FILED
August 16, 2023
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH (CEI SOUTH) FOR: (1) APPROVAL OF CEI SOUTH'S 5-YEAR PLAN FOR TRANSMISSION, DISTRIBUTION AND STORAGE SYSTEM IMPROVEMENTS PURSUANT TO IND. CODE CH. 8-1-39 ("TDSIC PLAN"); (2) AUTHORIZATION OF TDSIC TREATMENT AS PROVIDED IN IND. CODE CH. 8-1-39 **FOR** THE **ELECTRIC** TRANSMISSION. **DISTRIBUTION AND STORAGE SYSTEM** IMPROVEMENTS (AND THE COSTS THEREOF) SET FORTH IN CEI SOUTH'S TDSIC PLAN; (3) APPROVAL **CAUSE NO. 45894** OF CEI SOUTH'S USE OF ITS TDSIC RATE **ADJUSTMENT MECHANISM AND** RELATED ACCOUNTING DEFERRALS, PURSUANT TO IND. CODE 8-1-39, FOR THE TIMELY RECOVERY AND DEFERRAL **OF** COSTS RELATED TO **SUCH** TRANSMISSION, DISTRIBUTION AND STORAGE SYSTEM IMPROVEMENTS (INCLUDING FINANCING COSTS INCURRED DURING CONSTRUCTION); AND (4) APPROVAL OF OTHER RELATED RATEMAKING RELIEF AND TARIFF PROPOSALS CONSISTENT WITH IND. CODE CH. 8-1-39.

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 3
TESTIMONY OF OUCC WITNESS
DEREK J. LEADER
AUGUST 16, 2023

Respectfully submitted,

Thomas R. Harper, Attorney No. 16735-53

Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS DEREK J. LEADER CAUSE NO. 45894 SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH I. INTRODUCTION

Q:	Please state your name, business address, and employment capacity.
A:	My name is Derek J. Leader, and my business address is 115 West Washington St.,
	Suite 1500 South, Indianapolis, Indiana 46204. I am employed by the Indiana
	Office of Utility Consumer Counselor ("OUCC") as a Utility Analyst. My
	qualifications are set forth in Appendix A of this document.
Q:	What is the purpose of your testimony?
A:	My testimony addresses Southern Indiana Gas and Electric Company d/b/a
	CenterPoint Energy Indiana South's ("CEI South" or "Petitioner") request for the
	Indiana Utility Regulatory Commission ("Commission") to approve CEI South's
	proposed 5-year Plan for transmission, distribution, and storage system
	improvements pursuant to Ind. Code ch. 8-1-39 (the "TDSIC Plan"). CEI South
	also requests the Commission: authorize TDSIC treatment as provided in Ind. Code
	ch. 8-1-39 for the electric transmission, distribution, and storage system
	improvements set forth in CEI South's TDSIC Plan; approve the use of CEI South's
	TDSIC rate adjustment mechanism for timely recovery of eighty percent (80%) of
	approved capital expenditures and TDSIC costs of the TDSIC Plan, including
	financing costs incurred during construction; and authorize the deferral of twenty
	A: Q :

percent (20%) of approved capital expenditures and TDSIC costs of the TDSIC

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Plan, and interim deferrals of such costs, until such costs are reflected in CEI 2 South's retail rates. 3 Specifically, I address the usefulness of physical security upgrades, suggest 4 a lower prediction for inflation, and discuss differences between CEI South's wage 5 data and the Bureau of Labor Statistics' data. I recommend CEI South recalculate 6 the economic impact of its Plan using lower numbers for inflation and wages. 7 Petitioner should make sure cameras are placed in compliance with legal 8 requirements. I also recommend CEI South create a robust action plan if its 9 Substation Physical Security plan is approved and its new cameras are installed. 10 Q: Please describe the review and analysis you conducted to prepare your 11 testimony. 12 I reviewed CEI South's Petition, prefiled testimony, exhibits, and workpapers in A: 13 this proceeding. I reviewed CEI South's responses to OUCC data requests. I also 14 reviewed Cause No. 44910 and its most recent update. I compared CEI South's data 15 with the Bureau of Labor Statistics data, reviewed the effectiveness of security 16 cameras, and consulted the latest figures on inflation. 17 0: To the extent you do not address a specific item, issue, or adjustment, does this 18 mean you agree with those portions of CEI South's proposals? 19 No. Excluding any specific adjustments or issues CEI South proposes does not A: 20 indicate my approval of those adjustments or issues. Rather, the scope of my 21 testimony is limited to the specific items addressed herein. 22 Are you sponsoring any attachments? Q: 23 Yes. I am sponsoring Attachment DJL - 1, Data request, Set 1, question and A: 24 response 1-18.

