

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) AUTHORITY TO MODIFY ITS)
RATES AND CHARGES FOR ELECTRIC UTILITY)
SERVICE THROUGH A PHASE-IN OF RATES, (2))
APPROVAL OF NEW SCHEDULES OF RATES AND)
CHARGES, AND NEW AND REVISED RIDERS,)
INCLUDING BUT NOT LIMITED TO A NEW TAX)
ADJUSTMENT RIDER AND A NEW GREEN)
POWER RIDER (3) APPROVAL OF A CRITICAL)
PEAK PRICING (“CPP”) PILOT PROGRAM, (4))
APPROVAL OF REVISED DEPRECIATION RATES)
APPLICABLE TO ELECTRIC AND COMMON)
PLANT IN SERVICE, (5) APPROVAL OF)
NECESSARY AND APPROPRIATE ACCOUNTING)
RELIEF, INCLUDING AUTHORITY TO)
CAPITALIZE AS RATE BASE ALL CLOUD)
COMPUTING COSTS AND DEFER TO A)
REGULATORY ASSET AMOUNTS NOT ALREADY)
INCLUDED IN BASE RATES THAT ARE)
INCURRED FOR THIRD-PARTY CLOUD)
COMPUTING ARRANGEMENTS, AND (6))
APPROVAL OF AN ALTERNATIVE)
REGULATORY PLAN GRANTING CEI SOUTH A)
WAIVER FROM 170 IAC 4-1-16(f) TO ALLOW FOR)
REMOTE DISCONNECTION FOR NON-PAYMENT)

CAUSE NO. 45990

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR’S PROPOSED ORDER

The Indiana Office of Utility Consumer Counselor (“OUCC”) submits and serves its proposed order in Word and PDF formats. The OUCC’s proposed order incorporates Petitioner’s proposed order with the OUCC’s recommended changes as redlined within the copies submitted.

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND)
ELECTRIC COMPANY D/B/A CENTERPOINT)
ENERGY INDIANA SOUTH (“CEI SOUTH”) FOR)
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AND CHARGES, AND NEW AND REVISED)
RIDERS, INCLUDING BUT NOT LIMITED TO A) CAUSE NO. 45990
NEW TAX ADJUSTMENT RIDER AND A NEW)
GREEN POWER RIDER (3) APPROVAL OF A) APPROVED:
CRITICAL PEAK PRICING (“CPP”) PILOT)
PROGRAM, (4) APPROVAL OF REVISED)
DEPRECIATION RATES APPLICABLE TO)
ELECTRIC AND COMMON PLANT IN SERVICE,)
(5) APPROVAL OF NECESSARY AND)
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RATE BASE ALL CLOUD COMPUTING COSTS)
AND DEFER TO A REGULATORY ASSET)
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RATES THAT ARE INCURRED FOR THIRD-)
PARTY CLOUD COMPUTING)
ARRANGEMENTS, AND (6) APPROVAL OF AN)
ALTERNATIVE REGULATORY PLAN)
GRANTING CEI SOUTH A WAIVER FROM 170)
IAC 4-1-16(f) TO ALLOW FOR REMOTE)
DISCONNECTION FOR NON-PAYMENT.)

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ORDER OF THE COMMISSION

Presiding Officers:

David E. Veleta, Commissioner

Jennifer L. Schuster, Administrative Law Judge

On December 5, 2023, Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South (“CEI South,” “Company,” or “Petitioner”) filed its Verified Petition for General Rate Increase and Associated Relief Under Ind. Code § 8-1-2-42.7, an Alternative Regulatory Plan (“ARP”) under Ind. Code Ch. 8-1-2.5, and Notice of Provision of Information in Accordance with the Minimum Standard Filing Requirements (“Petition”) with the Indiana Utility Regulatory Commission (“Commission” or “IURC”). CEI South seeks (1) authority to modify its rates and charges for electric utility service through a phase-in of rates; (2) approval of new schedules of rates and charges and new and revised riders including, but not limited to, a new tax adjustment rider (“TAR”) and a new green energy rider; (3) approval of a critical peak pricing (“CPP”) pilot program; (4) approval of revised depreciation rates applicable to electric and common plant in service, (5) approval of necessary and appropriate accounting relief, including authority to capitalize as rate base all cloud computing costs and defer to a regulatory asset amounts not already included in base rates that are incurred for third-party cloud computing arrangements (“CCAs”); (6) approval of an ARP granting CEI South a waiver from 170 Ind. Admin. Code (“IAC”) § 4-1-16(f) to allow for remote disconnection for non-payment, and (7) other requests, as described in the Verified Petition.

That same day CEI South also filed the direct testimony, attachments, and financial exhibits (in Excel and PDF format) constituting its case-in-chief in this Cause, including direct testimony from the following witnesses:¹

- Richard Leger, Interim Vice President, Natural Gas Business,² CEI South
- Chrissy M. Behme, Manager, Regulatory Reporting, CenterPoint Energy Service Company, LLC (“Service Company”)
- Stephanie E. Gray, Manager, Indiana Electric Finance Planning and Analysis, Service Company
- Stephen R. Rawlinson, Director of Electric Engineering, CEI South
- Amy L. Folz, Director, Indiana High Voltage Operations, CEI South
- Gregg M. Maurer, Director, Indiana Electric Distribution Operations, CEI South
- F. Shane Bradford, Vice President of Power Generation Operations, CEI South

¹ On March 1, 2024, corrections were submitted to the direct testimony of CEI South witnesses Behme, Gray, Maurer, Bradford, Bahr, Williford, Kopp, and Bulkeley. On March 7, 2024, corrections were submitted to the direct testimony of CEI South witnesses Rice and Forshey. On August 28, 2024, additional corrections were filed for CEI South witness Bulkeley’s direct testimony. In addition, at the evidentiary hearing, CEI South witnesses Leger and Rice each made corrections to their direct testimony.

² On January 12, 2024, Petitioner late-filed CEI South witness Leger’s Attachments RCL-3 and RCL-4, consisting of Proofs of Legal Notice Publication and Customer Notice and certified that the legal notice required to be published under to Ind. Code §§ 8-1-2-61(a) and 8-1-2.5-6(d) had been published and posted to Petitioner’s website.

- Ronald W. Bahr, Vice President, Information Technology, Service Company
- Christopher G. Wood, Director of Process and Data Governance, Service Company
- Deneisia R. Williford, Vice President of Total Rewards & Technology,³ Service Company
- Jeffrey T. Kopp, Senior Managing Director, Energy & Utilities Consulting, 1898 & Co.
- John J. Spanos, President, Gannet Fleming Valuation and Rate Consultants, LLC⁴
- Ann E. Bulkley, Principal, The Brattle Group
- Brett A. Jerasa, Assistant Treasurer, Service Company
- Jennifer K. Story, Vice President of Tax, Service Company
- Michael E. Russo, Senior Forecast Consultant, Itron
- Justin L. Forshey, Director, Energy Solutions and Business Development – Midwest, Service Company
- John D. Taylor, Managing Partner, Atrium Economics
- Matthew A. Rice, Director, Indiana Electric Regulatory and Rates, Service Company

On December 5, 2023, Petitioner also filed a First Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which was granted in a Docket Entry dated December 20, 2023. CEI South filed a Second Motion for Protection and Nondisclosure of Confidential and Proprietary Information on March 28, 2024, which was granted in a Docket Entry dated April 10, 2024. Petitioner filed a Third Motion for Protection and Nondisclosure of Confidential and Proprietary Information on April 4, 2024, and a Fourth Motion for Protection and Nondisclosure of Confidential and Proprietary Information on April 9, 2024, both of which were granted in a Docket Entry dated April 12, 2024.

Additionally, on December 5, 2023, Petitioner filed its Submission of Minimum Standard Filing Requirements.

Petitions to intervene were filed on December 6, 2023, by Citizens Action Coalition of Indiana, Inc. (“CAC”), and CenterPoint Energy Indiana South Industrial Group (“CEIS Industrial Group,” “Industrial Group,” or “IG”), on January 16, 2024, by SABIC Innovative Plastics Mt. Vernon, LLC (“SABIC”), and on February 16, 2024, by the Common Council of the City of Evansville, Indiana (“Evansville Council”). All of these petitions to intervene were granted.

On December 28, 2023, a Docket Entry was issued establishing the procedural schedule and the test year for purposes of determining CEI South’s projected operating revenues, expenses, and operating income. The procedural schedule was subsequently amended on January 17, 2024, in response to an unopposed motion the Indiana Office of Utility Consumer Counselor (“OUCC”) filed to amend the procedural schedule. The January 17, 2024 Docket Entry also established the forward-looking test year as the 12-month period ending December 31, 2025, and the rate base

³ Ms. Williford’s title changed on February 12, 2024, after her direct testimony was filed. Pet. Ex. 10-R at 1.

⁴ On January 5, 2024, CEI South submitted a corrected version of the pre-filed testimony of witness Spanos and filed a motion to substitute the corrected version for the initial public version of witness Spanos’ pre-filed testimony, which inadvertently included confidential information.

cutoff date at the end of the test year, with associated rate base cutoff dates for each phase of CEI South's originally proposed three-phase increase.

Pursuant to Ind. Code § 8-1-2-61(b), two public field hearings were held in Evansville on February 29, 2024, over the course of approximately nine hours. Hundreds of CEI South ratepayers and public officials from multiple government bodies attended these hearings, with almost 80 attendees presenting testimony, including the Mayor of Evansville, members of the Evansville Council, and other elected officials from communities served by CEI South.

On March 12, 2024, the OUCC, CEIS Industrial Group, CAC, Evansville Council, and SABIC prefiled their respective cases-in-chief and/or direct testimony.

The OUCC's case-in-chief included thousands of CEI South customer comments⁵ and testimony and attachments from the following witnesses:⁶

- Michael D. Eckert, Director, OUCC's Electric Division
- Brian R. Latham, Utility Analyst, OUCC's Electric Division
- Kaleb G. Lantrip, Utility Analyst, OUCC's Electric Division
- Brittany L. Baker, Utility Analyst, OUCC's Electric Division
- Jason T. Compton, Utility Analyst, OUCC's Water/Wastewater Division
- Margaret A. Stull, Chief Technical Advisor, OUCC's Water/Wastewater Division
- Cynthia M. Armstrong, Assistant Director, OUCC's Electric Division
- Brian Wright, Utility Analyst II, OUCC's Electric Division
- Greg L. Krieger, Utility Analyst, OUCC's Electric Division
- Shawn Dellinger, Senior Utility Analyst, OUCC's Water/Wastewater Division
- April M. Paronish, Assistant Director, OUCC's Electric Division
- David J. Garrett, Managing Member, Resolve Utility Consulting, PLLC
- Dr. David D. Dismukes, Consulting Economist, Acadian Consulting Group

The OUCC filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information on March 12, 2024, that was preliminarily granted on April 10, 2024, with the OUCC subsequently submitting the Confidential Information instructed in the docket entry.

CEIS Industrial Group's prefiled case-in-chief included testimony and attachments from the following witnesses:

- Michael P. Gorman, Managing Principal, Brubaker & Associates, Inc.
- Jessica York, Principal, Brubaker & Associates, Inc.

⁵ The customer comments were supplemented by motion filed on April 24, 2024, that was granted on April 25, 2024.

⁶ On March 19, 2024, a correction to redact additional information in OUCC witness Wright's testimony was filed. On March 28, 2024, corrections were submitted to OUCC witnesses Eckert, Lantrip, and Paronish's direct testimony. On April 10, 2024, corrections were submitted to the testimony of OUCC witnesses Paronish and Krieger, and on April 25, 2024, corrections were submitted to the testimony of OUCC witnesses Eckert, Latham, Lantrip, Compton, Stull, and Krieger.

CEIS Industrial Group also filed two motions for protection and nondisclosure of confidential and proprietary information on March 12 and March 14, 2024, respectively. Both motions were preliminarily granted on April 10, 2024, with CEIS Industrial Group submitting the Confidential Information pursuant to the docket entry instructions.

CAC's prefiled case-in-chief included testimony and attachments from the following witnesses⁷:

- Kerwin Olson, Executive Director, CAC
- Benjamin Inskeep, Program Director, CAC
- Justin Barnes, President, EQ Research, LLC

The Evansville Council prefiled testimony from Zachary Heronemus, President of the Evansville Council.

SABIC prefiled the testimony and attachments of Kyra J. Coyle, Senior Manager, NewGen Strategies & Solutions, LLC.⁸

On April 9, 2024, CEIS Industrial Group filed cross-answering testimony for IG witness Jessica A. York,⁹ and CAC filed cross-answering testimony for CAC witnesses Inskeep and Barnes.

Also on April 9, 2024, CEI South filed its rebuttal testimony, exhibits, and the workpapers of CEI South witnesses Leger, Behme, Rawlinson, Folz, Bradford, Bahr, Williford, Spanos, Bulkley, Jerasa, Story, Russo, Forshey, Taylor, Rice, and Jason A. Cunningham, Manager, Property Accounting, for the Service Company.¹⁰ Revised excel and PDF versions of the revenue requirement model were also filed.

On April 22, 2024, the OUCC moved to strike certain portions of CEI South's rebuttal testimony and attachments. Pursuant to the Commission's briefing schedule set by the docket entry dated April 23, 2024, CEI South responded to the OUCC's motion on April 25, 2024, and the OUCC replied on April 29, 2024. No objections were raised to the admission of testimony at the evidentiary hearing, so the Commission views the motion to strike as moot.

On April 26, 2024, CEI South moved for a two-day continuance to reschedule commencement of the evidentiary hearing set for April 30, 2024, in order for settlement discussions among the parties to continue. CEI South's motion was granted on April 26, 2024, with commencement of the evidentiary hearing rescheduled to May 2, 2024. On April 30, 2024, CEI South moved for an additional one day continuance to continue settlement discussions which was granted on May 1, 2024, and rescheduled commencement of the evidentiary hearing to May 3, 2024. A third and a fourth motion for a continuance to continue settlement discussions were

⁷ On March 22, 2024, CAC filed an opposed revised redaction to CAC witness Barnes' testimony.

⁸ A correction to redact certain additional information was filed on April 18, 2024.

⁹ A revised version of witness York's cross-answering testimony was filed on April 24, 2024.

¹⁰ Corrections to Mr. Rice's rebuttal testimony were filed on August 20, 2024. Mr. Rice identified further corrections to his rebuttal testimony at the evidentiary hearing on September 11, 2024.

also filed by CEI South on May 2 and May 8, 2024, respectively, both of which were granted and resulted in the evidentiary hearing being rescheduled to commence on May 14, 2024.

On April 29, 2024, a Docket Entry was issued in which CEI South was requested to respond to Commission questions and provide additional information. CEI South filed public and confidential responses on May 2, 2024 (Pet. Ex. 23 and 23-C).

On May 10, 2024, CEI South updated the Commission upon the settlement discussions and filed an uncontested motion to vacate the procedural schedule, stating CEI South would be filing a proposed procedural schedule by May 14, 2024 for the submission of the non-unanimous settlement CEI South had reached. On May 13, 2024, this motion was granted, all further procedural dates and deadlines were vacated, and it was stipulated that if the parties to the settlement did not reach an agreement on a new settlement procedural schedule by May 14, a new evidentiary hearing date would be set for May 29, 2024.

On May 14, 2024, CEI South filed a proposed procedural schedule agreed upon by CEI South, CEIS Industrial Group, and SABIC (collectively, the “Settling Parties”) that was approved on May 15, 2024. On May 17, 2024, the Settling Parties filed an updated settlement procedural schedule that included additional proceedings for the non-settling parties to contest the Settling Parties’ procedural schedule. The updated settlement procedural schedule was approved on May 22, 2024, with the hearing set for May 29, 2024, rescheduled as a settlement hearing to commence on September 3, 2024.

On May 20, 2024, CEIS Industrial Group filed settlement testimony for IG witnesses York and Gorman supporting the non-unanimous settlement. That same day, CEI South filed settlement testimony, exhibits, and workpapers for CEI South witnesses Behme, Jerasa, Taylor, and Rice.¹¹

On July 19, 2024, the OUCC filed settlement testimony, exhibits, and workpapers opposing the Settlement for OUCC witnesses Eckert (Pub. Ex. 1-S), Compton (Pub. Ex. 5-S), Stull (Pub. Ex. 6-S), Wright (Pub. Ex. 8-S), Krieger (Pub. Ex. 9-S), Dellinger (Pub. Ex. 10-S), Dismukes (Pub. Ex. 12-S), and Paronish (Pub. Ex. 13-S). Among its concerns, the OUCC disagreed that the Settlement CEI South had reached with certain industrial customers was in the public interest, appropriately incited CEI South to improve its abysmal customer service ratings, and properly considered the affordability of the agreed rates upon all customer classes, particularly the residential customers who voiced vehement opposition at the field hearings and in their written comments. The OUCC also challenged the cost allocation and whether it complied with the gradualism the Commission has endorsed.

On July 19, 2024, CAC filed settlement testimony, exhibits, and workpapers opposing of the Settlement for CAC witnesses Inskeep and Barnes.¹²

¹¹ On May 21, 2024, CEI South submitted the Settling Parties’ Joint Exhibit No. 1, the Stipulation and Settlement Agreement among the Settling Parties (“Settlement Agreement” or “Settlement”) that was inadvertently omitted from Petitioner’s filing on May 20, 2024. On August 23 and August 28, 2024, corrections were submitted to CEI South witness Rice’s settlement direct testimony and attachments. Mr. Rice identified corrections to his settlement testimony at the evidentiary hearing on September 11, 2024.

¹² On July 23, 2024, CAC submitted corrections to CAC witness Inskeep’s testimony.

On August 2, 2024, CEI South, the CEIS Industrial Group, and SABIC filed settlement rebuttal testimony for witnesses Jerasa, Taylor, Rice, Gorman, York and Coyle, respectively.

On August 26, 2024, the Commission issued a Docket Entry requesting additional information from CEI South upon the cost allocation methodology selected, to which CEI South responded on August 28, 2024 (Pet. Ex. 24).

The Commission held an evidentiary hearing in this Cause starting on September 10, 2024, at 1:30 p.m. and continuing on September 11, 2024, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. CEI South, the OUCC, and Intervenors were present, by counsel, and participated. The parties' testimony and exhibits were admitted into the record without objection.

Having considered the evidence presented and based on the applicable law, the Commission now finds:

1. Notice and Jurisdiction. Due, legal, and timely notice of the Verified Petition filed in this Cause was given and published by Petitioner as required by law. Petitioner provided proper and timely notice to its customers summarizing the nature and extent of the proposed changes in its electric rates and charges. Pet. Ex. 1, Attachments RCL-3 and RCL-4. Due, legal, and timely notice of the public hearings scheduled in this Cause was also given and published as required by law. CEI South is a "public utility" as defined in Ind. Code ch. 8-1-2 and is subject to the Commission's jurisdiction in the manner and to the extent provided by Indiana law. CEI South is also a "utility" within the meaning of Ind. Code § 8-1-2-42.7(c). As defined in Ind. Code § 8-1-2.5-2, Petitioner is an "energy utility" and its electric service constitutes "retail energy service" as defined in Ind. Code § 8-1-2.5-3. Petitioner elected to become subject to the provisions of Ind. Code §§ 8-1-2.5-5 and 6. Accordingly, the Commission has jurisdiction over CEI South and the subject matter of this proceeding.

2. Petitioner's Organization and Utility Properties. Petitioner is a public utility incorporated under Indiana law with its principal office located at 211 NW Riverside Drive in Evansville, Indiana.

CEI South is engaged in the business of rendering retail electric service solely within the State of Indiana. CEI South owns, operates, manages, and controls, among other things, plant, property, equipment, and facilities (collectively, the "Utility Properties") that are used and useful for the production, storage, transmission, distribution, and furnishing of electric service to approximately 150,000 electric consumers in southwestern Indiana. Petitioner's service territory is spread throughout Pike, Gibson, Dubois, Posey, Vanderburgh, Warrick, and Spencer counties. Pet. Ex. 1, Attachment RCL-1 (Petition) at ¶2.

Petitioner has maintained, and continues to maintain, its Utility Properties in good operating condition, complying with state and federal regulatory requirements and standards for electric utility operations. The net original cost of Petitioner's rate base at December 31, 2023, as adjusted, was projected to be approximately \$1,827,211,874. The net original cost of Petitioner's rate base in service at December 31, 2024, as adjusted, was projected to be approximately \$1,930,379,152. The net original cost of Petitioner's rate base in service at December 31, 2025, as

adjusted, is projected to be approximately \$2,820,468,760. Further, to serve the public located in its service area and discharge its duties as a public utility, Petitioner continues to make numerous additions, replacements, and improvements to its utility systems. Pet. Ex. 1, Attachment RCL-1 (Petition) at ¶3.

3. Existing Rates and Filings. CEI South’s existing base rates and charges for electric service were established in 30-day filing #50171, effective June 1, 2018, pursuant to the Commission’s February 16, 2018 Order in Cause No. 45032, its investigation into the impact on Indiana utilities and customers from the December 22, 2017 Tax Cuts and Jobs Act of 2017 (“TCJA”), as reduced in Petitioner’s 30-day filing #50548, effective July 1, 2022, to give effect to the repeal of the Utility Receipts Tax. The rates approved effective June 1, 2018, and July 1, 2022, reduced CEI South’s existing base rates and charges for electric utility service established in the base rate case Order issued on April 27, 2011, in Cause No. 43839. More than 15 months have passed since the filing date of CEI South’s last request for a general increase in its basic rates and charges.

Pursuant to Ind. Code § 8-1-2-42(d), CEI South files a quarterly Fuel Adjustment Clause (“FAC”) proceeding in Cause No. 38708 FAC XXX, to adjust Petitioner’s rates to account for fluctuations in its fuel and purchased energy costs.

CEI South files an annual proceeding in Cause No. 43405 DSMA XX to recover, via its approved Demand Side Management Adjustment (“DSMA”), demand side management costs, including costs associated with the direct load control inspection and maintenance program, performance incentives, and lost margins.

CEI South also annually files a proceeding in Cause No. 44909 CECA XX to recover via its approved Clean Energy Cost Adjustment (“CECA”) eligible costs of approved clean energy projects under Ind. Code ch. 8-1-8.8, including (a) engineering and project management, management and administration, permitting, contractor site preparation, equipment, and installation costs during construction; and (b) depreciation expense, post-in-service carrying costs (“PISCC”), taxes, and operation and maintenance (“O&M”) expense once the projects are placed in service. CEI South’s current CECA mechanism includes a component to pass back credits resulting from the Inflation Reduction Act of 2022 (“IRA”). As discussed below, CEI South proposes to remove this component from the CECA mechanism and include it in a separate TAR. In addition, CEI South uses the CECA mechanism to pass on to customers revenues from the sale of renewable energy credits (“RECs”) related to CEI South’s various renewable energy projects.

CEI South files annual Environmental Cost Adjustment (“ECA”) proceedings in Cause No. 45052 ECA XX to effectuate timely recovery of 80% of its federally mandated costs (as defined by Ind. Code § 8-1-8.4-2) attributable to the following five compliance projects: (a) federally mandated requirements related to CEI South’s Culley Unit 3 generating station (“Culley 3 Project”); (b) clean coal technology projects at CEI South’s Culley Unit 3 and Warrick Unit 4 (collectively, the “MATS Projects”); (c) federally mandated requirements to close CEI South’s A.B. Brown ash pond (“Brown Pond Project”); (d) federally mandated compliance projects including a dry fly ash loading facility (“Dry Ash Compliance Project”) and federally mandated lined ponds at the A.B. Brown and F.B. Culley generating stations to handle coal-pile runoff, flue gas desulfurization wastewater, and other flows such as stormwater and landfill leachate in

compliance with the EPA’s coal combustion residuals (“CCR”) rules (Pond Compliance Project) (collectively, “CCR Compliance Projects”); and (e) federally mandated requirements to close by removal (“CBR”) CEI South’s F.B. Culley east ash pond (the “CBR Project”).¹³

CEI South annually files Midcontinent Independent System Operator (“MISO”) Cost and Revenue Adjustment (“MCRA”) proceedings in Cause No. 43354 MCRA XX to recover costs associated with nonfuel-related MISO Day 1, Day 2, and Ancillary Services Market costs. CEI South has proposed updates for the MCRA as described in the direct testimony of Matthew A. Rice.

CEI South annually files Reliability Cost and Revenue Adjustment (“RCRA”) proceedings in Cause No. 43406 RCRA XX to track the differences between certain actual costs and revenues and the amounts of those costs and revenues included in CEI South’s base rates. RCRA cost and revenue components include the non-fuel component of purchased power, cost of Environmental Emission Allowances (“EEAs”), Interruptible Sales billing credits, the retail sharing portion of Wholesale Power marketing margins, the margin from Municipal Wholesale Sales, and the retail portion of the margin from EEA sales (net of cost). CEI South has proposed updates for the RCRA as described in the direct testimony of Matthew A. Rice.

Pursuant to the Commission’s September 20, 2017 Order in Cause No. 44910, CEI South semi-annually files a proceeding in Cause No. 44910 TDSIC XX to recover 80% of approved capital expenditures and transmission, distribution, and storage system improvement costs through its transmission, distribution and storage system improvement charges (“TDSIC”) Rider. CEI South’s current TDSIC mechanism includes a component to pass back credits resulting from changes in the federal tax rates under the TCJA. As discussed below, CEI South proposes to remove this component from the TDSIC mechanism and include it in the TAR. CEI South’s Cause No. 44910 TDSIC Plan expired December 31, 2023, and CEI South’s new TDSIC Plan was approved in Cause No. 45894 on December 27, 2023.

As a result of the Commission’s financing Order dated January 4, 2023 in Cause No. 45722, CEI South was authorized to implement, collect, and receive Securitization Charges associated with the securitization of A.B. Brown Units 1 and 2 under its Securitization of Coal Plants Tariff. Per that Order, the accumulated deferred income taxes (“ADIT”) associated with the retiring A.B. Brown Units 1 and 2 are segregated from all other ADIT and not included in calculating Petitioner’s capital structure or otherwise used in finding CEI South’s authorized return in future rate cases. The Order also established a Securitization ADIT Credit tariff to provide an annual credit to customers for the ADIT associated with A.B. Brown Units 1 and 2. In addition, the financing Order required that the excess ADIT associated with A.B. Brown Units 1 and 2 be amortized and returned to customers over the life of the related Securitization Bonds. The excess accumulated deferred income taxes (“EADIT”) resulting from the TCJA are being flowed back to customers via the TDSIC. As described below, CEI South is proposing to continue flowing this EADIT back over the life of the bonds but through the proposed new TAR instead of the TDSIC. The Securitization Rate Reduction (“SRR”) tariff was a temporary rider established in Cause No.

¹³ CEI South’s request for a Certificate of Public Convenience and Necessity for the CBR Project was pending when this Cause was filed but has since been approved by the Commission’s February 7, 2024 Order in Cause No. 45903.

45722 to provide customers with a credit for A.B. Brown Net Plant. CEI South proposes to zero out (subject to variances) the SRR tariff in customer rates in this case, as A.B. Brown Units 1 and 2 will no longer be included in base rates. Pet. Ex. 1, Attachment RCL-1 (Petition) at ¶¶ 4-13.

4. Test Year. As authorized by Ind. Code § 8-1-2-42.7(d)(1) (“Section 42.7”), Petitioner proposed a forward-looking test period using projected data. As provided in the December 28, 2023 and January 17, 2024 Docket Entries, the test year to be used for determining Petitioner’s projected operating revenues, expenses, and operating income is the 12-month period ending December 31, 2025. The historical base period is the 12-month period ending December 31, 2022.

5. CEI South’s Requested Relief. In its case-in-chief, Petitioner requested Commission approval of an overall increase in rates and charges for electric service that will produce additional electric revenues of approximately \$118,757,693. As proposed, this equates to an overall revenue increase of 16.02% from the rates that would have been in effect had this case not been filed. Pet. Ex. 1, Attachment RCL-1 (Petition) at ¶18. As detailed in its case-in-chief, CEI South also requested Commission approval of a new schedule of rates and charges, general rules and regulations, and riders applicable to electric utility service; revised depreciation rates applicable to electric and common plant in service; approval of a mechanism to modify rates prospectively for changes in federal or state income tax rates; and other accounting relief. On rebuttal, Petitioner revised its proposed revenue requirement increase to \$115,445,697. Pet. Ex. 2-R at 4; Pet. Ex. 20-R. In settlement, the proposed revenue requirement increase was revised to \$80,009,617. Pet. Ex. 2-S at 3; Pet. Ex. 20-S.

The Commission approved CEI South’s current electric depreciation rates in Cause No. 43111 on August 15, 2007, and subsequently re-authorized (with a modification to the depreciation rate applicable to the Blackfoot landfill gas generating station) in Cause No. 43839 (April 27, 2011). Petitioner’s current common plant depreciation rates were approved in the Commission’s Order in Cause No. 45447 on October 6, 2021. Depreciation rates for Petitioner’s combustion turbine project (the “CT Project”) and Posey Solar project (“Posey Solar”) were approved in Cause No. 45564 on June 28, 2022, and Cause No 45847 on September 6, 2023, respectively. CEI South seeks approval of new electric and common plant depreciation rates in this Cause based on a study sponsored by CEI South witness John R. Spanos, except under the settlement, the depreciation rates for the CT Project and Posey Solar remain unchanged from what the Commission approved in Cause Nos. 45564 and 45847, respectively.

Petitioner, in its case-in-chief, also requested approval of new riders, including a new Tax Adjustment Rider (“TAR”), a new Green Energy Rider (“Rider GE”), an aggregation demand response rider (“Rider ADR”), a Critical Peak Pricing (“CPP”) pilot program, regulatory accounting treatment for third-party cloud computing arrangements (“CCAs”), an ARP for a waiver from 170 IAC 4-1-16(f) to allow remote disconnections for non-payment, and other requests described elsewhere in this Order. Pet. Ex. 1, Attachment RCL-1 (Petition).

6. Overview of the Evidence.

CEI South’s Case-in-Chief. Mr. Leger described CEI South’s electric utility operations. Pet. Ex. 1 at 3-4. He discussed the guiding principles that inform CEI South’s provision of electric service, and the challenges CEI South has faced. *Id.* at 4-5. He discussed the primary drivers of

the Company's request for rate relief in this proceeding, primarily the TDSIC statutory requirements, rate base growth, and the industry transformation. *Id.* at 9-10. He also explained why CEI South's requested rate increase is reasonable and necessary. *Id.* at 10-11. He discussed the Five Pillars of reliability, resiliency, stability, affordability, and environmental sustainability codified in Ind. Code § 8-1-2-0.6 as the framework to be used to guide decisions concerning Indiana's electric generation resource mix, energy infrastructure, and electric service ratemaking constructs. He discussed how they have been taken into account by the Company when developing its rate proposal. *Id.* at 11-13. He also explained how the Five Pillars can sometimes be conflicting and what the Company has done to specifically address affordability, including customer assistance and federal funding. *Id.* at 13-16.

Ms. Behme supported CEI South's revenue requirement, explained the forecasted 2025 test year for ratemaking purposes and the pro forma adjustments to the test year, and sponsored the details around the phased in approach to implementing rates under Ind. Code § 8-1-2-42.7 and IURC General Administrative Order 2013-05. She also supported certain requests for deferred accounting treatment. Pet. Ex. 2.

Ms. Gray discussed and supported the 2025 unadjusted test year forecast. She also supported the 2024 – 2025 unadjusted Income Statement and Balance Sheet CEI South used in the development of the revenue requirement calculation. Pet. Ex. 3.

Mr. Rawlinson discussed the Company's overall approach to transmission and distribution capital planning. Additionally, he provided information on transmission and distribution capital expenditures completed or planned from June 30, 2009 – the rate base cutoff of in CEI South's last electric rate case (Cause No. 43839) (the "43839 rate base cutoff") – through the end of the 2025 test year. He also provided information on the Company's electric system reliability performance. Pet. Ex. 4.

Ms. Folz discussed CEI South's ongoing reliability initiatives related to Advanced Metering Infrastructure ("AMI") capabilities and supported CEI South's request for Alternative Regulatory Plan treatment and waiver of requirements under 170 IAC 4-1-16(f). Ms. Folz further described CEI South's electric transmission system, substation, and underground network inspection programs. Additionally, she provided an overview of CEI South's Transmission System Operations and MISO affairs. Pet. Ex. 5.

Mr. Maurer described CEI South's commitment to electric service reliability and its operations and maintenance programs, including its overhead and underground maintenance programs, CEI South's Vegetation Management Program, and CEI South's Emergency Operations Plan. Pet. Ex. 6.

Mr. Bradford discussed CEI South's Generation Transition Plan and provided a summary of the material generation capital investments that have been made since the 43839 rate base cutoff through the end of the 2025 test year. He described CEI South's plan to give CEI South customers 100% of the Wholesale Power Market ("WPM") sales margins opportunity as opposed to the present sharing mechanism, and provided an update on CEI South's Urban Research Living Center ("ULRC") project. Pet. Ex. 7.

Mr. Bahr described the information technology (“IT”) services provided by the Service Company to CEI South, along with major enterprise-wide programs and associated charges. Pet. Ex. 8.

Mr. Wood described the services provided, and costs allocated, to CEI South by the Service Company and Vectren Utility Holdings, LLC (“VUH”) and how the allocation process is managed. He also described the Service Level Agreements between Service Company and CEI South; the affiliate agreement between CEI South and VUH; the annual budgeting process; and controls in place to ensure that costs are managed, controlled, and billed properly. Pet. Ex. 9.

Ms. Williford discussed and supported the Company’s employee compensation and benefits. Pet. Ex. 10.

Mr. Kopp sponsored the Company’s Decommissioning Cost Study for CEI South’s power generation assets. Pet. Ex. 11.

Mr. Spanos supported the updated electric and common plant depreciation study and new electric and common plant depreciation accrual rates. Pet. Ex. 12.

Ms. Bulkley supported the Company’s requested return on equity and appropriateness of the capital structure and projected cost of debt. Pet. Ex. 13.

Mr. Jerasa presented the components of the Company’s capital structure and the reasonableness of their projected balances and weighting. In addition, he supported the Company’s projected cost of debt and the overall weighted average cost of capital. Pet. Ex. 14.

Ms. Story discussed the impact of the IRA, and addressed the corporate alternative minimum tax (“CAMT”) and CEI South’s proposed Tax Adjustment Rider (“TAR”). Ms. Story also supported the computation of the income tax expense included in the Company’s cost of service determination and addressed the accumulated deferred income taxes and excess accumulated deferred income tax regulatory liability balances included in the Company’s cost of capital calculation. She sponsored the property tax forecast and the Medicare Part D regulatory liability and associated amortization adjustment. Pet. Ex. 15.

Mr. Russo supported the projected class-level 2025 Test-Year sales and customer forecasts. Pet. Ex. 16.

Mr. Forshey discussed CEI South’s Large Electric customers and the importance of attracting new large customers to southwestern Indiana. He provided support for proposed new and modified riders and CEI South’s Energy Efficiency and Demand Side Management (“DSM”) initiatives. Pet. Ex. 17.

Mr. Taylor presented the results of the Cost of Service study and rate design, and discussed its effect on rates. Pet. Ex. 18.

Mr. Rice sponsored the proposed rates within the Tariff and proposals associated with new and existing adjustment mechanisms. He described the proposed Phase 1, Phase 2 and Phase 3 rate

implementation proposals and supported CEI South's request for a Green Energy Rider ("Rider GE") as well as a Critical Peak Pricing ("CPP") pilot. Pet. Ex. 19.

Petitioner also provided its Financial Exhibit in support of its requested relief in this proceeding in Excel (Pet. Ex. 20) and PDF formats (Pet. Ex. 21).

OUC and Intervenors' Cases-in-Chief. The OUC and intervenors proposed a number of adjustments to the Company's proposed revenue requirements and took issue with numerous other components of CEI South's case-in-chief and proposed rate increase. For instance, the OUC proposed a return on equity ("ROE") of 8.8% (reduced from 9.00% based on OUC's claims of issues with reliability, customer satisfaction, and challenges faced by OUC in analyzing Petitioner's requests). Pub. Ex. 10 at 3 and Pub. Ex. 1 at 25. The OUC also recommended certain operating revenue and expense adjustments. *See, e.g.*, testimony of OUC witnesses Eckert (Pub. Ex. 1), Latham (Pub. Ex. 2), Lantrip (Pub. Ex. 3), Baker (Pub. Ex. 4), Compton (Pub. Ex. 5), Stull (Pub. Ex. 6), Armstrong (Pub. Ex. 7) and Krieger (Pub. Ex. 9). After corrections to testimony, the OUC ultimately concluded that Petitioner justified an increase of \$48.315 million. Pub. Ex. 1 at 2. The OUC further recommended that the Commission deny CEI South's proposed increases to its monthly customer charges for residential and small business customers and approve modifications to certain depreciation rates. Pub. Ex. 12 at 71; Pub. Ex. 11 at 3.

More specifically, Mr. Eckert testified regarding the OUC's evaluation and analyses of Petitioner's revenue requirement requests contained in its case in-chief. He identified and addressed the OUC's concerns related to affordability, risk assessment, and storm response. He also addressed the "Five Pillars" of affordability, reliability, resiliency, stability, and environmental sustainability and explained how cost trackers are shifting the risk of operating expense increases and capital expenditures from the Company to ratepayers. Additionally, he explained and supported specific adjustments and recommendations regarding certain CEI South requests for fuel cost, fuel inventory, Culley 3 outage capital expenditures, securitization expense, and amortization expense. Pub. Ex. 1.

Mr. Latham sponsored the OUC's overall revenue requirement recommendation and testified regarding revenue requirement adjustments. He incorporated the impact of the other OUC witnesses' recommendations in his revenue requirement calculations. He presented the OUC's capital structure analysis and recommends a 6.29% weighted average cost of capital ("WACC") that includes the ROE OUC witness Dellinger recommends, as modified by Mr. Eckert. In addition, he calculated the OUC's depreciation expense and recommended accumulated depreciation using Mr. Garrett's proposed depreciation rates. Pub. Ex. 2.

