce the revenue deficiency by the amount of the correction.

## 10. <u>Disputed Test Year Operation and Maintenance ("O&M") Expenses.</u>

## A. <u>Cook 316(b).</u>

1. <u>I&M.</u> Messrs. Williamson and Lies supported the Company's proposal with respect to costs incurred to study the Cook Nuclear Plant's cost of

demand allocation factors. I&M's proposed classification and allocation of distribution plant continues to be an appropriate method due to its foundation in cost causation.

# C. <u>Subsidy Reduction.</u>

1. <u>I&M.</u> Mr. Nollenberger explained the revenue allocation is based on the class cost of service study performed by Mr. Spaeth. Nollenberger Direct, 6. He explained the principles and objectives underlying I&M's proposed revenue allocation among the customer classes and stated that the Company's approach reduced the current level of inter-class revenue subsidies by 25%, while also ensuring that no class received a revenue decrease based on cost of service. *Id.*, 7-8.

2. <u>OUCC.</u> Mr. Watkins proposed an alternative class revenue allocation methodology after considering the results of his various recommended class cost of service studies. Watkins Direct, 36-39.

3. <u>Intervenors.</u> Joint Municipal Group witness Mancinelli disagreed with the Company's allocation condition that ensures that no tariff class receives a decrease in total revenues and recommended that street lighting rates be lowered, with the resulting shortfall prorated across all other rate classes. Mancinelli Direct, 40-43. CAC-INCAA witness Wallach proposed to (1) maintain base revenues at current levels (*i.e.*, no increase or decrease) for those classes where the class cost of service studies show a revenue decrease at an equalized rate of return; and (2) increase base revenues for all other classes by the same percentage in order to recover any authorized revenue deficiency. Wallach Direct, 17. South Bend witness Seelye recommended that 50% of subsidies be eliminated and disagreed with the Company's proposal that no tariff class receive a decrease in total revenues. Seelye Direct, 3, 26. Auburn witness Rutter disagreed that the Company has moved all classes closer to earning the class average rate of return and recommended a rate of return for the SL class of 9.35%. Rutter, 8-10.

Walmart witness Chriss noted Walmart's position that rates should be set based on I&M's cost of service for each rate class, which produces rates that reflect cost causation, sends proper price signals, and minimizes price distortions. Chriss, 14. Mr. Chriss also discussed I&M's proposal to eliminate 25 percent of the current inter-class subsidies within the Company's rate schedules. *Id.* at 16 (citing Nollenberger, 7). Mr. Chriss concluded that Walmart did not oppose the Company's proposed revenue allocation at the requested revenue requirement, but recommended that the Commission apply any reduction to the revenue requirement in a manner that further moves customer classes towards their respective costs of service.

4. <u>Rebuttal.</u> In rebuttal, Mr. Nollenberger showed that I&M's revenue allocation proposal makes progress towards reducing current inter-class subsidies, consistent with all parties' general interests. Nollenberger Rebuttal, 5-6. With respect to Mr. Seelye's recommendations, Mr. Nollenberger stated that while other customer classes are experiencing an average total revenue increase of more than 11%, it is reasonable to expect that no rate class receive a rate reduction. He added I&M's approach strikes a reasonable balance between reducing current subsidies and managing class impacts as compared to South Bend's proposal. *Id.* at 7. He explained Mr. Wallach's approach would make uneven progress towards mitigating the current level of inter-class subsidies. Nollenberger Rebuttal, 8.

5. <u>Discussion and Finding.</u> We find I&M's proposed method of distributing its requested rate increase in a manner to reduce current interclass subsidies by 25%, while also ensuring that no class received a revenue decrease based on cost of service, is a reasonable step toward cost-based rates and strikes the appropriate balance between progress toward eliminating interclass subsidies and a recognition of the rate impacts on the various tariff classes. Therefore, we approve Petitioner's proposal.