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DEVELOPMENT OF THE TDSIC PLAN II.

Q: How did CEI South develop the TDSIC Plan?

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2 A: Petitioner engaged 1898 & Co. to help to develop, evaluate, and assess the 2024-3 2028 TDSIC Plan. Petitioner used CHA consulting, along with 1898 & Co., to 4 develop initial cost estimates. Mr. Jason De Stigter describes the business case 5 value framework developed by 1898 & Co. to identify investments consistent with Petitioner's TDSIC Plan objectives, which include 1) Deliver Service Safely, 2) 6 7 Maintain Reliability and Resiliency, 3) Manage Asset Lifecycles, and 4) Modernize 8 the Grid¹. The business case value framework includes quantitative and qualitative 9 value drivers, where approximately 81.2% of the TDSIC Plan investment was 10 developed through the quantitative business case assessment. The other 18.8% of 11 the TDSIC Plan was identified based on other system needs by CEI South planning, 12 engineering, field operations, and maintenance teams².

13 Q: Are all Plan project unique estimated costs consistent with AACE Cost Classification System ("AACE")?

A: Yes. With the exception of the Wood Pole Replacement Program and the five Substation Physical Security Surveillance System Projects, all projects identified for the TDSIC Plan include a unique estimated cost that is consistent with the AACE Cost Classification System. Projects to be completed in the first two years of the TDSIC Plan have an AACE Class 2 Criteria, which have an accuracy range of -15% to +20%, while projects to be completed later have a Class 4 estimate with an accuracy range of -30% to +50%.

¹ Direct Testimony of Jason De Stigter, p. 3, lines 23-28.

² *Id.*, p. 5, lines 1-8.

³ Direct Testimony of Stephen Rawlinson, p. 22, ll. 3-15.

Q: 2 Plan? 3 A: 1898 & Co. used two main approaches to estimate the quantified incremental 4 benefits of the TDSIC Plan: Avoided Customer Outages (the quantified measure 5 for the previously mentioned objective 2, Maintain Reliability and Resiliency) and 6 Avoided Reactive and Restoration Costs⁴ (the quantified measure for objective 3, 7 Manage Asset Lifecycles). For investment opportunities identified using the 8 quantitative approach, the business case included qualitative factors as additional 9 benefit streams. Avoided reactive/restoration costs are estimated costs to repair the 10 system as equipment fails, while the costs of customer outages are monetized using 11 the Department of Energy Interruption Cost Estimator calculator. Incremental Plan 12 benefits are calculated as the difference between the cost to invest to prevent system failures, and the cost that would be incurred to repair outages as they occur. The 13 14 TDSIC Plan is estimated to produce quantified benefits of approximately \$681.3 million for an investment level of \$404.6 million in 2023 dollars⁵ (\$454 million in 15 16 nominal terms). 17 Q: How were best estimates of the project costs developed? 18 A: Projects with a high benefit to cost ratio, identified using the methods described 19 above, received detailed cost estimates based on information from 1898 & Co., 20 CHA consulting, and Petitioner's internal records⁶. Total project costs are the

detailed estimates together with contingency and escalation. Escalation was set at

What quantitative techniques were used to estimate the benefits of the TDSIC

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⁴ De Stigter Direct, p. 4, 11. 19-25.

⁵ *Id.*, p. 5, lines 18-20.

⁶ See Rawlinson Direct, p. 24 ll 21-32 through p.25, ll 1-24.

