STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY FOR APPROVAL OF IPL'S TDSIC PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENTS PURSUANT TO IND. CODE § 8-1-39-10.	)	**CAUSE NO. 45264**

IPL BRIEF IN SUPPORT OF PROPOSED ORDER
AND APPROVAL OF IPL TDSIC PLAN

Indianapolis Power & Light Company ("IPL"), by counsel, respectfully submits this brief in support of IPL's proposed order filed contemporaneous herewith.

This case is pending under Section 10 of the TDSIC Statute. The record shows that IPL's transmission and distribution ("T&D") aging infrastructure requires modernization. Many of these assets are beyond their expected service lives and will face increasing likelihood of failures if not replaced. When these assets fail, which can lead to power outages, IPL must make emergency repairs; safety hazards also arise during these outages depending on their nature. Furthermore, grid assets require modernization to accommodate new demands from IPL customers who are deploying more sophisticated distributed energy resources and seeking additional levels of service. With the deployment of new grid technologies IPL's capability to operate and maintain the grid in a reliable, cost-effective, safe and efficient manner will be enhanced.

The TDSIC Statute was enacted to facilitate Indiana electric utilities' ability to address these types of aging infrastructure and modernization opportunities in a timely, efficient and safe manner. Absent action, the reliability and integrity of IPL's T&D infrastructure may decline, safety levels will erode, and customer satisfaction with IPL's service will suffer. Customers will experience more persistent and more frequent power outages. Substantial evidence demonstrates that the statutory criteria are satisfied and IPL's TDSIC Plan (also "Plan") is reasonable. As summarized below, the OUCC and Intervenor evidence does not warrant the rejection or modification of the IPL Plan.

1. **OUCC**. The OUCC, the statutory representative of the public, offered no evidence opposing IPL's TDSIC Plan. With one exception (Plan Development Costs amortization period) the issues raised by the OUCC's one witness, Mr. Blakley, concern matters that are beyond the scope of this Section 10 proceeding. While IPL has presented substantial evidence rebutting Mr. Blakley's Section 9 issues, the Commission may reasonably determine that these OUCC concerns are premature and need not be decided at this time.

With respect to the estimated $2.3 million in Plan Development Costs, there is no dispute among the witnesses that these costs are reasonable in amount and were necessarily incurred to develop and present the plan for Commission approval. OUCC Witness Blakley's sole concern is limited to the length of the amortization period. As these costs are not fully identifiable to specific capital projects, Mr. Blakley's proposal that they be amortized over the life of the TDSIC Plan assets is based on an alleged relationship that does not exist. Furthermore, extending the amortization period would increase the carrying charges on the deferral (which Mr. Blakley did not contest). Therefore, the OUCC proposal to extend the amortization period should be rejected and IPL's proposal should be approved.

2. **Industrial Group.** The Industrial Group urges the Commission to cut the proposed Plan in half. Their $600 million proposal is completely arbitrary. The Industrial Group suggestion that IPL's Plan feels too big by comparison to other Indiana investor-owned electric TDSIC plans

is not a legitimate basis to reject IPL's proposed Plan.[1] IPL's TDSIC infrastructure needs and plans should not be dictated by other utilities with different needs and settled plans negotiated at an earlier time under an earlier version of the TDSIC Statute. The Indianapolis area represents a comparably large population center with a wide range of customer categories and corresponding expectations for safe and reliable service, particularly given the potentially higher consequences of any service interruption in this densely populated economic center.

As shown by the comparative analysis attached hereto as Exhibit A, the significantly higher cost per customer in the Vectren TDSIC proceeding refutes the idea that a smaller utility warrants a smaller investment. Moreover, as also shown by Exhibit A, IPL's Plan is not aggressive; the proposed investment compares favorably to the average investment in the other investor-owned electric TDSIC plans.