**15.** <u>**Rate Design.**</u> Mr. Nollenberger presented the rate design supporting I&M's proposed tariffs and explained in general, the Company's approach is to design rates and rate components that reflect the underlying costs of the Company. Nollenberger Direct, 9. He said this includes collecting fixed costs through fixed and/or demand charges and variable costs through energy charges whenever practical. *Id.* He also discussed rate design changes proposed for certain of I&M's riders. *Id.*, 28-30. Based on the record presented, we find the Company's undisputed rate design proposals to be reasonable and should be approved. The disputed rate design issues are discussed below.

# A. <u>Commercial and Industrial Rates.</u>

# 1. <u>Tariffs R.S.–PEV and G.S.–PEV.</u>

(a) <u>I&M.</u> Mr. Cooper testified Tariffs R.S.–PEV and G.S.– PEV are being proposed as part of a comprehensive package of tariffs, rebates, and incentives to attract residential, commercial, and industrial customers to the electric vehicle market. Cooper Direct, 16. Both tariffs are designed to encourage customers to charge plug-in electric vehicles ("PEVs") during off-peak hours.

(b) <u>OUCC.</u> Ms. Aguilar recommended I&M's PEV Pilot include higher rates for charging during on-peak hours to disincents individual customers from charging during peak times. Aguilar, 20.

(c) <u>South Bend.</u> South Bend witness Seelye said the off-peak energy charge should be lowered to reflect cost of service and to encourage greater utilization of the service. Seelye, 5, 43-46. He further stated there is no basis for prohibiting net metering customers from taking service under Tariff G.S.-PEV and the exclusion is unduly discriminatory. Seelye, 5, 46.

(d) <u>Rebuttal.</u> Mr. Lehman disagreed with Ms. Aguilar that a punitive approach is necessary to accomplish off-peak PEV charging. Lehman Rebuttal, 6. He stated I&M's proposal is designed to maximize enrollment of eligible participants and shift their PEV charging load to off-peak hours. He also disagreed with Mr. Seelye's recommendation to lower the off-peak charging rate and noted Mr. Seelye's proposal would result in no incremental contribution to fixed costs from participants' off-peak PEV charging, and thus no corresponding benefit to all other customers. Lehman Rebuttal, 11.

(e) <u>Discussion and Finding.</u> The record shows the alternative rate designs proposed by the OUCC and South Bend would serve to discourage enrollment (in the case of the OUCC) and eliminate the incremental contribution to fixed costs from participants (in the case of South Bend). In contrast, we find I&M's proposed Tariffs R.S.–PEV and G.S.–PEV are reasonably designed to encourage off-peak charging behavior while ensuring all other non-participating customers also benefit from this activity. The record further shows that South Bend's recommendation to allow participation by distributed generation customers is incompatible with the per-kWh credit design of the tariff and impractical from a billing standpoint. Lehman Rebuttal, 9. Accordingly, we approve Tariffs R.S.–PEV and G.S.–PEV and G.S.–PEV as proposed by I&M.

# 2. <u>Tariff IP.</u>

(a) Walmart. Walmart witness Chriss presented evidence that the Company's hours-use Tariff IP, particularly for the IP-Secondary customer class, incorporates rates that improperly collect demand-related charges through the energy charge component of the rate. According to Mr. Chriss, the Company's proposed rate design for Tariff IP is inconsistent with the Company's own statements that rate components should "reflect the underlying costs of the Company" which includes "collecting fixed costs through fixed and/or demand charges and variable costs through energy charges whenever practical." Id. at 19-22 (quoting Nollenberger, 9), 31. Mr. Chriss recommended that at the Company's requested revenue level: 1) any approved revenue increase to the IP class should be applied to each service level's demand charge; 2) the Company should maintain the first block energy charges at current levels; and 3) the Company should reduce the second block energy charges as proposed by I&M. Chriss, 31-32. In the event that the Commission approves a lower revenue increase than the Company has requested, Mr. Chriss recommended that the Commission should apply Walmart's proposal but then reflect the reduced revenue increase in the first block energy charges. Id. at 32.

(b) <u>Rebuttal.</u> Mr. Nollenberger provided a comparison of estimated total bill impacts between the Company's and Walmart's recommended Tariff IP rate design. Nollenberger Rebuttal, 17; Attachment MWN-R3. He continued to support I&M's proposed Tariff IP rate design, but <u>also</u> said Walmart's proposed Tariff IP rate design was not unreasonable.