Mr. Lantrip addressed CEI South's request to embed in base rates Petitioner's CECA and RCRA investments. He recommended the Commission deny Petitioner's request to include approximately \$219,348 of costs related to the CECA's ULRC. Witness Lantrip also discussed CEI South's affiliate company arrangements with CenterPoint Shared Services and VUH. Pub. Ex. 3.

Ms. Baker addressed Petitioner's adjustments to payroll expenses, including incentive benefits, and deferred Medicare tax liability. She recommended the Commission: 1) deny

Petitioner's requested competitive pay adjustment; and 2) deny Petitioner's requested \$1,737,007 in deferred Medicare tax liability. Pub. Ex. 4.

Mr. Compton recommended 1) rate case expense be shared equitably between shareholders and ratepayers because shareholders also benefit from new rates; 2) an adjustment to sponsorship expense; 3) removal of CEI South's Information Technology investment and related O&M expenses from the revenue requirement; and 4) denial of CEI South's requested accounting treatment for cloud computing arrangement costs. Mr. Compton testified that Petitioner's case was deficient, lacking basic information, thereby thwarting the OUCC's effort to conduct a meaningful review of Petitioner's general ledger. Mr. Compton further testified that Petitioner exhibited a lack of cooperation and transparency in responding to discovery, which effectively insulated Petitioner from regulatory oversight. Pub. Ex. 5.

Ms. Stull addressed CEI South's proposals regarding 1) the TAR; 2) recovery of a return on any increase or decrease to the balance of the tax regulatory asset related to CAMT occurring between rate cases; 3) rate increase implementation before the start of the Company's forward-looking test year; 4) implementation of interim rate increases between Phases 2 and 3 to reflect projected rate base additions; and 5) process for implementing rates in each phase of the proposed rate increase. She discussed the OUCC's concerns regarding CEI South's presentation of its accounting schedules and revenue requirement in its case-in-chief, including a lack of evidence support Petitioner's requests and CEI South's non-compliance with GAO 2013-05 and 2015-05. Pub. Ex. 6.

Ms. Armstrong addressed several environmental-compliance-cost-related rate base items and O&M expenses CEI South includes in its rate request, including 1) emission allowance inventory; 2) test year emission allowance expense; 3) the Culley East Ash Pond Closure by Removal Project costs; 4) additional costs CEI South incurred with respect to the ULRC; 5) unexplained land acquisitions around the A.B. Brown Generating Plant; and 6) CEI South's adjustment to decrease test year Integrated Resource Planning ("IRP") expense. Pub. Ex. 7.

Mr. Wright discussed CEI South's Green Energy Rider ("Rider GE") and Aggregation Demand Response Rider ("Rider ADR") proposals and recommended changes to Rider GE and associated tariff language to ensure the program does not negatively affect affordability for ratepayers. He recommended the denial of Rider ADR based on a lack of basic, critical information on how the program will function. Pub. Ex. 8.

Mr. Krieger analyzed CEI South's capital investment request and discussed how project managers and project engineers distinguish between capital investment and maintenance costs. He described how an approved capital investment may not be prudent as conditions change and recommended a total of \$150.9 million reduction to the Steam Production Plant costs. Pub. Ex. 9.

Mr. Dellinger recommended a return on equity of 9.00% for the Company. Pub. Ex. 10.

Mr. Garrett analyzed CEI South's depreciable assets and developed reasonable depreciation rates and annual accruals. Specifically, he recommended the Commission: 1) remove \$1.6 million in contingency costs; 2) adjust Transmission and Distribution ("T&D") service lives

which reduces depreciation expense by \$2.1 million; and 3) adjust net salvage rates for several T&D accounts by \$1.4 million. Pub. Ex. 11.

Dr. Dismukes addressed Petitioner's proposed allocated cost of service study, revenue distribution, rate design, rate adjustment proposals, critical peak pricing, and related tracker mechanisms. He recommended CEI South's current residential and small commercial customer charges remain unchanged. He also recommended elimination of the current fixed component for monthly TDSIC charges for Rates RS, SGS, and water heating service customers. Pub. Ex. 12.

Ms. Paronish discussed CEI South's remote disconnection proposal, bill issues, and certain aspects of Petitioner's critical peak pricing proposal. Pub. Ex. 13.

Industrial Group witness Gorman recommended adjustments to Petitioner's revenue requirement. He testified the Company's claimed three-phase revenue increase is overstated by \$29.5 million. IG Ex. 1 at 3. He took issue with the number of customers and the sales forecast used to calculate the Phase 3 revenue deficiency. *Id.* at 4-5. He recommended a return on equity of 9.20% which produces an overall return of 6.46%. *Id.* at 5-6. He also rejected the inclusion of the prepaid pension asset in the Company's capital structure. *Id.* at 7. Mr. Gorman proposed a shorter amortization period to return Indiana EADIT and recommended removing a portion of the incentive compensation costs from cost of service. *Id.* at 7-8. He recommended the Commission deny CEI South's request to establish a regulatory asset for future Third-Party Cloud Computing Arrangements ("CCAs"), recommended removing the full revenue requirement impact from the test year for all capital costs associated with the 2022-2023 Culley 3 outage, if the Commission ultimately finds that CEI South was imprudent in Cause No. 38708 FAC 137-S1, and recommended the IURC reform the limitation of liability provision in CEI South's tariff. *Id.* at 9.

Industrial Group witness York testified that CEI South's allocation of production costs on the basis of a 4-Coincident Peak ("4CP") demand is consistent with the Company's historic practice, cost-causation and sound ratemaking, and should be approved. IG. Ex. 2 at 3. She said the Company's proposal to deviate from its method of allocating transmission costs by shifting to a 12-Coincident Peak ("12CP") basis should be rejected. *Id.* In addition, she said CEI South's ACOSS does not accurately measure its cost of providing service to each customer class, due to an inaccurate classification and allocation of distribution costs. *Id.* at 7-17. She explained that the Company's ACOSS fails to classify a portion of costs included in the FERC Accounts 364, 365, 367, and 368 as customer-related. She recommended an alternate revenue apportionment based on the results of her modified ACOSS, which reflects a more reasonable and correct classification and allocation of distribution costs in FERC Accounts 364, 365, 367 and 368, and uses a 4CP allocation of transmission costs. *Id.* She said the Company's FAC should be modified to recognize the capacity component of renewable resource costs. *Id.* at 17-18. She explained that the capacity component of renewable resource costs should be allocated across rate classes using the production demand allocator established in the Company's most recent rate case, and the renewable resource capacity costs should be recovered from Large Power Service ("LP"), Backup, Auxiliary, and Maintenance Power Service ("BAMP"), and High Load Factor ("HLF") customers using a demand charge. *Id.* at 18-19.

CAC witness Olson discussed the reaction of the public and elected leaders to Petitioner's rate request. CAC Ex. 1. He presented Resolutions and Letters from impacted southwestern

Indiana local units of government as attachments as well as cited local news articles. *Id.*, Attachments KO-2 and KO-3. He recommended the Commission strongly consider the testimony presented in the February 29th field hearings and reject Petitioner’s proposals in this proceeding. *Id.* at 17.

CAC witness Inskip addressed the utility unaffordability crisis generally and specifically for CEI South customers. He testified about certain revenue requirement issues, rate design issues and the fixed charge component in the TDSIC rider, the proposed Cloud Computing request, the various demand response proposals, cost allocation for the Texas Gas Transmission (“TGT”) pipeline, CEI South’s request to disconnect customers remotely, and miscellaneous charges and fees. CAC Ex. 2.

CAC witness Barnes, with EQ Research, addressed base rate case and tracker allocation, rate impact mitigation, special contract issues, and residential rate issues. CAC Ex. 3.

Evansville Council witness Heronemus provided a copy of the C-2024-05 Resolution of the Common Council of the City of Evansville. Evansville Council Ex. 1 at 1, Zachary Heronemus Attachment. He said it is the Council’s position and request that the Commission reject Petitioner’s requested rate increase. Evansville Council Ex. 1 at 2.

SABIC witness Coyle explained the service SABIC receives from CEI South and identified concerns with CEI South’s proposed rates that would be charged to Rate Schedule Base, Backup, and Maintenance Power Services (“BAMP”) customers. She also identified concerns with CEI South’s proposed allocated cost of service study (“ACOSS”). SABIC Ex. 1 at 4.

CEI South Rebuttal. Mr. Leger responded to direct testimony from the OUCC, CAC, the Evansville Council, and comments from the public field hearing and addressed affordability. Pet. Ex. 1-R.

Ms. Behme responded to the direct testimony of various witnesses with OUCC, CAC, IG and SABIC. She addressed the changes to CEI South’s revenue requirement occurring from corrections identified by CEI South as well as the changes occurring from accepted positions recommended by intervening parties. She responded to certain recommendations of disallowance or treatment that CEI South does not agree with, including: certain plant in service and corresponding accumulated reserve suggestions; recommendations around trade association expenses; rate case expenses; shared services adjustment; deferred liability adjustment; regulatory asset for cloud computing arrangements; phase implementations; and transparency and case presentations. She also identified and described Petitioner’s Exhibit No. 20-R, which is the revenue requirement model. She sponsored the actual rate base and capital structure as of December 31, 2023. Pet. Ex. 2-R.

Mr. Rawlinson responded to various arguments raised within the direct testimony of the OUCC and SABIC. He addressed concerns raised by OUCC witness Eckert regarding CEI South’s reliability, resilience, and stability (as they relate to the “Five Pillars”). He also addressed concerns raised by SABIC witness Coyle regarding CEI South’s cost allocation and rates for Backup Transmission Service. Pet. Ex. 4-R.

Ms. Folz responded to the direct testimony of OUCC witness Eckert regarding his recommendations on storm response communications and reporting. She also responded to the direct testimony of OUCC witness Paronish and CAC witness Inskeep regarding their recommendations on CEI South's proposed remote disconnection for nonpayment program. Pet. Ex. 5-R.

Mr. Bradford responded to IG witness Gorman, who recommended that the Commission deny recovery of specific Power Generation capital investments; to OUCC witness Eckert, who recommended CEI South adjust the fuel inventory level; and to OUCC witness Armstrong who recommended the Commission deny recovery of the remaining ULRC project costs. In addition, Mr. Bradford responded to OUCC witness Baker's statement that CEI South has not had issues with filling and maintaining staffing positions. Pet. Ex. 7-R.

Mr. Bahr responded to OUCC witness Compton's recommendation that the Commission disallow IT investments in rate base along with test year costs related to the SAP S/4HANA Transformation Program and Cloud Computing Arrangement. Pet. Ex. 8-R.

Ms. Williford respond to the direct testimony of Ms. Baker on behalf of the OUCC and Mr. Gorman on behalf of the IG regarding certain compensation costs the Company is seeking to recover. She testified that the Company's requested levels of compensation costs are reasonable and necessary, given that the compensation and benefits offered by CNP¹⁴ are necessary to attract and retain employees at all levels. Pet. Ex. 10-R.

Mr. Spanos responded to OUCC witness Garrett. He addressed adjustments proposed by the OUCC to the depreciation expense calculated in the Company's Depreciation Study. These adjustments include eliminating a contingency factor in the calculation of decommissioning costs and making changes to service life and net salvage estimates to a few transmission and distribution accounts. Pet. Ex. 12-R.

Ms. Bulkley responded to the direct testimony of witnesses Dellinger and Eckert on behalf of the OUCC, Mr. Gorman on behalf of the IG, and Mr. Inskeep on behalf of CAC regarding the just and reasonable ROE and the appropriate capital structure for the Company in this proceeding. Pet. Ex. 13-R.

Mr. Jerasa responded to Mr. Gorman's commentary on CEI South's equity in its capital structure and his recommendation that the prepaid pension asset and OPEB be removed from the capital structure. His testimony also responded to OUCC witness Stull in regard to the CAMT impact on credit metrics. Pet. Ex. 14-R.

Ms. Story responded to Ms. Stull's recommendation that the Company's proposal to include the CAMT in its proposed TAR should be denied. She also responded to Ms. Stull's and Mr. Gorman's recommendations regarding Indiana state income tax EADIT. Pet. Ex. 15-R.

¹⁴ CNP is used in Ms. Williford's testimony to refer to CenterPoint Energy, Inc. and its affiliates, which include the Service Company and CEI South. Pet. Ex. 10 at 1; Pet. Ex. 10-R at 1.

Mr. Russo responded to Mr. Gorman's recommendation that the 2025 test-year residential average use should be 866 kWh per month and commercial average use 5,106 kWh per month. Pet. Ex. 16-R.

Mr. Forshey responded to OUCG witnesses Wright, Paronish, and Dismukes. Specifically, he responded to witness Wright's concerns with the proposed Rider ADR, and the concerns of witnesses Paronish and Dismukes related to the Critical Peak Pricing Pilot. He also responded to SABIC witness Coyle's direct testimony regarding Section 24 contracts. Pet. Ex. 17-R.

Mr. Taylor addressed specific sections of the direct testimony submitted by other parties. He elaborated on the updates made to the Company's ACOSS and the integration of the Company's revised revenue requirement. He covered the areas of ACOSS, revenue distribution and special contract revenue treatment, rate design and customer charge, and tracker allocation. Pet. Ex. 18-R.

Mr. Rice addressed concerns raised by the public at the field hearing; responded to testimony from other parties regarding affordability; responded to suggestions from OUCG witness Wright regarding the proposed Green Energy Rider; responded to the OUCG's opposition to Rider ADR; responded to OUCG objections to the CPP Pilot; addressed customer satisfaction concerns; responded to issues raised by SABIC witness Coyle concerning Rate BAMP; and addressed a number of other isolated issues raised by various witnesses. Pet. Ex. 19-R.

Mr. Cunningham responded to Mr. Krieger's recommendation to reduce rate base by \$104.7 million in Steam Production Plant capital investment. He explained that witness Bradford addresses the other proposed disallowances of rate base discussed by Mr. Krieger. He said witness Behme also has additional rebuttal to \$10.9 million of the \$104.7 million that he addressed. Pet. Ex. 22-R.

Cross-Answering Testimony. Certain intervenors filed cross-answering testimony on various topics. IG witness York responded to concerns about rate affordability raised by Dr. Dismukes on behalf of OUCG and Mr. Barnes on behalf of the CAC. She responded to Dr. Dismukes' and Mr. Barnes' recommendations on the allocation of production and distribution-related investment cost in CEI South's ACOSS, as well as their recommendations with respect to the apportionment of any revenue requirement increase granted in this case. She responded to CAC witness Inskeep regarding his request for the Commission to direct CEI South to implement an Affordable Power Rider, and to fund such a program via an energy charge for all customers. She addressed the recommendations of CAC witness Barnes regarding the allocation of costs within certain tracker mechanisms, including costs associated with the TGT Pipeline, the ECA, and the CECA. She responded to Mr. Barnes' recommendations regarding Section 24 contract customers. IG Ex. 3 at 2-29.

CAC witness Inskeep provided cross-answering testimony regarding other parties' positions regarding overarching issues and demand response. CAC Ex. 4 at 1-15. CAC witness Barnes provided cross-answering testimony regarding IG witness York, SABIC witness Coyle, and OUCG witness Dismukes positions on cost allocation, reasonable methodology for rate impact mitigation, and the appropriate classification of distribution system costs. CAC Ex. 5 at 1-45.

Settling Parties' Testimony. CEI South witness Rice sponsored the Stipulation and Settlement Agreement (the "Settlement Agreement") entered into by CEI South, the Industrial Group, and SABIC. He testified the Settlement Agreement represents reasonable resolutions of all issues in this proceeding and supports a Commission Order approving its terms. Pet. Ex. 19-S at 1. Under the Settlement Agreement, the Settling Parties agreed CEI South's requested rate increase should be reduced significantly below CEI South's original request. The revenue requirement increase in the Settlement Agreement is closer to that proposed by the OUCC than CEI South's rebuttal position and lower than the Industrial Group's litigation position. The Settlement Agreement makes multiple other changes to CEI South's requested relief in this Cause.

As reflected in Section B.2 of the Settlement Agreement and Settlement Agreement Appendix A, the Settling Parties agreed to a net revenue increase of \$80.009 million, which is a decrease of \$38,748,076 from the amount requested in Petitioner's original case-in-chief, and a Return on Equity of 9.8%. In addition, the Settling Parties agreed the terms of the Settlement Agreement are reasonable and in the public interest. *Id.* at 4. In his settlement testimony, Mr. Rice opined that the Settlement Agreement is in the public interest; reasonably resolves all issues without further expenditure of the time and resources of the Commission and the parties in litigating these matters; and should be approved in its entirety by the Commission, without modification. *Id.* at 4-5. Mr. Rice stated the Settlement Agreement represents the result of arm's length negotiations by stakeholders with differing views on the issues raised in this case. He explained that the Settling Parties' experts were involved, along with legal counsel, in developing both the conceptual framework and the specific terms of the Settlement Agreement. He testified the Settling Parties devoted many days to discussions, collaborative exchanges of information, and settlement negotiations. *Id.* at 5.

Mr. Rice stated that while the Settling Parties agree and represent that the Settlement Agreement resolves all issues in this case, three parties – the OUCC, CAC, and the Evansville Council -- did not join in the Settlement Agreement. Pet. Ex. 19-S at 2. He testified the non-settling parties were copied on communications and terms throughout the negotiation of the Settlement Agreement, and they were given the opportunity to weigh in on its terms during the negotiations. Mr. Rice noted that while these parties did not join the Settlement Agreement, the Settling Parties recognized the issues they had raised and addressed some of those concerns by including positions the OUCC and CAC had advocated in the terms. Additionally, Mr. Rice testified CEI South reviewed recent settlements with other Indiana investor-owned utilities ("IOUs") and included consumer protections included in those agreements. *Id.*

Mr. Rice provided the following outline of the Settlement Agreement:

- Section A provides background on CEI South's current rates and charges and the status of the rate case pending under this Cause.
- Section B.1 discusses the two phases in which CEI South will implement its authorized increase to base rates and charges for electric utility service.
- Section B.2 addresses the stipulated revenue requirement, revenue increase, and authorized net operating income ("NOI").

- Section B.3 discusses the resolution of issues impacting the agreed upon revenue requirement and resulting rate increase, including: (a) original cost rate base; (b) other rate base items; (c) capital structure; and (d) fair return.
- Section B.4 addresses resolution of issues related to depreciation rates and amortization expense, respectively.
- Section B.5 addresses resolution of issues related to pro forma revenues and expenses, including: (a) base cost of fuel, (b) interruptible sales billing credits, (c) capacity purchase costs; and (d) operations and maintenance expense.
- Section B.6 includes a stipulation and agreement concerning the accounting treatment for cloud computing costs.
- Section B.7 describes proposed riders, including: (a) the Critical Peak Pricing Pilot, Rider ADR, and Green Energy Rider and (b) the Tax Adjustment Rider.
- Section B.8 describes other tariff matters, including: (a) Interruptible Contract (“IC”) and Interruptible Option (“IO”) Riders and (b) the limitation of liability provision in Petitioner’s tariff.
- Section B.9 addresses Petitioner’s proposed Alternative Regulatory Plan (“ARP”) for Remote Disconnection.
- Section B.10 addresses customer protection provisions, including: (a) LIHEAP Customer Deposits; (b) residential late payment charge; (c) LIHEAP Qualified Participant fees and reporting; and (d) disconnections / reconnections.
- Section B.11 discusses CEI South’s commitment to collect data on residential customer housing types and analyze cost differentials between single- and multi-family rate residential customers in advance of its next rate case.
- Section B.12 discusses CEI South’s commitment to customer bill transparency.
- Sections B.13 and B.14 address cost of service, cost allocation, and rate design.
- Section B.15 discusses other disputed items, including: Base, Backup, and Maintenance Power Services (“BAMP”) rates and other items.
- Section C addresses the effect, scope, and approval of the stipulation.

Pet. Ex. 19-S at 5-6.

Mr. Rice testified it is important to recognize the Settlement Agreement is presented as a complete negotiated package of terms that, taken as a whole, reflect compromise and the give and take of negotiations. *Id.* at 6. He testified Commission approval of the Settlement Agreement is in the public interest. *Id.* at 24. Mr. Rice explained Section C.1 makes clear that the Settlement Agreement is the result of negotiations and compromise reached during those negotiations, and

neither the making of the Settlement Agreement nor any of its provisions shall constitute an admission or waiver by any Settling Party in any proceeding other than this case, now or in the future, nor shall it be cited as precedent. *Id.* at 23. He stated the Settlement Agreement is supported by and within the scope of the evidence the Settling Parties presented. *Id.* at 24. Taken as a whole, the Settlement Agreement represents the result of extensive, good faith, arm's length negotiations and reflects a fair and balanced outcome that was reached among parties having divergent interests. *Id.* Mr. Rice noted CEI South's and the other Settling Parties' proposals were modified through the negotiations. *Id.* From Mr. Rice's perspective, the Settlement Agreement reasonably addresses the concerns raised in this proceeding, limits controversy, and provides a balanced, cooperative outcome upon the issues in this Cause. *Id.* He stated CEI South is asking the Commission to issue an order approving the Settlement Agreement in its entirety, without modification, so new rates may be in effect at the earliest possible time after the beginning of the test year. *Id.*

Mr. Rice testified that all parties to this Cause had the opportunity to participate in the Settlement Agreement, and it was CEI South's desire to have all parties participate in meaningful discussions to arrive at agreed terms. *Id.* at 26. While not a unanimous settlement, he stated the Settling Parties addressed the concerns raised in this proceeding in an effort to provide a fair, reasonable, and balanced outcome. *Id.* Notwithstanding these efforts, the non-settling parties declined to join.

CEI South witness Behme presented Petitioner's Exhibit No. 20-S, which provides CEI South's revised revenue requirement request based upon the terms of the Settlement Agreement. Where Petitioner's Exhibit No. 20-S does not reflect a change, the position, as filed in the original case in chief, as modified on rebuttal where applicable, is adopted under the Settlement Agreement. Pet. Ex. 2-S.

CEI South witness Jerasa supported Section B.3 of the Settlement Agreement addressing CEI South's original cost rate base, capital structure, and fair return. Pet. Ex. 14-S, at 2. He stated the Settling Parties agreed CEI South's authorized Return on Equity should be 9.80% which results in a weighted average cost of capital of 6.77%. *Id.*

CEI South witness Taylor's settlement testimony addressed the: (1) Allocated Cost of Service Study; (2) Revenue Distribution; and (3) Rate Design and Customer Charges, as well as the implications and benefits for all stakeholders of the resolutions the Settling Parties reached. Pet. Ex. 18-S.

Industrial Group witness Gorman also testified in support of the Settlement Agreement, recommending its approval as a comprehensive agreement among the Settling Parties that resolves all of the issues raised in this rate case in a fair and reasonable manner. IG Ex. 4 at 2. He opined that the terms related to the revenue requirement are within the range of outcomes that could have resulted if this case were fully litigated. *Id.* Mr. Gorman stated the Settlement Agreement is reasonable and in the public interest, and he opined that when taken as a complete package, the Settlement Agreement is a reasonable resolution to the issues raised and fairly balances Petitioner's needs and the interests of its ratepayers. *Id.* Mr. Gorman explained the Settlement Agreement will result in a reasonable revenue increase that reflects a fair return of and on capital investment made by CEI South if the utility is operated efficiently, and it enables CEI South to continue to provide reliable service on an economical basis. *Id.* He echoed Mr. Rice's position that the Settlement

Agreement is a comprehensive agreement resolving all of the issues, with each term essential to the overall reasonableness and stated it was arrived at as part of the “give and take” of the negotiating process. *Id.* The Settling Parties were represented by counsel experienced in utility matters who were supported by similarly experienced experts. *Id.* He, therefore, recommended the Commission approve the Settlement Agreement without material change. *Id.*

Industrial Group witness York also testified in support of the Settlement Agreement, describing how the Settlement Agreement resolves the cost of service and rate design issues raised in this proceeding by adopting the cost of service study CEI South presented, with certain agreed modifications. IG Ex. 5 at 2. She opined that the cost of service and rate design terms of the Settlement Agreement operate in conjunction with the revenue terms to produce rates that are just and reasonable for all classes. *Id.* at 4.

OUCC and CAC Settlement Opposition Testimony. OUCC witness Eckert testified the Commission should not approve the Settlement Agreement because it is not in the public interest for the reasons described in his testimony and in the testimony of other OUCC witnesses. Pub. Ex. 1-S at 15-16. He stated CEI South and the other Settling Parties have not adequately justified multiple aspects of the Settlement Agreement. *Id.* at 16. Specifically, he recommended the Commission: (1) reject the Settlement Agreement among CEI South, the Industrial Group, and SABIC insofar as the Settling Parties request the Commission to approve an annual rate increase of \$80.0 million; (2) reject the Settling Parties’ agreed ROE of 9.80% and approve the 9.00% ROE recommended by OUCC witness Dellinger, subject to the additional modification he recommended; (3) reduce OUCC witness Dellinger’s 9.00% ROE or the Commission’s authorized ROE by 20 basis points due to longstanding issues with CEI South’s reliability, customer satisfaction, and the “roadblocks” CEI South posed when the OUCC analyzed Petitioner’s requests; (4) adhere to Indiana’s policy of promoting utility investment in infrastructure while also protecting the affordability of utility service, and only approve necessary and reasonable requests required for CEI South’s provision of electric service at reasonable rates; and (5) approve the other recommendations and proposals raised in his testimony and that of the OUCC’s other witnesses. *Id.*

OUCC witness Compton testified the Settlement Agreement did not adequately address the issues he raised with respect to the inclusion of certain Information Technology (“IT”) investments in rate base and the related operating expenses in the revenue requirement. Pub. Ex. 5-S.

OUCC witness Stull testified the Settlement Agreement does not adequately address the issues and concerns she raised, Pub. Ex. 6-S at 2, particularly the Settlement Agreement’s proposed implementation of the Tax Adjustment Rider and reporting requirements. She stated the proposed treatment does not conform to her recommendations. *Id.* She also discussed the Settlement Agreement’s proposed treatment when implementing CEI South’s phased rate increases, including the adjustments to pro forma net operating income and the information to be included in Petitioner’s compliance filings. *Id.* at 1-2. Ms. Stull explained that the Settlement Agreement does not incorporate her recommendations, but she urged the Commission to do so in its Order. *Id.* at 2. Finally, Ms. Stull explained that the Settlement Agreement does not address the transparency and completeness issues she encountered and raised concerning CEI South’s case-in-chief. *Id.*

OUCC witness Wright addressed issues and concerns with CEI South's rebuttal position with respect to the Aggregation Demand Response Rider ("Rider ADR") and Rider GE. Pub. Ex. 8-S.

OUCC witness Krieger testified the Settlement Agreement failed to adequately address the issues he raised with respect to certain capital investment included in rate base, notwithstanding adjustments that were made in rebuttal and in the Settlement Agreement. In particular, he testified that over the course of 11 years, CEI South improperly capitalized valve replacement maintenance expenses, as CEI South confirmed in its Docket Entry response. He testified the Settlement Agreement does not adequately address Petitioner's capitalization of maintenance. Mr. Krieger continued to recommend a \$150.9 million reduction in the Steam Production Plant capital investment that CEI South proposes to include in rate base because of Petitioner's improper capitalization of maintenance expenses. Pub. Ex. 9-S at 2. He also recommended a complete audit review be conducted to ensure Petitioner's capitalization of maintenance was not more prevalent than Petitioner acknowledged, as well as ongoing audits and a refund of excess earnings garnered by CEI South through this practice. *Id.* He stated the impact of this recommendation also reduces annual depreciation and the annual revenue requirement. *Id.*

OUCC witness Dellinger testified in opposition to the ROE agreed upon in the Settlement Agreement. Pub. Ex. 10-S.

OUCC witness Dismukes filed testimony in opposition to the Settlement Agreement to address what Dr. Dismukes characterized as the flawed provisions regarding allocated cost of service, revenue distribution, and rate design. He also included testimony challenging the affordability of the agreed rates and opposed the proposed CPP Pilot. Pub. Ex. 12-S.

OUCC witness Paronish testified in opposition to the Settlement Agreement, specifically with respect to communications with customers regarding remote disconnections, billing transparency, and the CPP Pilot. Pub. Ex. 13-S.

CAC witness Inskeep urged the Commission to not approve the Settlement Agreement, stating the Settlement Agreement would impose extreme rate shock on the residential class and exacerbate affordability challenges for residential customers to the benefit of a handful of Petitioner's large industrial customers. CAC Ex. 6 at 24-25. He testified the "modest" consumer protection provisions and other terms included in the Settlement Agreement do not meaningfully alleviate these concerns. *Id.* at 24.

CAC witness Barnes stated the Commission should reject the Settlement Agreement because it is biased in favor of the interests of CEI South's industrial customers at the expense of residential customers, stemming primarily from the retention of "outmoded cost allocation methods" that fail to reflect cost causation on Petitioner's system. CAC Ex. 7 at 21. He objected to the "lack of any meaningful proposal for rate impact mitigation for residential customers and unwarranted handouts to SABIC via revisions to the BAMP tariff." *Id.*

Settlement Rebuttal Testimony. CEI South witness Jerasa provided settlement rebuttal testimony responding to the settlement opposition testimony of OUCC witnesses Eckert and Dellinger with respect to the appropriate ROE. Pet. Ex. 14-SR.

CEI South witness Taylor addressed the settlement opposition testimony the OUCC and CAC presented with respect to the Allocated Cost of Service Study, Revenue Distribution, Rate Design, and Customer Charges. Pet. Ex. 18-SR.

CEI South witness Rice responded to the settlement opposition testimony of OUCC witnesses Eckert, Compton, Stull, Wright, Krieger, Dismukes, and Paronish and CAC witnesses Inskip and Barnes. Specifically, Mr. Rice disputed claims by the OUCC and CAC that the Settlement Agreement is one-sided, favoring Petitioner's large industrial customers at the expense of affordability for residential customers. He addressed the updated affordability analyses OUCC witness Dismukes performed and responded to OUCC witness Krieger's recommendation that \$150.9 million in utility plant in service be disallowed. Mr. Rice also addressed OUCC witness Paronish's billing recommendations and provided responses to various other issues raised by OUCC and CAC witnesses. Pet. Ex. 19-SR.

IG witness Gorman also filed settlement rebuttal testimony responding to issues raised in the OUCC and CAC's testimony opposing the Settlement Agreement revenue terms. He testified the arguments the OUCC and CAC raised boil down to unreasonable criticism that the Settlement Agreement did not adopt the non-settling parties' litigation positions. He opined that the non-settling parties' decision to not join the Settlement Agreement does not mean the agreed terms are unreasonable. He also asserted that preserving the 4CP allocation for generation and transmission plant preserves the status quo and is consistent with cost-causation. Per Mr. Gorman, the Industrial Group agreed to a major concession with respect to foregoing the Industrial Group's position on the Minimum System Study, namely, that allocation of distribution costs should include a customer component in FERC Accounts 364, 365, and 367. He asserted that based on CEI South's as-filed revenue proposal and the Industrial Group's litigation position on cost of service, the increase to the residential class could have been as high as 24%, but under the Settlement Agreement, the residential increase will be 14.7%. IG Ex. 6.

IG witness York responded to the cost of service and rate design issues discussed in the OUCC and CAC settlement opposition testimony. IG Ex. 7.

SABIC witness Coyle addressed the settlement testimony of CAC witness Barnes regarding the settlement terms relating to BAMP service. SABIC Ex. 2. Ms. Coyle challenged Mr. Barnes' assertion that the Settlement Agreement will permit SABIC to avoid costs associated with historical investments that benefited SABIC before SABIC installed its own generation. Ms. Coyle testified that SABIC is still paying these costs through the Base and Maintenance portion of its BAMP service. She noted the Settlement Agreement treats the Backup Service portion of BAMP service the same as any other customer on the system who has reduced its load through energy efficiency or distributed generation investments. Ms. Coyle testified that Backup service customers are required to pay for transmission service for its full contracted load, even if its customer-owned generator is serving its load. Ms. Coyle testified the Settlement Agreement represents a compromise between CEI South and SABIC, resulting in SABIC paying higher rates than CEI South's FERC transmission rates, which represent the cost of transmission service for all other CEI South customers. Ms. Coyle also took issue with Mr. Barnes' testimony regarding Section 24 customers, contending that Mr. Barnes did not present the total picture of the change in cost allocation for customers under the settlement when compared to CEI South's rebuttal position. *Id.*

7. **Review of Settlement.**

Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission “may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition*, 664 N.E.2d at 406. Additionally, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission may approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code § 8-1-2-1 *et seq.*, and that such agreement serves the public interest.

The Commission has before it substantial evidence from which to determine the reasonableness of the terms of the Settlement Agreement. Because not all the parties opted to enter into the Settlement Agreement, we find it is appropriate to address the outstanding concerns the non-settling parties raised. Based on our review of the evidence and our findings below, the Commission finds the Settlement Agreement is not in the public interest and, accordingly, we decline to approve this agreement in its entirety. Our review and findings upon the respective issues are set forth below.

A. **Phased Rate Implementation.**

i. **Phased Rates – Pre-Test Year Phase and Process for Implementation**

a. **CEI South Case-in-Chief.**

CEI South witness Behme testified that the Company was proposing to implement rates in a minimum of three phases. As originally proposed, Phase 1 would be implemented upon issuance of an Order in this Cause, based on the actual rate base and capital structure as of December 31, 2023. Revenues and operation and maintenance (“O&M”) expense would be updated to November 2024, rather than the beginning of the test year. For Phase 2, the Company proposed to reflect most of the pro forma test year results of operations, updated to reflect the actual rate base and capital structure as of December 31, 2024. The Company proposed to implement rates as soon as possible following the beginning of the test year. For Phase 3, the Company proposed to update to reflect the fully adjusted test year and the actual rate base and capital structure as of the end of the test year. Phase 3 would be implemented as soon as possible following the end of the test year. Pet. Ex. 2 at 6-7. Ms. Behme testified that this three-phase approach was modeled after the approach proposed by Indiana American Water Company in Cause No. 45870. *Id.* at 7. She said pro forma results of operations at present and proposed rates would be based upon the test year data, but the operating expenses in Phase 1 would begin with November 2024 for the twelve-month period and certain revenue and expense adjustments would not be included or would not be included at the

full amount at Phase 1 because the changes for which these adjustments are made will not occur until the test year. *Id.* Ms. Behme testified that because all of the information that is necessary to calculate Phase 1 rates would be available before the evidentiary hearing (other than the findings that are contained in the Commission's Final Order in this Cause) there should not be a need to build in a post-order review process for Phase 1 as there would be with later phases. *Id.*

For Phase 2 rates, Ms. Behme stated they would be implemented as soon as possible after January 1, 2025 and based on actual net plant certified to have been completed and placed in service no later than December 31, 2024. *Id.* at 8. She stated other parties to this proceeding should be provided up to 60 days to verify or state any objection to the net plant in service numbers from those which CEI South certifies, and a hearing should be convened, as necessary, to resolve any objections. She testified that Phase 2 rates should be subject to refund during the review period, and, if necessary upon resolution of any objections, rates should be tried up, with carrying charges at the weighted average cost of capital, retroactive to the date Phase 2 rates were submitted. *Id.* Ms. Behme explained that pro forma results of operations for purposes of Phase 2 rates should reflect the adjusted test year results of operations, modified as needed to reflect certain revenue and expense adjustments that will not have been fully reflected by the beginning of the test year. *Id.*

For Phase 3, the Company proposed the same process as for Phase 2, except using the end of test year rate base and capital structure. *Id.*

b. OUCC Position.

OUCC witness Stull recommended denial of CEI South's initial proposed implementation of a rate increase prior to the start of its forward-looking test year. Pub. Ex. 6 at 18, 21. She said CEI South's proposal differs materially from the two proposals where the Commission allowed rates to be implemented prior to the start of a utility's forward-looking test year, Cause No. 45545 and Cause No. 45870. *Id.* at 18-19. She said in both of those cases the utility did not seek to recover costs before they were projected to be incurred and their initial rate increase only reflected the effects of projected data through the date an order was expected to be issued. *Id.* at 19. Ms. Stull contended that, even if the Commission felt it was appropriate to implement a pre-test year phase in the same manner as has previously been authorized, Petitioner did not provide any monthly data reflecting its projected pro forma operating net income for the linking period. *Id.* at 20-21. Ms. Stull further opposed updating depreciation rates before the beginning of the test year (with Petitioner's Phase 1 rates). *Id.* at 27.

OUCC witness Stull testified that Petitioner's authorized increase to total rate base should be limited to the forecasted amount. Pub. Ex. 6 at 23. She also recommended that, to the extent CEI South does not actually invest what it forecasted it would invest in rate base, adjustments to depreciation expense and property tax expense may be warranted, along with associated adjustments to income tax. *Id.* at 24.

Ms. Stull recommended that if the Commission finds it is appropriate to implement rates before the beginning of the forward-looking test year, a post-order review process should be implemented similar to the process to be implemented at the beginning and end of Petitioner's forward-looking test year. Among other things, Ms. Stull recommended that the Commission find

that a technical conference may be convened at the request of any party or the Commission staff to allow further discussion in determining whether the compliance filing complies with the order and determine what additional information should be provided in each phase. *Id.* at 25. She listed what she recommended be included in Petitioner's compliance filings, including:

1. Certification of Petitioner's actual utility plant in service and actual capital structure.
2. Actual rate base by component, in a similar format to that of Exhibit No. 20, Schedule B-1.1 and comparing actuals to Petitioner's forecast. Any variances between actuals and the forecast greater than 10% should be explained.
3. Actual utility plant in service balances by FERC Account similar to Exhibit No. 20, Schedule B-2.1.
4. Actual accumulated depreciation balances by FERC Account similar to Exhibit No. 20, Schedule B-3.1.
5. Actual capital structure by component, in a format similar to that of Exhibit No. 20, Schedule D-1.1, including an updated calculation of weighted average cost of capital and comparing actuals to Petitioner's forecast. Any variance between actuals and forecast greater than 10% should be explained.
6. Calculation of Phase 1 rates based on the December 31, 2023 actuals as certified.