Industrial Group Witness Collins' contentions regarding the inclusion of contingency in the cost estimate lack merit and are not grounds to reject IPL's best estimate. IPL's contingency is consistent with industry and the Association for the Advancement of Cost Engineering ("AACE") cost estimating good practice and is reasonable. The Commission has previously explained with respect to TDSIC cost estimates that "contingency funds serve the purpose in construction project budgeting to allow engineers and project managers to address problems as they occur rather than being required to seek approval for additional funds, and therefore the inclusion of some contingency in the cost estimates is appropriate." *Re Northern Ind. Pub. Serv. Co.*, Cause No. 44403 TDSIC-5, p. 28 (IURC 12/28/2016). In other words, contingency is "intended to cover unknowns," and is included because "experience teaches that almost every complex project, such as demolition of a generation station, ends up with unknowns." *Re PSI*

[1] Collins at 12, 20; IPL CX 2.

Energy, Cause No 42359 (IURC 5/18/2004) at 67, 70-71 (accepting inclusion of contingency in dismantlement cost estimate). While this 2004 decision addressed costs in the context of a PSI rate case, the principle recognized there is applicable to the TDSIC cost estimates as demonstrated by the testimony of IPL Witnesses Shields and Williams and the above referenced Commission order.

Mr. Collins' concerns that actual costs may differ from IPL's cost estimate are not grounds to reject the best estimate. IPL has presented detailed estimates and taken substantial steps to firm up the cost estimates presented in this case, including proceeding with engineering and a competitive solicitation. The IPL exhibits and workpapers provide the information necessary for the Commission and the parties to conduct an independent review of the estimated costs.[2] No party has contended otherwise. Additionally, the Commission has previously recognized that "the circumstances of a project dictate the appropriate range of accuracy and the estimate of a project that is six or seven years in the future will not have the same accuracy as a first-year project." *Re Indiana Michigan Power Co.*, Cause No. 44542 (IURC 5/8/2015) at 12. Plus, IPL has shown that its implementation plan is designed to focus on the efficient and effective management of the TDSIC Plan. Shields Rebuttal at 13.

Moreover, Section 10 of the TDSIC Statute requires the Commission order to include a "finding of the best estimate" of the cost of the proposed improvements. This "finding" requirement allows the projects to move forward but it is not the final word on the subject. Section 12(c) provides that in the annual TDSIC filing made under Section 9, if the Commission "determines that the petition satisfies the requirements of this chapter and the capital expenditures

[2] IPL's cost estimate development is consistent with steps taken in past cases to firm up the cost estimate. See Petition of IPL, Cause No. 44339 (IURC 5/14/2014) at 23-24.

and TDSIC costs are reasonable, the Commission shall approve the petition, including: (1) capital expenditures; (2) timely recovery of TDSIC costs . . . ." And after approval, Section 9(g) provides that "[a]ctual capital expenditures and TDSIC costs that exceed the approved capital expenditures and TDSIC costs require specific justification by the public utility and specific approval by the commission before being authorized for recovery in customer rates." These statutory provisions provide a means for concerns about changes in the "best estimates" to be addressed by the Commission.

Finally, the legislature has already established that the TDSIC rate impact safeguard shall be the 2% limitation set forth in Ind. Code § 8-1-39-14. As shown by IPL Witness Rogers' testimony, the estimated annual TDSIC impact of the IPL TDSIC Plan investment ranges from 0.8% to 1.3% and is therefore significantly below the 2% annual safeguard adopted by the Indiana General Assembly. Rogers Direct at 9, Table 1; also IPL Attachment CAR-1.

The other parties' suggestion that IPL's Plan should be rejected because IPL has had recent general rates cases and will be required to file another one during the term of the TDSIC Plan is irrelevant. The TDSIC Statute is not limited to electric utilities that have not filed a recent rate case. The notion that the combined impact of these two rate cases and the TDSIC Plan is large also lacks merit. As shown by the 10-year revenue requirement analysis below, the annual revenue increases from Cause Nos. 44576 and 45029 and the pending TDSIC Plan is 1.37%.

IPL 10-Year Revenue Requirement Analysis

IURC Docket	Case Type	Effective Date	Overall Increase
Cause No. 44576	Rate Case	March 31, 2016	2.6%
Cause No. 45029	Rate Case	December 5, 2018	3.2%
Cause No. 45264	TDSIC Plan	2020 - 2026	7.9%[3]
Total 10 Year Increase			13.7%
Annual increase due to past Rate Cases and TDSIC			1.37%

IPL has and continues to work hard to keep its costs and rates comparatively low while also providing safe and reliable service and facilities. The Commission should reject the Industrial Group opposition and their unsupported suggestion to arbitrarily reduce needed investments, and approve the IPL TDSIC Plan.