- 1 4% per year for the duration of the TDSIC Plan. 7 Contingency was set at 12.5% for
- 2 projects in year 2024-2025, and 17.5% for projects in years 2026-2028.⁸

III. CEI SOUTH'S REQUEST AND CASE BACKGROUND

- 3 Q: What seven categories of upgrades has Petitioner identified?
- 4 A: The seven programs composing CEI South's 5-Year TDSIC Plan are: (1)
- 5 Distribution 12kV Circuit Rebuilds, (2) Distribution Underground Rebuilds, (3)
- 6 Distribution Automation, (4) Wood Pole Replacements, (5) Transmission Line
- 7 Rebuilds, (6) Substation Rebuilds, and (7) Substation Physical Security Upgrades. 9
- 8 A: What Substation Physical Security Upgrades are proposed and at what cost?
- 9 Q: CEI South plans to spend \$14 million on security improvements in this TDSIC
- Plan, 10 mostly installing cameras to monitor substations 11 and track trespassers.
- 11 CEI South will incur additional costs for the upkeep of the system. 12
- 12 A: Has there been an increase in the threat to substations?
- 13 Q: Yes. CEI South fears "intentional vandalism" 13 as the FBI 14 and the Department of

⁷ *Id.*, p. 26, ll 13-15.

⁸ *Id.*, p. 26, ll 23-27.

⁹ Petition, p. 3.

¹⁰ DE Stigter Direct, p. 33, Table JDD-7.

¹¹ De Stigter Direct, p. 34, l. 7.

¹² DJL-1, 1. 18.

¹³ De Stigter Direct, p. 34, l. 4-5.

¹⁴ Aaron Cooper & John Miller, A vulnerable power grid is in the crosshairs of domestic extremist groups CNN (2023), https://www.cnn.com/2023/02/04/us/us-power-grid-attacks/index.html (last visited Jul 25, 2023).

Homeland Security¹⁵ have identified substations and the greater power grid as potential targets for domestic terrorism. Twenty-five such attacks occurred in 2022, including a December attack which attracted national media attention.¹⁶ Relatively low-tech attackers, often individuals with rifles, can do millions of dollars in damage and disrupt power for days.¹⁷

Q: Will cameras prevent such destruction?

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A: Cameras provide more information but are not a defense by themselves. CEI

South's affiliate, CenterPoint Energy Houston, is able to spot trespassers on

substation facilities on a regular basis, which allows them to dispatch crews to

check the security and operation of the equipment on site. EEI South was unable

to provide data on response times. A rapid response and an inventory of key

replacement equipment would be essential to success.

13 Q: What issues should CEI South be aware of in regard to the placement and use of cameras?

15 A: Indiana has several laws regarding the placement and use of cameras. In
16 determining the placement and use of cameras, I recommend: CEI South ensure
17 compliance with all applicable laws; place signage alerting visitors to the presence

John Miller, Attacks on US Power Grid have been subject of extremist chatter for years. DHS Bulletin warns of attacks on critical infrastructure amid other targets CNN (2022), https://www.cnn.com/2022/12/05/us/us-power-grid-attack-north-carolina-extremist-terrorism/index.html (last visited Jul 25, 2023).

Aaron Cooper & John Miller, A vulnerable power grid is in the crosshairs of domestic extremist groups CNN (2023), https://www.cnn.com/2023/02/04/us/us-power-grid-attacks/index.html (last visited Jul 25, 2023).

¹⁷ Aaron Cooper & John Miller, A vulnerable power grid is in the crosshairs of domestic extremist groups CNN (2023), https://www.cnn.com/2023/02/04/us/us-power-grid-attacks/index.html (last visited Jul 25, 2023).

¹⁸ DJL-1, 1, 18.

of cameras; and locate cameras consistent with the requirements of applicable audio and video recording laws.

IV. WAGES AND INFLATION

3 Why does CEI South calculate wages and inflation? Q: 4 A: CEI South calculates wages and inflation as inputs to determine both the costs and 5 the benefits of its TDSIC Plan. These numbers are very important, as they decide 6 if some projects are worth pursuing at all. 7 Q: What was inflation over the year ending June 2023? 8 According to the Bureau of Labor Statistics, "Over the year ended June 2023, A: 9 consumer prices increased 3.0 percent."19 10 Were steps taken after June 2023 to reduce inflation? 0: 11 A: Yes. After June 2023's inflation numbers were published, the Federal Reserve raised interest rates again.²⁰ 12 13 Q: **How does CEI South expect Inflation to change?** CEI South expects inflation to rise to 4% for the next five years.²¹ I cannot agree 14 A: with Petitioner, and I would recommend it re-do its calculations with a more 15 16 reasonable 3% inflation rate for the next five years. As noted above, the most recent

¹⁹ Consumer prices up 3.0 percent over the year ended June 2023, U.S. Bureau of Labor Statistics (2023),https://www.bls.gov/opub/ted/2023/consumer-prices-up-3-0-percent-over-the-year-ended-june-2023.htm#:~:text=Over%20the%20year%20ended%20June%202023%2C%20consumer%20price

^{2023.}htm#:~:text=Over%20the%20year%20ended%20June%202023%2C%20consumer%20price s%20increased%203.0,month%20increase%20since%20March%202021. (last visited Jul 31, 2023).