OUCC witness Eckert testified that CEI South's rates approved in this Cause should be implemented on a prospective basis applicable to service rendered after the rates become effective. Pub. Ex. 1 at 33.

c. CEI South Rebuttal.

CEI South Behme disagreed with Ms. Stull's testimony that CEI South's proposal for Phase 1 rates differs from the pre-test year rates previously approved by the Commission. She said in both *Indiana American Water Company* (Cause No. 45870)¹⁵ and *City of Evansville* (Cause No. 45545),¹⁶ the utility's method for calculating Phase 1 rates was attempting to recover the revenue requirement being incurred at the anticipated date of order issuance. Pet. Ex. 2-R at 24. She said in both of those cases, the anticipated date of the Commission Order was projected and that rates were proposed to be established upon issuance of the order that would recover the state of the projected revenue requirement as of that anticipated order date. *Id.* Ms. Behme testified that in both Cause No. 45870 and Cause No. 45545 the utility proposed to recover the level of costs beginning with the anticipated date of the Order and not for the period leading up to the anticipated date of the Order. *Id.* Ms. Behme concluded that all three utilities have attempted to do precisely the same thing, which is to set Phase 1 rates at a level that will recover costs as they are being incurred during the period between the issuance of the Commission's Order and the beginning of the test year. *Id.* at 26.

¹⁵ *Indiana American Water Co.*, Cause No. 45870 (IURC 2/14/2024), 2024 WL 755397, *89.

¹⁶ *City of Evansville Municipal Waterworks*, Cause No. 45545 (IURC 3/2/2022), 2022 WL 671753, *31-34.

Ms. Behme testified that to the extent Ms. Stull's list of items required to be submitted and timing for review on pages 26-27 of her testimony differs from the compliance filing requirements in Cause No. 45870, her request should be denied. Pet. Ex. 2-R at 28.

CEI South witness Behme testified that CEI South would agree that forecasted additions to Utility Plant in Service ("UPIS") by the end of the test year should serve as a cap in calculating the actual rate base that is ultimately submitted as part of the Compliance Filing in any phase. However, the forecasted UPIS additions are only a cap for purposes of this proceeding (not a cap for purposes of a future general rate case or for purposes of capital trackers). Pet. Ex. 2-R at 28. She explained that since the phase-in approach is required by the used and useful rule, any cap should be focused on the additions to used and useful plant that are forecasted to be placed in service before the end of the test year.

d. Settlement.

As part of the Settlement Agreement, Section B.1 modifies the phases in which CEI South will implement any approved increase in its base rates and charges. The Settling Parties agreed CEI South's proposed Phase 1 implementation will be eliminated, and CEI South should be authorized to increase its base rates and charges in two steps as described in the Settlement Agreement. This revised implementation yields savings to customers of approximately \$13.25 million. While this agreed term does not affect the revenue requirement, it helps mitigate the bill impact by lowering customer bills and represents value to customers. Pet. Ex. 19-S at 8-9.

CEI South witness Rice testified that Section B.3.a of the Settlement Agreement incorporated Ms. Stull's proposed cap on rate base for purposes of this case. Pet. Ex. 19-S at 9.

The first change in rates will be implemented pursuant to the process described below, which is essentially the same as that prescribed in Cause No. 45870 and will be based on the agreed revenue requirement as adjusted to reflect the actual capital structure and rate base as of December 31, 2024 subject to the Net Original Cost Rate Base Cap described in Section B.3.a of the Settlement Agreement ("Settlement Phase 1"), which incorporated Ms. Stull's proposed cap on rate base for purposes of this case. *Id.* As noted in the Settlement Agreement, CEI South will submit a certification of its actual utility plant in service and actual capital structure as part of its compliance filing. The compliance filing will calculate rates for the applicable phase based upon these certifications, subject to the Net Original Cost Rate Base Cap as described in the Settlement Agreement. If necessary to resolve any objections, the Commission shall schedule a hearing. The Settlement Agreement further provides, however, that within a week of CEI South's compliance filing, a technical conference may be held at the request of either a party or Commission staff to allow for further discussion in determining whether CEI South's filing complies with the Order in this Cause and to determine what additional information, if any, should be provided for the Settlement Phase 2 compliance filing. Following issuance of a Final Order in this Cause approving the Settlement Agreement, Settlement Phase 1 rates will go into effect after the beginning of the test year and upon the effective date of the Commission's approval of the Settlement Phase 1 compliance filing (currently anticipated to be on or around March 1, 2025) for services rendered after that effective date, on an interim subject-to-refund basis pending a 60-day review using the process described above.

CEI South will implement the second defined change in rates pursuant to the process described above for Settlement Phase 1 and will be based on the agreed revenue requirement as adjusted to reflect the actual capital structure and rate base as of the end of the test year (December 31, 2025), subject to the Net Original Cost Rate Base Cap described in Paragraph B.3.a of the Settlement Agreement (“Settlement Phase 2”). Pet. Ex. 19-S at 9-10. Settlement Phase 2 rates will go into effect upon the effective date of the Commission’s approval of the Settlement Phase 2 compliance filing (currently anticipated to be on or around March 1, 2026) for services rendered after that effective date, on an interim-subject-to-refund basis pending a 60-day review using the process described above for Settlement Phase 1. *Id.* at 8-10.

e. OUCC Settlement Opposition.

OUCC witness Stull stated that while she generally accepts the process the Settling Parties agreed to, CEI South should provide additional information so the Commission, the OUCC, and other parties to this case may conduct a meaningful review of the compliance filing to ensure compliance with the Commission’s Order. Pub. Ex. 6-S at 7. In addition to the information the Settling Parties agreed should be included, she recommended the following additional supporting information be submitted with CEI South’s compliance filing:

1. Actual rate base by component as of December 31, 2024 (Phase 1) and December 31, 2025 (Phase 2), in a format similar to that of Exhibit No. 20, Schedule B-1.1 and comparing actuals to CEI South’s applicable forecast. Any variances between actuals and the applicable forecast greater than 10% should be explained.
2. Actual utility plant in service balances by FERC Account as of December 31, 2024 (Phase 1) and December 31, 2025 (Phase 2) similar to Exhibit No. 20, Schedule B-2.1.
3. Actual accumulated depreciation balances by FERC Account as of December 31, 2024 (Phase 1) and December 31, 2025 (Phase 2) similar to Exhibit No. 20, Schedule B-3.1.
4. Actual capital structure by component as of December 31, 2023, in a format similar to that of Exhibit No. 20, Schedule D-1.1, including an updated calculation of weighted average cost of capital for each phase and comparing actuals to the applicable forecast. Any variance between actuals and the applicable forecast greater than 10% should be explained.
5. Calculation of rates based on actuals at December 31, 2024 (Phase 1) and December 31, 2025 (Phase 2) as certified. *Id.* at 8-9.

Ms. Stull also requested that the Commission order that net operating income be adjusted to the extent projected investments are not made. Pub. Ex. 6-S at 10.

Mr. Eckert stated the Settlement Agreement does not recommend that any approved rate changes apply on a services rendered basis on or after the effective date of the rate change. Pub. Ex. 1-S at 14-15.

f. Settlement Rebuttal.

In Attachment MAR-SR2 to Mr. Rice’s Settlement Rebuttal testimony, he indicated that CEI South addressed Ms. Stull’s request for additional information as part of the compliance filing on rebuttal (Pet. Ex. 2-R at 28). To the extent she is requesting information required in the *Indiana*

American Order, CEI South agrees. This was the intent of the language of the Settlement Agreement. To the extent she is asking for more, Mr. Rice testified her request should be denied. The Commission has already considered her requests for additional information beyond that which is required for other utilities (in the Indiana *American Order*) and has set forth the information that reasonably is needed. He testified there is no reason to treat CEI South differently. Pet. Ex. 19-SR, Attachment MAR-SR2 at 2.

As for Ms. Stull's recommendation that net operating income be adjusted where projected investments are not made, Mr. Rice explained in his Attachment MAR-SR2 that the Settlement Agreement provides, at Section B.1.a (Phase 1) and B.1.b (Phase 2) that the revenue requirement will be adjusted at each phase to reflect actual capital structure and actual rate base, subject to the Net Original Cost Rate Base Cap.

With respect to Mr. Eckert's concern that rates be implemented on a "services rendered" basis, Attachment MAR-SR2 to Mr. Rice's Settlement Rebuttal refers to Sections B.1.a (Settlement Phase 1) and B.1.b (Settlement Phase 2) of the Settlement Agreement, both of which provide that rates will go into effect "for services rendered after the effective date." Pet. Ex. 19-SR, Attachment MAR-SR2 at 1.

ii. Phased Rates – Interim Phases

a. CEI South Case-in-Chief.

CEI South witness Behme described up to three additional interim steps Petitioner is proposing between Phases 2 and 3 (*i.e.*, beginning and end of test year) aligned with the placement in service of the CT Project and Posey Solar. She explained that if the post-in-service carrying charges ("PISCC") on these projects continues to accrue until the end of the test year, rate base and Phase 3 rates will be higher than if these projects were reflected in rates at an earlier time. As such, CEI South proposed to implement interim steps to reflect the additional after-tax return and depreciation expense on each of these projects (each CT, in the event there is a delay in implementation between the two, and Posey Solar) using the capital structure in effect at the beginning of the test year and used for Phase 2. Pet. Ex. 2 at 8-9. These interim steps would take effect upon filing of a certification in this Cause that the plant in question is in service. Ms. Behme clarified that for Generally Accepted Accounting Principles ("GAAP") purposes, prioritization of recovery upon implementation of each interim step should mirror what presently occurs in various rider filings, with the first dollars recovered collecting the PISCC (both debt and equity) related to these investments. The same interim-subject-to-refund basis as for Phases 2 and 3 would apply, with the same time period for other parties to raise objections. *Id.* at 9. It cannot be known precisely how many interim steps there would be or when they would occur given they are dependent on the actual in-service dates of the plant in question. Accordingly, the overall revenue requirement shown in Petitioner's Exhibit No. 20 does not reflect these proposed interim steps. *Id.*

b. OUCC Position.

Ms. Stull opposed CEI South's proposal to implement rate increases *during* the forward-looking test year. Pub. Ex. 6 at 28. She testified this proposal unnecessarily complicates CEI South's rates, is unprecedented, undermines an already well-established process for updating rate

base in forward-looking test year cases, increases regulatory costs and burdens, and would serve to confuse customers without any quantification of the benefit to ratepayers in avoiding less than twelve months of carrying costs. *Id.*

c. CEI South Rebuttal.

Ms. Behme and Mr. Rice both expressed surprise at Ms. Stull's opposition to the additional interim phased rate increases as the CT Project and Posey Solar are placed in service, citing the benefits to customers in avoiding the PISCC and deferred depreciation associated with those projects from the time they are in service until the time they are reflected in rates. Pet. Ex. 2-R at 28; Pet. Ex. 19-R at 58. Ms. Behme reiterated what she had explained in her direct testimony, that the ultimate rates customers would pay at Phase 3 (end of test year) would be higher without these interim phases. Pet. Ex. 2-R at 28. Both Ms. Behme and Mr. Rice said that every month of delay would cause a rate base increase of \$3.4 million for the CT Project and \$3.7 million for Posey Solar. Pet. Ex. 2-R at 28; Pet. Ex. 19-R at 58. Mr. Rice testified that if these projects are placed in service in May 2025, the Company would expect that it could file and place into effect the new rates by July 1, which is eight months before they would be reflected under Ms. Stull's proposal. Pet. Ex. 19-R at 58. That's almost \$57 million of PISCC and deferred depreciation (*i.e.*, rate base) that could be avoided with additional interim steps. *Id.*

d. Settlement.

Section B.1.c of the Settlement Agreement stipulates to the implementation of interim rate increase steps after Posey Solar and the CT Project are placed in service. Based on projected in-service dates of May 2025 for Posey Solar and July 2025 for the CT Project, this results in a projected reduction to proposed rate base as contemplated in Section B.3.a.iii of the Settlement Agreement and discussed in Section 7.7.D (Rate Base) of this Order. The Settlement Agreement provides that the actual reduction to rate base and the Net Original Cost Rate Base Cap will be based upon the actual reduction to forecasted PISCC and deferred depreciation based upon the actual in-service dates and actual rate implementation through interim steps. Settling Parties' Jt. Ex. 1 at Section B.1.c. Mr. Rice testified this reduction totals \$25,100,595 for avoided PISCC and deferred depreciation related to the Posey Solar and CT Project. Pet. Ex. 19-S at 11.

iii. Commission Discussion and Findings on Phased Rates and Interim Phases.

The phased rate increase, as CEI South originally proposed, had Phase 1 beginning as soon as an order in this proceeding is issued, before the end of 2024, with Phase 2 implemented as soon as possible after January 1, 2025, based on actual net plant certified to have been completed and placed in service no later than December 31, 2024. However, due to the procedural posture of this case, with the settlement negotiations and contested settlement extending our decision beyond January 1, 2025, CEI's original proposal became moot. . While we do not approve the Settlement Agreement, the Commission recognizes the proposed Settlement Phase 1 (beginning of test year) and Settlement Phase 2 (end of test year) rate implementations are a reasonable phase in of CEI South's prospective rates to which no party objected. The Commission finds this proposed two-step implementation should be approved, provided, Phase I shall be modified to be initiated the earlier of the issuance of this Order or the beginning of the test year.

CEI South witness Behme indicated Petitioner's acceptance of the requirements imposed for similar phased rate filings in our recent Order in Cause No. 45870. This included the availability of a technical conference as needed for Petitioner to explain its compliance filing. We find this, as well as the potential for a hearing on any such objection, provide opportunity for the parties and Commission staff to conduct a thorough review of the compliance filing and resolve any questions. CEI South has accepted the same compliance filing requirements as set forth in Cause No. 45870, and we find this process is reasonable and should be imposed along with the additional guidelines set forth below.

With respect to CEI South's proposed interim rate implementations after Posey Solar and the CT Project are placed in service, the evidence demonstrates these additional steps will benefit customers through a reduction to rate base for avoided PISCC and deferred depreciation. We, therefore, find this term, as set forth in CEI South's case-in-chief, to be in the public interest. However, we recognize the unusual nature of this request and will address this issue on a case-by-case basis in future proceedings.

Petitioner's Settlement Phase 1 and Settlement Phase 2 rates shall be implemented according to the following, which includes the information the OUCC recommended including (listed in item 4). This process is substantially similar to the process described in Sections B.1.a. and B.1.b. of the Settlement Agreement:

1. Rates will go into effect upon the approval of the tariff and submission of the compliance filing, subject to the rights of parties to submit an objection and subject to refund.
2. The OUCC and other parties shall have 60 days to review the compliance filing and submit any objections.
3. If necessary, a hearing will be scheduled to resolve any objections and make any needed factual findings.
4. All supporting schedules should be submitted in Excel format with formulas intact. Such a compliance filing should include the following:
 - a) Certification of Petitioner's actual utility plant in service and actual capital structure.
 - b) Actual rate base by component as of December 31, 2024 (Phase 1) or December 31, 2025 (Phase 2) in a similar format to that of Exhibit No. 20, Schedule B-1.1 and comparing actuals to Petitioner's forecast for that phase. Any variances between actuals and the forecast greater than 10% shall be explained.
 - c) Actual utility plant in service balances by FERC Account as of December 31, 2024 (Phase 1) or December 31, 2025 (Phase 2) in a similar format to Exhibit No. 20, Schedule B-2.1.
 - d) Actual accumulated depreciation balances by FERC Account as of December 31, 2024 (Phase 1) or December 31, 2025 (Phase 2) in a format similar to Exhibit No. 20, Schedule B-3.1.

- e) Actual capital structure by component as of December 31, 2024 (Phase 1) or December 31, 2025 (Phase 2), in a format similar to that of Exhibit No. 20, Schedule D-1.1, including an updated calculation of weighted average cost of capital and comparing actuals to Petitioner’s forecast for that phase. Any variance between actuals and the forecast greater than 10% shall be explained.
- f) Calculation of rates based on the December 31, 2024 actuals (Phase 1) or December 31, 2025 (Phase 2) as certified.

In addition, the authorized increase to total rate base is limited to the forecasted amount as of the end of the forward-looking test year approved by the Commission in this Order. To the extent the actual value of rate base exceeds approved rate base as of December 31, 2025, the difference should be removed from actual rate base for purposes of determining the rates to be implemented in each phase. Any amount in excess of the cap is not ineligible for inclusion in other rate or tracker proceedings.

Further, if CEI South does not actually invest what Petitioner forecasted in rate base in each phase, adjustments to depreciation expense and property tax expense shall be implemented, as well as associated adjustments to income tax expense.

In its discretion, the Commission may convene a technical conference, as warranted, to certify and ensure compliance with this Order. This technical conference may be requested by any party or initiated by the Commission or its staff to allow further discussion in determining whether the compliance filing complies with the Order and determine what additional information should be provided in each phase.

B. Overall Revenue Requirement and Authorized Net Operating Income.

Section B.2 of the Settlement Agreement addresses the stipulated revenue requirement, revenue increase, and authorized net operating income (“NOI”).

CEI South witness Rice stated, for Section B.2 of the Settlement Agreement, the Settling Parties agreed to a total revenue requirement of \$803,932,466, which requires a net increase in revenues at present rates of \$80,009,617. Pet. Ex. 19-S at 10. He explained the increase in revenues is net of the reduction to revenues resulting from the stipulated reduction to the base cost of fuel based on the OUCC’s recommendations, as well as the stipulated reduction to purchased power expense due to the reduction in purchased capacity cost set forth in the Settlement Agreement. *Id.* CEI South originally requested a revenue increase of \$118,757,693, modified to \$115,445,697 on rebuttal. *Id.* The Settlement Agreement represents a decrease of \$35,436,080 from CEI South’s request at rebuttal and results in a proposed authorized NOI of \$187,518,958. *Id.* at 10-11.

Industrial Group witness Gorman stated the revenue terms of the settlement are reasonable. IG Ex. 4 at 3. He explained in his direct testimony he recommended that the revenue increase be no more than \$89.2 million. *Id.* Even so, the Settling Parties were able to reach agreement on an increase of \$80.0 million. *Id.* He stated the range of potential litigation outcomes was between CEI South’s rebuttal position of \$115.4 million and the OUCC’s proposed \$48.3 million increase. *Id.* The settled increase falls slightly below the \$81.9 million midpoint of that range. In Mr. Gorman’s opinion, the settled revenue requirement is a reasonable resolution of the revenue issues raised in

this case, is fully supported by the record as a whole, and represents a fair compromise on the revenue disputes raised in this proceeding. *Id.* at 3-4. The disputed components of Petitioner’s revenue requirement are discussed in greater detail in each of the subsections below. The Commission’s ultimate finding on Petitioner’s authorized revenue increase and NOI is found in Section 9 (Overall Authorized Increase) below.

C. Rate Base.

CEI South’s case-in-chief evidence on its proposed rate base, the contested issues resolved through Petitioner’s rebuttal, and the remaining disputed items are summarized below.

i. CEI South Case-in-Chief.

Ms. Behme testified the “Adjustments” column on Schedules B-2 and B-2.1 of Petitioner’s Exhibit No. 20 reflects three adjustments to gross plant in service and accumulated reserve forecasted as of December 31, 2025. Pet. Ex. 2 at 14. First, she said an adjustment was made to remove utility plant in service and associated accumulated depreciation of MISO Regional Expansion Criteria and Benefit (“RECB”) transmission plant in service. She stated that consistent with the Commission’s Order in Cause No. 43111, CEI South treated MISO-approved RECB investments as FERC jurisdictional. The second adjustment was to remove utility plant in service and associated accumulated depreciation of the assets associated with Troy Solar. Ms. Behme explained that CEI South was granted authority to recover the costs of Troy Solar using a levelized rate through the CECA annual tracker. As part of the settlement agreement approved in Cause No. 45086, this project is to be excluded when calculating CEI South’s electric revenue requirement in each rate case over the life of the project. Specifically, as it pertains to this adjustment, the 45086 Order states the project will be excluded from rate base in such future base rate cases. *Id.* at 15. The third adjustment removed utility plant in service and associated accumulated depreciation of the assets associated with Crosstrack Solar. CEI South was granted authority to recover the Crosstrack Solar costs using a levelized rate through the CECA annual tracker. The unadjusted forecast assumes Crosstrack Solar will be placed in service during the test year as detailed in Cause No. 45754. Similar to the way CEI South accounts for Troy Solar, per the Order in Cause No. 45754, when completed, CEI South will have excluded Crosstrack Solar from rate base in all future base rate cases. In addition, Ms. Behme noted the commercial operation date for Crosstrack Solar has been updated to 2026, which is beyond the test year in this Cause. As a result, none of the costs associated with Crosstrack Solar should be included in this Cause. *Id.* at 15-16.

Ms. Behme described the 11 specific items included in rate base as other rate base components (Schedule B-4): (1) fuel stock; (2) utility materials and supplies; (3) storeroom expenses associated with the materials and supplies; (4) allowance inventory; (5) regulatory asset associated with deferral of PISCC related to Petitioner’s Advanced Metering Infrastructure (“AMI”) project (approved in Cause No. 44910); (6) regulatory asset associated with deferral of PISCC related to CEI South’s initial TDSIC plan (approved in Cause No. 44910); (7) regulatory asset associated with deferral of PISCC related to CEI South’s second TDSIC plan (approved in Cause No. 45894); (8) regulatory asset associated with deferral of PISCC related to CEI South’s annual CECA proceeding (approved in Cause No. 44909, with amounts approved in subsequent CECA proceedings); (9) regulatory asset associated with deferral of PISCC related to CEI South’s annual ECA proceedings (approved in Cause No. 45052, with amounts approved in subsequent

ECA proceedings); (10) regulatory asset associated with deferral of PISCC related to the F.B. Culley East Ash Pond Closure (approved in Cause No. 45903); and (11) regulatory asset associated with deferral of PISCC related to the natural gas combustion turbines (“CTs”) (approved in Cause No. 45564). The first four components are reflected using 13-month averages of the actual balances for the monthly periods ending December 31, 2022, except fuel stock, utility materials, and supplies were adjusted to reflect the retirement of A.B. Brown and Warrick Unit 4. Pet. Ex. 2 at 17-18.

CEI South witness Bradford provided an overview of CEI South’s Generation Portfolio and its Generation Transition Plan. Of the new resources being added to CEI South’s Generation Portfolio, he indicated two CTs, A.B. Brown Units 5 and 6 approved in Cause No. 45564, and Posey Solar approved in Cause No. 45847, are included in the forecasted rate base in this Cause. He provided an update on the CTs and Posey Solar. Pet. Ex. 7 at 13-14. He also described how CEI South is managing its capacity needs until the replacement generation is placed in service in 2025. *Id.* at 14. Attachment FSB-1 to Mr. Bradford’s direct testimony is a summary of the capital investments made at CEI South generating stations since the rate base cutoff date in CEI South’s last base rate case, Cause No. 43839, with projects greater than \$5 million individually identified. *Id.* at 15. This summary excludes Troy Solar, Crosstrack Solar, and the investments that have been retired with the securitization of A.B. Brown Units 1 and 2. *Id.*

ii. Updated ECA PISCC Balances.

In her rebuttal testimony, Ms. Behme described an adjustment to the ECA PISCC balances made in Petitioner’s Exhibit No. 20-R to reflect a correction CEI South identified after the OUCC and intervenors’ cases-in-chief were filed. Pet. Ex. 2-R at 4. She stated CEI South reduced the PISCC balances for the ECA mechanism by \$20,783,641. *Id.* Ms. Behme explained that Petitioner discovered there were balances in the forecast for these accounts that are attributed to the Mercury and Air Toxics Standards (“MATS”) Program in the ECA mechanism. *Id.* at 5. The PISCC balances associated with MATS were, however, removed from the general ledger in 2023 and included in CEI South’s Securitization filing in Cause No. 45722. *Id.* at 5. Because these balances were removed from the general ledger, CEI South removed these balances from Petitioner’s Exhibit No. 20-R, resulting in a \$2,729,234 reduction to CEI South’s revenue requirement. *Id.* at 5.

iii. Rate Base Items Resolved through Rebuttal.

a. Culley East Ash Pond.

OUCC Position. OUCC Witness Armstrong testified the Commission had denied CEI South’s recovery of Cause No. 45795 legal costs in Cause No. 45903. Pub. Ex. 7 at 12. Accordingly, she recommended an increase to accumulated depreciation to remove the disallowed legal costs for the Culley East Ash Pond project and an associated reduction to test year amortization expense. *Id.* at 12-13.

CEI South Rebuttal. Ms. Behme testified on rebuttal that to comply with the Order approved on February 7, 2024, in Cause No. 45903, CEI South removed certain disallowed legal fees from the rate base reflected in Petitioner’s Exhibit No. 20-R. Pet. Ex. 2-R at 5. She stated CEI

South also made the necessary adjustments to ECA revenues, accumulated depreciation, and amortization expense associated with this reduction. *Id.* at 5.

b. Emissions Allowance Inventory.

OUCG Position. OUCG witnesses Lantrip and Armstrong recommended the Commission deny the emissions allowance portion of costs in base rates, contending that Petitioner failed to demonstrate prudence regarding the management of its allowance inventory. Mr. Lantrip recommended embedding a zero balance in base rates and that approval of Petitioner's emissions allowance inventory variance be contingent upon CEI South improving its practices, as demonstrated through updates in its RCRA rider testimony showing less volatility in inventory levels. Pub. Ex. 3 at 13-14. Ms. Armstrong testified the 2022 historical period CEI South used to forecast allowance inventory is not representative of what its operations are likely to be going forward due to unusual events in 2022 that inflated the monthly allowance inventory balances. Pub. Ex. 7 at 3. She testified that because CEI South will be retiring all but one of its coal units by 2026, its need to purchase emissions allowances will decrease in future years. *Id.* at 6. She also stated that CEI South's filed exhibits and workpapers did not provide detailed monthly emission allowance inventory calculations by allowance type, which is necessary to verify the monthly allowance inventory balance and expense. *Id.* at 7. Ms. Armstrong testified that to reflect the changes in the NOx Seasonal market and the benefits of CEI South's Generation Transition Plan, it is reasonable to value test year allowance inventory at zero. *Id.* at 9. This recommendation removes \$1,282,707 of rate base from the test year and \$3,519,952 of Emission Allowance O&M costs. Pub. Ex. 3 at 14; Pub. Ex. 7 at 10.

CEI South Rebuttal. Ms. Behme indicated on rebuttal that CEI South accepted Ms. Armstrong's recommended removal of \$1,282,707 from Petitioner's rate base. Pet. Ex. 2-Rat 5. CEI South witness Behme testified that while CEI South believes there will be a balance of emission allowance inventory represented on the balance sheet in the test year, she acknowledged the actual historical balances used for the basis in this proceeding are not representative of what the balance will be for the test year; consequently, Petitioner agreed to remove the balance entirely. Pet. Ex. 2-R at 5.

c. Commission Discussion on Certain Legal Expense and Emission Allowance Inventory Base Rate Items.

As discussed above, following the OUCG's filing of its case-in-chief, Petitioner's witness Behme agreed in her rebuttal that the legal costs associated with Cause No. 45795 that the Commission had denied recovery of in Cause No. 45903 should be removed. She also accepted OUCG witness Armstrong's recommendation to remove \$1,282,707 related to the rate base portion of emission allowance inventory costs. The Commission finds these agreed reductions are appropriate and should be approved.

iv. Remaining Contested Rate Base Items .

a. Coal Inventory.

OUCC Position. OUCC witness Eckert disagreed with CEI South's proposed coal inventory level. Pub. Ex. 1 at 34. He testified CEI South had excessive coal inventory during most of 2023, which imposed an additional and unnecessary cost on ratepayers. *Id.* at 35. He calculated a recommended coal inventory level of \$8,990,701, representing a reduction of \$2,949,966 from CEI South's amount of \$11,940,667. *Id.* at 35-36.

CEI South Rebuttal. CEI South witness Bradford testified on rebuttal that Mr. Eckert's simplistic calculation of a recommended coal inventory level was incomplete and used debatable assumptions. Pet. Ex. 7-R at 10-11. He explained that as shown in Schedule B-4 of Petitioner's Ex. No. 20, the fuel stock rate base component has additional constituents besides the Culley coal inventory, such as the natural gas underground storage inventory, the Brown Unit 3 gas turbine fuel oil inventory, and the fuel coal inventory – which totals approximately \$775,000. *Id.* at 11. Mr. Bradford also disagreed with Mr. Eckert's assumptions regarding the Culley coal pile inventory, including the optimal number of days of supply. He stated the reduced fleet coal inventory warrants a higher optimal number of days. He also stated Mr. Eckert did not account for the Culley Unit 2 maximum daily coal burn, *Id.* and he disagreed with Mr. Eckert's use of a single point of reference versus a time-based average coal pile inventory cost. *Id.* at 12.

Settlement. In his settlement testimony, Mr. Rice testified that under the Settlement Agreement, coal inventory is reduced an additional \$2,949,966 as Mr. Eckert proposed. Pet. Ex. 19-S at 10.

b. Urban Living Research Center.

CEI South Case-in-Chief. CEI South witness Bradford gave an overview of the Urban Research Living Center ("ULRC") Project approved in Cause No. 44909. He explained the Commission originally approved an estimated investment of approximately \$2 million to be recovered through the CECA mechanism. Pet. Ex. 7 at 19. In Cause No. 44909 CECA 2, the Commission approved a change in scope and corresponding decrease to the project cost estimate to \$1.5 million. Pet. Ex. 7 at 19-20. In Cause No. 44909 CECA 4, CEI South provided updates to the ULRC design, as well as updates to the estimated final project cost of \$1.15 million. Mr. Bradford testified CEI South did not request approval of, nor did the Commission approve, any revisions to the cost estimate in CECA 4 from the \$1.5 million approved in CECA 2. *Id.* at 20. In Cause No. 44909 CECA 5, the Commission approved recovery of \$1,150,000 out of the final project cost of \$1,465,288, finding that although the final project cost was within the \$1.5 million approved in CECA 2, CEI South had not established that the remaining costs were reasonable or appropriate for a project with significantly less capacity than CEI South projected in CECA 2. CEI South sought to recover the remaining unrecovered balance of \$219,348 for the ULRC project in this Cause. *Id.* at 21. Mr. Bradford explained that as a pilot project, CEI South ran into unforeseen challenges beyond its control to get the ULRC to fruition in 2022. He described those challenges in detail and asserted the cost increases were beyond CEI South's control and were necessary costs for completion of the ULRC project. *Id.* at 22. To address the Commission's finding that CEI South failed to establish the additional costs were reasonable or appropriate, he provided a detailed breakdown of the additional \$219,348. *Id.*

OUCC Position. OUCC witnesses Lantrip and Armstrong recommended Petitioner's request to include \$219,348 of net project costs related to the ULRC be denied. Pub. Ex. 3 at 4; Pub. Ex. 7 at 28. Mr. Lantrip stated the Commission's Order in Cause No. 44909 CECA 5 found ratemaking recovery associated with the ULRC project should be limited to the \$1.15M project estimate Petitioner shared in CECA 4, due to the project's changes in scope from the previous approved cost in CECA 2. He stated the Order in Cause No. 44909 CECA 5 also required Petitioner to update the Commission on the outcome of Petitioner's Department of Energy ("DOE") reimbursement request for \$60,000. Pub. Ex. 3 at 4. Ms. Armstrong testified the detailed breakdown and associated justification of the additional ULRC costs in Mr. Bradford's direct testimony in this Cause is information the Commission already had when making its decision in CECA 5 to disallow the additional costs. Pub. Ex. 7 at 15. Ms. Armstrong noted that CEI South did not file a petition for reconsideration in Cause No. 44909 CECA 5. *Id.* She also asserted that CEI South decided to request that the ULRC be exempt from the requirements of Ind. Code ch. 8-1-8.5, and Petitioner should not be entitled to benefits similar to the guaranteed rate recovery under Ind. Code § 8-1-8.5-6.5 afforded to projects that have provided sufficient evidence for the Commission to issue a CPCN under Ind. Code § 8-1-8.5-5(b) and (d). *Id.* at 19.

CEI South Rebuttal. CEI South witness Bradford disagreed with OUCC witness Lantrip that the Commission's CECA 5 Order "found ratemaking recovery [for the ULRC project] should be limited to \$1.15 million." He explained that he did not interpret the CECA 5 Order as prohibiting CEI South from seeking to include that amount in rate base in this proceeding or foreclosing the request included in this case. Pet. Ex. 7-R at 13.

Settlement. Mr. Rice testified that the Settlement Agreement removed a net amount of \$212,036 in additional investment in the ULRC as recommended by OUCC witness Armstrong. Pet. Ex. 19-S at 10.

c. PISCC and Deferred Depreciation Avoided for Interim Phases.

CEI South Rebuttal. Ms. Behme stated in her rebuttal testimony that PISCC will accrue and depreciation will be deferred until the Posey Solar and CT Projects are reflected in rates. She testified that each month of delay will cause a rate base increase of \$3.4 million for the CT Project and \$3.7 million for Posey Solar. Pet. Ex. 2-R at 28.

Settlement. By virtue of the Settlement Agreement provisions related to the phases of rate implementation, discussed in Section 7.7.B (Phased Rate Implementation) of this Order, reductions to rate base totaling \$25,100,595 will be realized due to the avoided PISCC and deferred depreciation for the CT Project and Posey Solar. Pet. Ex. 19-S at 11; Settling Parties' Jt. Ex. 1 at Section B.3.a.

d. Land Acquisitions.

OUCC Position. OUCC witness Armstrong recommended removing the amounts from rate base related to Petitioner's acquisition of five properties bordering the A.B. Brown Generating Station. Pub. Ex. 7 at 21. She testified that in response to discovery, CEI South stated this land was purchased as buffer property and may be impacted from a nuisance perspective by the activities conducted when completing closure of the ash pond. Ms. Armstrong contended that CEI

South did not adequately justify the need for these land purchases, and they are not currently used and useful for the provision of electric service. *Id.* at 22. She stated that although purchasing these properties likely reduced CEI South's future litigation risk from nuisance allegations, allowing CEI South to recover these costs improperly shifts the risk of CEI South's management decisions and business operations from its shareholders onto its ratepayers. *Id.* at 23. She testified that if CEI South invests in future improvements to these properties that are found to be reasonable and prudent for providing electric service, it may then be appropriate to seek recovery of the land expense as part of Petitioner's request to recover these investments. However, Ms. Armstrong maintained that it is premature for CEI South to recover these land purchases now from ratepayers, and she recommended the costs of these acquisitions be removed, reducing Petitioner's rate base. *Id.* at 23.

CEI South Rebuttal. While CEI South witness Bradford initially offered rebuttal objecting to the OUCC's proposed exclusion of the land acquisition costs in rate base, Petitioner's response to the Commission's April 29, 2024 Docket Entry questions clarified that the acquisition costs were not actually included in rate base in the revenue requirement. Pet. Ex. 23.

Settlement. Section B.3.b of the Settlement Agreement confirms that \$2,143,866 related to a land acquisition and identified in OUCC witness Armstrong's testimony is not included in the forecasted rate base in this Cause and will not be reflected in the actual rate base for purposes of Settlement Phases 1 or 2. Settling Parties' Jt. Ex. 1; Pet. Ex. 19-S at 11.

e. Steam Production Plant.

OUCC and Intervenor Position.

Capitalized maintenance: OUCC witness Krieger recommended reducing the capital investment in Steam Production Plant that CEI South included in rate base by a total of \$150.9 million, resulting in a revenue requirement reduction of \$9.2 million. Pub. Ex. 9 at 2 and 15. Of this amount, \$104.7 million relates to projects CEI South improperly capitalized. This total reduction, correspondingly, reduces annual depreciation by an estimated \$8.6 million and reduces the annual revenue requirement by \$9.2 million. *Id.* at 2. Mr. Krieger identified certain utility plant investments that raised concerns. More specifically, after reviewing Mr. Bradford's attachments and workpapers showing Petitioner's capital investment in the Steam Production Plan since the rate base cutoff in Petitioner's last rate case, Mr. Krieger concluded certain investments in replacement and refurbishments should have been expensed as maintenance instead of being capitalized, raising concern regarding CEI South's project management and accounting. *Id.* at 10-11. Mr. Krieger stated the \$104.7 million he recommends removing from rate base reference repairs, replacements, refurbishments, and other categories that are maintenance, not capital investment. He stated these expenditures keep assets running but do not extend the asset's useful life. *Id.* at 12.

Coal Silo: Mr. Krieger also took issue with the exclusion of original design features resulting in a coal silo failure. Mr. Krieger testified he does not believe this amount should be added to rate base or borne by consumers because the cost is a result of poor project management. Pub. Ex. 9 at 13. He recommended removing \$4,595,260 from rate base related to the 2016 Culley Unit 3B Coal Silo Failure. *Id.*

FB Culley 3 Outage costs: OUCC witness Eckert recommended that if the Commission finds CEI South was at fault for the Culley Unit 3 outage, that CEI South's rate base be reduced by \$7,139,191 to remove the cost to repair Culley Unit 3. Pub. Ex. 1 at 39. IG witness Gorman recommended that to the extent the Commission ultimately finds imprudence caused the outage at issue in Cause No. 38708 FAC 137 S1, then the full revenue requirement impact of the test year for all imprudent capital costs associated with the Culley outage should be removed from CEI South's cost of service. IG Ex. 1 at 136-137.