(c) <u>Discussion and Finding.</u> The record shows Walmart's proposed rate design <u>more properly aligns demand-related costs to demand charges</u>, which results in rates that are more closely cost-based and send better price signals to <u>customers</u>focuses on a specific rate component rather than a uniform change in all Tariff <u>IP rate components</u>, excluding customer charges. Nollenberger Rebuttal, 17. <u>Chriss, 21-</u>28, 31-32. For these reasons, and also considering that I&M has found Walmart's proposal to be "not unreasonable," we We find that Walmart's <u>I&M's</u> proposed Tariff IP rate design to be is reasonable and therefore is approved.

3. <u>Tariff LGS.</u>

Intervenors. Kroger witness Bieber explained that I&M's (a) own cost of service study establishes that I&M's proposed LGS rate design significantly understates demand-related charges while overstating energy charges relative to the underlying cost components. Bieber Direct, 4. In order to address this misalignment of costs and rates within the LGS class, Kroger recommended a rate design that would increase demand-related charges to 65% of the demand-related costs while reducing the energy charges by a corresponding amount to recover I&M's total proposed LGS revenues. Mr. Bieber proposed that the Company maintain the proposed demand charges for Tariff LGS and increase the differential between the LGS-Secondary Block 1 rate and Block 2 rates so that it is equal to the differential between the GS-Secondary Block 1 and Block 2 energy rates. The Tariff LGS Block 1 and Block 2 rates for the other voltage subclasses should incorporate the loss factor adjustments as proposed by the Company. Bieber Direct, 13-14.stated I&M's LGS rate design significantly understates demandrelated charges while overstating energy charges relative to the underlying cost components. Bieber Direct, 4. He recommended a rate design that would increase demand related charges to 65% of the demand-related costs while reducing the energy charges by a corresponding amount to recover I&M's total proposed LGS revenues. Bieber Direct, 4, 6-17.

Walmart witness Chriss generally agreed with the position set forth by Kroger, and presented evidence that the Company's hours-use Tariff LGS, particularly for the LGS-Secondary customer class, incorporates rates that improperly collect demand-related charges through the energy charge component of the rate. Chriss, 21-29. According to Mr. Chriss, the Company's proposed rate design for Tariff LGS is inconsistent with the Company's own statements that rate components should "reflect the underlying costs of the Company" which includes "collecting fixed costs through fixed and/or demand charges and variable costs through energy charges whenever practical." Id. at 19-22 (quoting Nollenberger, 9). Mr. Chriss recommended that at the Company's requested revenue levelrecommended collecting a greater percentage of the LGS revenue requirement through the demand charge. More specifically, he recommended: 1) any approved revenue increase to the LGS class should be applied to each service level's demand charge; 2) the Company should maintain the first block energy charges at current levels; and 3) the Company should reduce the second block energy charges as proposed by I&M and increase the demand charge to account for the reduced second block energy charge revenues. Chriss at 21-30. In the event that the Commission approves a lower revenue increase than the Company has requested, Mr. Chriss recommended that the Commission should apply Walmart's proposal but then reflect the reduced revenue increase in the first block energy charges. Id. at 31.

(b) <u>Rebuttal.</u> Mr. Nollenberger disagreed with Mr. Bieber and Mr. Chriss that recovering demand-related costs through energy charges results in subsidies paid by high load factor customers to lower load factor customers within a given class. Nollenberger Rebuttal, 15-16; Attachment MWN-R1. He did not find the rates proposed by Kroger or rate design methodology presented by Walmart to be unreasonable but continued to support I&M's proposed LGS rate design.