Rob Wile, Federal Reserve raises interest rates to highest point in more than 20 years NBCNews.com (2023), https://www.nbcnews.com/business/economy/interest-rate-hike-july-2023-how-much-higher-federal-reserve-rcna96210 (last visited Jul 31, 2023).

²¹ Rawlinson Direct, p. 26, l. 14-15.

1 inflation numbers are already at 3%, and further steps are being taken to reduce 2 inflation. 3 Q: How did CEI South calculate its average wage? 4 A: In Data Response 1-2, CEI South explained: 5 To calculate the average job wage for Indiana, S&L divides the Labor Income results within Indiana (as calculated by IMPLAN) by the 6 7 Employment results within Indiana (as calculated by IMPLAN). The total Labor Income within Indiana divided by the total Employment within 8 9 Indiana is noted to be the average wage in Indiana for the study.²² A similar process was then performed for the other 49 states as a whole.²³ 10 11 Q: Do you agree with CEI South's use of an average wage calculation? 12 A: No. CEI South's study should have featured a median wage. As the Social Security 13 Administration notes, "the median wage is substantially less than the average wage. 14 The reason for the difference is that the distribution of workers by wage level is highly skewed."²⁴ The median wage in Indiana for 2022 was \$42,100.²⁵ However, 15

²² DJL-1, 1-2.

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CEI South projects an average wage in Indiana of \$85,091, just over double the

median.²⁶ The Social Security administration found a median wage across the

United States of \$58,129.99 for 2021.²⁷ I find \$42,100 to \$58,130 a much more

 $^{^{23}}$ *Id*.

Social Security, Average wages, median wages, and wage dispersion (2022), https://www.ssa.gov/oact/cola/central.html (last visited Jul 25, 2023).

Select a State, Rank List: States in Profile (2023), https://www.statsamerica.org/sip/rank_list.aspx?ct=S09&item_in=00-0000&rank label=ow c (last visited Jul 25, 2023).

²⁶ Petitioner's Exhibit No. 4, Attachment MRT-1, p. 9.

²⁷ Social Security, Average wages, median wages, and wage dispersion (2023), https://www.ssa.gov/oact/cola/central.html (last visited Jul 25, 2023).

1 reasonable salary for the wide spectrum of jobs CEI South is likely to create. I 2 suggest that CEI South recalculate the impact of its spending with \$42,100 for 3 inside Indiana jobs and \$58,130 for outside Indiana jobs. The figures should 4 be modified by inflation projections as described above. 5 Q: Does your recommendation regarding inflation and wages protect 6 affordability? 7 A: Yes. Using more accurate numbers for inflation and wages can prevent unnecessary 8 spending and help limit excessive impacts to ratepayers.

V. <u>RECOMMENDATIONS</u>

9 Q: What do you recommend?

- I recommend CEI South re-do its calculations with lower inflation and wages as
 described above. Specifically, that would be utilizing a 3% inflation over the next
 five years, \$42,100 for jobs within Indiana, and \$58,130 for jobs outside Indiana.

 CEI South should make sure cameras are placed in compliance with legal
 requirements. I also recommend CEI South create a robust action plan if its
 Substation Physical Security plan is approved, and its new cameras are installed.
- 16 Q: Does this conclude your testimony?
- 17 A: Yes.

APPENDIX A

QUALIFICATIONS OF DEREK J. LEADER

1 Q: Please describe your educational background and experience.

A:

I graduated with a Bachelor of Art degree in Economics from Trinity University in San Antonio, Texas, in 2012, and acquired a second bachelor's degree in Math from Western Governors University out of Salt Lake City, Utah in 2016. I worked as an accountant for Defense Finance and Accounting from May 2011 to August 2011. I was a student trainee at Fort Carson's U.S. Army Dental Activity from July 2012 to September 2012. I worked at Rose-Hulman Institute of Technology as a recreation assistant from August 2013 to November 2013.