FB Culley 3 Major Projects and Conversion costs: Mr. Krieger testified that amounts included in rate base for FB Culley 3 major projects should be disallowed. He stated these amounts should not be included in rates until a future CPCN for FB Culley Unit 3's conversion to natural gas is approved by the Commission. Pub. Ex. 9 at 14.

CEI South Rebuttal.

Capitalized Maintenance: CEI South witness Cunningham responded to Mr. Krieger's proposed \$104.7 million reduction in utility plant in service because certain maintenance expenses were inappropriately capitalized. He asserted that in concluding these were maintenance costs, Mr. Krieger paraphrased CEI South's capitalization policy and took it out of context. He also claimed Mr. Krieger's proposed capitalization test is inconsistent with the FERC Uniform System of Accounts ("USOA"). Pet. Ex. 22-R at 3. Mr. Cunningham stated the FERC USOA sets forth the rules for capitalization when individual items that are part of a larger asset are replaced. He stated Mr. Krieger's proposed test that the replacement should increase the useful life or salvage value of an asset is not part of the analysis. *Id.* at 4. Mr. Cunningham stated Petitioner has a written listing or catalogue, as explained by Mr. Krieger, but the OUCC did not ask for that catalogue to be produced in discovery. A copy of the catalogue was attached as Petitioner's Exhibit No. 22-R, Attachment JAC-R1. He stated in essence, if a retirement unit is replaced, it is to be capitalized. If a component part of a retirement unit is to be replaced, it is expensed, and as the USOA makes clear, "consistency" in application is key. *Id.* at 5.

Mr. Cunningham testified that the items Mr. Krieger identified, including pumps, valves, and process piping, are considered discrete retirement units, or assets, for CEI South. These retirement units have been established almost 20 years, and replacement of these retirement units has been capitalized by CEI South in the normal course of operations. Mr. Cunningham explained that the replacement of retirement units results in the prior asset being retired and the new asset being added to the plant-in-service records. The newly installed asset represents additional investment with a new useful life. *Id.* at 6. Mr. Cunningham testified that CEI South has an internal controls team that reviews and confirms Petitioner is appropriately capitalizing, with the financial statements audited by independent certified public accountants for compliance with generally accepted accounting principles. In addition, the regulatory financial statements that are reported to FERC are also audited by the same firm of certified public accountants. He testified Petitioner undergoes considerable diligence to assure the capitalization decisions are correct and comply with the FERC USOA. *Id.* at 7. Mr. Cunningham also asserted that Instruction 10 of the USOA dictates that Mr. Krieger is incorrect. When a retirement unit is removed from service, the utility is to credit Utility Plant in Service and debit Accumulated Depreciation for the original cost of the unit. This is to be done regardless of how many years the unit has been in service. In this fashion, the retirement of a retirement unit has zero effect on net original cost rate base (except for salvage and

cost of removal). Consequently, the entries that are booked to retire a retirement unit do not imply the unit was fully depreciated. *Id.* at 8.

Coal Silo: Mr. Bradford explained in rebuttal that when the Culley Unit 3B Coal Silo failed in July 2016, an outside engineering firm performed a root cause analysis (“RCA”). The engineering firm determined the root cause to be the liner modification not being installed in 1978 by the contractor, as specified in the 1976 design document, thereby causing the coal silo skirt-to-cone weld to fail from approximately 40 years of corrosion. The root cause analysis was provided as Petitioner's Exhibit No. 7-R, Attachment FSB-R2. Pet. Ex. 7-R at 5. Mr. Bradford described the amounts the insurance carrier covered and the amounts included in rate base in this case. *Id.* He stated the amount associated with the 2016 FB Culley Unit 3B Coal Silo Failure nets to \$4,600,428, reducing Mr. Krieger’s recommendation by more than \$4 million. *Id.* He pointed to the root cause analysis and the insurance carrier as support that there is no evidence of poor project management. Specifically, the RCA states “[a] likely scenario that would allow this to occur is that the 204 SS liner installation detail was modified in the field without knowledge of Vectren Power Supply.” *Id.* at 8.

FB Culley 3: Mr. Bradford provided a breakdown of the \$41.4 million Mr. Krieger recommended disallowing with respect to certain capital investment projects related to Culley. He explained they relate to turbine overhaul and rotor replacement, boiler components and air heater baskets replacements, environmental emission monitoring equipment replacement, coal pulverizer piping replacement, expansion joint replacement, station battery replacement, and cyber security monitoring equipment for the control system, as well as approximately \$7.8 million included for the Culley Unit 3 Outage capital expenditures. Mr. Bradford agreed the Culley Unit 3 conversion should not be included in rates until the Commission approves a CPCN or an alternative recovery method such as a new tracker. He explained that his Workpaper FSB-1 (Confidential) set forth the capital spend during a time period but not necessarily amounts included in rate base in this case. Pet. Ex. 7-R at 9. Mr. Bradford did not agree with the proposed disallowance of the other Culley capital projects. *Id.* at 10.

With respect to the turbine overhaul, Mr. Bradford testified the original equipment manufacturer (“OEM”) – General Electric – recommends a turbine, such as Culley Unit 3, be overhauled every 7-10 years. The last turbine overhaul performed on Culley Unit 3 was in 2014, putting the next scheduled overhaul at 11 years. He stated CEI South has already delayed the overhaul until 2025 due to the previous Culley Unit 3 Forced Outage from June 2022 – March 2023; therefore, it would not be prudent to push the turbine overhaul beyond 2025 given the OEM guidance. *Id.* at 10. With respect to the remainder of the projects, Mr. Bradford testified these projects will continue to be used after the gas conversion project but are prudent and will be needed even if a CPCN is not issued for the gas conversion project. He stated the turbine and boiler remain essential if the gas conversion occurs, and if the Commission does not approve the Culley Unit 3 conversion, it should not be assumed that Unit 3 will no longer be used and useful. *Id.* Mr. Bradford stated if the Commission denies the natural gas conversion, it is likely the unit will continue to operate until the next IRP cycle provides guidance on a suitable replacement or until environmental requirements require closure. *Id.*

FB Culley Outage: With respect to the OUCC’s and IG’s recommendations that costs associated with returning Culley Unit 3 to service following the forced outage be removed from

rate base in the event the Commission finds CEI South was imprudent in Cause No. 38708 FAC 137 S1, Mr. Bradford testified that Petitioner opposed the recommended findings of imprudence and disallowance in that subdocket. That said, to the extent the Commission's Final Order differs from what CEI South proposed, Mr. Bradford stated CEI South will update its schedules to comply. Pet. Ex. 7-R at 3.

Settlement. Mr. Rice described Section B.3 of the Settlement Agreement, which addresses the original cost rate base. He stated the Settlement Agreement reflects CEI South's test year net original cost rate base on which Petitioner should be permitted to earn a return at \$2,769,851,666, which will be adjusted for the actual reduction to forecasted post-in-service carrying charges and deferred depreciation based upon the actual in-service dates and actual rate implementation through interim steps for the CT Project and Posey Solar. The following includes CEI South's original proposal, less a reduction to rate base of \$50,617,095:

(1) to reduce coal inventory an additional \$2,949,966 as proposed by OUCC Witness Michael Eckert;

(2) to remove a net amount of \$212,036 in additional investment in the ULRC as OUCC Witness Cynthia Armstrong recommended;

(3) a reduction totaling \$25,100,595 for avoided PISCC and deferred depreciation in conjunction with the stipulations set forth in Paragraph B.1.c of the Settlement Agreement related to the Posey Solar and CT Project;

(4) a reduction of \$20,783,641 for PISCC associated with ECA projects as described on pages 4-5 of the rebuttal testimony of CEI South witness Behme;

(5) a reduction of a confidential amount for Culley East Ash pond legal fees, as accepted by CEI South on rebuttal and described in Ms. Behme's testimony, and

(6) to reduce Rate Base NOx allowance inventory by \$1,282,707 as accepted by CEI South on rebuttal and described on page 5 of Ms. Behme's rebuttal.

Section B.3.b of the Settlement Agreement also confirms that \$2,143,866 related to the land acquisition and identified in the prefiled testimony of OUCC Witness Armstrong is not included in the forecasted rate base in this Cause and will not be reflected in Petitioner's actual rate base for purposes of Settlement Phases 1 or 2 rates. Section B.3.b also confirms that amounts related to F.B. Culley Unit 3 natural gas conversion identified by OUCC Witness Krieger will not be included in this Cause.

Settlement Opposition. OUCC witness Krieger opposed the Settlement Agreement because it did not address his testimony that CEI South had capitalized maintenance. He adhered to his position that CEI South's request for certain capital investment to be included in rate base remains unreasonable. Pub. Ex. 9-S at 2. He continued to recommend a \$150.9 million¹⁷ reduction of

¹⁷ Mr. Krieger recommended \$150.9 million in settlement opposition (Pub. Ex. 9-S at 2), but does not explain the discrepancy between this number and the \$150.7 million recommended disallowance in his direct testimony. Pub. Ex. 9 at 9.

capital investment in Steam Production Plant that CEI South proposes to include in rate base. Mr. Krieger also recommended a complete audit review to ensure Petitioner's capitalization of maintenance was not more prevalent than Petitioner presented, as well as ongoing audits and a refund of excess earnings garnered by CEI South through this practice. The impact of this recommendation would also reduce annual depreciation and the annual revenue requirement. *Id.* He then said that information provided in CEI South's response to the Commission's Docket Entry dated April 29, 2024 caused him to request further remedies. He stated that in the docket entry response, CEI South confirmed that it had capitalized component items of multiple retirement units over a period of 11 years. He testified this merits Commission scrutiny and future audits following this Cause's conclusion. *Id.* at 3. He said CEI South did not properly implement its policies and procedures. *Id.* at 5. He called capitalizing valve replacements an "egregious violation" of the utility's policy when it occurs for 11 years. *Id.* He further asserted that CEI South has shown a "longstanding disregard for proper treatment of rate base by capitalizing expense items." *Id.* at 6. He stated another example of Petitioner's deficient capitalization procedures is its failure to issue a Property Unit Catalog for solar generation assets, although CEI South has owned and operated solar generating facilities since 2018. *Id.* Mr. Krieger requested the Commission order two types of audits. First, a complete historical audit, at CEI South's expense, and also, until CEI South's next rate case, routine audits performed by a reputable accounting firm to ensure this practice is discontinued. Mr. Krieger recommended the cost of these audits should also be borne by CEI South and its shareholders. *Id.* at 8.

Mr. Krieger reiterated his recommendations to exclude from rate base amounts for F.B. Culley 3 major projects and natural gas conversion as described in his direct testimony and amounts related to the replacement of a coal silo failure as described in his direct testimony. Pub. Ex. 9-S at 7.

Settlement Rebuttal. Mr. Rice noted that Mr. Krieger had adjusted his proposed disallowance related to the silo failure to \$4.6 million from \$8.8 million in his April 8, 2024 corrected filing. He also testified that the \$7.8 million to restore Culley Unit 3 following its forced outage should also no longer be in dispute given that the Commission found in Cause No. 38708 FAC 137 S1 that CEI South was not imprudent. In addition, Mr. Bradford had clarified on rebuttal that a significant portion of the Culley expenditures Mr. Krieger proposed to disallow were actually not included in rate base in this Cause. Pet. Ex. 19-SR at 17. Mr. Rice objected to Mr. Krieger's claims that CEI South has improperly capitalized component items of multiple retirement units over a period of 11 years. He stated CEI South has already conducted an audit of every expenditure since the last rate case making up Mr. Krieger's proposed disallowance. As indicated in CEI South's response to the Commission's Docket Entry dated April 29, 2024, the Company identified 21 individual listings that would be in the test year and rate base in this case that may be component parts of retirement units. *Id.* at 18. This was 21 out of a total of 12,161 lines of expenditures representing 1,139 individual projects placed in service over more than a decade. He said out of the \$104.7 million in expenditures, CEI South identified \$2.3 million, or 2.2%, for which the Company does not have an explanation as to why the expenditures were capitalized. *Id.* He explained that CEI South did not "admit" that these amounts were improperly capitalized but rather stated it cannot identify why they were capitalized. Mr. Rice said that was an unfortunate circumstance that has arisen due to the passage of time as personnel who would have made the decisions over the years are no longer with the Company. *Id.* He testified that Mr. Krieger's suggestion to disallow \$150.9 million has been refuted by the audit, Mr. Cunningham's and Mr.

Bradford's rebuttal, and the Commission's Order in the FAC Subdocket. Further, Mr. Rice stated, his claim that this is an "egregious violation" warranting a presumption that CEI South does not properly keep its books is completely unjustified. *Id.* at 18-19.

f. IT Related Investments.

CEI South Case-in-Chief. CEI South witness Bahr presented testimony describing the Company's cost optimization and resiliency strategies. He described the major IT investments that have been, or are in the process of being, implemented, namely: investments consistent with Cost Optimization, including Enterprise Integration Program ("EIP"), Advanced Metering Infrastructure ("AMI"), Advanced Distribution Management System ("ADMS"), Supervisory Control and Data Acquisition ("SCADA"), Digital Delivery, Cloud Acceleration, Transformation, and Optimization ("CATO"), and the SAP Business, Planning, and Consolidations ("BPC") Program; and investments consistent with Resiliency, including Cybersecurity, Network Transformation, and Data Center Refresh and Resiliency. Pet. Ex. No. 8 at 8 through 27.

OUCS Position. OUCS witness Compton opposed CEI South's proposed inclusion of IT investments in rate base, stating CEI South had not substantiated its proposed IT investments in its case-in-chief or provided sufficient evidence demonstrating the necessity of all of the investments. Pub. Ex. 5 at 4. He testified there are no studies, no reports, and no projections supporting or identifying how CEI South's IT investments will benefit the resiliency and security of its systems, the difference in efficiency between the old and new applications, or how much application maintenance and support costs might decrease. Mr. Compton stated the benefits Mr. Bahr claims are merely broad assertions without support. *Id.* at 5. He testified that while CEI South did claim two of its applications have reached or will reach obsolescence, it did not explain, support, or show that its other technologies have reached that stage in their lives. Mr. Compton testified that CEI South simply stated its new investments will increase the efficiency of its operations without any cost benefit study analyzing the level of improvements compared to investment cost. *Id.* at 6-7. He stated that with the evidence provided, there is no way to determine whether the investments CEI South has made and plans to make for its IT development are prudent or reasonable. *Id.* at 7. Mr. Compton commented it seemed incongruous for CEI South to claim it will realize decreased maintenance costs, increased resiliency, and improved efficiency but will still require the same FTE support staff as it did prior to the proposed IT investments. *Id.* at 6. He derived a pro rata allocation methodology he used to allocate his recommended reduction in utility plant in service and accumulated reserve for his recommended disallowance. He recommended the Commission deny CEI South's request to include any of the IT investments described by Mr. Bahr in rate base.

CEI South Rebuttal. CEI South witness Bahr testified on rebuttal, noting that Mr. Compton proposed a broad disallowance and rejection of all IT investments without identifying specifically any proposed investments he considers unnecessary or excessive. Pet. Ex. 8-R at 2. He explained that while Mr. Compton may be looking for a formal study, report, or analysis to justify or support the IT investments included within this Cause, in his twenty-two years of experience, IT departments do not necessarily conduct formal studies or analysis to evaluate which or whether IT software or hardware requires replacement or upgrade. He stated these requirements to replace, update, or upgrade software or hardware are also often recommended or necessitated by a vendor, citing examples such as the many iterations of Microsoft Windows software or hardware such as

Intel Pentium processors or an aging iPhone. *Id.* at 3. He testified this is the type of scenario driving considerable portions of the IT investments CEI South is making. *Id.* Mr. Bahr explained that instead of formal studies and analysis, third-party or otherwise, IT investments are determined based on a variety of factors that include, but are not limited to, alignment to overall strategy, efficiency, or business continuity; supportability (*i.e.*, end of life or unsupported systems); performance and age; vulnerability and reliability; and functionality or customer/end user benefits. He noted that each of these drivers, among others, were discussed in detail in his direct testimony. *Id.* at 4. He reiterated that aside from an end-of-life driver (*i.e.*, the above example where the application or system is no longer supported or available as a technology option), age, functionality, performance, and reliability are closely linked factors when evaluating the need to update or replace technology. *Id.* Mr. Bahr indicated Mr. Compton's characterization that CEI South did not provide any analysis to support the IT investments was not a fair characterization. He said aside from his explanation of the investments and drivers requiring the update or replacement within his direct testimony, CEI South responded to several data requests and produced a large volume of supporting attachments concerning these IT investments. *Id.* at 5. Copies of relevant discovery responses were attached to Mr. Bahr's rebuttal testimony at Petitioner's Exhibit No. 8-R, Attachment RWB-R1 (Confidential). *Id.* Mr. Bahr pointed to his direct testimony on the obsolescence of certain IT programs and the benefits to be realized upon their replacement or update. He stated that for Mr. Compton to testify that CEI South did not make any claim of obsolescence regarding its software or hardware is simply incorrect. He referenced discovery responses that indicated not only how CEI South systems "might" improve but gave examples of how IT investments will improve the system or reduce maintenance. *Id.* at 7. Mr. Bahr testified that it is not "incongruous" to understand benefits can arise from areas other than a pure headcount view, citing reductions in software or hardware maintenance costs, streamlined training costs and other external support costs realized or anticipated to be realized due to a harmonization, or consolidation of platforms. *Id.* at 11. Mr. Bahr also cited increased resiliency stemming from the IT investments his testimony supports. *Id.* at 12. He explained that it is difficult to quantify the support and maintenance reductions for the EIP Phase 2 investment, because the license, support and maintenance costs are not expected to materially change until the applications he identified are decommissioned, a process which usually occurs within 12-24 months after go-live of the updated or replaced application and is dependent on several factors. *Id.*

Settlement. The Settlement does not expressly address the OUCC's proposed disallowance from rate base of CEI South's IT investments. The stipulated rate base Section B.3.a does not exclude these investments. By virtue of Section B.15.b of the Settlement Agreement, the Settling Parties stipulated that the issue would be resolved as proposed and supported in CEI South's case-in-chief. CEI South expressly supported, but did not modify, its position on the IT investments included in rate base on rebuttal.

Settlement Opposition. OUCC witness Jason Compton testified that the Settlement Agreement did not answer his assertion that Petitioner had not substantiated the prudence or reasonableness of CEI South's IT investments. Pub. Ex. 5-S at 6. Mr. Compton also asserted CEI South's discovery responses effectively take the position that the burden of proof lies with the intervening parties and that the Commission is obligated to take CEI South's word at face value and approve all its requested IT investments without further discussions. *Id.* Mr. Compton noted the Commission's Order in Cause No. 42176 explained that once the reasonableness or validity of Petitioner's proposal is challenged, the proposal cannot merely rest on its theories and the burden

of proof lies with the Petitioner. *Id.* at 6-7. He contended that he has challenged the reasonableness and validity of Petitioner’s IT investments, and any evidence of prudence should have been provided in Petitioner’s case-in-chief. *Id.* at 7. He stated CEI South’s analysis of prudence regarding its IT investments is, however, not comprehensive and places an arbitrary emphasis on qualitative metrics. *Id.* at 8.

Settlement Rebuttal. Attachment MAR-SR2 to Mr. Rice’s settlement rebuttal noted Mr. Compton’s reiteration of his prior position, but stated he did not respond to Mr. Bahr’s rebuttal testimony that IT investment decisions are not driven by the sort of quantitative analysis or formal study Mr. Compton seeks. The settlement rebuttal refers to Mr. Bahr’s testimony that many investments were driven by obsolescence.

v. **Commission Discussion and Findings on Remaining Contested Rate Base Items.**

While the disputed rate base items were slightly narrowed by CEI South’s rebuttal positions, the OUCC opposed the inclusion of certain investments in Petitioner’s rate base. Having not approved the Settlement Agreement, the Commission will address each of these disputed issues.

Coal Inventory

OUCC Witness Eckert recommended a fuel inventory level of \$8,990,701, a reduction of \$2,949,966 from CEI South’s proposed amount of \$11,940,667. One issue Mr. Bradford acknowledged on rebuttal is the inclusion of Culley 2 in Petitioner’s proposed amount which he stated will be retired at the end of the test year. Additionally, Mr. Bradford offered only conclusory support for the optimal number of days being increased. The Commission recognizes this amount is merely a baseline, and any amount included here does not preclude Petitioner from recovering amounts spent in excess of the baseline or refunding the amounts spent in future FAC proceedings. Setting a lower amount merely reduces the amount in rate base. Accordingly, the Commission finds the proposed fuel inventory level of \$8,990,701 is appropriate. Additionally, while we have not approved the settlement, we acknowledge the Settling Parties agreed with this fuel inventory level.

ULRC

The Commission declines to revisit our determination in Cause No. 44909 CECA 5 (“CECA 5”) that CEI South failed to establish the propriety of recovering \$219,348 of net project costs related to the ULRC. In so finding, we note that no reconsideration or appeal was filed from our CECA 5 Order. As OUCC witnesses Lantrip and Armstrong testified, in CECA 5 the Commission found ratemaking recovery should be limited to the \$1.15M project estimate given in CECA 4. We continue to find that limitation is appropriate. Additionally, while the Commission has not approved the Settlement Agreement, we note this cost was not recovered in the Settlement Agreement.

PISCC and Deferred Depreciation

CEI South acknowledged in its rebuttal testimony the reduction in PISCC and deferred depreciation due to the interim phases for the Posey Solar and CT Projects. The Commission directs CEI South to ensure these amounts are reduced consistent with Petitioner’s rebuttal testimony.

Land Acquisition

CEI South acknowledged in its response to the Docket Entry of March 23, 2024, that the land acquisition costs are not included in its proposed rate base. The Commission directs CEI South to ensure these land expenses are not in rate base.

Capitalized Maintenance

With respect to Mr. Krieger’s proposed disallowance because items were improperly capitalized, the record shows Petitioner discovered 21 items, as set out in CEI South’s Response to our Docket Entry dated April 29, 2024, that CEI South acknowledges were improperly capitalized and not properly accounted for under Petitioner’s capitalization policy and the FERC Uniform System of Accounts (“USOA”) dating back years. Specifically, valves are explicitly categorized in CEI South’s Property Unit Catalog as Property Unit Minor Items. CEI South’s capitalization policy states, “Company expenditures for items that have a useful life greater than one year **or** that extend the useful life of an existing asset by more than one year, that meet the minimum dollar thresholds, and that are not intended for sale in the ordinary course of business shall be capitalized as per the guidance outlined below.” (emphasis added) Pet. Ex. 22-R at 4. At Instruction 10, the USOA states:

A. For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property will be considered as consisting of (1) retirement units and (2) minor items of property. Each utility shall maintain a written property units listing for use in accounting for additions and retirements of electric plant and apply the listing consistently.

B. The addition and retirement of retirement units shall be accounted for as follows:

(1) When a retirement unit is added to electric plant, the cost thereof shall be added to the appropriate electric plant account, except that when units are acquired in the acquisition of any electric plant constituting an operating system, they shall be accounted for as provided in electric plant instruction 5.

(2) When a retirement unit is retired from electric plant, with or without replacement, the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. The

cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

C. The addition and retirement of minor items of property shall be accounted for as follows:

(1) When a minor item of property which did not previously exist is added to plant, the cost thereof shall be accounted for in the same manner as for the addition of a retirement unit, as set forth in paragraph B(1), above, if a substantial addition results, otherwise the charge shall be to the appropriate maintenance expense account.

(2) When a minor item of property is retired and not replaced, the book cost thereof shall be credited to the electric plant account in which it is included; and, in the event the minor item is a part of depreciable plant, the account for accumulated provision for depreciation shall be charged with the book cost and cost of removal and credited with the salvage. If, however, the book cost of the minor item retired and not replaced has been or will be accounted for by its inclusion in the retirement unit of which it is a part when such unit is retired, no separate credit to the property account is required when such minor item is retired.

(3) When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant account.

Pet. Ex. 22-R at 4-5.

In essence, “retirement units” are the lowest level of asset record a utility keeps and consist of “those items of electric plant which, when retired, with or without replacement, are accounted for by crediting the book cost thereof to the electric plant account in which it is included.” USOA Instruction 34. Minor items of property are “the associated parts or items of which retirement units are composed.” USOA Instruction 18. The USOA requires that “[e]ach utility shall maintain a written property units listing for use in accounting for additions and retirements of electric plant and apply the listing consistently.” USOA Instruction 10A.

In response to our April 29, 2024 Docket Entry (Pet. Ex. 23), CEI South identified 21 individual project listings that were placed in service since the cutoff in Petitioner’s last rate case that CEI South included in rate base in this case that are component parts of retirement units (not retirement units), according to Petitioner’s own Property Unit Catalog. These items total \$2.3 million. Petitioner did not explain why CEI South has had a practice of capitalizing these component parts dating back at least 11 years. The evidence does not support CEI South’s capitalization practices, and we concur with Mr. Krieger that the applicable accounting guidelines

were not followed. Accordingly, the Commission finds CEI South has been improperly capitalizing maintenance items and that the record supports Mr. Krieger's proposed disallowance of \$104.7 million as CEI South has provided insufficient support for its capitalization of these projects. We also find the OUCC's recommendation that a complete independent audit should be conducted of Petitioner's capitalization and maintenance expenses since our Order in Cause No. 43839, including review of Petitioner's records for the 21 items improperly capitalized over the last 11 years, is appropriate; therefore, we find Petitioner shall have such audit performed, consistent with the scope Mr. Krieger recommended, and the results of the independent audit shall be filed under this Cause within six months of the date of this Order and served upon all the parties. The OUCC and any other party to this proceeding shall have 30 days from the date of such service within which to review the independent audit report and request that a subdocket be opened for further investigation, action, and or relief.

Culley 3 Outage

In the Commission's Order dated July 3, 2024, in Cause No. 38708 FAC 137 S1, we found CEI South acted reasonably and prudently with respect to the events that gave rise to the June 24, 2022, through March 14, 2023, Culley 3 outage. As such, the Commission finds there is no basis to disallow CEI South's \$7.8 million expended to restore Culley Unit 3 after the outage.

Culley 3 Major Projects and Conversion Costs

As Mr. Bradford agreed in his rebuttal testimony with Mr. Krieger's recommendation to disallow the costs related to the natural gas conversion for Culley Unit 3. Consistent with Mr. Bradford's acceptance of this recommendation, the Commission directs CEI South to not include these conversion costs in CEI South's rate base for purposes of setting rates in this Cause.

As for the other major projects at Culley 3, the record reflects these expenditures were reasonable, prudent, and required as a result of OEM-recommended maintenance schedules, regardless of any future plans for the unit's conversion. We, therefore, reject Mr. Krieger's position that these expenditures should be excluded.

Coal Silo Failure

With respect to Mr. Krieger's proposed disallowance for investments related to the coal silo failure, the Commission is mindful that "the prudence of an electric utility's actions is not judged with twenty-twenty hindsight. Rather, the Commission will focus on the prudence of the decisions when made, based on the facts and circumstances as they existed at the time." *Southern Indiana Gas & Elec. Co.*, Cause No. 38708 FAC 137 S1 (IURC July 3, 2024), pp. 9-10, 2024 WL 3373894, *9 (citing *N. Ind. Pub. Serv. Co.*, Cause No. 38706 FAC 130 S1 (IURC June 15, 2022), p. 45, 2022 WL 2270139, *48; *N. Ind. Pub. Serv. Co.*, Cause No. 44340 FMCA 12 (IURC Jan. 29, 2020), p. 12, 2020 WL 529286, *12; and *N. Ind. Pub. Serv. Co.*, Cause No. 43849 (IURC 7/13/2011), p. 11). We find the evidence shows Petitioner acted reasonably based on the facts and circumstances known at the time of the failure; consequently, these investments were proper.

IT Related Investments

Petitioner seeks authority to add an estimated \$36.4 million in rate base for various IT projects Mr. Bahr described. The OUCC recommended the Commission deny CEI South's request to include in rate base the IT investments because CEI South had not substantiated its proposed IT investments in its case-in-chief or adequately evidenced the necessity of all the investments. Pub. Ex. 5 at 4. The OUCC pointed out that there are no studies, no reports, and no projections supporting or identifying how CEI South's IT investments will benefit the resiliency and security of its systems, the difference in efficiency between the old and new applications, or how much application maintenance and support costs might decrease. Mr. Compton testified the benefits Mr. Bahr claims are merely broad assertions without support. *Id.* at 5. Mr. Compton noted that while CEI South identified two of its applications it maintains have reached or will reach obsolescence, it did not explain, support, or show that its other technologies have reached that stage. He testified CEI South simply stated its new investments will increase the efficiency of its operations without any cost benefit study analyzing the level of improvements compared to investment cost. *Id.* at 6-7. He declared that with the evidence provided, there is no way to determine whether the investments CEI South has made and plans to make for its IT development are prudent or reasonable. *Id.* at 7. Mr. Compton added that CEI South's claim that it will realize decreased maintenance costs, increased resiliency, and improved efficiency was incongruous with CEI South's position that it will require the same level of FTE support staff after the proposed IT investments. *Id.* at 6.

Petitioner argued that CEI South does not need a formal study to quantify the operational efficiencies that result from this replacement, such as faster response times, better integration between systems, or new feature functionality or improved capabilities for users. We need not address whether a formal study is required. The fact is that Petitioner did not quantify the operational efficiencies that resulted or would result from the replacement of its IT assets. As Mr. Compton noted in his testimony, Petitioner's witness Mr. Bahr admitted in his rebuttal that he did not look at the quantitative benefits. Pub. Ex. No. 5-s, p. 8. Mr. Compton testified the only quantitative evaluation Petitioner acknowledges it performed is how much these IT projects will increase its rate base. *Id.*

The evidence demonstrates Petitioner's evidentiary support for its IT related investments is vague and lacks the kind of specificity to quantify the benefits for purposes of comparing those benefits to the cost. It is ultimately the ratepayers that would be paying a return on and return of those investments. As such, Petitioner, which would be receiving both the return on and the return of the investments and determined what IT equipment should be replaced and installed, has an obligation to support the reasonableness and the utility of those project costs. CEI South should not be surprised by this obligation as Petitioner was invited to meet this obligation by the data requests the OUCC issued and by Mr. Compton's testimony.

In its rebuttal case, Petitioner's witness Mr. Bahr characterizes Mr. Compton's proposed disallowance as broad in rejecting "all IT investments even though he does not identify specifically any of the proposed investments that he considers unnecessary or excessive." Pet. Ex. 8-R at 2. Mr. Bahr's observation shows a misunderstanding of rate cases. It is neither reasonable nor accurate to suggest the issue of reasonableness and prudence of a utility's investments is the burden of the consumer parties. Petitioner's more than \$36 million of IT investment does not arrive cloaked in a presumption of reasonableness that the consumer parties must disprove in the roughly three months they have to prepare their cases. The evidence shows Petitioner asks its customers to

pay a return on and of more than \$36 million of new IT infrastructure without any quantitative analysis. If there were any such presumption, it was eliminated by the evidence establishing a lack of any study quantifying the benefits of the significant investment for purposes of allowing a cost benefit analysis and the prudence of the investments.

While Mr. Bahr provided some support for the IT investments in his rebuttal case, those statements may be described as qualitative support such as might be included in a sales flyer or anecdotally. Petitioner's approach for establishing the prudence of its investments cannot be described as comprehensive or thorough. Petitioner has not made a case that would assure this Commission and CEI South's customers that all its investments were needed so that we could find the investments are reasonably necessary for rate base purposes. Therefore, we find Petitioner's proposed rate base addition for \$36.9 million in IT investments shall not be included in Petitioner's rate base for purposes of this Order. In the future, Petitioner should perform studies quantifying benefits for IT investments it is considering so the quantified benefits can be compared to the project costs, allowing a determination to be made upon whether the benefits outweigh the investment costs of new IT infrastructure.

D. Return on Equity.

i. CEI South Case-in-Chief.

Ms. Bulkley estimated CEI South's cost of equity by applying traditional estimation methodologies to a proxy group of generally comparable utilities, including the constant growth form of the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), the Empirical Capital Asset Pricing Model ("ECAPM"), and a Bond Yield Risk Premium ("BYRP" or "Risk Premium") analysis. Her recommendation also takes into consideration the following factors: (1) CEI South's small size; (2) flotation costs; (3) Petitioner's capital expenditure requirements; (4) the regulatory environment in which Petitioner operates; (5) Petitioner's customer concentration; and (6) CEI South's projected capital structure as compared to the capital structures of the proxy group companies. While Ms. Bulkley did not make specific adjustments to her ROE recommendation for these factors, she considered them in the aggregate when determining where her recommended ROE falls within the range of the analytical results. Pet. Ex. 13 at 2-3.

Ms. Bulkley considered the following key factors in her cost of equity analyses and recommended ROE for CEI South in this proceeding:

(1) The United States Supreme Court's *Hope* and *Bluefield* decisions,¹⁸ which established the standards for determining a fair and reasonable authorized ROE for public utilities. These standards include the consistency of the allowed return with the returns of other businesses having similar risk, the adequacy of the return to provide access to capital and support credit quality, and whether the result leads to just and reasonable rates;

(2) The effect of current and prospective capital market conditions on the cost of

¹⁸ *Federal Power Comm'on v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*"); *Bluefield Waterworks & Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*").

equity estimation models and on investors' return requirements;

(3) The results of several analytical approaches that provide estimates of CEI South's cost of equity. Because Petitioner's authorized ROE should be a forward-looking estimate over the period during which the rates will be in effect, these analyses rely on forward-looking inputs and assumptions (*e.g.*, projected analyst growth rates in the DCF model; a forecasted risk-free rate and market risk premium in the CAPM analysis);

(4) Although the companies in her proxy group are generally comparable to CEI South, each company is unique, and no two have the exact same business and financial risk profiles. Accordingly, Ms. Bulkley considered CEI South's regulatory, business, and financial risks relative to the proxy group of comparable companies in determining where CEI South's ROE should fall within the reasonable range of analytical results to appropriately account for residual differences in risk. Pet. Ex. 13 at 3-4.

Ms. Bulkley presented the results of the models she used to estimate the cost of equity for CEI South in her Figure AEB-1, summarizing the range of results the Constant Growth DCF, CAPM, ECAPM, and Bond Yield Risk Premium analyses produced based on data through the end of September 2023. *Id.* at 4. She noted the range of results the models produced is wide, and while it is common to consider multiple models to estimate the cost of equity, it is particularly important when the range of results varies considerably across methodologies. *Id.* at 5.

Considering the analytical results presented in Figure AEB-1, current and prospective capital market conditions, and CEI South's regulatory, business, and financial risk relative to the proxy group, Ms. Bulkley concluded an ROE in the range of 10.00% to 11.00% is appropriate, and within that range, an ROE of 10.60% is reasonable. As discussed in the testimony of Petitioner's Witness Richard C. Leger, taking into consideration the affordability for customers of the overall revenue requirement, CEI South requested an ROE of 10.40%. *Id.* at 6; Pet. Ex. 1 at 14.

ii. OUCC Position.

Mr. Dellinger testified on the OUCC's behalf regarding an appropriate ROE for CEI South. Based on multiple models Mr. Dellinger ran, he recommended an ROE of 9.0% in this case. Mr. Dellinger addressed differences between Ms. Bulkley's testimony and his own. Pub. Ex. 10 at 3. He testified to significant analytical differences between Ms. Bulkley's approach and his, including Ms. Bulkley's use of a limited number of Beta sources, which added approximately 236 basis points to the ROE in one of her models; Ms. Bulkley's use of an unreasonable market return, which added approximately 517 basis points to her ROE in another model, and Ms. Bulkley's use of only a single stage DCF model rather than a 2-stage model, which resulted in approximately a 100 basis point lower ROE. Pub Ex. 10 at 4.

In testifying regarding affordability and risk reduction, Mr. Dellinger opined that CEI South enjoys reduced risk, as compared to the proxy group, due to Indiana's utility tracking mechanisms, future/forecasted test year, and preapproval of major capital projects. Pub. Ex. 10 at 6. He stated that from an investor's viewpoint, Indiana is more favorable for public utilities than the average regulatory jurisdiction. Pub. Ex. 10 at 7. Mr. Dellinger also testified that his proposed 9.0% ROE appropriately benefits CEI South's ratepayers by aligning their bills with the costs that must be incurred to attract investment for Petitioner. *Id.*

Mr. Dellinger testified that he calculated a result and relied on the Constant Growth DCF, a two-stage DCF, and two separate CAPM models to determine his recommended ROE. Pub. Ex. 10 at 34-35. Mathematically, the average result of these models was an 8.15% cost of equity. *Id.* at 35. Mr. Dellinger opined that the market to book ratio for the proxy group strongly implies the risk-adjusted return enjoyed by an average electric utility is higher than necessary to compensate investors for the actual risk they are incurring. Pub. Ex. 10 at 38. Based on CEI South's response to discovery, he testified his proposed ROE would not impact investment or economic development in Indiana. Pub. Ex. 10 at 40. Mr. Dellinger further testified his recommended 9.0% ROE incorporates an average result of his analytical models to which he assigned weight of 8.15% and considers the *Hope* and *Bluefield* standards, as well as the general economic environment. He stated this is a reasonable return that balances investors' financial concerns and affordability for ratepayers. Pub. Ex. 10 at 42. Mr. Dellinger also testified that he did not agree with the inclusion of flotation costs as an input into determining ROE. Pub. Ex. 10 at 43.