Discussion and Finding. I&M's proposed Tariff LGS (c) reasonably reflects cost causation and other rate design principles such as gradualism. Mr. Bieber and Mr. Chriss recommended Rate LGS be designed to better meet their respective company needs. We find that I&M's proposal more equitably distributes the rate increase among lower and higher load factor LGS customers and results in rate continuity for customers as usage changes. Therefore, we approve I&M's proposed Tariff LGS rate design. The record shows Walmart's and Kroger's proposed rate designs improve the alignment between demand and energy charges and the Company's cost of service study, which results in rates that are more closely aligned with the underlying cost components and that send more efficient price signals to customers Chriss, 21-28, 31-32; Bieber, 9-15. For these reasons, and also considering that I&M has found Walmart's and Kroger's proposals to be "not unreasonable," we find that the principle underlying Walmart's and Kroger's proposed Tariff LGS-Secondary rate design is reasonable and therefore is approved. Specifically, we find that the Company should maintain the proposed demand charges for Tariff LGS and increase the differential between the LGS-Secondary Block 1 rate and Block 2 rates so that it is equal to the differential between the GS-Secondary Block 1 and Block 2 energy rates. The Tariff LGS Block 1 and Block 2 rates for the other voltage subclasses should incorporate the loss factor adjustments as proposed by the Company. Bieber Direct, 13-14.

## 4. Tariffs Water and Sewage Service (WSS) and Municipal Service

<u>(MS).</u>

(a) <u>I&M.</u> Mr. Nollenberger explained the proposed changes to tariff classes MS and WSS, which align with the Company's general rate design objective of recovering proportional amounts of fixed costs through fixed and/or demand charges. Nollenberger Direct, 27-28.

(b) <u>Intervenors.</u> Mr. Mancinelli recommended an hours-use rate structure for the Tariff WSS demand charge. He also recommended a rate structure for Tariff MS that incorporates the demand-related rate elements of the existing Tariff GS instead of I&M's proposed Tariff MS demand charge. Mancinelli, 50-55.

Mr. Seelye recommended a Tariff WSS demand charge that recovers 1) distribution demand-related costs applicable to the customer's maximum demand during any hour of the month, and 2) a demand charge that recovers production and transmission demand-related costs applicable to the customer's maximum demand during the peak hours of the month. Seelye, 41-43.

(c) <u>Rebuttal.</u> Mr. Nollenberger said while there is a conceptual basis for Mr. Seelye's Tariff WSS proposal, a two-part demand charge is more complex than a single demand charge. Nollenberger Rebuttal, 11. Mr. Nollenberger stated Mr. Mancinelli's Tariff MS recommendation is not an unreasonable alternative to the Company's proposed basic rate structure. However, he disagreed with implementing a flat energy charge, which would conflict with the current Tariff GS block energy charge. He said if Mr. Mancinelli's demand charge proposal is adopted, a blocked base rate (b) <u>OUCC</u>. Mr. Eckert accepted I&M's recommended base cost of fuel and request for a permanent waiver of the purchased power benchmark. He said should the Commission continue to allow I&M to include renewable energy certificate ("REC") revenues in its FAC filings, it should be contingent on I&M's agreement to allow the OUCC a minimum of 35 days to review I&M's FAC proceedings. Eckert, 18-20.

(c) <u>Rebuttal</u>. Mr. Williamson said the calculation for the sale of RECs is a very simplistic calculation that does not justify the need for additional days to review the FAC filing.

Discussion and Finding. The record shows I&M's proposed (d) base cost of fuel of 12.989 mills per kWh is unopposed and should be approved. Similarly, no party opposed I&M's request for a permanent waiver of the purchased power benchmark. The record shows the factors that led to the development of the benchmark conditions adopted in Cause No. 43306 have been heavily mitigated and a permanent waiver is reasonable. Finally, we note the deadline for the OUCC to file its FAC report is set by statute. Ind. Code § 8-1-2-42(b). The record shows the inclusion of REC sales in the FAC proceeding is a simplistic calculation that has a minimal impact on the FAC filing. Williamson Rebuttal, 67. The OUCC continues to perform an interim audit that reviews, to a large degree, the first three months of the semi-annual FAC period. I&M has committed to continuing to provide the OUCC and its consultant an audit package immediately following the filing of the FAC to expedite and facilitate the review process. Williamson Rebuttal, 67. Accordingly, we find the OUCC presented no compelling reason to deviate from the statutory FAC filing process and reject their proposal.