I did my student teaching at Northview High School of Clay County from August to November of 2015. I taught high school math at Shiloh CUSD#1 in Hume, Illinois from August 2016 to July 2017. I taught math, science, and social studies at George W. Julian 57 from August 2017 to July 2018. I taught math and robotics at Woodrow Wilson Middle School from August 2018 to January 2019. I taught math at Marion High School from August 2019 to July 2021. I taught math at Riverton Parke Jr/Sr High School from August 2021 to July 2022.

I began my career with the OUCC in August 2022. As part of my continuing education, I have attended the Michigan State University Institute of Public Utilities Annual Regulatory Studies Program - Fundamentals Course on August 8-12, 2022, and the Advanced Cost Allocation and Rate Design Course on November 14-17, 2022. I have also taken Fundamentals of Utility Law presented by Scott Hempling and NARUC Regulatory Training Initiative.

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- 1.18: Regarding the testimony of Witness Jason Christopher Freeman, page 3, lines 7-16.
 - a) Please provide examples and data from CenterPoint Houston's physical security system operation of the financial and logistical benefits realized as a result from the costs of having these additional systems in place.
 - b) How have CenterPoint Energy Houston's installed physical security improvements provided documented evidence of usefulness in the alerting of needs to respond to issues at the substations?
 - c) Has CenterPoint Energy Houston experienced cost savings realized in its insurance risk premiums with the substation security improvements? If so, has CEI South composed an estimate of whether similar insurance savings would be available to offset the cost recovery request in this cause?
 - d) Will CEI South incur additional operation and maintenance costs in running this security system on a recurring or subscription basis?
 - e) If the answer to part d) is yes, are these costs going to be sought for recovery through future TDSIC rider updates?
 - f) If the answer to part d) is yes, will the O&M costs be internal or external?
 - g) If the answer to part f) involves external cost recovery, can CEI South provide a contract for OUCC to review?

Objection: Petitioner objects to the Request on the grounds and to the extent that it seeks information that is confidential due to Homeland Security concerns. Petitioner further objects to the Request on the grounds and to the extent the request seeks information, which is trade secret or other proprietary, confidential, and competitively sensitive business information of Petitioner or other entities. Petitioner and/or other entities have made reasonable efforts to maintain the confidentiality of this information. Such information would cause an identifiable harm to Petitioner or other entities, its customers, or third parties. The responses are "trade secret" under law (Ind. Code § 24-2-3-2) and entitled to protection against disclosure. See also Indiana Trial Rule 26(C)(7). Petitioner further objects to the Request on the separate and independent grounds that the Request seeks responses and information from an entity that is not a party to this proceeding and the requested information is not presently in Petitioner's possession, custody or control. The requested information is information of CenterPoint Houston, not CEI South. This information belongs, and specifically pertains, to CenterPoint Houston. CEI South is not authorized to provide detailed information of this nature on behalf of CenterPoint Houston.

Response: Subject to and without waiver of the foregoing objection, Petitioner responds as follows:

- a. See objection. CenterPoint Houston is a separate operating company, and their data will only be shared in the abstract rather than providing specifics. CenterPoint Houston is able to identify trespassers on substation facilities on a regular basis. This provides the ability for crews to be dispatched to check the security and operation of the equipment on site.
- b. See objection. The ability to know immediately of a security breach allows for substation equipment to be assessed for proper operation and inspected for tampering in a more timely

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manner than if the breach were not detected until there was an equipment issue or a sign of breach was found by personnel on site. Also, having monitoring of the substation facility allows for all breaches to be reported rather than having trespassers on site and no one ever knowing.

- c. See objection. No.
- d. Yes
- e. No
- f. There will be external licensing fees to add new devices to enterprise system. There will be external fees for monitoring.
- g. No. There is not a contract. There is a non-negotiable charge for each device. The external monitoring services (and associated fees) will be added to an existing CenterPoint Energy Service Company agreement already in use. Agreement is attached as "45894_OUCC DR01.1.18 Security Monitoring Contract CONFIDENTIAL".

AFFIRMATION

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

Utility Analyst II

Indiana Office of Utility Consumer Counselor

Cause No. 45894

CEIS

August 16, 2023

Date:

CERTIFICATE OF SERVICE

This is to certify that a copy of the *OUCC's Public's Exhibit No. 3 Testimony of Derek J. Leader* has been served upon the following parties of record in the captioned proceeding by electronic service on August 16, 2023.

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