While OUCC witness Eckert recognized that Mr. Dellinger recommended the Commission approve a 9.0% authorized ROE based on his analyses, Mr. Eckert advocated for the Commission to also take into account Petitioner's ratepayers' overwhelming dissatisfaction with CEI South. Pub. Ex. 1 at 25. Mr. Eckert testified that as measured by J.D. Power, CEI South ranked last in customer satisfaction, or 16th out of the 16 utilities in the "Midwest Region" "Midsize Segment" in four of the last five years (2019-2023), with the only exception being in 2020 when CEI South ranked 15th out of the 16 utilities. Pub. Ex. 1 at 19. Mr. Eckert also explained how CEI South's prolific use of cost trackers and preapproval of generation assets have reduced Petitioner's risk and shifted risk to CEI South's ratepayers. He noted the Commission recently recognized a similar reduction in risk when determining the appropriate ROE in a litigated rate case for Indiana American Water Company, Cause No. 45870. Pub. Ex. 1 at 21-23. Additionally, Mr. Eckert described various transparency and other roadblocks the OUCC's witnesses experienced in evaluating Petitioner's case-in-chief. Pub. Ex. 1 at 24-25. Based on these considerations, i.e., longstanding customer dissatisfaction, customers bearing increased risk, and obstruction instead of cooperation, Mr. Eckert recommended the Commission approve a downward adjustment of 20 basis points from the ROE the Commission finds should be authorized. Based on the OUCC's ROE recommendation, this would result in an authorized ROE of 8.8%. Pub. Ex. 1 at 25-26.

OUCC witness Compton supported the recommended reduction to CEI South's authorized ROE due to Petitioner's "lack of transparency and unwillingness to provide the OUCC a general ledger in a manner that provides meaningful, reviewable information." Pub. Ex. 5 at 20. OUCC witness Stull also elaborated on the OUCC's dissatisfaction with Petitioner's revenue requirement model, identifying several deficiencies in the model. included in Petitioner's Exhibit No. 20. Pub. Ex. 6 at 30.

OUCC witness Latham utilized the proposed 8.80% ROE in determining Petitioner's capital structure, which results in a WACC of 6.29%. Pub. Ex. 2 at 9.

iii. CAC Position

CAC witness Inskeep opposed CEI South's proposed ROE, contending it "reflects an excessive profit margin for CenterPoint's shareholders at the cost of higher rates for its customers." CAC Ex. 2 at 39. He asserted that "high ROEs distort utility incentives to over-invest in capital,

potentially leading to even more customer bill increases in the future, as it creates a distorted incentive for the utility to invest more than is reasonable in utility plant.” *Id.* Mr. Inskeep also explained that in the J.D. Power annual Electric Utility Residential Customer Satisfaction Study, CEI South has ranked extremely poorly in residential customer satisfaction every year since at least 2015. CAC Ex. 2 at 39-41. Accordingly, giving due consideration for these factors, Mr. Inskeep recommended the Commission significantly reduce CEI South’s currently authorized ROE and set it at the lowest end of the range the Commission determines to be reasonable. *Id.* at 50.

iv. IG Position

IG witness Gorman testified that Petitioner’s requested ROE of 10.4% is excessive and would result in unjust and unreasonable rates being imposed on CEI South’s customers. IG Ex. 1 at 6. Mr. Gorman conducted two constant growth DCF analyses (*i.e.*, one relying on analysts’ projected earnings per share (“EPS”) growth rates and another relying on a sustainable growth rate), a two-stage DCF analysis, two CAPM scenarios, and a Risk Premium analysis. The results of Mr. Gorman’s costs of equity models ranged from 9.20% to 9.80%; however, he condensed his recommended range by review of all of his market return estimates that showed the current market ROE falls in the range of 9.20% to 9.65%, with an approximate midpoint estimate of 9.45%. IG Ex. 1 at 99. Mr. Gorman then reduced his midpoint ROE estimate of 9.45% by 25 basis points as a downward risk adjustment, stating that this adjustment was to “offset some of the excessive cost to ratepayers created by CEI South’s unreasonable equity-thick ratemaking capital structure and mitigate, in part, its cost of service increase and the related adjustment to tariff rate charges in this case.” *Id.* at 5-6.

v. CEI South Rebuttal

On rebuttal, Ms. Bulkley contended the primary factors that should be considered in evaluating the results of the cost of equity analyses and establishing the authorized ROE are: (1) the importance of investors’ actual return requirements and the critical role of judgment in selecting the appropriate ROE; (2) the importance of providing a return that is comparable to returns on alternative investments with commensurate risk; (3) the need for a return that supports a utility’s ability to attract capital at reasonable terms; (4) the effect of current and expected capital market conditions; and (5) achieving a reasonable balance between the interests of investors and customers. Pet. Ex. 13-R at 3-4. She testified that nothing in the testimonies of Mr. Dellinger, Mr. Gorman, Mr. Eckert, or Mr. Inskeep had caused her to change her recommendations. *Id.* at 4. Ms. Bulkley updated her cost of equity estimation models to reflect more current data, which she concluded demonstrated the model results continue to support her recommended ROE of 10.6% and, therefore, the 10.4% ROE CEI South is requesting remains reasonable. She addressed Mr. Dellinger’s analyses and explained the points upon which she disagreed with his approach. *Id.* at 5. She also identified her disagreements with Mr. Gorman’s analyses and ROE recommendation. *Id.* With respect to Mr. Eckert and Mr. Inskeep, she was critical of neither Mr. Eckert nor Mr. Inskeep having conducted an analysis to estimate the ROE for CEI South, nor a comparison of the risk of the utilities within the proxy group companies relative to CEI South. Ms. Bulkley contended there is no basis for either Mr. Eckert or Mr. Inskeep commenting on the relative risk of CEI South to the proxy group or concluding the ROE should be reduced by 20 basis points as Mr. Eckert recommended. *Id.* at 6. She stated Mr. Eckert’s assertion that the ROE should be adjusted due to

CEI South obstructing the OUCC's ability to review and analyze its rate filings demonstrates a complete lack of understanding of financial theory and the purpose of the ROE. *Id.*

CEI South witness Jerasa testified on rebuttal regarding credit rating agency reports on CEI South. In particular, he noted that on March 19, 2024, S&P Global Ratings ("S&P") updated its outlook on CenterPoint Energy, Inc. and its subsidiaries (including CEI South) to negative,¹⁹ meaning that its rating could be downgraded in the next 12 months if "financial measures weaken due to higher-than-expected leverage stemming from elevated capital spending or weaker than-expected cash flow from pending rate cases."²⁰ Mr. Jerasa testified that S&P also lowered the stand-alone credit profile ("SACP") on CEI South (SIGECO) to 'a-' from 'a' to reflect weaker financial measures. In summary, he testified the outcome of this rate case, including ROE and equity capitalization, will have a material impact on CEI South's credit ratings and future prices demanded by investors to purchase Petitioner's debt. Pet. Ex. 14-R at 6. In light of S&P's comments, Mr. Jerasa disagreed with Mr. Gorman's assertion that a decrease in ROE from 10.4% to 9.2% would protect CEI South's financial integrity, support its current ratings, and not result in close rating agency scrutiny on the impact to CEI South's long term cash flows. *Id.* at 7. He explained that Petitioner's projected 5.12% cost of debt is based upon its current ratings, and a ratings downgrade would increase the cost of long-term debt, impacting not only the capital proposed in this rate case, but also other capital afterwards included in all trackers that update cost of capital and future rate cases, increasing costs to customers for years to come. *Id.* at 8.

In response to the OUCC's position that CEI South's lack of transparency should be prospectively discouraged by a reduced ROE, CEI South witness Behme testified that CEI South's financial exhibit included hard-coded numbers because even if a model were detailed so as to identify every expenditure, employee, customer – it will still ultimately begin with a hard-coded number. She stated the revenue requirement model is populated with data pulled directly from CEI South's computer data system, and if you want to look further than the detail provided in the model, you need to look in the computer. In other words, you must run queries and pull invoices. Pet. Ex. 2-R at 29-30. She conveyed surprise at the OUCC's criticisms of the model because the model was in the same format as used in CEI South and CEI North's gas rate cases filed in 2020 and no issues were raised in those cases with how the model is constructed from which Petitioner could have perhaps made adjustments for this case. If CEI South had known adjustments to the model construction were desired, Ms. Behme explained the model still would have ultimately begun with hard-coded numbers. *Id.* at 29. Ms. Behme described an informal meeting held with the OUCC to attempt to provide additional clarity to assist in transparency and noted Petitioner's confidential "Revenue Model Workpaper" along with other support files produced in discovery were provided to the OUCC. *Id.* at 30. With respect to the general ledger, Ms. Behme indicated the level of detail the OUCC sought could not be produced in Excel. She further noted the MSFR set forth at 170 IAC 1-5-7(2) requires "a listing of standard monthly journal entries" and not a general ledger with transaction descriptions and vendor names. *Id.* at 30-31. She testified that she did not believe the OUCC's two main objections would have been an issue if the OUCC had conducted a site visit during their audit. *Id.* at 31.

¹⁹ S&P Global Ratings, "Research Update: CenterPoint Energy Inc. and Subsidiaries' Outlook Revised to Negative On Weak Financial Measures; Ratings Affirmed," March 19, 2024.

²⁰ *Id.*

CEI South witness Rice responded to the criticisms associated with the J.D. Power scores, acknowledging they are lower than where CEI South would like them to be and stating that CEI South works every day to drive customer satisfaction higher. Pet. Ex. 19-R at 40. CEI South witness Leger echoes this at the evidentiary hearing. In his rebuttal, Mr. Rice described the “Customer Satisfaction Advisory Team” or “CSAT Team” that Petitioner recently formed. He testified this includes cross functional employees across Petitioner’s footprint with representation from market research, communications, community involvement, billing, contact center, operations, continuous improvement, engineering, safety, IT, and legal functions and with executive sponsorship by the Senior Vice President and Chief Customer Officer. Pet. Ex. 19-R at 40. Mr. Rice averred that customer perception scores are highly correlated with the price a customer pays – as price goes up, overall customer satisfaction drops. He testified that in 2022, price was the biggest factor driving customer satisfaction lower. *Id.* at 41. Per Mr. Rice, t CEI South was one of only 10 Midsized electric companies out of 63 that showed an increase in customer satisfaction in 2023, improving by 5 points compared to the Midwest, Midsized segment that decreased by 13 points. *Id.*

vi. Settlement

Section B.3.c. of the Settlement Agreement stipulates that CEI South’s authorized ROE should be 9.80%. Table B.3.c sets forth the stipulated capital structure as of the end of the test year, including the 9.80% ROE, cost of debt, and zero cost capital as agreed by the Settling Parties.²¹ The resulting weighted average cost of capital was 6.77% as described in further detail in the Settlement Testimony of Brett A. Jerasa. Settling Parties’ Jt. Ex. 1 at Section B.3.c; Pet. Ex. 19-S at 11.

Section B.3.d of the Settlement Agreement stipulates that the agreed weighted cost of capital times the stipulated net original cost rate base yields a fair return on the fair value of rate base for purposes of this case. Accordingly, the Settling Parties agreed CEI South should be authorized a fair return of \$187,518,958 yielding an overall return for earnings test purposes of 6.77% based upon the stipulated net original cost rate base, capital structure, and ROE. Settling Parties’ Jt. Ex. 1 at Section B.3.d. Mr. Jerasa testified in support of the ROE agreed upon in the Settlement Agreement, explaining that although it is below the lower bound of Ms. Bulkley’s recommended range, the Settlement Agreement represents negotiations among the Settling Parties regarding several otherwise-contested issues. Pet. Ex. 14-S at 3-4. He opined the Settlement Agreement, including an ROE of 9.80%, should be viewed by the rating agencies as constructive and should allow CEI South to attract capital at reasonable rates. *Id.* at 4. Mr. Jerasa testified that Settlements can signal a constructive outcome that balances the needs of the parties and demonstrates the ability of a utility to execute its capital investment plan. Reasonable settlement outcomes, per Mr. Jerasa, demonstrate the constructiveness of a utility’s rate recovery and factor into investors’ decisions to participate in capital markets issuances. *Id.* He asserted that rejection of the stipulated ROE contained in the Settlement Agreement would likely signal a non-supportive

²¹ The Industrial Group was the sole party contesting Petitioner’s projected capital structure, arguing that the prepaid pension asset should be removed, the accumulated deferred income taxes should be adjusted, and the “equity-thick” capital structure reduces stand-alone risk. IG Ex. 1 at 6-7. The Settling Parties agreed that the Settlement Agreement resolves all disputed issues in this Cause, including those raised by IG witness Gorman with respect to the capital structure.

regulatory environment, which could deteriorate CEI South's credit ratings and financial integrity, increasing costs for customers in the near- and long-term. *Id.* at 5-6.

IG witness Gorman testified that the agreed 9.8% ROE in this case is well within the range of reasonableness identified by the witnesses in this case and is also consistent with other recent settlements, such as the NIPSCO Gas Rate settlement in Cause 45967, which settled at a 9.75% ROE, the AESI Electric settlement in Cause No. 45911 at 9.9%, and the I&M Electric settlement in Cause No. 45933 at 9.85%. IG Ex. 4 at 4.

vii. Settlement Opposition

Mr. Dellinger testified the Settling Parties failed to substantively support their agreed 9.80% ROE in the settlement testimony of either Mr. Jerasa or Mr. Gorman. Pub. Ex. 10-S at 2. Mr. Dellinger further testified that simply because CEI South reduced its ROE request from 10.4% to 9.8%, it does not make the settled amount reasonable. Pub. Ex. 10-S at 3. He stated nothing in Mr. Gorman's settlement testimony indicates his original ROE recommendation of 9.2% is unreasonable, noting the 60-basis point increase from 9.2% to the 9.8% ROE in the Settlement Agreement raises Petitioner's rate increase by approximately \$10.2 Million. *Id.* Mr. Dellinger stated the Settlement Agreement does not modify the "equity thick" capital structure Mr. Gorman originally testified is a reason to lower his recommended ROE by 25 basis points. Pub. Ex. 10-S at 4.

Mr. Dellinger testified concerning the similar range of reasonable ROE outcomes between 8.70%-9.70% that he identified before OUCC witness Eckert's recommended adjustment and the 9.20%-9.65% ROE Mr. Gorman advocated before the settlement. Pub. Ex. 10-S at 6. The upper end of Mr. Gorman's range was actually further from the Settlement Parties' agreed 9.8% ROE. Mr. Dellinger testified the Commission should not give weight to the ROEs referenced in Mr. Gorman's settlement testimony (NIPSCO in Cause No. 45967, AES Indiana in Cause No. 45911, and Indiana Michigan Power Company in Cause No. 45933) because each of these cases reflected global settlements that are not precedential and cannot be the basis for the reasonableness of the ROE at issue in this Cause. *Id.* at 7. He testified it is, however, appropriate for the Commission to consider its ROE analysis and the ROE the Commission found reasonable in the Order in Indiana American Water's Cause No. 45870 because ROE was fully litigated. *Id.* at 7-8. He noted that in the Commission's recent 45870 Order, the Commission found it is reasonable to consider the ROEs awarded Indiana's vertically integrated electric utilities when determining an appropriate ROE for an Indiana water utility. *Id.* at 8. Mr. Dellinger testified that similar to Indiana American Water, CEI South's risk has been mitigated by the use of numerous regulatory mechanisms, including a forecasted test year, approved trackers, and capital cost tracking mechanisms like the TDSIC, which is adding approximately \$900 million to rate base in this case. *Id.* at 9. Mr. Dellinger also stated the 9.80% ROE in this case is not a reasonable compromise for the concessions exchanged in the Settlement Agreement, as indicated by the fact that the OUCC and other consumer parties did not join this Settlement Agreement, *Id.* at 10.

OUCC witness Eckert also recommended the Commission reject the 9.80% ROE agreed upon by CEI South and certain of its industrial customers, approve the 9.00% ROE calculated and supported by OUCC witness Shawn Dellinger, and reduce that 9.00% ROE or reduce the ROE the Commission ultimately finds is reasonable, by 20 basis points due to Petitioner's reduced risk,

reliability, longstanding poor customer satisfaction, and the issues the OUCC encountered in analyzing Petitioner's case-in-chief. In particular, Mr. Eckert testified that a lower ROE is warranted based on CEI South's reduced level of risk, particularly when compared to 2011 when Petitioner's current base rates were established. Pub. Ex. 1-S at 13. He noted the many trackers the Commission has approved for Petitioner and stated these trackers have shifted the risk of increased operating expenses and capital expenditures to CEI South's ratepayers by reducing revenue recovery risk and investors' earning uncertainties. *Id.* Mr. Eckert testified a lower ROE is also warranted because, per the J.D. Power surveys, CEI South has consistently been ranking last or near the bottom each of the last five years. *Id.* He noted the Commission in its Orders in Cause Nos. 43526 and 44576 adjusted ROE due to utility management concerns. Pub. Ex. 1-S at 11. Given the level of ratepayer dissatisfaction and its longevity, an ROE adjustment is also appropriate in this Cause.

OUCC witness Compton testified that the Settlement Agreement also does not incorporate the reduction to the return that remains merited because of CEI South's significant lack of transparency and unwillingness to provide a comprehensive general ledger. He stated that while this may not have negatively affected the industrial members of the Settling Parties, the OUCC, on behalf of Indiana's ratepayers, was adversely impacted in its ability to conduct review and analysis on their behalf; consequently, Petitioner's reticence and lack of transparency should be addressed as Mr. Compton advocated, not tacitly endorsed. Pub. Ex. 5-S at 3.

Ms. Stull also discussed her concern that hard-coded numbers in CEI South's financial model deprived the OUCC of a meaningful opportunity to review aspects of CEI South's request. Pub. Ex. 6-S at 13. She maintained that CEI South's financial model is an "outlier" and lacking in much of the information available in the financial models of other utilities who have filed forward-looking test year rate cases. *Id.* It is critical the Commission not endorse CEI South's approach but, instead, incent transparency.

CAC witness Inskeep testified that the Settlement Agreement's stipulated ROE of 9.8% is "unreasonably high for CEI South given its poor track record when it comes to affordability, reliability, and customer satisfaction, and particularly so given the extraordinary residential bill increase proposed." CAC Ex. 6 at 19. He urged the Commission to find the Settlement Agreement should be rejected and to not further erode CEI South's customer satisfaction. *Id.* at 10.

viii. Settlement Rebuttal.

IG witness Gorman testified that Mr. Dellinger's testimony appears to assume that the Industrial Group should have insisted the settlement adopt either the OUCC's litigation position on ROE (8.8%), or the Industrial Group's litigation position on ROE (9.2%). IG Ex. 6 at 3. Mr. Gorman stated that while he believes the ROE analysis in his Direct Testimony is reasonable, there is risk that his position would not be fully adopted in a litigated outcome. Mr. Gorman explained that, for its part, CEI South correspondingly recognizes the risk that Petitioner's litigation position would also not be fully adopted in a litigated outcome. *Id.* at 4. Mr. Gorman stated his recommendation to approve an ROE that is between the parties' positions is not, as Mr. Dellinger alleges, a "discrepancy" in his testimony, but rather, recognizes the reality of the risk inherent in litigation. *Id.* at 4. He stated that contrary to Mr. Dellinger's perspective, he was not suggesting the Commission treat the settlements in other cases as binding precedents. Instead, in evaluating

the reasonableness of the settlement, Mr. Gorman stated he considered ROEs in multiple recent Indiana cases to provide a benchmark and assess the degree of litigation risk. IG Ex. 6 at 4. He noted that while continuing to press their litigation positions, the OUCC and CAC have not cited Commission orders in settled or contested cases approving ROEs at the levels they continue to advocate in this case. *Id.* at 4-5. He testified the reasonableness of the ROE in the settlement need not be analyzed by only evaluating a single, fully litigated, water rate case. Mr. Gorman explained the Commission has subsequently approved multiple settlements with agreed ROEs that are higher than that litigated result. Additionally, he asserted that focusing on a water case approving a 9.65% ROE does not remotely support the OUCC's position that anything greater than 8.8% is unreasonable. *Id.* at 5.

Per CEI South witness Rice, the ROE sought by the OUCC accounted for approximately \$18 million of the \$31.7 million difference between the settled revenue increase and the OUCC's filed position. He testified the OUCC has cited no vertically integrated electric utility in the country with an authorized ROE that is that low. Pet. Ex. 19-SR at 4.

Mr. Rice responded to Ms. Stull's and Mr. Compton's assertion of a lack of transparency. He reiterated what CEI South stated on rebuttal: that far from being an outlier, CEI South's model was in the same format as its prior gas rate cases. He stated the OUCC did not raise concerns there, and CEI South could not have known that different OUCC analysts assigned to this case would have different expectations, including that the model should follow what Indiana American Water uses. Pet. Ex. 19-SR at 21. He also provided evidence of CEI South's communications attempting to address the OUCC's questions about how the forecast was developed. *Id.*; Pet. Ex. 19-SR, Attachment MAR-SR6.

In Attachment MAR-SR2 to his settlement rebuttal testimony, Mr. Rice reiterated the options CEI South has proposed that could help with customer satisfaction, yet the OUCC continues to oppose, including the CPP Pilot, Rider ADR, and the Green Energy Rider. Pet. Ex. 19-SR, Attachment MAR-SR2 at 1; Pet. Ex. 19-R at 42.

CEI South witness Jerasa testified that an 8.8% ROE is unreasonable, 100 basis points below the Settlement Agreement, does not support CEI South's financial integrity, and is ultimately harmful to CEI South's customers. Pet. Ex. 14-SR at 2. He testified that an 8.8% ROE would signal to investors, the rating agencies, and customers that Indiana is not supporting the investment necessary for reliability, resilience, stability, and environmental sustainability. Additionally, an 8.8% ROE would have a negative impact on affordability for present and future generations due to probable credit downgrades and higher borrowing costs. *Id.* at 2-3. He explained that 9.80% is not just "within the range of results" but is what the financial community expects when compared to CEI South's Indiana peers and the vertically integrated electric industry in general. *Id.* at 3. He stated the Settlement Agreement, including an ROE of 9.8%, should be viewed by the rating agencies as constructive and allow CEI South to attract capital at reasonable rates since the ROE is comparable to other vertically integrated electric utilities.

ix. Commission Discussion and Findings on ROE.

The ROE is intended to provide the utility with a reasonable opportunity to attract capital on terms comparable with businesses of similar risk. In setting the rate of return, the Commission's

decision must be framed by *Bluefield* and *Hope*.²² The general standards these cases established require an ROE set by the Commission to be sufficient to establish a rate of return that will maintain the utility's financial integrity, attract capital under reasonable terms, and be commensurate with the returns of other businesses of comparable risk.

The question before the Commission is not whether a 9.80% ROE as proposed in the settlement is reasonable; it is whether it is the optimal return that balances investor interests with those of ratepayers and other stakeholders. The OUCC also prepared ROE analyses and testimony, and 9.80% is not within the range the public considers reasonable or commensurate with the reduced risk CEI South now experiences given its plethora of trackers and preapprovals. In addition, the 20-basis point reduction the OUCC proposed must be considered after a baseline ROE is determined. The OUCC recommended a range of 8.70%-9.70% and specifically recommended a 9.0% ROE; therefore, the Commission is fundamentally left with the decision of whether the baseline awarded ROE should be 9.0%, 9.80%, or some number between these alternatives.

Although the OUCC's recommendation of 9.0% is not simply the result of an average of models, certain significant points the OUCC raised in its testimony must be considered which provide strong support for their result. We find it is appropriate to focus on the three primary issues Mr. Dellinger raises that are the largest drivers of the differences between the OUCC's position and CEI South's initial position. The first of these concerns is the use of different Betas, which the OUCC states drives approximately 236 basis points of the differential in the output of one of the models. Other differences include CEI South's use of an unreasonable market return, which explains approximately 517 basis points of the differential in a different model, and the OUCC's use of a two stage DCF model in addition to the constant growth DCF model exclusively, which yields a result approximately 100 basis points lower.

When looking at the different sources of Betas, which measure the risk of a security relative to the general market, the Commission finds it is reasonable to incorporate both adjusted and unadjusted Betas into the calculation, as incorporated in the CAPM models Mr. Dellinger provided. It is concerning to the Commission that the implication of an adjusted Beta is that utilities will become more and more risky over time, which is an implicit assumption that regulation is designed to mitigate.

Similarly, when exploring the market returns assumptions, it is unreasonable to rely on a market return that significantly exceeds what any of the professional forecasters in this record believe is reasonable over the next 10-20 years. When determining our best estimate of the appropriate ROE, we find it is appropriate to incorporate as inputs the best estimates of experts in the field, especially when those are readily available from a large number of sources.

We also find the 2-stage DCF model to be a better estimate of future cash flow than a constant growth model, which is exclusively relied upon by Ms. Bulkley. This is a conservative approach, especially when combined with a second stage that is a theoretical maximum of what

²² See also *Indianapolis Power & Light Co.*, Cause Nos. 44576 and 44602 (IURC March 16, 2016), p. 41, 2016 WL 1118795, *43.

the long-term growth possibilities can be but is a better result than just looking at a constant growth model in isolation. Taking both models into account is appropriate.

Finally, we find it concerning that the market to book prices for the entirety of the proxy group reflect prices that far exceed what would be expected if the *Hope* and *Bluefield* standards were being met, which state an appropriate return for an equivalent risk. Market to book prices far in excess of 1 imply an excess return for the amount of risk investors are assuming.

Taken together, these considerations give credence to the OUCC's original position that a 9.0% ROE is appropriate. We find this return to be the appropriate baseline on which to balance ratepayer and investor concerns in the long-term, and we reject the 9.8% ROE proposed in the settlement. A 9.8% ROE exceeds the ROE that is reasonable for CEI South to attract capital given the reduced risks associated with Petitioner's use of multiple regulatory mechanisms and erroneously tips the scales toward investors as opposed to balancing investors' interests with those of Petitioner's ratepayers.

Both the OUCC and CAC have also advocated for a reduction in the ROE the Commission approves based on CEI South's longstanding, poor customer satisfaction ratings, a reduction of risk due to tracker mechanisms and the Commission's preapproval of generation assets, and a lack of transparency in Petitioner's presentation of its case. We find these arguments persuasive and supported by the evidence, but we further find the reduction of risk due to trackers and preapprovals has already been taken into consideration in finding a 9.0% ROE is appropriate. Nevertheless, the Commission will not ignore the overwhelming evidence Petitioner's ratepayers provided and the OUCC's witnesses' presented showing CEI South's consistently poor customer satisfaction ratings over an extended period of time. This is not a new status that arose with the filing of this rate case but pervasive over the years. Accordingly, we are concerned that Petitioner is perpetuating its deficiencies and not sufficiently addressing its customers' dissatisfaction given the lack of much movement from last place in the customer surveys discussed. Finally, we also recognize the OUCC has shared criticisms concerning Petitioner's transparency and the roadblocks encountered in reviewing CEI South's case-in-chief. In our own analysis of Petitioner's Exhibit 20 and 20-S, we see the use of "hard coded" numbers without reference to the derivation of the number or various formulae. While the Commission recognizes the contentious nature of fully litigated proceedings, it remains vital that the OUCC, on behalf of Indiana's ratepayers, not be thwarted in its review by a lack of candor, cooperation, or transparency and that all parties — particularly the utility seeking relief, work to amicably resolve contested technical issues and not withhold requested books and records from review. Based on the foregoing concerns as raised in the OUCC's testimony, particularly Petitioner's poor customer service ratings and the duration over which this has continued, we find the approved ROE should be reduced by 20 basis points to help incent CEI South to recognize the importance of its customers' satisfaction with the reliability, affordability, resiliency, and stability of its system and service, as well as the importance of transparency throughout the regulatory process. The Commission finds the totality of the evidence supports this reduction.

E. Depreciation Rates and Amortization

Depreciation

i. CEI South Case-in-Chief.

Petitioner proposed new depreciation accrual rates for its electric and common plant and presented a depreciation study prepared by John J. Spanos. For purposes of his calculations, Mr. Spanos included generation decommissioning estimates prepared by Witness Kopp. Pet. Ex. No. 12. While Mr. Spanos calculated depreciation accrual rates for the CT Project and for Posey Solar, Petitioner proposed the lower rates approved in the CPCN proceedings for the CT Project and Posey Solar in Cause Nos. 44564 and 45847, respectively, be maintained. CEI South also chose to have Mr. Spanos calculate depreciation rates using the Average Life Group method rather than the Equal Life Group method, producing a savings of \$12.5 million in the revenue requirement. Pet. Ex. 1 at 15.

ii. OUCC Position.

OUCC Witness Garrett utilized the depreciation study Mr. Spanos sponsored and the decommissioning study sponsored by Mr. Kopp, but he made several adjustments.

Mr. Garrett recommended contingency costs be removed from the decommissioning cost estimates Mr. Kopp provided. Mr. Kopp included a straight 20% contingency adder to the decommissioning cost estimates. Mr. Garrett, however, noted the decommissioning costs are estimates and, therefore, unknown. He asserted additional costs should not be added to the estimated costs and that doing so across-the-board implies the initial amounts were underestimated by 20%. Pub. Ex. 11 at 10. Mr. Garrett acknowledged the Commission has previously allowed the recovery of contingency on decommissioning costs, but he observed that these previous decisions were based on precedent that he requests the Commission re-evaluate. He urged the Commission to take a fresh look at the propriety of a 20% contingency added to all the decommissioning cost estimates. Mr. Garrett removed the contingency amounts in his proposed net salvage estimates, for a reduction of \$1.6 million to Petitioner's proposed depreciation accrual.

Mr. Garrett also adjusted the service lives for several mass property accounts: Account 353 – Transmission Station Equipment; Account 355 – Poles and Fixtures; Account 362 – Distribution Station Equipment; Account 367 – Underground Conductors and Devices; and Account 369 – Services. Mr. Garrett explained his evaluation started with the “survivor curves” for the accounts. These graphically show the percentage of property surviving at each age interval for a particular account. Mr. Garrett described his process of assessing the survivor curves and selecting the appropriate Iowa curve to apply to each survivor curve through a combination of visual and mathematical fitting techniques, as well as applying his professional judgment. Pub. Ex. 11 at 14-16. Mr. Garrett stated his analysis is similar to that of Mr. Spanos. Pub. Ex. 11 at 17. His adjustments to the proposed service lives resulted in a \$2.1 million reduction to Petitioner's proposed depreciation accrual.

Mr. Garrett's final adjustment was to the net salvage rates for five accounts: Account 353.00 Station Equipment; Account 356.00 OH Conductors and Devices; Account 362.00 Station Equipment; Account 368.00 Line Transformers; and Account 369.00 Services. Mr. Garrett testified the term “net salvage” equates to gross salvage, less the cost of removal, and he explained

that often, the net salvage for utility assets is a negative number (or percentage) because the cost of removing the assets from service exceeds whatever proceeds are received from selling the assets. Pub. Ex. 11 at 29. Mr. Garrett testified his adjustments to the five accounts were based on the historical net salvage experience in these accounts and on his professional judgment, with these resulting in reasonable overall depreciation rates. Pub. Ex. 11 at 30. These adjustments to the net salvage rates resulted in a \$1.4 million reduction to Petitioner's proposed depreciation accrual.

iii. CEI South Rebuttal.

In rebuttal, Mr. Spanos responded to all Mr. Garrett's criticisms and recommended adjustments and continued to support CEI South's originally filed depreciation rates. Pet. Ex. 12-R.

iv. Settlement.

Under the Settlement Agreement, the depreciation accrual rates Mr. Garrett recommended are adopted except for the CT Project and Posey Solar depreciation accrual rates. For those two generation stations, the Settlement Agreement provides for the continuation of the rates approved in the CPCN Orders for those projects.

Amortization

i. CEI South Case-in-Chief.

CEI South Witness Behme presented the calculation of amortization expense related to regulatory assets and liabilities. Pet. Exhibit 2, pp. 24-30. Included in these amortizations were two income tax related deferred liabilities sponsored by CEI South Witness Story. Witness Story proposed that Indiana state EADIT be returned to customers over a five-year period, to match the period used in Cause Nos. 45447 and 45468. The pass back would be accomplished through the TAR and outside of base rates. Pet. Ex. 15 at 13. Ms. Story also sponsored amortization of a deferred Medicare Tax liability over five years. Pet. Ex. 15 at 19; Pet. Ex. 2 at 30.

ii. OUC Position.

OUC Witness Baker opposed amortizing the deferred Medicare Tax liability because the amortization was authorized in Petitioner's prior rate case and should have already been completed. Pub. Ex. 4 at 9. OUC Witness Stull recommended that Indiana EADIT be passed back to customers over a three-year period. She made this recommendation because there is no requirement to normalize any portion of state EADIT as there is with protected federal EADIT. She also requested state EADIT accrue carrying charges calculated using Petitioner's weighted average cost of capital in each year CEI South has owed this liability. Finally, Ms. Stull recommended Petitioner be required to submit a post-order compliance filing within three months of the date a final order is issued in this Cause showing: (1) the growth of this liability by year from 2011 to the date Petitioner begins refunding this liability and (2) the detailed calculation of the carrying costs included in the amount to be refunded. She recommended Petitioner also make a compliance filing once all monies are refunded to customers, certifying that all monies owed to customers have been paid and identifying the amount refunded to customers in each year. Pub. Ex. 6 at 5-8.

iii. Industrial Group Position.

Mr. Gorman also recommended that Indiana state EADIT be returned to customers over a three-year period. He did not recommend the accrual of carrying charges. IG Ex. 1 at 10-13.

iv. CEI South Rebuttal.

Witness Story continued to advocate a five-year pass-back of state EADIT. She also contended carrying charges on the balance were inappropriate. In responding to Ms. Stull's argument that delay in implementing the pass back of state EADIT means customers have been deprived the use of money that has subsequently been devalued by inflation, Ms. Story testified that customers have already enjoyed the value of this balance. EADIT formerly (before the tax rate reduction) was deferred income tax. She stated it was reflected in the capital structure at zero cost. After the tax rate reduction began, EADIT continued to be reflected as a zero-cost source of capital. As such, it reduced Petitioner's authorized rate of return. She asserted that to now accrue carrying charges would be double counting. *Id.* at 9. Ms. Story noted that Ms. Stull did not cite other occasions in any rate case where carrying charges have been accrued on the state EADIT balance. She stated CEI South should not be singled out and treated differently from other similarly situated utilities. *Id.* Finally, Ms. Story testified that CEI South could have lawfully begun amortizing the state EADIT balance in 2011, but it did not. *Id.* With respect to Ms. Stull's and Mr. Gorman's position that the state EADIT should be amortized over three years instead of five, Ms. Story noted recent Commission decisions determining state EADIT should be normalized and not flowed back more quickly and that CEI South's gas utility amortizes the balance over a five-year period. *Id.* at 10.

CEI South Witness Behme responded to OUCC Witness Baker's opposition to the amortization of the Deferred Medicare Tax Liability. She stated this amortization actually produces a decrease to the revenue requirement. Pet. Ex. 2-R at 21.

v. Settlement.

CEI South witness Rice acknowledged Section B.4.b of the Settlement Agreement reflects an amortization period of three years for Indiana state EADIT as OUCC witness Stull and Industrial Group witness Gorman proposed. Pet. Ex. 19-S at 12. He explained that stipulating and agreeing to this provision accelerates the amount returned to customers, increasing the amount by \$1,521,643 million per year over the three-year period. *Id.* However, the Settlement Agreement does not adopt OUCC witness Stull's further recommendation that state EADIT accrue carrying charges. *Id.* He stated the total \$11,412,320 in Indiana state EADIT is proposed to be passed back through the TAR. *Id.* As such, this stipulated term does not affect the revenue requirement but helps mitigate the bill impact by lowering customer bills and furthering gradualism. *Id.* Section B.4.b of the Settlement Agreement also stipulates that if not already addressed by an intervening base rate case order before the various amortization periods expire, CEI South agrees to file a revised tariff to remove the annual amortization portion from base rates unless a new general rate case petition is pending at that time. *Id.*

vi. Commission Discussion and Findings on Depreciation and Amortization.

With respect to the depreciation issues, the Commission finds the adjustments Mr. Garrett made to the depreciation rates CEI South proposed are reasonable and should be approved. In previous decisions, we raised concerns that the “estimation of service lives should not be solely a mathematical and mechanistic exercise.” Cause No. 45253, Order at 63 (June 29, 2020). We find the adjustments Mr. Garrett proposed to amend the service lives of various classes incorporate both objective and subjective criteria, as described in his testimony, notwithstanding the contrary claims Mr. Spanos expressed. Mr. Garrett explained how he used both visual and mathematical curve fitting techniques, and he provided examples demonstrating how subjective criteria were also incorporated into his evaluation, including his professional judgment. Mr. Spanos asserted that depreciation is a “forecast of the future rather than a calculation of what has happened in the past” (Pet. Ex. 12-R at 6) while also acknowledging that depreciation is done “in part, by analyzing what has occurred in the past.” Pet. Ex. 12-R at 3. We note that Mr. Spanos, in describing the drawbacks of mathematical curve fitting, testified that data irregularities are common towards the end of the curve. Mr. Garrett also expressed this concern, indicating he used the truncation of the tail end of the survivor curve when less than 1% of the exposures remain to avoid giving the tail end of the curve unwarranted weight in his analysis. Additionally, while the Commission is not approving the proposed settlement, we recognize the settling parties did adopt the adjustments Mr. Garrett proposed.

On the issue of contingency added to the decommissioning estimates, we have re-examined our prior determinations as Mr. Garrett urged, but the Commission continues to find the contingency should not be removed. While Mr. Garrett is correct in noting the decommissioning estimates are just that – estimates, Mr. Kopp testified it is “not uncommon for unexpected conditions to occur,” so these conditions should be incorporated into the estimate. We agree. Accordingly, the Commission declines to deviate from our precedent approving the inclusion of contingency costs in the decommissioning study. Finally, we find Mr. Garrett’s adjustments to the net salvage rates for the five indicated classes should be approved because he appropriately relied on the historical net salvage rates for his adjustments to arrive at depreciation rates that, overall, are appropriate.