3. City. Messrs. Alvarez and Stephens advocate against energy system infrastructure investment and argue that historical practices are sufficient. Nevertheless, by enacting Ind. Code ch. 8-1-39, the Indiana General Assembly has already determined that Indiana investor-owned utility investment in energy delivery systems shall be encouraged. The instant proceeding exists to implement Section 10 of the Indiana TDSIC Statute, not attempt to reform Indiana utility regulatory policy. That said, substantial record evidence shows that today the standard in Indiana and elsewhere is "asset management" consistent with that discussed in the recent IPL collaborative. De Stigter Rebuttal at 2, 3-5, 15, 17; also Cummings Rebuttal at 23-24.

The City's consultants tout their experience in California and elsewhere and assert that the Commission should adopt their recommendations. Yet, these witnesses made no attempt to

[3] Compound Annual Growth Rate of 1.1% for each of the seven years.

reconcile their perspective with actual details of IPL's filing, the existing Indiana statutory framework, or the work the Commission has undertaken with respect to proactive asset management, performance metrics and the use of collaboration to allow stakeholder input, not to mention the work undertaken by the Commission's independent consultant, Dr. O'Neill, who together with the Commission Staff in 2016, found IPL's asset management to be "exemplary" and "laudable". IPL Admin. Notice 1;[4] also *Re IPL*, Cause No. 44576/44602 (IURC 3/16/2016) at 17-21. This previous work on asset management together with IPL's service reliability performance and comparatively low rates demonstrates that IPL knows how to provide safe and reliable service at reasonable rates. The notion that this history specific to IPL and Indiana should be tossed aside based on the testimony of the City's witnesses defies logic. It is reasonable to expect the opposing parties' consultants to explain why the Commission's existing practices and work done to date are inadequate and why a return to reactive management, which the industry is turning away from, should be pursued instead.

[4] "The IURC Testimonial Staff and its consultants, O'Neill Management Consulting, LLC, agree with the overall sense of IPL's Asset Management Self-Assessment, including statements in the Executive Summary regarding the extent to which IPL has achieved a current level of asset management process development that is **exemplary in the industry**. We note that it has taken the work of the Collaborative to bring us to this point, i.e., to be able to see clearly which aspects of its asset management were aspirational and which were operational, but having done so we now agree that IPL's current state, while still unfinished in certain (now) well-defined aspects, is **laudable** and should not in itself deserve a penalty for its efforts." *Id.* at 4 (emphasis added).

"One example may serve to underscore this point. One of the attributes of asset management (one of the rows of the matrix) is Asset Health/Risk indexing. This refers to a method or technique that the industry is in the process of adopting and that evaluates each asset within a category (e.g., each circuit breaker or transformer) as to its specific probability of failure and the impact of that failure, given its position in the network. Many companies now recognize this as an admirable and ultimately achievable goal, yet very few, if any, have achieved this level for all of their asset categories, and those who have done so for some assets often consider it in a pilot stage, sometimes relying too heavily on asset age rather than asset condition. IPL has made good progress in developing asset health/risk indices for a number of assets (see that row of the table for different columns) and has intentions to continue to develop them further." *Id.*

Moreover, the recommendations of the City's consultants are at odds with their published views, which advocate the risk model approach taken by IPL, not a return to historical practices as they recommend in the instant case:

> Risk-informed decision support software is designed to help businesses make difficult decisions by scoring, and then ranking, each project in a portfolio of potential capital investments based on benefits (risk reduction x event consequence) and cost. Scoring involves estimating the reduction in likelihood of an adverse event, as well as the size of consequences associated with specific adverse events, for each potential project.
>
> In the electric distribution business, adverse events could relate to safety, reliability, resilience, cybersecurity, or distributed generation interconnection delays, while the consequences could be estimated in financial impacts to customers or communities associated with each. Regulators are strongly encouraged to require risk-informed decision support for project evaluation, prioritization, and selection in distribution planning processes.