## 4. IM Green Rider.

(a) I&M. Mr. Lucas explained I&M proposes to consolidate its Green Power Rider ("GPR") and Renewable Energy Option ("REO") into a single revised voluntary renewable program called IM Green that will offer customers the ability to purchase renewable energy through a combination of wind and solar RECs. Lucas Direct, 35. He discussed the program design and explained the IM Green program will allow all customers to purchase RECs as a percentage of their monthly kWh usage. Id., 35. He said large commercial and industrial customers can participate under the basic terms of the IM Green program or through a second option which will allow eligible commercial and industrial customers to participate through a written services agreement tailored to their specific business objectives and renewable energy needs. Id. Mr. Lucas described how the proposed IM Green program will benefit participating and nonparticipating customers. Id., 37-38. Mr. Cooper discussed the use of the S&P Global Energy Credit Index for the New Jersey Class 1 RECs to calculate the market rate for RECs under the IM Green program and discussed I&M's proposed treatment of RECs purchased by customers. Cooper Direct, 17-19.

(b) <u>OUCC</u>. Ms. Aguilar supported consolidating the GPR and REO into the single *IM Green* Rider. Aguilar, 6-7. However, she recommended I&M

monetize unsubscribed RECs and pass the proceeds onto ratepayers through the FAC for the benefit of all ratepayers. *Id.*, 13.

(c) <u>Intervenors</u>. IG witness Dauphinais recommended I&M work with its large customers to provide expanded options for those customers. Dauphinais, 3, 32-33. Walmart witness Chriss recommended approval of I&M's Custom Agreement option and proposed alternative language related to REC pricing to remove the reference to New Jersey solar RECs as a basis for pricing this option. Chriss, 6-7, 35-37.

(d) <u>Rebuttal</u>. Mr. Lucas said the OUCC recommendation to monetize unsubscribed RECs would not be in the best interest of I&M's customers and is at odds with the OUCC's general support for renewable, green energy. Lucas Rebuttal, 27-29. He said I&M would be interested in engaging with Walmart to explore potential utility partnership opportunities and explained the New Jersey REC price provides a reasonable market-based index to value RECs absent a market in Indiana. *Id.*, 29-30.

Discussion and Finding. The record shows I&M's proposal (e) to consolidate the GPR and REO programs into the single IM Green program is reasonable, provides opportunities for all of I&M's customers to participate, and provides I&M flexibility to tailor its offerings to meet the specific interests and needs of its customers. Lucas Direct, 35-36; Cooper Direct, 17-18. While the OUCC recommended I&M be required to monetize all of its unsubscribed RECs, the record shows this requirement would prevent I&M and its customers from claiming that a part of their generation came from carbon free energy sources and is contrary to the expressed interest from I&M's customers that I&M provide energy from renewable resources. Lucas Rebuttal, 28. With respect to Mr. Chriss' concern regarding the price index used in the IM Green program, the record shows there is a distinction between New Jersey Class 1 RECs (which trade in the \$6-\$7 range) and New Jersey Solar RECs (which trade in the \$200-\$230 range). Tr., I-40. We find the use of the S&P Global Renewable Energy Credit Index for New Jersey Class 1 RECs is a reasonable proxy for Indiana RECs and provides a relatively stable price index. Cooper Direct, 17-18. That said, in lieu of adopting Walmart's proposed alternative language, which we believe is also reasonable, We further find I&M's proposal to allow for custom written agreements with its large commercial and industrial customers under the IM Green to be reasonable. No party opposed having this option, and the record shows it will allow larger customers and I&M flexibility in customizing an offering specific to the customers' needs. Id., 18. We direct I&M to begin entering pursuing these agreements with larger customers as soon as possible. Accordingly, we find the IM Green Rider should be approved as proposed by I&M.

## 5. <u>Off-System Sales Margin Sharing.</u>

(a) <u>I&M</u>. I&M proposes to continue sharing of off-system sales ("OSS") margins on a 95/5 basis, meaning that 95% goes to customers and 5% goes to the Company, with zero embedded in base rates. Williamson Direct, 7-8; 48-49. Mr. Williamson said continuing to share OSS margins is reasonable because it provides an