With respect to the amortization of Indiana EADIT, we find three years is a reasonable amortization period, but we find that carrying costs are not necessary or appropriate because the owed funds are reflected in the capital structure as a cost-free source of capital. These deferred income taxes were included in Petitioner’s capital structure in its last rate case and, therefore, reduced CEI South’s weighted average cost of capital. We also find that Petitioner should be required to submit post-order compliance filings, as Ms. Stull recommended, to (1) disclose the growth of this liability by year from 2011 to the date Petitioner begins refunding this liability, (2) certify all monies have been refunded to customers once that has occurred, and (3) identify the amount refunded to customers in each of the three years. Finally, we recognize the clarification in Ms. Behme’s rebuttal testimony regarding the return to customers of the \$1,737,007 Medicare tax liability adjustment. Pet. Ex. 2-R at 21-22. As with the EADIT amortization period described above, we find this liability shall be returned to customers over a three-year period and direct CEI South to include the same information in post-order compliance filings.

F. Pro Forma Revenues and Expenses.

i. CEI South Case-in-Chief.

CEI South witness Gray presented the unadjusted forecasted test year financial data. Pet. Ex. 3, Attachment SEG-1 and Schedules C-1.1, C-1.1a, and C-2.1 within Petitioner's Exhibit No. 20.

In her direct testimony, Ms. Behme described various adjustments to CEI South's pro forma level of operating revenues and expenses, including for the following items: (1) removal of Section 24 contract revenues, (2) adjustments related to the CEI South's 44910 TDSIC and 45894 TDSIC, (3) adjustments for annualized CECA revenues and removal of levelized rate projects, (4) adjustments associated with the ECA rider, (5) annualized DSMA revenue and allocation of DSMA Over/Under recoveries to the rate classes from miscellaneous revenues, (6) allocation of MISO Cost and Revenue Adjustment ("MCRA") Over/Under recovery to the rate classes and matching of forecasted MCRA revenues with recoverable expenses, (7) allocation of Reliability Cost and Revenue Adjustment ("RCRA") Over/Under recovery to the rate classes and matching of forecasted RCRA revenues with recoverable expenses as well as to reflect anticipated purchases of capacity from a demand response aggregator, (8) adjustments to excess accumulated deferred income tax ("EADIT") to reflect amounts forecasted to be passed back through the proposed TAR, (9) similar adjustments for EADIT related to securitization of A.B. Brown, (10) adjustments to reflect the change in operating revenues and operating expenses for normalized FAC associated with F.B. Culley Unit 2, (11) removal of operating revenues and expenses for RECB projects, (12) adjustments to reflect the change in operating revenues and operating expenses for various adjustments to Miscellaneous Revenue to synchronize to the forecasted test year revenue, (13) an adjustment of \$414,956 (\$2,074,780 amortized over five years) to increase test year expenses for the estimated incremental rate case costs associated with this proceeding, (14) an increase in operating expenses of \$108,034 associated with the proposed five year amortization of COVID-19 deferred expenses, (15) pro forma level of IURC fees, (16) an adjustment in the amount of \$9,946,645 to reflect annualized depreciation expense based on plant in service as of December 31, 2025 at the proposed depreciation rates discussed above, (17) removal of expense associated with Troy Solar, (18) removal of expense associated with Crosstrack Solar, (19) increase of \$38,459 in VUH shared services charges for the test year, (20) annual amortization expense associated with the AMI deferrals related to PISCC and deferred depreciation, (21) annual amortization expense associated with the regulatory assets for the 44910 TDSIC and the 45894 TDSIC deferred revenues and deferrals related to PISCC and deferred depreciation, (22) annual amortization expense associated with the CECA deferrals, (23) annual amortization expense associated with the ECA deferrals, (24) amortization of PISCC that will accrue to a regulatory asset after completion of F.B. Culley East Ash Pond project, (25) annual amortization expense associated with CT Project deferrals related to PISCC, (26) pro forma adjustments decrease of \$560,000 to normalize integrated resource planning ("IRP") expense, (27) annualized property tax expense on forecasted tax basis balance of assets as of December 31, 2025, (28) pro forma adjustment of \$75,808 decrease to test year expense to annualize the level of uncollectible accounts expense to the latest known level, (29) pro forma adjustment of \$160,653 decrease to test year expenses associated with sponsorships including Indianapolis Colts and Ford Center that should have been recorded below the line, (30) pro forma adjustment of \$347,401 decrease to test year expense associated with Deferred Medicare Tax Liability, (31) pro forma adjustment increase to test year expense to annualize the partial year operating expense associated with the CT Project, (32) pro forma adjustment increase to test year expense to annualize the partial year operating

expense associated with Posey Solar, (33) pro forma adjustment decrease to test year expense associated with F.B. Culley Unit 2 (Phase 3 (end of test year) adjustment only), (34) pro forma adjustment to normalize outage operating expense, (35) pro forma adjustment increase to test year expense of \$770,000 pertaining to the SAP S/4HANA Transformation Project described by CEI South witness Bahr, (36) pro forma adjustment decrease to test year expense of \$1,368,371 pertaining to ash transportation and ash handling operating expenses that should have been deferred to a regulatory asset during the test year, (37) pro forma adjustment decrease to test year expenses of \$159,143 pertaining to non-recurring miscellaneous forecast adjustments to correct FERC 5930 for distribution programs that should have been capitalized, and (38) & (39) Indiana state and federal income taxes for pro forma adjusted test year. Pet. Ex. 2 at 19-31.

CEI South witness Bahr described the IT-related components of the critical peak pricing (“CPP”) pilot as well as the SAP S/4HANA Transformation Program. He said the expense allocated to CEI South for the SAP S/4HANA Transformation Program is \$770,000 for 2025. Pet. Ex. 8 at 28.

ii. OUCC Position.

a. Base Cost of Fuel.

OUCC witness Eckert testified that CEI South is requesting a base cost of fuel that is too high given current market conditions. Petitioner is proposing a \$0.048139 per kWh base cost of fuel as compared to the \$0.038295 per kWh currently approved base cost of fuel. Mr. Eckert testified the cost of natural gas and the MISO market prices proposed to be used in the base cost of fuel by CEI South were too high. Pub. Ex. 1 at 36. He stated that as of March 4, 2024, the forecasted cost of natural gas and MISO market prices for 2025 had decreased and are expected to stay low. The OUCC's adjustment lowers fuel costs by \$8,175,808. *Id.* at 37.

b. Interruptible Sales Billing Credits.

OUCC witnesses Lantrip and Wright recommended denial of CEI South's request to embed \$725,000 in interruptible sales billing credits into base rates, due to lack of substantive support. Pub. Ex. 3 at 14; Pub. Ex. 8 at 6. Mr. Wright said CEI South has not provided evidence supporting the revenue adjustment of \$725,000 which was based on a 2022 Request for Proposal. He said CEI South did not provide supporting evidence that the RFP represented a reasonable price for the DR capacity. Pub. Ex. 8 at 6. He expressed concern over the lack of details regarding the function of the contract with an aggregator. *Id.* at 7.

c. Emissions Allowance Costs

OUCC witness Lantrip recommended the Commission deny the emissions allowance portion of costs in base rates, contending that Petitioner has not demonstrated prudence regarding the management of its allowance inventory. He recommended embedding a zero balance in base rates and Petitioner's approval of its emissions allowance inventory variance be contingent upon an improvement of its practices, as demonstrated through updates of less volatility in inventory levels presented in its RCRA rider testimony. Pub. Ex. 3 at 13-14. Ms. Armstrong testified that CEI South's allowance cost assumptions to determine forecasted allowance expense do not reflect significant price decreases in the allowance market or the effect of zero-cost allowances allocated

to CEI South's generating units. She argued that CEI South's forecasted emission allowance expense is likely to be overstated. Pub. Ex. 7 at 3. She also stated that the Petitioner's filed exhibits and workpapers did not provide detailed monthly emission allowance inventory calculations by allowance type, which she said was necessary in order to verify the monthly allowance inventory balance and expense. *Id.* at 7. Ms. Armstrong said Petitioner does not appear to account for zero-cost allowances that will be allocated to its units during the test year. Instead, CEI South's method for estimating test year allowance expense assumes that it will need to purchase NOx allowances for every ton of NOx it will emit, which Ms. Armstrong says likely overstates the total cost of CEI South's allowance purchases in 2025. *Id.* at 11. Since CEI South's actual allowance expenses are tracked through its RCRA, Ms. Armstrong contended it is reasonable to remove all forecasted allowance expense from the test year, thereby mitigating the risk of embedding overstated allowance expense in test year O&M, while providing CEI South the ability to recover allowance costs if future allowance prices increase substantially in reaction to changes in federal air rules. *Id.* The OUCC's recommendation would remove from the test year \$1,282,707 of rate base and \$3,519,952 of Emission Allowance O&M costs. Pub. Ex. 3 at 14; Pub. Ex. 7 at 11.

d. IT O&M Expense

OUCC witness Compton recommended the Commission deny CEI South's request to include \$770,000 in O&M expense for its SAP transformation program and \$813,540 in O&M expense for cloud computing arrangement costs to be incurred in 2025 under the CATO Project. He based his recommendations on what he characterized as CEI South's failure to provide proof of the necessity behind the investments and failure to substantiate the claimed benefits for its system. Moreover, Mr. Compton testified CEI South's responses to discovery showed Petitioner performed no study and conducted no analysis to support the benefits it claims from these IT programs. Pub. Ex. 5 at 8.

e. Rate Case Expense.

OUCC witness Jason Compton testified that Petitioner proposes to recover \$2,074,780 of rate case expense over five years for an annual pro forma revenue requirement of \$414,956. Mr. Compton did not dispute CEI South's estimate for rate case expense but he recommended the Commission limit the recovery of rate case expense from ratepayers to one half of that amount or \$1,037,390. Mr. Compton testified that CEI South's ratepayers should not be wholly responsible for reimbursing Petitioner for that expense, and he discussed how Petitioner and its shareholders particularly and significantly benefit from the prosecution of this rate case including advocating for favorable rates or return and depreciation rates. Mr. Compton pointed out that Indiana statutes do not prohibit the Commission from allowing rate case expenses to be shared among shareholders and ratepayers. He opined that "as evidenced in this case," requiring ratepayers to pay all rate case expenses removes any financial incentive for petitioning utilities to be transparent and cooperative when providing information in its case and through data requests. He asserted that a petitioner's lack of transparency requires the OUCC to ask extensive discovery questions, which, in turn, can increase the legal costs incurred by the utility. *Id.* at 19. He recommended the Commission allow CEI South to collect \$1,037,390 amortized over five years for an annual pro forma revenue requirement adjustment of \$207,478. *Id.* As to CEI South's proposal to recover any unamortized rate case expense in its next rate case, Mr. Compton stated that proposal is acceptable provided CEI South's customers be similarly protected from continuing to pay that expense after the

authorized rate case expense has been fully amortized. He recommended CEI South be required to amend its tariff of rates and charges once its authorized rate case expense has been fully amortized to remove that expense from rates. Pub. Ex. 5 at 17.

f. Sponsorships

OUCC witness Compton recommended removal of \$6,654 for sponsorship of the Ohio Valley Conference Basketball Tournament and \$3,025 for the University of Evansville sponsorship, stating these sponsorships are for image building and enhancing relations in the communities in which CEI South operates as well as advertising. Pub. Ex. 5 at 3.

g. Competitive Pay Adjustments

OUCC witness Baker recommended the Commission deny CEI South's requested recovery of a competitive pay adjustment ("CPA") of 3% due to the low number of job vacancies and total salaries being under budget for multiple years during the 2018-2023 period. Pub. Ex. 4 at 1 and 7. She testified that the surveys and studies relied on in CEI South witness Williford's testimony were not appropriate to determine a basis for the proposed CPA. *Id.* at 4. Ms. Baker testified that the survey participants and data are not shown to be a fair comparison to a company of Petitioner's size, location, and characteristics. *Id.* at 4. Ms. Baker testified that her review of base pay and job availability revealed CEI South is not experiencing difficulty maintaining reliable employees and CEI South has been consistently under budget for base pay and has had few job vacancies during the last three years. *Id.* at 7. Ms. Baker also noted that the CPA is not granted to all employees and testified that CEI South did not indicate a separate adjustment to account for a percentage of employees not granted a CPA. *Id.* at 3.

h. Shared Services Expense.

OUCC witness Lantrip stated that Petitioner's \$38,459 shared services adjustment for the VUH common asset charges should be denied due to lack of support in the Petitioner's case in chief. Pub. Ex. 3 at 18.

iii. Industrial Group Position.

a. Incentive Compensation.

Industrial Group witness Gorman recommended removing 70% of LTI tied to the financial performance of Petitioner from cost of service, which he calculated to be approximately \$1.4 million based on discovery responses indicating forecasted LTI expenses allocated to Petitioner in the test year are \$2.0 million. Industrial Group Ex. 1 at 8-9. He argued that incentive compensation costs tied to CEI South's financial performance should not be included in ratemaking cost of service because they are designed to align the interests of employees with those of shareholders, and designed to enhance the value of shareholders' investments in CenterPoint Energy, Inc. and/or CEI South to the extent the financial incentive targets are achieved. *Id.*

b. Number of Customers.

Mr. Gorman also objected to Petitioner’s use of average number of customers for the end of test year increase, which he said understated the revenues. He recommended an adjustment to reflect the end-of-test-year customer numbers. IG Ex. 1 at 4-5. This results in an increase in revenue at current rates of \$390,000 and a corresponding reduction of the claimed Phase 3 (end of test year) deficiency. *Id.* at 5.

c. Normalized Sales Adjustments.

Mr. Gorman recommended that the Commission forecast CEI South’s test year sales and revenues at present rates for the residential and commercial classes using a normalized use per customer forecast based on weather normalized historical data. He testified that CEI South is forecasting declining sales per customer due to energy efficiency and other factors that may not be realized. Instead, Mr. Gorman’s adjustment relies on a three-year average use per customer for the residential and commercial classes. His recommended adjustment increases revenues at present rates and reduces Petitioner’s revenue deficiency by approximately \$3.6 million. IG Ex. 1 at 9.

iv. CAC Position

a. DSMA Costs.

CAC witness Barnes opposed the inclusion of DSM program costs in base rates. CAC Ex. 3 at 29. He noted that CEI South had indicated in response to discovery that CEI South would be willing to eliminate its proposal to include DSM program costs in base rates. CAC Ex. 3, Attachment JB-3. However, he stated such a withdrawal will not fully address the issues he identified with respect to allocation of demonstration and sales expenses logged in FERC accounts 911 and 912. CAC Ex. 3 at 28. See discussion in Section 7.7.M (Cost of Service and Rate Design; Multi-Family Rates; BAMP) of this Order.

b. Rate Case Expense

CAC witness Inskeep recommended disallowance of the entirety of CEI South’s rate case expense, testifying that Petitioner’s experts and attorneys are working to increase CenterPoint’s revenues and profits to benefit CenterPoint shareholders at the literal expense of ratepayers. He stated shareholders, not ratepayers, should pay all, or at least a substantial portion of, costs of experts and counsel in this case. He testified that CEI South was only required to file this rate case because it voluntarily elected to file a TDSIC Plan that ran through the end of 2023 and therefore, this rate case is entirely a result of actions within Petitioner’s control and that were done to benefit shareholders. CAC Ex. 2 at 54-55.

c. Trade Associations

CAC witness Inskeep recommended the Commission deny CEI South’s request to include in its revenue requirement all expenses related to trade association dues. CAC Ex. 2 at 53. He stated organizations like Edison Electric Institute, Indiana Energy Association, Indiana Manufacturers Association, and Consumer Energy Alliance, to name a few, engage in highly political, advocacy-oriented, and influence activities, which could include funding outside political

and charitable contributions, litigation, regulatory advocacy, advertising, and efforts to shape the public and decision-maker opinion, in addition to numerous other activities that principally serve the private interests of the members rather than ratepayer interests. They can also promote contentious political and policy viewpoints that many individual utility customers would find highly objectionable and do not want to fund through their electric bills that they are compelled to pay to maintain essential utility service. *Id.*

v. **SABIC Position**

a. **TSO Revenues**

SABIC witness Coyle testified that CEI South had failed to include \$546,518 of transmission revenues in the revenue requirement and the ACOSS. She noted CEI South committed to updating this value on rebuttal, which would lower the overall revenue increase requested in the filing. SABIC Ex. 1 at 39-40.

vi. **CEI South Rebuttal.**

CEI South made various adjustments to its pro forma revenues and expenses on rebuttal, as more particularly described in Ms. Behme’s rebuttal testimony and summarized in her Table CMB-R1. Pet. Ex. 2-R at 4.

a. **Base Cost of Fuel.**

CEI South witness Rice testified on rebuttal that Mr. Eckert’s recommendation was not based upon what people are paying today in the market for future gas, but instead was based on the EIA’s Short Term Energy Outlook. He said CEI South’s forecast for natural gas was a reasonable forecast and lower than where NYMEX Henry Hub Natural Gas Futures (Settlements) are for 2025 at \$3.49. Pet. Ex. 19-R at 52. He also disagreed with Mr. Eckert’s recommendation to lower the LMP Prices, noting that natural gas prices help set the marginal price for energy, and CEI South’s gas price is reasonable. *Id.*

b. **Interruptible Sales Billing Credits.**

CEI South witness Rice explained the calculation of the cost of interruptible sales billing credits and DR aggregator payments was calculated based upon a bid received from a DR aggregator in CEI South’s All-Source RFP for DR aggregation in its 2022/2023 IRP. Pet. Ex. 19-R at 27. He explained that this is a new program and Petitioner does not yet know how many may participate. He said CEI South currently does not have any Commercial/Industrial (“C&I”) customers in its Interruptible Contract Rider (“IC”), Interruptible Option Rider (“IO”) or MISO tariffs with DR registered with MISO. Accordingly, Mr. Rice explained, CEI South did not include any DR for these tariffs in the forecast for 2025. Given the uncertainty with how many customers will sign with the DR aggregator and uncertainty around potential updates in any of the three other DR tariffs, CEI South proposes a reasonable level of \$725,000 to be embedded in base rates, which Mr. Rice said is far less than the \$1,686,350 embedded in rates today. *Id.*; *see also* Pet. Ex. 17-R at 4.

c. DSMA Costs.

On rebuttal, Ms. Behme indicated that as described in CEI South’s Response to CAC Data Request 5.7 (CAC Ex. 3, Attachment JB-3), CEI South is removing \$500,000 in revenues for performance incentives from base rates. She stated performance incentives will remain in the DSMA. Furthermore, Ms. Behme confirmed that CEI South is removing DSMA program costs from base rates, in line with CAC Witness Barnes’ expectations. This adjustment involves the removal of expense as well as corresponding revenues. Pet. Ex. 2-R at 6. CEI South witness Rice also testified on rebuttal that CEI South agrees to recover all program costs and the performance incentive in the DSMA tracker rather than base rates. Pet. Ex. 19-R at 50. As such, CEI South removed all revenues and expenses were pulled out of base rates; as described by Witness Behme. Summer Cycler costs remain in base rates, as they are today.

d. Emissions Allowance Costs.

CEI South witness Behme testified on rebuttal that CEI South accepts the OUCC’s position presented by Witness Lantrip to remove \$3,519,952 of emission allowance operations and maintenance expense (“O&M”) costs from the test year and instead to track 100% of such costs through the RCRA. Pet. Ex. 2-R at 6.

e. IT O&M Expense

In rebuttal, Mr. Bahr reiterated that the \$770,000 that Mr. Compton recommends the Commission deny represents the costs allocated to CEI South Electric to migrate the existing SAP ERP 6.0 system to the latest SAP ERP platform – SAP S/4HANA – before the current version’s end of life in 2027. Pet. Ex. 8-R at 13. He said CEI South must prepare for this eventuality and it is the costs of doing so that Mr. Compton seeks to disallow. *Id.* He reiterated the benefits to CEI South and its customers of transitioning to the latest SAP platform – SAP S/4HANA.

With respect to the \$813,540 CEI South requests to include for the cloud computing arrangement costs to be incurred in 2025 under the CATO Project, Mr. Bahr responded that Mr. Compton may have misunderstood certain points and he did not specify with details or support his recommendation that these costs be denied. Pet. Ex. 8-R at 14. He reiterated what Ms. Behme testified on direct, that this amount represents “[t]he baseline level of the third-party [cloud computing arrangement (“CCA”)] costs expected to be recorded to expense during the test year . . . which the Company proposes to recover through base rates and has included in this case”. Pet. Ex. 8-R at 14, quoting Pet. Ex. 2 at 37. The majority of the costs are related to Software as a Service (“SaaS”). SaaS solutions are a complete application solution provided by a vendor that is usually accessed by an internet browser or mobile device. Data related to the SaaS is stored in the cloud, allowing access anywhere via the internet. Examples of SaaS software used by CEI South include Microsoft 365 (productivity and collaboration tools like Outlook, Word, Excel, Teams), Oracle HR Solutions (for recruiting candidates, delivering training including compliance training, and employee performance management), and Service Now (IT service management tool used for incident management and change management used to deliver services). A smaller portion of the \$813,540 is related to Infrastructure as a Service (“IaaS”), which is a cloud service where a vendor provides computing, storage, and networking resources. Examples for CEI South include Microsoft Azure. Through the CATO program, CEI South is moving on-premise applications to

the Microsoft Azure cloud to enhance resiliency, efficiency, and security. The CATO program is a strategic investment that aligns with IT's Cost Optimization strategy that focuses on operating technology efficiently and delivering services in a more cost-effective manner. By establishing a foundation on the Microsoft Azure cloud, CEI South will gain more flexibility in deploying applications, increase automation of infrastructure operations, and establish a secure environment through multiple layers of defense to improve resiliency of the applications and protect CEI South assets in the cloud. Pet. Ex. 8-R, pp. 14-15.

f. Rate Case Expense.

As to rate case expense, Ms. Behme testified on rebuttal that the OUCC's and CAC's positions are inconsistent with decades of precedent before this Commission and would result in treatment for Petitioner that is different from other large public utilities in the State. Pet. Ex. 2-R at 18.

g. Sponsorships and Trade Associations.

CEI South witness Behme testified that CEI South accepts OUCC's proposed adjustments to A&G for sponsorships in the amount of \$9,679. Pet. Ex. 2-R at 16. With respect to trade association dues, Ms. Behme testified on rebuttal that CEI South has followed the methodology and application of prior cases where membership dues have been routinely recovered through rates in Indiana. Amounts attributed to lobbying activities and political contributions have been identified and removed from the cost of service. *Id.* Ms. Behme explained that these amounts are specifically included on invoices received by CEI South. CEI South's membership in trade associations such as the Indiana Energy Association provides benefits to CEI South and its customers by providing an opportunity to (among other things) discuss industry issues with peer companies to understand practices, procedures or other measures that can assist CEI South in ensuring the affordability, quality, efficiency, reliability, and security of service. *Id.*

h. Incentive Compensation

CEI South witness Williford testified that the Commission has previously rejected arguments like those put forward by Mr. Gorman. Pet. Ex. 10-R at 6. She testified the fact that there are financial metrics in an incentive compensation plan does not make it a pure profit sharing plan, and the Commission has historically not been receptive to excluding recovery of those portions of the plan that are tied to financial metrics. *Id.* Mr. Gorman does not contend that CEI South's incentive compensation does not satisfy the three-part test this Commission has applied for awarding recovery of incentive compensation. *Id.* She reiterated how CEI South's incentive compensation satisfies this standard. She testified that customers directly and materially benefit from the provision of financially based LTI awards to CEI South's employees, a practice that serves to align the interests of both shareholders and customers. A specific purpose of the LTI plan is to focus employee attention toward ensuring sustained improvements in performance over longer periods of time. She testified that the achievement of strong financial performance is a benefit to both customers and shareholders enabling CNP to adequately maintain its assets and provide safe and reliable electric service to customers with a focus on controlling costs. *Id.* at 7. She testified that LTI is necessary to recruit and retain executives and key employees and that CEI

South's peer companies (against whom it competes for executive and key employee talent) provide both performance-based and time-based LTI awards as part of their LTI programs. *Id.*

i. Competitive Pay Adjustment

CEI South witness Williford responded in rebuttal to Ms. Baker's proposed disallowance. She testified that as reflected in CEI South's response to a discovery request, the eligible employees for a CPA are those "[e]mployees who are full-time or part-time and on the Company's payroll on December 31st of the plan year." Ms. Williford continued referencing the data response, which explained, "a yearly increase is not granted to all employees", rather, "[i]ndividual CPAs are based on performance and salary position to the market (compa-ratio)." Pet. Ex. 10-R at 3. Ms. Williford stated that CEI South's market-based, pay-for-performance philosophy means that CPA awards are not granted in a formulaic method and therefore, not all employees are granted an increase. She explained that the annual budgeted 3% CPA used to estimate Petitioner's forecasted spend already accounts for certain employees not receiving a CPA, just as it accounts for certain employees receiving more than 3%; therefore, an adjustment to "account for a percentage of employees not granted a CPA adjustment" is not warranted. *Id.* at 3. Ms. Williford also testified that CNP does not rely solely on one source for market data, but rather, "uses a variety of national, regional, and local survey data that is refreshed annually to monitor and determine market pay values [with m]ost jobs [being] matched to multiple surveys." She reiterated that her direct testimony not only referenced the median budget increase implemented and reported for 2022 on a national basis but explained a similar "budget trend . . . was reported by those employers with operations in the state of Indiana." Pet. Ex. 10-R at 4. She also explained that the CEI South Specific WTW Survey, provided as Attachment DRW-5 (CONFIDENTIAL) to her direct testimony, did compare CNP compensation to utility peer groups similar in size to CEI South, and concluded CNP compensation was aligned to market. *Id.* CEI witness Bradford responded to Ms. Baker's testimony that the number of job vacancies and total salaries were under budget. He reiterated his direct testimony where he explained how Generation Operations avoided layoffs due to the closure of the A.B. Brown Units 1 & 2 in October 2023, by managing the Generation Operations workforce through attrition from approximately 188 full-time equivalents ("FTEs") in 2019 to approximately 138 FTEs year-end 2023 by utilizing contractors and reassigning the A.B. Brown workforce to other departments within Generation Operations. Mr. Bradford explained it was this diligent management of the workforce, to mitigate employee hardship, that actually drove the variance of actuals to plan and low number of vacancies. Pet. Ex. 7-R at 14.

j. Shared Services Expense

Ms. Behme explained in rebuttal that this adjustment is pure math. Whatever the Commission finds as the WACC in this case should be the WACC used in the calculation of VUH asset charge. Additionally, she stated this calculation is using the same mechanics that were used in CEI South's gas rate case filed in 2020. Pet. Ex. 2-R at 21.

k. TSO Revenues.

In response to SABIC's Witness Kyra J. Coyle, CEI South updated the revenue requirement to include \$1,349,242 of expected total annual forecasted TSO other revenues. Pet. Ex. 2-R at 6.

I. Number of Customers and Normalized Sales.

CEI South witness Russo responded to Mr. Gorman's recommended average usage for residential and commercial customers, as well as Mr. Gorman's recommendations with respect to capturing customer growth. Mr. Russo testified that annual average customers are an accurate measure of the customer counts associated with total annual sales, particularly because the customers as of the end of the test year are not projected to be customers for the entire test year, and so will not provide the revenues Mr. Gorman proposes. Pet. Ex. 16-R. As for Mr. Gorman's concerns that CEI South is understating the residential and commercial use per customer, Mr. Russo testified regarding certain corrections required for Mr. Gorman's calculation and also opposed the use of a three-year historical average to determine test-year residential and commercial average use. *Id.* at 3-5. His forecast model showed that both residential and commercial usage continue to decline. *Id.*

vii. Settlement.

Section B.5 of the Settlement Agreement provides for adjustments to pro forma revenues and expenses, totaling \$15,250,808, to address issues raised by the parties, including: (a) base cost of fuel, (b) interruptible sales billing credits, (c) capacity purchase costs, and (d) operations and maintenance expense.

Specifically, these adjustments incorporate recommendations from OUCC witnesses Eckert and Lantrip with respect to the base cost of fuel and interruptible sales billing credits, reduce the forecasted level of capacity purchase costs in the test year, and reduce the level of O&M expense to achieve a level representing a compromise on various reductions to O&M expense recommended by the OUCC and other intervenors. The overall reductions to forecasted test year O&M expense for purposes of the revenue requirement are partially offset by inclusion of \$813,540 related to cloud computing arrangements in exchange for Petitioner's withdrawal of its request for regulatory accounting treatment with respect to those arrangements. Pet. Ex. 19-S at 13-14.Base

a. Cost of Fuel.

CEI South witness Rice testified that the Settlement Agreement incorporates an adjustment to reduce the forecasted base cost of fuel in the test year revenue requirement by \$8,175,808 as recommended by OUCC Witness Eckert. Pet. Ex. 19-S at 13; Settling Parties' Jt. Ex. 1 at Section B.5.a.

OUCC witness Eckert acknowledged that the Settlement Agreement incorporated his fuel cost and fuel inventory adjustments. Pub. Ex. 1-S at 15.

b. Interruptible Sales Billing Credits.

Mr. Rice described the adjustment made in the Settlement Agreement to remove \$725,000 in interruptible sales billing credits and aggregation demand response, as recommended by OUCC witness Lantrip. He stated any actual interruptible sales billing credits will be reflected in the RCRA. Pet. Ex. 19-S at 13.

OUCG witness Eckert acknowledged that the Settlement Agreement did incorporate CEI South's agreement to remove the interruptible sales billing credits as recommended by Mr. Lantrip.

c. Capacity Purchase Costs.

The Settlement Agreement includes an adjustment to reduce forecasted capacity purchase costs in the revenue requirement for the test year by \$5,000,000. Settling Parties' Jt. Ex. 1 at Section B.5.c. Mr. Rice explained, however, that CEI South is in the midst of a generation transition, and a level of capacity purchases will be necessary for the foreseeable future. Accordingly, actual costs above or below the remaining base amount will continue to be tracked in the RCRA, and variances will be charged or credited to customers. Pet. Ex. 19-S at 13.

d. Sales Forecast and Incentive Compensation.

The Settlement Agreement does not expressly discuss Mr. Gorman's Sales Forecast and Incentive Compensation arguments, but it does provide that "items not expressly delineated herein shall be resolved as proposed in CEI South's case-in-chief, as modified by its rebuttal position." The Settling Parties have agreed that the Settlement Agreement resolves all disputed issues in this Cause, including those raised by IG witness Gorman with respect to Petitioner's sales forecast and incentive compensation.

e. Other O&M Expense.

Mr. Rice testified that the Settlement Agreement contains an adjustment reducing CEI South's total forecasted level of O&M Expense by \$1,350,000. He stated that the reduction is not assigned to particular FERC accounts but is in total. Pet. Ex. 19-S at 13-14.

OUCG witness Compton testified the while rate case expense may have been considered in the \$1.35 million reduction in forecasted O&M incorporated into the Settlement, rate case expense is not expressly addressed in the Settlement Agreement. Pub. Ex. 5-S at 3-4. He stated if any of this annual pro forma revenue requirement can be attributed to the agreed \$1.35 million reduction in O&M expense, it would not be in the public interest to leave to speculation the extent to which these expenses have been reallocated. *Id.* at 9. He stated the most reasonable assumption is that the Settlement Agreement has accomplished no decrease in rate case expense. He maintained that it is inequitable for ratepayers to pay for the entirety of rate case expense. He said the Settlement Agreement was not in the public interest because it does not pronounce that shareholders are being considered responsible for some of this rate case expense, including the expenses incurred for their prospective benefits from the prosecution of this case. *Id.* at 10.

He also objected to the absence of language in the Settlement Agreement incorporating his recommendation that CEI South also be required to amend its tariff once its rate case expense has been fully amortized. *Id.*

CAC witness Inskip expressed concern that the Settlement Agreement fails to adjust the revenue requirement to remove trade association membership dues and rate case expense, which he contends produces rates that are not just or reasonable. CAC Ex. 6 at 19-20.

In Attachment MAR-SR2 to Mr. Rice's Settlement Rebuttal testimony, Petitioner reiterated the rebuttal of Ms. Behme to Mr. Compton's proposed sharing of rate case expense, noting that the mere fact the OUCC may have taken the same position in other cases does not change that the OUCC position has never been accepted by the Commission. Pet. Ex. 19-SR, Attachment MAR-SR2 at 1. Mr. Rice's attachment does indicate that CEI South did not oppose Mr. Compton's recommendation that rates be reduced upon the expiration of the amortization period of rate case expense if an intervening rate case has not been filed. *Id.*

viii. Commission Discussion and Findings.

Base Cost of Fuel

We find that Mr. Eckert's use of the EIA Short-Term Energy Outlook and other sources to determine the forecasted price of natural gas is appropriate. Accordingly, we accept his base fuel cost adjustment. We note this amount embedded in rates does not preclude CEI South from recovering or crediting fuel cost amount above or below, respectively, the amount embedded in rates. Additionally, while not approving the terms of the Settlement Agreement, the Settling Parties agreed to Mr. Eckert's adjustment.

Interruptible Sales Billing Credit

As discussed further below, we deny CEI South's proposal for Rider ADR. The \$725,000 CEI South proposed to embed in rates was the funding amount for this program. Therefore, we consequently disallow the recovery of this amount in rates.

Emission Allowance Costs

CEI South witness Behme testified on rebuttal that CEI South accepts the OUCC's position to remove \$3,519,952 of emission allowance operations and maintenance expense costs from the test year. Accordingly, the Commission finds this agreed reduction is appropriate and should be approved.

IT O&M Expense

CEI South requests to include \$770,000 in O&M expense for its SAP transformation program and \$813,540 in O&M expense for cloud computing arrangement costs to be incurred in 2025 under the CATO Project. OUCC witness Compton opposed CEI South's proposed inclusion of IT investments in rate base as well as the O&M expenses associated with implementing these investments. Mr. Compton noted the lack of evidence demonstrating the need for the investments including the absence of studies, reports, and projections identifying how CEI South's IT investments will benefit the resiliency and security of its systems, the difference in efficiency between the old and new applications, or how much application maintenance and support costs might decrease. Mr. Compton testified the benefits Mr. Bahr claimed were merely broad assertions without support. Pub. Ex. 5 at 4-8. We found above that the evidence demonstrates that Petitioner's evidentiary support for its IT related investments are vague and did not quantify the benefits for purposes of comparing those benefits to the cost. Having found the underlying IT investments were not supported, we accordingly find that the O&M expenses associated with implementing the IT Investments are likewise not supported by the evidence. We deny CEI South's request to

include \$770,000 in O&M expense for its SAP transformation program and \$813,540 in O&M expense for cloud computing arrangement costs to be incurred in 2025 under the CATO Project.

Rate Case Expense

Petitioner proposes to recover \$2,074,780 of rate case expense over five years for an annual pro forma revenue requirement of \$414,956. Through its witness, Jason Compton, the OUCC maintained that CEI South's ratepayers should not be wholly responsible for reimbursing Petitioner for that expense and recommended the Commission limit the recovery of rate case expense from rate payers to one half of that amount or \$1,037,390 to be amortized over five years for an annual pro forma revenue requirement adjustment of \$207,478. Mr. Compton testified that Petitioner and its shareholders particularly and significantly benefit from the prosecution of this rate case including advocating for favorable rates or return and depreciation rates. CAC witness Inskip recommended the Commission disallow recovery of all CEI South's rate case expense, testifying that Petitioner's experts and attorneys are working to increase CenterPoint's revenues and profits to benefit CenterPoint shareholders at the literal expense of ratepayers. He stated shareholders, not ratepayers, should pay all, or at least a substantial portion of, costs of experts and counsel in this case. He testified that CEI South was only required to file this rate case because it voluntarily elected to file a TDSIC Plan that ran through the end of 2023 and therefore, this rate case is entirely a result of actions within Petitioner's control and that were done to benefit shareholders. CAC Ex. 2 at 54-55.

Petitioner's witness, Ms. Behme rebutted these recommendations by stating that the OUCC's and CAC's positions are inconsistent with decades of precedent before this Commission and would result in treatment for Petitioner that is different from other large public utilities in the State. Pet. Ex. 2-R at 18.

Petitioner's witness, Mr. Rice testified that the Settlement Agreement it entered into with some but not all of the parties to this case contains an adjustment reducing CEI South's total forecasted level of O&M Expense by \$1,350,000, which amount is not assigned to particular FERC accounts but is in total. Pet. Ex. 19-S at 13-14. OUCC witness Mr. Compton testified the most reasonable assumption is that the Settlement Agreement has accomplished no decrease in rate case expense. Pub. Ex. 5-S at 10.

Through its testimony and its proposed order, Petitioner pointed to three orders where we rejected recommendations by the OUCC to allocate some rate case expense to shareholders or more to the point where the OUCC recommended we find that less than the requested rate case expense should be recovered from ratepayers. Only one of these three cases actually focused on whether, as a principle, ratepayers should pay all of a utility's reasonable rate case expenses. In *Gary-Hobart Water Co.*, Cause No. 38585 (IURC 12/1/1993), the utility sought amortization of expenses of the appeal of the previous rate order. The OUCC argued that appeal costs should not be included in the amortization of rate case expense in the prospective order first because it was the utility management's choice to bring the appeal and second because the appeal "could only benefit Petitioner's shareholders and not its ratepayers." Order at 5. The Commission did not accept either argument stating that appeal costs should not turn on who chose to appeal and that adding that it could not find that successful appeals by a utility only benefit the shareholders. The Commission stated that judicial review is a normal and legitimate part of the ratemaking process

and added that “the fact that Petitioner's appeal had value in the ratemaking process is shown by the Court of Appeals decision which accepted Petitioner's position.” *Id.*

Moreover, since our final order in *Gary-Hobart Water Co.*, Cause No. 38585, we have seen rate case expense escalate, presumably by inflation, but also by the fact that rate case expense is entirely borne by the utility’s customers. While rate cases are a necessary, normal, and legitimate part of the ratemaking process, that does not change the fact that party that decides what experts it will hire, decides what positions it will advance, decides what rate of return it will request, and initially decides how much should be spent in prosecuting a rate case, as a matter of regulatory practice, is not the party that ultimately pays all of the costs of those decisions. Moreover, while, in theory, consumer parties may question and dispute the reasonableness of rate case expense, the expedited nature of these cases make it simply infeasible for the consumer parties to make a meaningful review of rate case expenses while they are being incurred and with the protection of attorney-client privilege and other claimed privilege.