IPL CX-6 at 119.

The City's consultants also caution against "micromanagement" and encourage the very type of stakeholder participation process the Commission has already conducted:

> Transparency and stakeholder participation should be a feature of distribution planning processes. Not only do these features encourage rigor and intellectual honesty, they demand thoughtful consideration and negotiations among stakeholders about community priorities, the prices customers will pay to satisfy them, and the trade-offs which must be made given limited interest in rate increases.
>
> Transparency and participation have been features of integrated resource planning for some time, and their merits have been demonstrated. There is therefore good reason to apply these features to distribution planning.
>
> On the other hand, micromanagement must be avoided.. . .

IPL CX-6 at 120. Neither Mr. Alvarez nor Mr. Stephens has demonstrated that Indiana is somehow out of pace with the asset management industry, much less in need of a collaborative "do over" or other delay in implementing the policy directives of Indiana's duly elected legislature.

In conclusion, IPL has reasonably identified the extensive qualitative and quantitative benefits of its proposed TDSIC Plan, which is a risk-based plan that is necessary to reduce risk, maintain service reliability and otherwise serve the TDSIC Statute infrastructure objectives. Mr. Alvarez's claimed inability to validate IPL's monetization analysis does not mean the analysis is somehow flawed or otherwise unreasonable. Nor does it warrant rejection of the IPL Plan, its benefits, or the IPL supplemental monetization analysis. As the Industrial Group and City witnesses emphasize, IPL has good service reliability. The TDSIC Plan is focused on avoiding or mitigating customer outages, *e.g.* avoid asset failure, maintain reliability and improve resiliency. As such, IPL's supplemental monetization analysis reasonably used the DOE ICE calculator "Estimate Interruption Costs" model to estimate the value of avoided customer interruption costs. IPL CX-7, 8, 11 and 12. Mr. Alvarez admitted that he did not use this particular ICE model. TR. at C-81, 89, 92-93. Because the instant case does not involve a utility with poor service reliability seeking to use investment to move its reliability metrics to acceptable levels, Mr. Alvarez's ICE model analysis (which used the "Estimate Value of Reliability Improvement" model) is inapposite and not grounds to reject the IPL monetization analysis or the IPL Plan.

4. **CAC/ELPC.** The concerns raised by the CAC and ELPC witnesses, largely exceed the scope of this Section 10 proceeding, and do not justify the rejection of the IPL TDSIC Plan. IPL began its deployment of automated meter reading nearly 20 years ago and has already deployed 174,000 residential AMI meters with few customer complaints. Bentley Rebuttal at 5. While Mr. Olson advocates in favor of an AMI opt out tariff, he has failed to demonstrate there is a problem in IPL's service area warranting this option, much less the associated cost, burden and operational disadvantages. The Commission should conclude it is unnecessary to address the CAC/ELPC recommendations in this proceeding.

Conclusion

The Indiana General Assembly adopted the TDSIC Statute to address the issue of aging transmission and distribution infrastructure. IPL's TDSIC Plan aligns with the TDSIC Statute and should be approved.

Respectfully submitted,

Teresa Morton Nyhart (Atty. No. 14044-49)
Jeffrey M. Peabody (Atty. No. 28000-53)
Lauren M. Box (Atty. No. 32521-49)
BARNES & THORNBURG LLP
11 South Meridian Street
Indianapolis, Indiana 46204
Nyhart Phone: (317) 231-7716
Peabody Phone: (317) 231-6465
Box Phone: (317) 231-7289
Fax: (317) 231-7433
Nyhart Email: tnyhart@btlaw.com
Peabody Email: jpeabody@btlaw.com
Box Email: lauren.box@btlaw.com

ATTORNEYS FOR PETITIONER INDIANAPOLIS POWER & LIGHT COMPANY

CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing was served upon the following via electronic email, hand delivery or First Class, or United States Mail, postage prepaid this 27th day of November, 2019 to:

Jeffrey Reed
Indiana Office of Utility Consumer Counselor
Office of Utility Consumer Counselor
115 West Washington Street, Suite 1500 South
Indianapolis, Indiana 46204
infomgt@oucc.in.gov
jreed@oucc.in.gov

Joseph P. Rompala
Todd A. Richardson
LEWIS & KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, IN 46282-0003
JRompala@Lewis-Kappes.com
TRichardson@lewis-kappes.com

Anne E. Becker
Bette J. Dodd
Lewis & Kappes, P.C.
One American Square, Ste. 2500
Indianapolis, Indiana 46282
ABecker@Lewis-Kappes.com
BDodd@Lewis-Kappes.com

Courtesy copy to:
ETennant@lewis-kappes.com
Atyler@lewis-kappes.com

Jennifer A. Washburn
Margo Tucker
Citizens Action Coalition
1915 West 18th Street, Suite C
Indianapolis, Indiana 46202
jwashburn@citact.org
mtucker@citact.org

Nikhil Vijaykar, Staff Attorney
Adrienne Dunham, Legal Assistant
Environmental Law & Policy Center
35 E. Wacker Drive, Suite 1600
Chicago, Illinois 60601
nvijaykar@elpc.org
adunham@elpc.org

Jeffrey M. Peabody

Teresa Morton Nyhart (Atty. No. 14044-49)
Jeffrey M. Peabody (Atty. No. 28000-53)
Lauren M. Box (Atty. No. 32521-49)
Barnes & Thornburg LLP
11 South Meridian Street
Indianapolis, Indiana 46204
Nyhart Phone: (317) 231-7716
Peabody Phone: (317-231-6465
Box Phone: (317) 231-7289
Fax: (317) 231-7433
Nyhart Email: tnyhart@btlaw.com
Peabody Email: jpeabody@btlaw.com
Box Email: lauren.box@btlaw.com
ATTORNEYS FOR PETITIONER
INDIANAPOLIS POWER & LIGHT COMPANY
DMS 15527885v2

Indianapolis Power & Light Company
Cause No. 45264
Exhibit A

IPL TDSIC Plan Size Analysis

	Date Filed	Cause No.	TDSIC Plan-Direct	TDSIC Plan-Settled[1]	Customer Count	Direct Plan $ per Cust	Settled Plan $ per Cust	7 Year RevReq % Increase-Settled
IPL	**7/24/2019**	45264	$ 1,218,454,910	N/A	494,381	$ 2,465	N/A	7.19%[2]
Duke	**12/7/2015**	44720	$ 1,800,000,000	$ 1,408,300,000	800,000	$ 2,250	$ 1,760	5.13%
Vectren	**2/23/2017**	44910	$ 514,000,000	$ 446,500,000	144,000	$ 3,569	$ 3,101	8.45%
NIPSCO	**12/31/2015**	44733	$ 1,330,000,000	$ 1,250,000,000	461,000	$ 2,885	$ 2,711	6.47%
Other IOU Average			$ 1,214,666,667	$ 1,034,933,333	1,405,000	$ 2,594	$ 2,210	6.68%

Escalated at 2% per Annum to Align with IPL's Plan

	Date Filed	Cause No.	TDSIC Plan-Direct	TDSIC Plan-Settled	Customer Count	Direct Plan $ per Cust	Settled Plan $ per Cust
IPL	**7/24/2019**	45264	$ 1,218,454,910	N/A	494,381	$ 2,465	N/A
Duke	**12/7/2015**	44720	$ 1,910,174,400	$ 1,494,499,226	800,000	$ 2,388	$ 1,868
Vectren	**2/23/2017**	44910	$ 534,765,600	$ 464,538,600	144,000	$ 3,714	$ 3,226
NIPSCO	**12/31/2015**	44733	$ 1,411,406,640	$ 1,326,510,000	461,000	$ 3,062	$ 2,877
Other IOU Average			$ 1,285,448,880	$ 1,095,182,609	1,405,000	$ 2,745	$ 2,338

Notes:

1 - Duke and Vectren amounts are the approved amounts in the respective orders and do not include AMI deferral amounts.

2 - IPL 7 Year Revenue Requirement increase excludes Meter Replacement for comparability to the other IOU increases which also exclude AMI.