We agree that it is inequitable that the utility, which has all meaningful control of the amount of rate case expense to be incurred, including what expert witnesses to hire, ultimately has no responsibility to pay those costs. Moreover, because larger utilities like Petitioner have been able to count on the Commission to impose this cost on ratepayers as an amortized expense, there has been no real or meaningful financial incentive for such utilities to negotiate lower fees or perform any cost benefit analysis when shopping for its experts. Based on inherent fairness and the fact shareholders benefit from rate cases as much or more than ratepayers it is appropriate to find the utility should share in the burden of rate case expense. Ms. Behme testified on rebuttal that the OUCC’s and CAC’s positions are inconsistent with decades of precedent before this Commission and would result in treatment for Petitioner that is different from other large public utilities in the State. Pet. Ex. 2-R at 18. Such an argument does not justify continuing the inequity of customers bearing 100% of a cost over which the customers have no control and which include advocating for relief we may ultimately find is not justified or reasonable. To its logical conclusion, such an argument would preclude this Commission from making any change in policy that inures to the benefit of customers.

We agree with the OUCC and CAC that the Petitioner should be permitted to recover from its customers rate case expense incurred or \$1,037,390, whichever is less to be amortized over five years (i.e., an annual pro forma revenue requirement not to exceed \$207,478).

As to CEI South’s proposal to recover any unamortized rate case expense in its next rate case, Mr. Compton stated that proposal is acceptable provided CEI South’s customers be similarly protected from continuing to pay that expense after the authorized rate case expense has been fully amortized. He recommended CEI South be required to amend its tariff of rates and charges once its authorized rate case expense has been fully amortized to remove that expense from rates. Pub. Ex. 5 at 17. Attachment MAR-SR2 to Mr. Rice’s Settlement Rebuttal testimony indicated CEI South did not oppose Mr. Compton’s recommendation that rates be reduced upon the expiration of the amortization period of rate case expense if an intervening rate case has not been filed. Pet. Ex. 19-SR, Attachment MAR-SR2 at 1. We find that any rate case expense that will remain unamortized as of the expected date of CEI South’s next rate order may be recovered. Further, we find that after five years of rates, in the absence of an intervening rate order, Petitioner shall submit

a revised schedule of its rates and charges removing the amortization amount for rate case expense authorized in this order.

Trade Association Dues

[The OUCC takes no position on this issue.]

Competitive Pay Adjustment

Ms. Baker argued against CEI South's competitive pay adjustment, noting CEI South is not experiencing difficulty maintaining reliable employees, has been consistently under budget for base pay, and has had few job vacancies during the last three years. We agree. While CEI South argued its vacancies are low due to managing its Generation Operations workforce, this did have the effect of reducing base pay below budget and reducing vacancies. Additionally, CEI South did not forecast an increase in base pay or vacancies during the test year. Therefore, we approve Ms. Baker's recommendation to disallow the competitive pay adjustment.

Shared Service Expense

We agree with respect to Mr. Lantrip's proposed denial for the shared service adjustment, as the record shows CEI has not provided sufficient support for the underlying amounts in the calculation for the VUH asset charge. While we acknowledge the WACC should be used in the calculation of VUH asset charge, the OUCC's position is there was no support provided for the underlying amounts used in the calculation. The OUCC requested the support for this adjustment through discovery and CEI simply directed them to the information already provided in the MSFRs. However, CEI did not provide any additional support for how those underlying amounts used in the calculation were derived. Notwithstanding Ms. Behme's claim the shared service adjustment is pure math, we find CEI did not provide sufficient support for the underlying amounts in the calculation of the VUH asset charge. As a result, the shared service adjustment as proposed by Mr. Lantrip is approved.

G. Regulatory Accounting Treatment – Cloud Computing Costs.

i. CEI South Case-in-Chief.

In its Verified Petition, CEI South requested authority to capitalize, by establishing a regulatory asset, all cloud computing costs not included in base rates. Pet. Ex. 1, Attachment RCL-1 (Petition) ¶ 30. CEI South Witness Behme described the proposal. She explained the differences for capitalization pursuant to GAAP and ratemaking and cited Commission Orders²³ discussing the ratemaking for such costs. She then noted that for ratemaking during the test year in this Cause, Petitioner had followed the GAAP standards and included a forecasted level of cloud computing expense in O&M of \$813,540. Petitioner is proposing to capitalize to a regulatory asset all annual cloud computing expense above that baseline level. Pet. Ex. 2 at 35-37.

²³ *Northern Ind. Pub. Serv. Co.*, Cause No. 45159 (IURC 12/4/2019), 2019 WL 6683738, and *Aqua Indiana, Inc.* Cause No. 45675 (IURC 1/18/2023), 2023 WL 371882.

ii. OUCC Position.

OUCC Witness Compton opposed Petitioner’s proposal to capitalize all of its post- test year cloud computing costs through the creation of a regulatory asset. Pub. Ex. 5 at 9. Mr. Compton rejected CEI South’s argument that the regulatory asset should be created to avoid the potential of eligible capital costs being recorded as O&M costs. He explained that the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) provides instructions for what portions of cloud computing arrangements are capital and what portions are expensed. *Id.* Mr. Compton testified that CEI South’s ratepayers should not have to pay higher rates to protect Petitioner from its own failure to follow accounting standards. *Id.* at 10. Mr. Compton testified that through its cloud computing arrangement, Petitioner will be connecting to third party servers and infrastructure that host its data applications. He analogized this as Petitioner paying to use a toll road as opposed to incurring the cost of building its own road. *Id.*

iii. CAC Position.

CAC Witness Inskip also opposed CEI South’s request to capitalize cloud computing costs. CAC Ex. 1 at 10.

iv. Industrial Group Position.

IG Witness Gorman also objected to Petitioner’s request for authority to capitalize cloud computing costs. IG Ex. 1 at 135-36.

v. CEI South Rebuttal.

In her rebuttal, CEI South Witness Behme responded to the opposition to capitalize the cloud computing costs. She reiterated that CEI South’s proposal was consistent with past orders of the Commission, and she noted that neither Mr. Compton nor Mr. Gorman had addressed those orders. In addition, since the filing of Petitioner’s case-in-chief testimony, another Order had been issued supporting CEI South’s request.²⁴ Pet. Ex. 2-R at 22-23.

vi. Settlement.

In the Settlement Agreement, CEI South agreed to withdraw its request to create a regulatory asset for post-test year cloud computing costs; *provided, however*, that such withdrawal is without prejudice, and CEI South reserved its rights with respect to filing for such relief in a separate docketed proceeding. The test year forecasted cloud computing expense of \$813,540 is included in Petitioner’s revenue requirement. This approach allows for more time to see how recovery of cloud computing evolves over the next few years. Pet. Ex. 19-S at 14. Mr. Gorman noted that the cloud computing expense term reflected compromise among the parties. IG Ex. 1-S at 4-5.

²⁴ *Indiana American Water Co.*, Cause No. 45870 (IURC 2/14/2024), pp. 30-31, 2024 WL 755397, *32-33.

vii. Settlement Opposition.

Although Mr. Compton testified in opposition to the Settlement Agreement, he noted the request for regulatory accounting treatment had been withdrawn under the settlement. Pub. Ex. 5-S.

viii. Commission Findings.

As OUCC witness Compton testified, FASB ASC provides instructions upon what portions of cloud computing arrangements are capital and what portions are expensed. *Id.* Mr. Compton explained that some cloud computing arrangement costs incurred during the implementation period are capital, but cloud computing arrangement costs incurred before and after the implementation phase are operating expenses, not capital costs as FASB ASC bears out. By asking for its cloud computer costs to become a regulatory asset, Petitioner seeks to convert operating expenses in excess of its revenue requirement into a return. Thus, Petitioner is effectively asking for permission to recover its prospective operating losses in its next rate case. Without approval to create a regulatory asset, those losses would be considered past losses invoking the prohibition against regulatory ratemaking or recovering past losses in prospective rates. This is the nature of a regulatory asset. Retroactive ratemaking is unlawful and undesirable for many reasons because it discourages prudent operation of utilities. It also creates intergenerational inequities and otherwise undermines the ratemaking paradigm. The authorization of regulatory assets should be done sparingly and with a showing of significant need and promotion of the public interest. The Commission finds Petitioner has not sufficiently supported its request or established its propriety. We further note that by agreement, Petitioner withdrew its request as part of the settlement.

H. CAMT, EADIT, and TAR.

i. CEI South Case-in-Chief.

CEI South witness Story presented Petitioner's proposed TAR. She explained that the Inflation Reduction Act of 2022 ("IRA") contains significant benefits for renewable energy and investments impacting the utility industry. Pet. Ex. 15 at 3. Ms. Story testified the CAMT was included in the IRA to offset the cost of tax incentives. *Id.* She summarized several provisions of the IRA applicable to public utilities, including:

- Restoration and extension of the renewable electricity PTC and clean electricity investment tax credit ("ITC");
- Creation of new tax credits designed to incentivize investment in renewable energy;
- Establishment of a non-deductible 1% excise tax on certain corporate share repurchases; and
- Imposition of a 15% CAMT based upon adjusted financial statement income ("AFSI").

Ms. Story testified the IRA imposes the new CAMT prospectively on AFSI of an Applicable Corporation for taxable years beginning after December 31, 2022. She stated the

CAMT represents the means within the IRA to fund the tax credit benefits of the IRA. *Id.* at 4. Ms. Story described how the determination is made whether CAMT must be paid. *Id.* at 4-9. She testified on direct that CEI South is an Applicable Corporation for purposes of the CAMT; however, no CAMT was due in 2023. She stated CEI South expects to pay CAMT in 2024 and 2025 based on current guidance. *Id.* at 9. Ms. Story testified that payment of the CAMT means Petitioner can no longer defer a portion of taxes to future periods and must, therefore, finance additional amounts to pay taxes in the current period. She stated it may be necessary to increase borrowing to finance planned capital investments. *Id.*

CEI South witness Jerasa testified the cash outlay associated with the CAMT presents a risk that will likely adversely impact CEI South's credit metric, including Funds from Operations ("FFO")/debt, if Petitioner is unable to recover the impact of the tax through rates. He stated that if Petitioner's credit ratings and metric deteriorate, CEI South's ability to invest in necessary projects may be impeded as incremental debt issuances may be limited based on lower credit metrics. Pet. Ex. 14 at 7-8.

Ms. Story testified the CAMT has been calculated using CEI South jurisdictional amounts, with adjustments to Petitioner's financial statement income made for depreciation, pension expense, and federal income taxes. She said the CAMT credit carryforward is an asset and was included in the cost-free capital calculation in this filing. Per Ms. Story, when the minimum tax is paid, a CAMT credit is generated and can be carried forward indefinitely to offset future regular income tax liabilities in periods when the regular federal income tax liability exceeds the CAMT liability. The CAMT credit cannot be carried back to previous taxable years. Ms. Story testified that on a going forward basis, CAMT carryforwards will be addressed through CEI South's proposed TAR. *Id.* at 10. She explained that the TAR will capture tax rider adjustments the Commission has approved in other dockets and will be expanded to include the effects of the CAMT and the passback of Indiana state EADIT. *Id.* She stated there are already two approved tax riders that would move to the TAR. First, as a result of the Commission's investigation into the effects of the TCJA, CEI South is flowing back to customers federal EADIT from the TCJA through its TDSIC rider. This passback would continue outside of base rates but would be done through the TAR rather than the TDSIC rider. Second, PTCs realized from approved wind and solar projects are being tracked through Petitioner's CECA mechanism. This adjustment would move from the CECA to the TAR. *Id.* at 11. As for the CAMT, Ms. Story testified CEI South's proposal is that between rate cases, a return on the CAMT carryforward calculated using Petitioner's weighted average cost of capital determined in this rate case be included in the TAR. *Id.*

Ms. Story testified it is necessary to reflect the net impact of the CAMT and PTCs from renewable projects. The CAMT provisions of the IRA were used to fund the extended and enhanced tax credits, so she maintained it is reasonable to include the impacts of both in this rider. *Id.* Ms. Story testified that including both the PTCs and the incremental return on the CAMT payment in the TAR is necessary to capture the full impact of the IRA. *Id.* at 12. She stated a rider is necessary since annual results could vary significantly, making this a more reasonable approach than including these items in base rates. *Id.* Similar to the process after the TCJA was enacted, additional guidance is expected to clarify provisions of the IRA, and a rider will allow CEI South to capture the impact of these rules as they become available. *Id.*

Ms. Story described how IRA tracking will work under the TAR. She stated that for PTCs, tracking should begin in 2025. If approved, CEI South will file a TAR in November 2025 that includes an estimate of the 2025 PTCs. For the CAMT carryforward, tracking should begin in 2026 after the test period. The second TAR filing in November 2026 will include the difference between the minimum tax 2026 carryforward estimated balance and the carryforward included in cost-free capital in base rates, the result of which will be multiplied by the approved cost of capital from this proceeding. Additionally, it will include an estimate of the 2026 PTCs and a true-up of the 2025 estimated PTCs to actual. With additional guidance and proposed regulations still expected, she stated it is most appropriate to commence tracking with this rate case since it coincides with the IRA recently becoming law. *Id.*

Ms. Story also addressed the accumulated deferred income taxes (“ADIT”) and EADIT regulatory liability balances included in CEI South’s cost of capital calculation. She stated the federal EADIT resulting from the TCJA is currently being refunded in Petitioner’s TDSIC mechanism, and CEI South is proposing to move these credits to the new TAR mechanism as described by CEI South witness Rice. Pet. Ex. 19 at 11. Petitioner also proposes to include state EADIT credits into the TAR mechanism. In addition, the credits for accelerated EADIT associated with the issuance of securitization bonds related to the retirement of A.B. Brown Units 1 and 2 will be moved into the proposed TAR. The refund of protected and unprotected EADIT has been forecasted through the end of the 2025 test period. The pro-forma balance of the EADIT regulatory liabilities, as well as the associated ADIT deferred tax assets, have been included as cost-free capital on Petitioner’s Exhibit No. 20, Schedule D-5 sponsored by CEI South witness Jerasa. Pet. Ex. 15 at 18-19.

Ms. Story stated CEI South is proposing to include the refund of the excess deferred state taxes in the TAR along with the federal EADIT. Like federal EADIT, the amortization of state EADIT would be outside base rates. *Id.* at 13. Ms. Story testified that future changes to the federal EADIT balance will be addressed in the same fashion as such changes are presently addressed in the TDSIC mechanism. Future events such as IRS audit adjustments to Petitioner’s previously filed income tax returns, future IRS rulings and/or clarifications to the normalization rules, and changes in federal tax laws or rates could change the federal EADIT balance, as well as the split between protected and unprotected. She stated these changes will be addressed in future TAR filings if this new rider is approved. *Id.*

Mr. Rice stated the proposed TAR will include two tax adjustments that are currently reflected in the CECA and the TDSIC riders and two additional adjustments, the CAMT and the amortization of Indiana state EADIT. CEI South’s proposal is that beginning with the year following the test year, the creation of new CAMT carryforward will be reflected in the TAR by multiplying the new carryforward by Petitioner’s Weighted Average Cost of Capital from this rate case. Pet. Ex. 19 at 11. He explained CEI South is proposing that the TAR reflect federal EADIT (currently passed back to customers through the TDSIC) and the PTCs associated with the two renewable projects approved in Cause Nos. 45836 and 45847 that are currently included in Petitioner’s annual CECA filings. *Id.* He stated Petitioner also proposes to include the State EADIT (proposed to be amortized over five years). Additionally, CEI South is proposing that to the extent the proposed TAR is approved, the earnings test for purposes of Ind. Code § 8-1-2-42(d)(3) be updated to reflect the additional return from inclusion of the CAMT. *Id.* at 12.

ii. OUC Position.

OUC witness Stull did not oppose CEI South's proposed TAR, provided the current tax mechanisms will continue to charge or credit the same customer classes in the same manner as they are currently being implemented. She did, however, oppose reflecting the CAMT in this rider. Pub. Ex. 6 at 4-5. Ms. Stull offered several reasons as support for her position. She stated CEI South's parent company, CenterPoint Energy, does not normally have AFSI of \$1.0 billion or more, but rather, is only currently subject to the CAMT because of the impact of recent utility asset sales in other jurisdictions. *Id.* at 13. Ms. Stull asserted that CEI South is "cherry picking" by only requesting to track the CAMT carryforward and not proposing to include all other items of ADIT in the TAR. *Id.* at 15. She asserted that Indiana ratepayers should not bear the costs of CenterPoint Energy's non-Indiana financial transactions, including additional taxes that may be due because of those transactions. *Id.* at 16. Ms. Stull contended that many unknowns accompany CEI South's proposal, including final determinations about whether CEI South's parent company will be subject to CAMT and whether the proposal will materially ameliorate the effects of CAMT to credit metrics or ratings. *Id.* She recommended CEI South's proposal be denied or alternatively, if the proposal is approved, she recommended CEI South be required to track all tax-related components of cost-free capital. *Id.*

iii. CEI South's Rebuttal.

In her rebuttal, Ms. Story responded to Ms. Stull's position upon reflecting the CAMT in the tax rider, asserting that Ms. Stull confused the requirements regarding the applicability of the minimum tax and the calculation of the minimum tax. Ms. Story stated Ms. Stull also failed to address the risk to cash flow and credit metrics Mr. Jerasa described in his testimony that are the basis for Petitioner's proposal to reflect the CAMT in the proposed TAR. Pet. Ex. 15-R at 3. Ms. Story reiterated that the determination of whether CEI South is an Applicable Corporation for purposes of the CAMT requires CEI South to use the consolidated group's (single employer's) AFSI. However, the calculation of CAMT attributable to CEI South does not include tax gains, losses, or other results of operations for jurisdictions where CEI South does not operate. Per Ms. Story, CEI South is currently subject to the CAMT, and CEI South's CAMT will result only from CEI South's operations. She stated CEI South will only owe CAMT if the tentative minimum tax exceeds the regular tax from stand-alone jurisdictional operations. *Id.* at 4-5. She stated CEI South's proposal is consistent with the long-established practice of permitting recovery of taxes associated with jurisdictional operations. She testified that like any prudent cost of providing electric service, the CAMT incurred in the provision of electric service is an appropriate cost of service expense. *Id.*

Ms. Story responded to Ms. Stull's argument that Petitioner is "cherry picking" by seeking to track only the CAMT credit carryforward deferred tax asset and not the deferred tax liability items. She testified Ms. Stull failed to address the important issue of the increased risk to credit metrics and cash flow resulting from CAMT. *Id.* at 6. CEI South witness Jerasa testified that S&P expects CenterPoint Energy, Inc. to be an annual cash taxpayer as a result of the CAMT, and Petitioner's base case assumes annual cash tax payments of \$150 million through at least 2026. S&P defines FFO as earnings before income tax, depreciation, and amortization ("EBITDA"),

minus cash interest paid, minus cash tax paid.²⁵ Therefore, the cash tax payments associated with the CAMT will directly reduce FFO and weaken FFO to Debt and other credit ratios, for both CenterPoint Energy, Inc. and its subsidiaries, including CEI South. Pet. Ex. 14-R at 6. He projected cash taxes, including those arising from the CAMT, will lower FFO and weaken credit metrics, which could potentially impede future capital investments since CEI South will not be able to issue as much debt to maintain its current ratings. Ms. Story testified the requested revenue amount included in CEI South's proposed tax rider will help mitigate the cash flow impact and that absent the rider, there will be additional pressure on CEI South's financial integrity. *Id.* at 6-7.

Ms. Story testified that Ms. Stull's proposal to include all deferred taxes in the TAR would result in a mismatch to rate base, as well as violate the normalization provisions of the Internal Revenue Code ("IRC"). She noted the inconsistency in Ms. Stull's position, stating that to suggest it is appropriate to include the results of the IRA that result in a credit to customer rates and exclude the cost associated with providing that benefit is asymmetrical. *Id.* Ms. Story explained that the rate base mismatch resulting from Ms. Stull's recommended inclusion of deferred tax liability updates in the TAR would inappropriately reduce CEI South's return for items not yet being recovered. *Id.* at 6-7. She further testified that Ms. Stull's proposal would be prohibited under the normalization rules of the IRS because inclusion of the deferred tax liabilities in the rider would violate the consistency rules of the normalization provisions. *Id.* at 7. She explained that if a normalization violation occurs, CEI South will no longer be able to utilize accelerated depreciation in its federal income tax return; consequently, a normalization violation would mean a large reduction to cost-free capital (*i.e.*, reduction in deferred tax liabilities) and a significant increase in current taxes payable, ultimately translating into less cost-free capital and higher borrowing costs to the utility. *Id.*

iv. Settlement.

In Section B.7.b of the Settlement Agreement, CEI South withdraws Petitioner's request to include future CAMT effects in its TAR. The Settling Parties acknowledge the actual effect of the CAMT occurring by the beginning and end of the test year will be reflected in CEI South's capital structure for purposes of Settlement Phase 1 and Settlement Phase 2 rates. Settling Parties' Jt. Ex. 1 at Section B.7.b. No party opposed moving the existing EADIT schedules out of the TDSIC rider or the approved Production Tax Credits ("PTCs") that were to be passed back to customers via the CECA, to the TAR. CEI South still seeks the creation of a new rider for these purposes. Additionally, CEI South proposes to pass state EADIT back to customers through the TAR over a three-year period, per the stipulation in the Settlement Agreement discussed elsewhere in this Order. Pet. Ex. 19-S at 16-17.

v. Settlement Opposition.

OUCS witness Stull in her settlement testimony accepted CEI South's proposal to create a TAR with the stipulation that the current tax mechanisms will continue to charge or credit the same customer classes in the same manner as they are currently being implemented. *Id.* at 4-5. The Settlement Agreement does not, however, set forth how the currently approved tracker and pass

²⁵ Pet. Ex. 14-R at 6 n.16, citing S&P Global Ratings, "Criteria: Corporate Methodology: Ratios and Adjustments" December 21, 2023, p. 3.

back mechanisms will continue being implemented. *Id.* at 5. She testified the Settlement Agreement is not in the public interest if the pass back mechanisms do not continue to be charged or credited to the same customer classes and in the same manner as they are currently charged or credited through the TDSIC and CECA trackers. *Id.*

vi. Settlement Rebuttal.

CEI South witness Rice stated CEI South is proposing to simply move the existing schedules for the federal EADIT from the TDSIC and the schedules related to the Production Tax Credit from the CECA to the TAR. Pet. Ex. 19-SR, at 25. He explained that CEI South is not proposing to change the way these approved trackers are applied, but rather, to consolidate them into a single, annual tracker. *Id.* Additionally, CEI South has not proposed any changes to customer classes, so there is no change from this perspective. *Id.*²⁶

vii. Commission Discussion and Findings.

The OUCC accepted Petitioner’s proposal to move CEI South’s existing tax adjustment mechanism to its proposed TAR. OUCC witness Stull testified that because these tax adjustment mechanisms have already been approved, it is reasonable to include them all under one rider as a matter of administrative efficiency. Ms. Stull, however, insisted the current tax mechanisms should continue to charge or credit the customer classes in the same manner as the classes are currently receiving the credits or charges. The Commission finds the TAR should be approved, provided that Petitioner’s adjustment mechanisms shall continue to be charged or credited to its customer classes consistent with current practice as Ms. Stull recommended. We note the Settling Parties implicitly accepted creation of the TAR but did not address the OUCC’s qualification with respect to continuing the current credits and charges.

I. Additional Riders and Other Tariff Provisions.

i. CEI South Case-in-Chief.

a. CPP Pilot.

CEI South is proposing a new time-of-use (“TOU”) rate with a critical peak pricing (“CPP”) pilot program to allow for more efficient utilization of Petitioner’s system and provide a tool to help manage peak loads during hours of highest usage and provide customers with an opportunity to lower their bills. Pet. Ex. 19 at 12. Mr. Rice explained that this program may include multiple tiers of pricing with lower prices at off-peak times and higher prices at on-peak times. He stated this structure provides an economic incentive for customers to shift load from on- to off-peak hours. In addition, during times when usage is expected to be at its highest, the utility will communicate with customers that a critical peak event will occur on the following day. During the

²⁶ Mr. Rice also testified in his rebuttal settlement testimony that “CEI South witness Taylor recommends that federal EADIT that is currently being credited via the TDSIC tracker be allocated consistent with his recommended Rate Base allocations as shown in Attachment JDT-5, Schedule 4 - Rate Base Allocation.” *Id.* at 25-26. Mr. Rice added that “If the TAR is not approved, then CEI South would continue to credit the same customer classes in the same manner as shown in Attachment JDT-5, Schedule 2 - TDSIC Allocation.” *Id.* at 26. We note no provision was included in the Settlement Agreement agreeing upon this treatment.

event, the cost of energy will be elevated above the typical on-peak period pricing to provide more incentive for customers to shift load. Mr. Rice testified this demand response-like component of the program, a CPP event, requires the customer to respond to the elevated price to be successful. *Id.*

The proposed program will be implemented as a pilot program so that the CEI South can better understand potential benefits of a full program and build effective communication tools to help ensure future success of the program. *Id.* at 13. The proposed CPP Pilot is estimated to cost approximately \$1.75 million, consisting of an estimated \$915,840 in capital expenditures and an estimated \$838,762 to be expensed with the Year 2 evaluation included. *Id.* at 15-16. The proposed pilot rate will be active for two years, after which CEI South proposes to evaluate impacts and processes associated CPP Pilot and lead a rate development study in year three of the Pilot. *Id.* at 16-17. Mr. Rice testified that Cadmus helped to design the program and would perform the evaluation on the back end. *Id.* at 16. If the CPP Pilot is approved, CEI South would file a request in a separate proceeding for approval of final TOU and CPP rates. *Id.* at 18.

Mr. Rice described the eligibility requirements for the pilot. He said CEI South proposes to cap enrollment in the proposed CPP Pilot program to 500 residential customers to, “provide evaluators with a sufficient sample size for assessing the electricity demand impacts, participant experience, and pilot cost-effectiveness and to obtain useful insights for CEI South program administrators.” *Id.* at 13. To be eligible to participate in the CPP Pilot program, residential customers must have at least one year of automated meter data at the time of registration and must not be enrolled in an existing demand response program such as Petitioner’s Summer Cycler or Thermostat Load Control programs. *Id.*

CEI South proposes a Rate RS-CPP that includes separate winter (defined as December through February) and summer (defined as March through November) rates. Proposed volumetric rates during the winter period would consist of a uniform volumetric energy charge of \$0.16270 per kWh. Proposed volumetric rates during the summer period would consist of on-peak service during weekdays, 1:00 p.m. to 7:00 p.m. of \$0.28214 per kWh, and \$0.07054 all other hours. Service during both winter and summer periods would also include a monthly service charge of \$23.20 per customer and a volumetric charge during called CPP events of \$0.56429 per kWh. Pet. Ex. 19 at 17. Petitioner proposes to provide a one-time incentive of \$75 for customers who enroll in the proposed program. *Id.* at 14.

Mr. Rice described the goals for the CPP Pilot generally as “to help CEI South better assess the potential use cases and cost-effectiveness of TOU rates, like CPP, for managing residential electricity demand and the extent to which customers will embrace time-varying rates.” Pet. Ex. 19 at 14. Specifically, he listed the following goals of the pilot program:

- a. Gauge residential customer interest in time-varying pricing, determine expected participation rates, and gain an understanding of CEI South’s likely marketing costs to enroll customers.
- b. Learn the electricity demand and energy impacts of the TOU rate and CPP events, including the following:

- i. The average reduction in electricity demand per participant during the TOU rate on-peak period and the average increase in electricity demand per participant during the TOU rate off-peak period,
 - ii. The average impact of CPP events on electricity demand per participant before, during, and after CPP events,
 - iii. The impact of the CPP events on the participant's energy consumption,
 - iv. The impact of the TOU rate on participant energy consumption, and
 - v. To the extent possible given the small size of the pilot, whether the demand or energy impacts vary significantly by customer demographics, home type, or availability of different enabling technologies such as smart thermostats.
- c. Learn the impacts of the TOU rates and CPP events on participant customer bills and whether the bill savings are commensurate with or exceed the cost to participants of attempting to shift their loads to lower priced periods.
 - d. Learn the avoided demand and energy costs and other non-energy benefits from the pilot as well as the likely cost-effectiveness of TOU rates with CPP.

Pet. Ex. 19 at 15.

b. Green Energy Rider (Rider GE)

CEI South witness Forshey described Petitioner's proposed Rider GE, which would allow Petitioner's large customers with a minimum annual usage of 5,000 MWh to purchase and claim RECs received for up to 85% of the megawatt-hours ("MWh") of energy generated by CEI South's renewable resources, whether from Petitioner's renewable energy projects or those renewable generation facilities with which Petitioner has a power purchase agreement ("PPA"). Pet. Ex. 17 at 5-6. All REC transactions would be conducted through the Midwest Renewable Energy Tracking System ("M-RETS") marketplace. CEI South would use the historic REC price from the previous year to set the base price. CEI South witness Rice explained that each month, 15% of RECs generated would be sold into the M-RETS market to establish the current market price. Pet. Ex. 19 at 26. The monthly amount billed to each Rider GE customer would be modified according to the adjusted market price and all Green Energy amount proceeds received will be credited back to all customers through the Clean Energy Cost Adjustment ("CECA") rider. *Id.* at 27.

c. Rider ADR.

CEI South witness Rice explained that as part of the IRP stakeholder process, CEI South committed to evaluating the use of a third-party demand response aggregator to help partner with customers in shifting load to off peak hours. Pet. Ex. 19 at 29. Mr. Rice and Mr. Forshey testified that Rider ADR will allow customers to partner with an aggregator to successfully lower load during MISO events. It is available to commercial and industrial customers to provide interruptible load and receive incentive payments directly from the program administrator to help offset electric

costs. The tariff will be available for customers to participate in year-round or seasonally. Dispatches will be limited to four consecutive hours per event. Pet. Ex. 19 at 29; Pet. Ex. 17 at 21.

d. Rider TLC.

Mr. Forshey described the proposed Thermostat Load Control Rider (“Rider TLC”) to be marketed to customers using various marketing strategies and cross-promotion through other programs such as Residential Marketplace, in conjunction with the phase out of Rider Direct Load Control (“DLC”). Mr. Forshey testified this shift represents a shift in focus to achieving an increased level of demand response (“DR”) through smart thermostats versus switches. Pet. Ex. 17 at 22.

e. Economic Development Rider (“Rider ED”).

CEI South witness Forshey described CEI South’s proposal to update its Rider ED to amend the current structure to be more intuitive and competitive with the economic development riders offered by other utilities in the state of Indiana. Pet. Ex. 17 at 10. Mr. Forshey testified that CEI South is proposing to eliminate the different level of incentives currently offered, thereby simplifying the applicability process while remaining firm on specific economic development requirements that are necessary to ensure current or prospective customers remain committed to the region and a long-term presence in southwestern Indiana. These changes will also more closely align CEI South’s economic development incentives with those offered by CEI South’s peers in the state of Indiana. Pet. Ex. 17 at 11. Mr. Rice explained that CEI South is proposing to combine the two incentive levels currently in Rider ED and offer only one incentive level for projects at least 500 kVA/kW that result in capital investment at the customer’s establishment of \$1 million dollars and the creation of ten new full-time jobs at the same location. Pet. Ex. 19 at 27. In addition, Mr. Rice explained CEI South is proposing to extend the credit from 24 months to 36 months and provide credit of up to \$4.50 per kVA/kW. *Id.*

f. Rider IC and Rider IO.

CEI South witness Rice described the proposed updates to Riders IC and IO, saying the tariffs were updated to reflect MISO’s seasonal construct and expectations, which entails an associated increase in the number of interruptions the customer would be required to be available for annually. The amount of time per interruption was decreased to four consecutive hours per day. The amount of time to respond was increased from 10 minutes to 30 minutes. Metering requirements were added. Annual testing requirements and language around penalty for failure to interrupt were also included, consistent with MISO’s BPM. Additionally, the size requirement to participate in the Rider IO was decreased to 100 kW from 250 kW. Pet. Ex. 19 at 28.

g. MISO Demand Response (“DR”) Rider (“Rider DR”).

CEI South witness Rice testified that CEI South is proposing to remove the requirement that there be a minimum of 1 megawatt (“MW”) load reduction to participate in this program and replace it with a threshold of 100 kW minimum, consistent with Emergency Demand Response (“EDR”), which is allowed within this tariff. Additionally, language was updated around communications processes to include proper equipment to receive MISO dispatch signals. Pet. Ex. 19 at 28.

CEI South witness Forshey described proposed updates to Rider DR to better align with current MISO market offerings. He explained that CEI South does not have a direct mechanism for customers with qualifying behind the meter generation (“BTMG”) to participate in the MISO market as DRR Type 2 and potentially respond to market signals and collect revenues in the Day-Ahead and Real-Time MISO Markets. While customers with a BTMG could elect DRR Type I, it would not fully optimize the value of their resource in the MISO market. By allowing qualifying existing or prospective BTMG customers to participate in the MISO market as DRR Type 2, CEI South is providing those customers with an opportunity to supplement their revenue stream and support grid operations. Pet. Ex. 17 at 21.

h. Updates to DSMA, RCRA and MCRA

Mr. Rice described certain proposed updates to the DSMA, RCRA and MCRA. He said all DSMA opt-out groups will be removed, since when new rates are put into place, CEI South will no longer collect lost margin for programs prior to new rates being implemented. Mr. Rice said CEI South will do a compliance filing when new rates are implemented and remove approximately \$12.1 million from DSMA rates for lost margin. CEI South will begin calculating and recording lost revenues in 2026 to be recovered in the annual DSMA filing. CEI South will begin new opt-out groups at that time to the extent that other large customers opt out of DSM programs post new rates. Base amounts for DLC billing credits and DLC inspection and maintenance amounts have been adjusted to forecasted test year amounts. CEI South is also proposing that customers be allowed to opt back into EE programs at any time of the year. Pet. Ex. 19 at 30-31.

Mr. Rice described the updates to the RCRA to update base amounts for base level RCRA charges and revenues to reflect forecasted amounts. Additionally, CEI South is proposing to include Backup Capacity Generation Services variances generated from Rate BAMP in the RCRA. Pet. Ex. 19 at 31. The RCRA was also updated to reflect Petitioner’s proposal, described by Mr. Rice and Mr. Bradford, to provide 100% of Wholesale Power Marketing (“WPM”) sales margins to customers. Pet. Ex. 19 at 31; Pet. Ex. 7 at 18. Mr. Rice testified the move away from 50/50 sharing results in an estimated \$7.1 million benefit to customers in 2025. Pet. Ex. 19 at 31.

The proposed updates to the MCRA reflect forecasted amounts for the base amounts for base level MISO charges and revenues. Pet. Ex. 19 at 31. Mr. Rice testified that CEI South is proposing to include Backup Transmission Services variances generated from Rate BAMP in the MCRA. Additionally, he said, CEI South added Real Time Schedule 49 and Real Time Multi Value Project (“MVP”) Distribution to the list of MISO charges. *Id.*

i. Other Tariff Changes.

Mr. Rice described various other proposed changes to CEI South’s general terms and conditions of service, consisting of minor adjustments, clarifications, process updates and additions to align with the Indiana Administrative Code. Pet. Ex. 19 at 31-33.

ii. **OUCC Position.**

a. **CPP Pilot.**

OUCC witness Dr. Dismukes criticized the design of the CPP Pilot, testifying it lacks clearly established goals and objectives for the proposed pilot, such that it will be difficult to measure future success or usefulness of the program. Pub. Ex. 12 at 58. Dr. Dismukes stated the proposed CPP Pilot also lacks many consumer protection provisions that should be included in such a program and that CEI South's proposed TOU-CPP goals are not well constructed to elicit meaningful insights to help CEI South or other stakeholders in designing effective time-variant rates. *Id.* at 59. Specifically, he stated Petitioner's proposal (1) co-mingles two separate rate structures into a single pilot program (both a proposed TOU rate structure and a CPP program), (2) fails to outline expected peak reduction or other benefits associated with the program, and (3) fails to outline in sufficient detail how the cost-effectiveness of the CPP pilot program will be evaluated in the future. *Id.* at 59-60.

Dr. Dismukes also testified that CEI South did not estimate the expected benefits associated with and cost-effectiveness of the proposed CPP Pilot. Pub. Ex. 12 at 61. He further expressed concern that Petitioner has not indicated how it will evaluate future cost-effectiveness of the CPP Pilot. *Id.* at 62. Dr. Dismukes testified there is a need to establish a general outline for future evaluation criteria to ensure that the proposed pilot elicits results consistent with the goals of the pilot. *Id.* at 63. Dr. Dismukes further stated that CEI South's CPP guidelines are insufficient, failing to address a multitude of aspects to the calling of CPP events which may lead to future customer confusion. *Id.* at 64. He stated that beyond limiting the future CPP events to 16 per year, the proposed CPP Pilot provides few restrictions on the frequency of potential called CPP events, such as the number of events during a given month or week, or even the potential for multiple consecutive days of called events. *Id.* at 65. He also said Petitioner explicitly leaves open the potential to call CPP events under the proposed CPP Pilot during adverse weather events, creating the potential for participating customers to receive significant electric charges for space heating and cooling requirements during oppressive weather situations. *Id.* Dr. Dismukes stated that while the proposed CPP Pilot is intended to be revenue neutral, it is possible the final CPP Pilot could result in increased CEI South revenues over standard residential service rates based on the assumptions Petitioner used about the timing of CPP events. *Id.* He also expressed concern that CEI South does not propose an on-peak pricing period for winter use, which he said would send mixed messages to customers regarding when system peaks are expected to occur and how to change behavior to lessen electricity rate requirements. *Id.* at 66. Dr. Dismukes also objected to CEI South's proposal to use the same consultant (Cadmus) that assisted Petitioner in the design of the CPP Pilot in the eventual evaluation of the proposed pilot, saying this presents a potential conflict of interest as CEI South's evaluator of the CPP Pilot will have a vested interest in overstating benefits of a pilot they were intimately involved in designing. *Id.* at 67; Pub. Ex. 13 at 21-23.

Dr. Dismukes took issues with the manner in which CEI South developed its proposed Rate RS-CPP and opined that the proposed Rate RS-CPP includes "significantly high on-peak and CPP rates for extended durations that could potentially lead to rate shock in the future." Pub. Ex. 12 at 67-69.

Ms. Paronish testified that CEI South’s CPP Pilot proposal did not satisfy the GAO 2020-05 requirements. In addition to Dr. Dismukes’s criticisms of the goals and design of the program, Ms. Paronish said the OUCC is unable to determine whether the CPP Pilot’s design allows for “reasonable flexibility,” as required by Part D of GAO 2020-05. Pub. Ex. 13 at 20. She also said CEI South did not provide an adequate timeline because it indicated a start date would “follow approval of the pilot.” *Id.* at 21. Furthermore, Ms. Paronish took issue with CenterPoint using the same evaluation, measurement and verification (“EM&V”) vendor to both design and perform EM&V on the proposed pilot program and explained why it is a conflict of interest.

b. Green Energy Rider.

OUCC witness Wright recommended CEI South be required to consider more than one REC marketplace when setting REC prices for the Rider GE program and that CEI South revise the language in the Rider GE and CECA tariffs to ensure all revenues from the Rider GE are properly credited to customers. Pub. Ex. 8 at 8-9. Mr. Wright recommended that, given the variability in REC marketplace prices and the connection between REC value and ratepayer affordability, CEI South should ensure it is selling RECs for the maximum available value. Large customers should not receive reduced REC costs at the expense of reduced affordability for other ratepayers. *Id.* at 4. He expressed concern that CEI South did not conduct an analysis comparing REC prices between available REC marketplaces. *Id.* Mr. Wright recommended CEI South compare prices between multiple available REC marketplaces and adjust for the maximum REC value in its monthly Rider GE bill adjustment. This adjustment would ensure ratepayers not enrolled in the program still receive maximum benefit from the sale of RECs. He recommended amendments to the tariff to clearly define what constitutes “Green Energy Amount proceeds” to ensure all revenue generated by the program and sale of RECs is being passed on to customers through the CECA. He also recommended CEI South provide a sample formula of each monthly bill in the tariff and amend the language to clarify the total monthly variance that would be applied to each bill. He also recommended changes to the CECA tariff to define “qualified Clean Energy Investment” and to clearly include all revenue from the sale of RECs and all revenue otherwise generated by Rider GE. *Id.* at 5.

c. Rider ADR.

Mr. Wright recommended the Commission deny Rider ADR based on his claims that CEI South failed to provide crucial details regarding the function and budget of the program. Pub. Ex. 8 at 8. Specifically, he said CEI South did not explain in testimony how the program would be funded, how MISO-qualified energy and demand reductions from the program would be credited, or how success or failure of the program would be evaluated. Pub. Ex. 8 at 6. He said that although CEI South has already begun the aggregator selection process through its 2022 All-Source RFP, CEI South’s testimony lacks key details on a contract with this aggregator or CEI South’s relationship with it, including the amount being paid to the contractor, the demand reduction capacity goal of the contract, how contractor success would be evaluated, and what happens if the contractor fails to perform the expected demand. Mr. Wright testified that without these details, it is impossible to evaluate whether this program is in the best interest of ratepayers and so it should not be approved. *Id.* at 6-7.

iii. CAC Position.

Regarding CEI South's proposed demand response items, CAC witness Inskeep stated CAC recommends the following revisions to the proposed tariffs and pilot:

1. Enhance Flexibility and Expand Demand Response Offerings.
2. Develop a Robust Customer Recruitment Plan.
3. Simplify Interruptible Tariffs.
4. Expand Residential Demand Response Tariff Options.
5. Expand Residential CPP Pilot Options.
6. Conduct Additional Pilot Rate Analysis.
7. Aim for Rapid Pilot-to-Program Evolution.

CAC Ex. 2 at 70.

By implementing these recommendations, CEI South can enhance its demand response initiatives, ensuring they are both customer-friendly and aligned with broader energy management goals. *Id.* at 70-71. He requests that CEI South use the DSM Oversight Board to continue discussion and collaboration to refine these proposals and plan marketing, education, and other components that will be key to the success of these programs. *Id.* at 71. Accordingly, he recommends that the Commission approves CenterPoint's demand response riders and programs with these revisions. *Id.*

iv. Industrial Group Tariff Matters.

IG witness Gorman recommended a change to CEI South's current tariff provision limiting Petitioner's liability for service interruptions. He said the provision as written is unreasonably broad and would purport to eliminate any and all liability for damages caused by service interruptions, regardless of the degree of fault on the part of CEI South. IG Ex. 1 at 137-138. He said CEI South's provision is much broader than the limitation of liability tariffs of the other four investor-owned electric utilities in Indiana. He recommended changes to carve out of the limitation of liability for Petitioner's own willful default or negligence. *Id.* at 138-139.

v. CEI South Rebuttal

a. CPP Pilot.

Mr. Rice outlined in his rebuttal testimony how the CPP pilot proposal satisfies the six requirements set forth in the GAO. Pet. Ex. 19-R at 28-29. Mr. Rice summarized the conceptual evaluation criteria, both the explicit and implied mentioned in his direct testimony, in his Table MAR-R9. He said CEI South will continue to work with Cadmus to finalize evaluation criteria should the pilot be approved. *Id.* at 31. Mr. Rice testified that CEI South chose a path that delivers maximum flexibility. The pilot is a small-scale, short-term experimental trial intended to test and learn how a large-scale program might work in practice and provide valuable data that can be utilized in CEI South's future evaluation of cost/benefit in the 2028 IRP. Pet. Ex. 19-R at 32. CEI South's approach of not including the costs of a fully developed, large scale program within its case in chief, *i.e.*, full cost of finalizing the program design and EM&V measures, fully drafting a contract for pilot participants, developing marketing and customer educational materials, and fully

developing the rate, not only delivers maximum flexibility because there is opportunity to evaluate and modify the program based on pilot data and stakeholder feedback but also benefits customers by saving money by only including costs related to implementing a pilot, and not a fully developed program, in this Cause. *Id.*

With respect to the timeline for the CPP Pilot, Mr. Rice testified that soon following an order approving the pilot program, CEI South will kick off the rate development study; begin development of educational and marketing materials; begin the IT and billing infrastructure setup; and we will work with Cadmus to finalize design work. CEI South plans to file for final rates in a separate docketed proceeding in Q2 2025 in order to have final rates approved by the end of 2025. Throughout 2025, IT will work on billing and infrastructure setup and will finalize that work by the end of 2025. By early 2026, CEI South would like to begin recruitment and train customer service and billing agents on the pilot program to equip them with the tools needed to fully support customers when the pilot begins. CEI South is targeting Q2 2026 to begin the pilot. CEI South will implement the pilot and begin capturing data for Cadmus' evaluation, with final results for year one by Q2 2027. If needed to gather sufficient data, CEI South may extend the pilot for up to one year, with a final evaluation to be completed by Q2 2028. This will provide CEI South sufficient time to incorporate results into the 2028 IRP. *Id.* at 32-33. Mr. Rice stated CEI South plans to meet with interested stakeholders to discuss progress and solicit feedback about every six months until the 2028 IRP stakeholder process begins; from that point forward, any updates/feedback on CPP will come through cost benefit testing in the IRP.

Mr. Rice explained that the pilot is designed to include both Time of Use ("TOU") and CPP pricing elements in one rate structure because each pricing element addresses a different source of variation in demand. TOU pricing is meant to reflect prevailing changes in demand across hours of the day (*e.g.*, the normal summertime afternoon peak). CPP pricing is intended to address changes in demand occurring due to emergency events (*e.g.*, a heat wave). A rate structure that includes both pricing elements is expected to be more effective than either pricing element in isolation because it creates incentives for conservation in response to both sources of variation in demand. For this reason, CEI South is most interested in deploying a TOU-CPP pricing structure. *Id.* at 33. With respect to evaluation, he said the most straightforward way to evaluate a TOU-CPP rate structure is to directly include the TOU-CPP rate structure in the pilot. *Id.*

Mr. Rice rebutted the notion that CEI South did not include testimony regarding why the CPP Pilot is in the public interest, citing to his direct testimony discussion of the short-term and long-term benefits of the program. Pet. Ex. 19-R at 34. He said if this tool proves to be effective, CEI South may utilize a CPP program to help offset the need for new generating resources.

Mr. Rice corrected an inaccuracy in Dr. Dismukes' description of how the customers will be notified of a called CPP event. He said there is a distinction drawn within the TOU-CPP Indicative Tariff between a CPP event and the potential to use the program for a system emergency, but Dr. Dismukes lumps these two different situations into one. Pet. Ex. 19-R at 35.

Mr. Rice testified that CEI South will develop educational materials to help customers understand the TOU-CPP program and potential risk of higher bills. He said CEI South has included \$30,000 in its cost estimate to develop such educational materials. Pet. Ex. 19-R at 36-37. Additionally, he noted this is a voluntary program. If a customer has a bad experience following

an event, they may withdraw from the program. Mr. Rice quantified what a CPP event may cost a customer which, based on the maximum annual number of MISO events in a year (16), would equate to about \$80 for event hours for an average residential customer using 799 kWh per month. He reiterated that customers will be paid \$75 to participate in the pilot, and customers may voluntarily leave the program if they have a bad experience. *Id.* at 37.

Mr. Rice explained that CEI South did not propose a TOU rate during the winter because peak hours in the winter are much less predictable than summer peaks and may occur at different times of the day, depending on when cold fronts move in and settle over the area. The TOU portion of this rate is not applicable in the winter, as it would be much harder to educate customers to modify their consumption behavior to set hours of the day. He said while not proposing a TOU rate during the winter, CEI South does want to test the CPP portion of the rate in the winter months to evaluate its ability to offer the CPP program into the MISO market as a LMR during the winter season. *Id.* at 38.

Mr. Forshey explained the benefits of having the same vendor both design and evaluate the CPP Pilot, including lower costs to be incurred as the vendor would not need to spend time learning and understanding the pilot design and expected outcomes. Pet. Ex. 17-R at 6. He said using the same vendor, instead of two vendors, will also streamline evaluation of the pilot by administering customer surveys in a timelier fashion, such as a few days after a critical peak event is called, offering advantages in higher customer response rates as well as better recall. Mr. Forshey testified that a company that both designed and then evaluates the pilot would not need to hit pause to survey the utility's staff on how it developed the program design before administering surveys, etc. Moreover, the ongoing engagement of one vendor performing the evaluation will accelerate when final evaluation results will be available to inform program design and implementation recommendations for the second year of the pilot. He said the complex nature of pricing pilots using hourly time of use information demonstrates the need for vendors to understand Petitioner's customer demographics and CEI South's implementation of the pilot in terms of education of time of use rates, informing customers of peak events, and data integrity to measure results. As a result of this complexity, Mr. Forshey testified that adding a vendor for design and another vendor for evaluation will increase costs, lengthen the Evaluation Measurement and Verification ("EM&V") reporting, and potentially increase the time for design changes identified in the final EM&V report to be implemented by CEI South. *Id.* at 6-7.

b. Green Energy Rider.

In response to OUCC witness Wright's recommendations, CEI South witness Rice explained that CEI South is currently selling RECs for what the market will bear. CEI South's renewable resources are all located within MISO, making M-RETs the logical choice for registering these resources. Mr. Rice testified that CEI South believes it is better to offer these RECs to its customers to meet their sustainability goals than to others with no connection to the community. Pet. Ex. 19-R at 23. Mr. Rice reiterated points raised by Witness Forshey, that eligible customers for Rider GE are southwestern Indiana's largest employers and contribute to the fixed cost recovery of CEI South's system. He reiterated that these customers are vitally important to the overall economic vitality of the region. Mr. Rice said Rider GE helps ensure they can meet their sustainability goals without relocating, choosing to expand elsewhere, or avoiding some fixed cost recovery of the system by installing behind the meter generation. All of these possibilities

would have a negative impact on affordability for CEI South’s customers that are not participating in the program. Mr. Rice also noted the administrative burden and increased cost that would be imposed as a result of the OUCC’s recommendation. *Id.* He said CEI South would be required to monitor “multiple available REC marketplaces,” and compile data. He further noted it is not clear what markets the OUCC would like CEI South to benchmark against or if the data is readily available without a fee. Mr. Rice gave an example of CEI South’s recent sale of RECs from Troy Solar to buyers in Ohio, ironically the example market Mr. Wright pointed to. He explained that in order to have the opportunity for a higher price, resources would likely need to be registered with other states bound by a Renewable Portfolio Standard (“RPS”), according to their requirements. *Id.* Mr. Rice cautioned that this approach will likely increase volatility of REC pricing, which may drive requests by Rider GE customers to better understand how the benchmark is set, provide customer reconciliations with explanations of drivers, or something that will be almost impossible, forecasting a market that does not exist. *Id.*

In response to Mr. Wright’s suggestion to update the tariff language to better define “all Green Energy amount proceeds,” Mr. Rice testified that the tariff was updated to reflect that Green Energy Amount proceeds are REC revenues from participating Rider GE customers, net of any necessary fees incurred from M-RETS. *Id.* at 24. Mr. Rice disagreed, however, with Mr. Wright’s recommendation to amend the CECA tariff if Rider GE is approved. He said the current CECA tariff does not discuss the treatment of RECs. He explained that, should the Rider GE be approved by the Commission, CEI South will propose updated schedules within the next CECA filing following an order in this case, which will clearly break out any REC revenues, net of necessary costs, associated with Rider GE. *Id.*

c. Rider ADR.

Mr. Rice responded to Mr. Wright’s criticisms of the proposed Rider ADR. He noted that the OUCC participated in the IRP stakeholder process, was engaged in multiple tech-to-tech calls, and reviewed CEI South’s IRP, but did not question the need for the ADR resource during the IRP stakeholder process. Pet. Ex. 19-R at 24-25. Mr. Rice recited the portions of his direct testimony and Mr. Forshey’s direct testimony that provided details on the program. *Id.* at 26. He explained that because CEI South does not have an approved program, it has not entered into contract negotiations with a DR aggregator. *Id.* at 27. He did say that CEI South routinely contracts for capacity and recovers costs via the RCRA and this would be no different in that respect. Mr. Rice opined that DR aggregation is a better solution to CEI South’s capacity needs in that it will provide a potential new revenue stream to help offset rates paid by CEI South customers, helping with affordability, improving customer satisfaction, and providing reliability benefits to the local system. He said there would be less risk in working with a DR aggregator than posed by the current industrial DR tariffs as the DR aggregator would be a MISO market participant, held to the same standards and evaluation criteria for Load Modifying Resources (“LMR”) as any other industrial customer participating in CEI South’s applicable DR tariff. *Id.* Mr. Rice testified that DR aggregation can save customers money in the short and long-term, helping with affordability.

Mr. Forshey testified on rebuttal that if Rider ADR is approved, the contract with the DR Aggregator will be aligned with MISO’s Tariff and Business Practices Manuals (“BPMs”) to ensure CEI South receives the appropriate capacity accreditation with MISO. For example, the DR Aggregator selected would be the MISO participant and would bear the risk of penalties from

MISO for non-performance, so CEI South customers would not bear that risk. CEI South would also ensure other appropriate customer protections are established within any contractual arrangement with a DR Aggregator to make sure the risk remains with the DR Aggregator and not CEI South's customers. Similarly, the DR Aggregator and participating aggregated DR customers must meet the requirements set by MISO for LMRs. Mr. Forshey testified that this requirement ensures that CEI South is able to register these resources with MISO and receive the appropriate capacity accreditation. As discussed in Rider ADR, the DR Aggregator or "Program Administrator" would be responsible for communicating with participating customers prior to and during a load reduction event, for providing incentive payments to participating customers, and for delivering a post-event performance report to CEI South based on the results provided by the metering and control technologies put in place to monitor participating customers. Pet. Ex. 17-R at 3.

d. Limitation of Liability Provision.

On rebuttal, Mr. Rice accepted Mr. Gorman's proposal to change the limitation of liability provision, but suggested minor modifications to the language Mr. Gorman recommended. Specifically, CEI South proposed to include the phrase "willful or wanton misconduct or gross negligence" in the carveout recommended by Mr. Gorman to more accurately address the issue Mr. Gorman raised. Pet. Ex. 19-R at 48.

vi. Settlement.

Section B.7 of the Settlement Agreement describes proposed riders, including (a) Critical Peak Pricing Pilot, Rider ADR, and Green Energy Rider and (b) Tax Adjustment Rider.

Section B.8 of the Settlement Agreement describes other tariff matters, including: (a) Interruptible Contract ("IC") and Interruptible Option ("IO") Riders and (b) limitation of liability provision in the tariff.

In summary, the Settlement provides that CEI South's Critical Peak Pricing Pilot, Rider ADR, and Green Energy Rider should be approved as proposed by CEI South, with CEI South further committing to provide all parties a copy of the contract with the demand response aggregator for Rider ADR after it has been signed. Settling Parties' Jt. Ex. 1 at Section B.7.a. The stipulations with respect to the proposed TAR are discussed in Section 7.7.I (CAMT, EADIT and TAR) of this Order.

With respect to the Interruptible Contract ("IC") and Interruptible Option ("IO") riders related to Demand Response, CEI South agrees to continue conversations with interested stakeholders. Settling Parties' Jt. Ex. 1 at Section B.8.a

The Settlement Agreement also stipulates to the adoption and incorporation of IG witness Gorman's recommended changes to CEI South's limitation of liability provision in its tariff, with modifications as proposed by CEI South witness Rice on rebuttal. Settling Parties' Jt. Ex. 1 at Section B.8.b.

a. CPP Pilot.

Mr. Rice reiterated the purpose and benefits of the proposed CPP Pilot. He noted that this program is not the first of its kind in Indiana, as I&M has an approved CPP tariff, which CEI South utilized in developing the proposed pilot. *Id.* at 15.

b. Rider ADR.

Mr. Rice noted that Section B.7 of the Settlement Agreement states that CEI South agreed to provide all parties to this Cause a copy of the contract with the DR aggregator after it has been signed. This will allow the parties to see the protections alluded to in Mr. Forshey's rebuttal testimony. Pet. Ex. 19-S at 16. As discussed in Section 7.7.G (Pro Forma Revenues and Expenses), the Settling Parties, in Section B.5 of the Settlement Agreement, stipulated and agreed to remove the \$725,000 from base rates, eliminating the controversy over the inclusion of that amount in base rates. *Id.*

c. Green Energy Rider.

Mr. Rice reiterated that CEI South will sell RECs for what the market will bear, and creating an index creates an unreasonable administrative burden. He said Rider GE helps ensure eligible customers can meet their sustainability goals without relocating, choosing to expand elsewhere, or avoiding some fixed cost recovery of the system by installing behind the meter generation. All of these possibilities would have a negative impact on affordability for our customers that are not participating in the program. Pet. Ex. 19-S at 16.

d. Rider IC and IO.

Mr. Rice explained that in Settlement, CEI South agreed to continue conversations with interested stakeholders regarding changes to its IC and IO Riders related to Demand Response. He noted that CAC witness Inskip encouraged CEI South to continue to collaborate with CAC and OUCC on these topics and continue to work with the DSM Oversight Board to further refine and ensure the success of the programs. The Settling Parties stipulated and agreed to this term to continue to work with those interested parties on changes to its Rider IC or Rider IO. Pet. Ex. 19-S at 17.

In Section B.8.b of the Settlement Agreement, CEI South agreed to adopt and incorporate the changes to its limitation of liability provision in its tariff as recommended by IG witness Gorman and modified by CEI South witness Rice on rebuttal. Pet. Ex. 19-S at 17.

vii. Settlement Opposition.

OUCC witness Wright testified that the Settlement Agreement did not address the issues he raised and nothing in CEI South's rebuttal or the Settlement or testimony supporting the settlement caused him to change his position or recommendations. He still recommends denial of the proposed Rider ADR due to lack of basic information provided on the budget and functioning of the program. He still recommends "Rider GE" consider multiple REC marketplaces when setting REC prices for the program in order to maximize the benefit of the RECs for all rate classes. Pub. Ex. 8-S at 2-5. Mr. Wright stated the OUCC disagrees with Mr. Rice's assertion that large

industrial customers will relocate or build behind-the-meter generation. He said the assertion that large industrial customers would base this decision solely on the availability of low-cost RECs through the Rider GE is speculation. *Id.* at 6.

OUCC witness Dismukes testified that the Settlement Agreement did not address his concerns regarding the CPP Pilot. Pub. Ex. 12-S at 4-5. He stated the few evaluation criteria CEI South has put forward associated with the CPP Pilot are lacking the specifics required for such a pilot. He said Petitioner has not established any marker for potential load shifting it would realistically seek to accomplish through the proposed pilot program, has not established a prior baseline for estimated energy savings associated with the CPP Pilot, and has not established either a baseline bill savings estimate to judge performance from or, importantly, establish the level of negative bill impacts (*i.e.* increased bills due to the pilot) CEI South would find unacceptable. *Id.* at 5.

Ms. Paronish testified she continues to have concerns with the CPP Pilot. She testified it is irrelevant whether the OUCC or other stakeholders commented on this issue during the IRP process. Furthermore, it is extremely prejudicial and inappropriate for Petitioner to criticize the OUCC for not then raising concerns with the program now presented for approval, as there are typically very few, if any, details at this juncture. She emphasized that an IRP is a non-binding statement of general intention by a utility, and not a docketed proceeding in which a utility seeks specific relief. Pub. Ex. 13-S at 13. She compared DSM programs and the EM&V process to the proposed CPP Pilot, noting the EM&V vendor is independent of the utility and the vendor the DSM OSB selected to design programs. In the case of the CPP Pilot, there is no OSB, and there is no independence from the utility. She likened this to “the fox watching the henhouse.” She also noted that during the DSM EM&V process the OUCC and other OSB members participate in regularly scheduled calls with the EM&V vendor to understand what is transpiring and to discuss issues. Also, the OUCC and other OSB members have the opportunity to look at the draft EM&V report prior to finalizing and filing with the Commission. She recommended that if the Commission approves this program, the Commission direct CEI South to choose two separate vendors – one to design its program and one to perform EM&V. However, if the Commission allows CEI South to use the same vendor to both design and perform EM&V on the CPP Pilot, Ms. Paronish stated an OSB-like process should be required. She said this would enable the OUCC and interested intervenors to participate throughout the CPP Pilot and during the EM&V process and scrutinize the EM&V report prior to it being filed with the Commission. Pub. Ex. 13-S at 17.

Ms. Paronish recommended that if the Commission approves this program, CEI South should be required to provide a written plan explaining and committing to how the Commission, the OUCC, and intervenors can be involved throughout the CPP Pilot. Pub. Ex. 13-S at 18.

CAC witness Inskeep took issues with Mr. Rice’s characterization of his testimony as “commend[ing] CEI South for moving forward with proposals such as the CPP Pilot,” saying this omits that Mr. Inskeep also requested “that CEI South use the DSM Oversight Board to continue discussion and collaboration to refine these proposals and plan marketing, education, and other components that will be key to the success of these programs.” CAC Ex. 6 at 20 citing CAC Ex. 2 at 69. He had proposed revisions regarding enhancing flexibility and expanding demand response offerings, developing a customer recruitment plan, expanding residential customer demand response tariff options, and expanding the CPP Pilot (*e.g.*, pilot time of use rates and peak time

rebate options). Mr. Inskip stated that CEI South largely ignored these recommendations, while the Settlement Agreement approves CEI South's proposals without incorporating most of his recommendations, with the exception that additional discussions will be held regarding interruptible tariff changes. He expressed concern that CEI South is moving forward with its demand response proposals without incorporating most of the constructive feedback provided by CAC to enhance these offerings and ensure their success for both the utility and its customers. *Id.*

viii. Settlement Rebuttal.

a. CPP Pilot.

Mr. Rice responded to Dr. Dismukes's repeated concerns over the CPP Pilot, expressing that it appeared Dr. Dismukes does not understand how the results from the CPP Pilot will be incorporated into an upcoming IRP. Pet. Ex. 19-SR at 22. Mr. Rice explained that the full evaluation of CPP is not limited to the pilot; it includes pre-evaluation with expected demand savings that were included in the 2022/2023 IRP. Once load shifting estimates and its demand response potential are evaluated and refined with results from the CPP Pilot, CEI South will utilize the CPP Pilot results to further evaluate CPP in the 2028 IRP as a resource option. *Id.* Mr. Rice said the requirement of participants to have at least one year of automated meter data at the current premises is precisely for the purpose of establishing a baseline for estimated energy savings that Dr. Dismukes claimed was lacking. *Id.* Mr. Rice said there is no absolute threshold for comparing bill savings relative to perceived benefits, which is better evaluated through customer engagement surveys, and the CPP Pilot will instead evaluate in absolute terms how well or poorly each customer fared. He said customer engagement surveys will also be used. *Id.* at 23.

b. Green Energy Rider.

In Attachment MAR-SR2, Mr. Rice shows that Mr. Wright's opposition to Rider GE was addressed in Mr. Rice's rebuttal. He reiterates that the issue is not the ability to sell to multiple marketplaces but that once a resource is committed, it is a long process to withdraw and register in another market; CEI South cannot simply sell to one market one month and another the next. Also, time and effort is needed to understand the pros and cons of each market. Once CEI South sells outside of M-RETS the industrials cannot purchase them. Pet. Ex. 19-SR, Attachment MAR-SR2 at 2.

c. Rider ADR.

In Attachment MAR-SR2, Mr. Rice responds to Mr. Wright's arguments in opposition to the Settlement Agreement with respect to Rider ADR, which focus more on his argument that the information provided in rebuttal should have been contained in Petitioner's case-in-chief. Mr. Rice points out the time that elapsed between rebuttal and settlement opposition testimony, noting there was ample time for a substantive response, which Mr. Wright did not provide. Pet. Ex. 19-SR, Attachment MAR-SR2 at 2.

ix. Commission Discussion and Findings.

a. CPP Pilot.

CEI South indicated the CPP Pilot is designed to benefit customers by offering a tool to reduce their bills and affords CEI South the opportunity to better assess the potential use cases and cost-effectiveness of TOU and CPP. While we agree that time-of-use pricing and shifting load to off-peak hours can be a useful tool, and no party has disagreed with the concept, we also agree with the OUCC that CEI South's specific implementation lacks sufficient information to allow the Commission to approve the proposal as described by Dr. Dismukes, such as the lack of specific program goals. We are also concerned with the potential conflict of issues raised by Ms. Paronish regarding vendor participation in the CPP implementation. Mr. Forshey attempted to compare this participation to demand side management programs, but the vendor participation in the CPP Pilot lacks the oversight found in the demand side management programs currently in place. Based on these reasons, we deny CEI South's proposed CPP Pilot.

b. Green Energy Rider

CEI South stated its proposed Rider Green Energy to provide CEI South's largest customers the ability to acquire locally sourced Renewable Energy Credits ("REC") to help those customers meet individual sustainability goals. Petitioner indicated it will sell RECs into the M-RETS market to establish market prices for the RECs sold through the rider. However, the OUCC's recommendation to require CEI South to price RECs based on multiple available REC markets provides a better opportunity for CEI South to benefit its other customers by monetizing these RECs at the highest price accessible through the REC markets to which CEI South already has access. While CEI South objected it would have to monitor multiple REM markets, the evidence shows CEI South already participates in multiple markets. Further, we find the OUCC's recommendation to revise the language in the Rider GE and CECA tariffs to ensure all revenues from the Green Energy Rider are properly credited to customers is warranted and therefore approved by this Commission. We approve the Green Energy Rider as modified in accordance with the OUCC's recommendations.

c. Rider ADR.

CEI South's proposed Rider ADR would provide up to 25 MWs of demand response. The proposal would allow CEI South customers to partner with an aggregator for a customized solution to help them successfully lower load when needed. While the record may reflect how Demand Response Aggregation can save customers money in the short- and long-term, the record lacks pertinent evidence specific to the Demand Response Aggregation program Petitioner is proposing in this cause. Pet. Ex. 19-R at 28. As explained by the OUCC, Petitioner failed to provide crucial details regarding the function and budget of the program. Mr. Forshey testified that aggregation bids were received by CEI South in response to the 2022/2023 All Source RFP, and the RFP included information on pricing and implementation plans for CEI South. Pet. Ex. 17-R at 3-4. The record shows this information was not provided by CEI South. As we have explained in the past, it is the Petitioner's burden to provide sufficient information to support its proposal, and it is not the responsibility of the OUCC or any other intervenor to seek out information to fill in the gaps in a utility's proposal. While we support demand response, we find Petitioner has not met its

burden of providing the necessary information for the Commission to evaluate the program. Because of the lack of evidence defining, explaining, and supporting the program CEI South has proposed, we decline to approve the proposed Rider ADR at this time. Additionally, Mr. Rice's argument that the OUCC did not address the need for an ADR resource during the IRP process is irrelevant in this proceeding. The Integrated Resource Plan process is just that – a plan. While it is essential in setting out a utility's strategy to address future needs, it is not approved by the Commission, nor does it contain information specific enough to make a determination on the merits of a particular program or proposal. Therefore, the discussion, or lack of, on a specific strategy during the IRP process has no bearing on our decision when evaluating the specific proposal before us.

J. ARP for Remote Disconnection.

i. CEI South Case-In-Chief.

CEI South witness Folz presented CEI South's request for approval of an Alternative Regulatory Plan ("ARP") to implement remote disconnect for non-payment process through a waiver of 170 Ind. Admin. Code ("IAC") 4-1-16(f) and explained how the ARP satisfies the requirements of Ind. Code ch. 8-1-2.5 (the "Alternative Utility Regulation Act" or "AUR Statute"). She explained that CEI South is specifically seeking a variance from the requirement to be physically present on the customer's premise for the disconnect for non-payment. Pet. Ex. 5 at 11. She explained the communications with customers and information to be included in notices, which she stated generally meet 170 IAC 4-1-16(f). Ms. Folz stated that medical need customers and life support customers will be exempt from this process and will continue to have field personnel on premise. *Id.* at 12. She also stated that, if at the time of the disconnect for non-payment, CEI South is notified that a customer is applying for, or received funds for, Low Income Home Energy Assistance Program ("LIHEAP") (during that current LIHEAP season), CEI South would not process the disconnect for non-payment during that LIHEAP season. *Id.* at 16. Ms. Folz described the benefits to customers from CEI South's proposed process, noting that customers will have access to a Customer Service Representative who has expertise responding to, and handling, calls related to non-payment. She said CEI South's proposed actions under the ARP eliminate an unnecessary step, allowing customers to more quickly, and conveniently, take action to resolve the disconnection of service. *Id.* at 14. Ms. Folz noted that the Commission has granted waivers from 170 IAC 4-1-16(f) to other Indiana utilities – including Duke Energy Indiana, Indiana Michigan Power, and AES Indiana -- to allow for remote disconnection for non-payment. *Id.* Ms. Folz testified that remotely performing disconnect for non-payment orders will further reduce safety risks, improve work efficiencies, and significantly reduce the reconnect charge for remote reconnects. *Id.* at 15. She then described the notification process CEI South plans to utilize for performing remote disconnects as well as the notification process CEI South intends to use to notify all customers that may be subject to remote disconnection for non-payment prior to implementing the process. *Id.* at 16. Ms. Folz indicated that if approved, CEI South would begin remote disconnects for non-payment once all system changes and communications have been addressed, using a phased approach. *Id.* at 16-17.

ii. OUCC Position.

OUCC witness Paronish testified regarding CEI South's request for a waiver of 170 IAC 4-1-16(f) for purposes of remote disconnection. Ms. Paronish indicated the OUCC does not oppose CEI South's request for waiver of 170 IAC 4-1-16(f) and recognized the potential customer benefit of Petitioner's proposal, subject to certain recommendations for implementation of the ARP. Pub. Ex. 13 at 8. She stated that, in addition to medical need and life support customers receiving an in-person field visit for disconnection due to non-payment, the three residential customers that have non-AMI meters should also receive an in-person visit. *Id.* At 4. However, she raised concerns about the potential number of customers for which CEI South may not have any contact information and testified that the information CEI South does have may not be current. Ms. Paronish recommended that "the company begin a proactive program and continue each month until the program is implemented." *Id.* at 11. Ms. Paronish proposed specific language for communicating changes to CEI South's customers. *Id.* at 12. She also proposed specific communication channels. *Id.* at 12-13.

iii. CAC Position.

CAC witness Inskeep recommended the Commission deny CenterPoint's proposal to implement remote disconnection for nonpayment. He also recommended the Commission consider implementing a 12-month residential disconnection moratorium to allow time for CEI South to establish and implement additional affordability measures, including his proposed Affordable Power Rider. CAC Ex. 2 at 10. Mr. Inskeep contended the ARP for remote disconnects would make it easier for the utility to disconnect ratepayers without adequately informing them through an on-premises visit. He asserted that consumers may miss notices sent by a utility via phone call, text message, or email informing them of a bill delinquency and potential disconnection. An in-person visit is a critical backstop protection that can reach vulnerable Hoosiers who might otherwise miss notification. *Id.* at 76. He referred to a "rising number of disconnections and increasing disconnection rate." *Id.* He also contended CEI South's ARP is not consistent with Ind. Code ch. 8-1-2.5 requirements. He opined that while advancements in technology in the form of AMI has made remote disconnection technologically possible and facilitated additional communication channels between the utility and some of its ratepayers, it does not mean that the need for an on-premises visit has been rendered unnecessary from a consumer protection perspective. *Id.* at 77. He testified that CEI South's proposed ARP would be detrimental to its customers who would experience reduced protections compared to those who are currently afforded the on-premises visit prior to disconnection and asserted it would harm the utility by eroding its reputation and goodwill in the community. *Id.* Mr. Inskeep stated CEI South's ARP would not promote energy utility efficiency because "disconnecting customers from electricity service is not necessary for – and indeed, is the very antithesis of – the provision of safe and reliable electricity service." *Id.* at 78. Finally, Mr. Inskeep argued that the exercise of Commission jurisdiction does not inhibit Petitioner from competing with other providers of functionally similar services or equipment, because Petitioner is a monopoly utility and the only entity legally able to sell electricity to retail customers within its service area and "is not in competition with Duke Energy Indiana and Indiana Michigan Power to serve customers in its service area." *Id.* at 78.

iv. CEI South Rebuttal.

CEI witness Folz responded to the concerns of Ms. Paronish and Mr. Inskeep with respect to the ARP for remote disconnections. CEI South accepted many of OUCC witness Paronish's recommendations, with slight modifications. Ms. Folz explained that the customers referenced by Witness Paronish do not have an AMI meter installed and therefore, CEI South does not currently have the ability to perform the disconnect remotely, so until the meter is upgraded, these customers will continue to receive in-person visits prior to disconnecting electric service to their premises, if the situation ever arises. Pet. Ex. 5-R at 4. Ms. Folz provided data indicating there are only 2,379 customers without a phone number in CEI South's system and therefore approximately 98.5% of the 134,972 eligible customers have phone numbers in the system. *Id.* at 5. In addition, CEI South has many methods of contacting its customers, and CEI South's remote disconnection for non-payment proposal includes utilization of multiple communication channels to contact customers, including the disconnect bill itself through mail or email (depending on customer preference), outbound phone calls, text, and email prior to the disconnect. *Id.* Ms. Folz testified that CEI South commits to proactively soliciting customer contact information through a communication campaign at least three months before implementing the remote disconnection program and to continue each month until the program is implemented. *Id.* Communication methods include mailed bill messaging and emailed bill messaging (for those signed up for electronic billing). *Id.* at 6. With respect to Ms. Paronish's specific language for customers communications about the change, Ms. Folz testified that CEI South agrees, in principle with the proposed language, but noted it may require slight modifications, for example Petitioner's name (from a branding standpoint), additional contact methods (including by customer bill and phone), and more clear steps to access the customer's online account. *Id.* at 7. She stated CEI South will commit to providing the OUCC, and other intervenors, with a copy of CEI South's language and provide interested intervenors an opportunity to comment on the language. *Id.*

Ms. Folz indicated CEI South accepts the proposed methods with the addition of methods typically used by CEI South to communicate with customers (*i.e.*, social media and news release). She added that, in conjunction with Petitioner's EIP, CEI South will require customers to update their online account passwords during the summer of 2024. With that, CEI South will prompt customers to update their contact information. She confirmed CEI South will commit to the following communication methods:

1. CEI South Website:

- Promotional popup/notification on home page.
- Promotional popup/notification on customer account dashboard page.
- Prompt for customers to update their contact information.

2. On Bill:

- An alert to go to CEI South's website, in red font, on customer's bill.

3. Bill Insert:

- A bill insert regarding the process change and need for accurate contact information.

4. Auto Dial

- An auto dial notification message regarding the process change and need for accurate contact information.

5. Texts

- A text notification message regarding the process change and need for accurate contact information. Note - This method may be limited by character limitations.

6. Email

- An email notification to customers with e-mail addresses on file with CEI South notifying customers of the process changes, using the modified proposed language.

7. Social Media

- CEI South will use Nextdoor, Facebook and X to provide information on this process change and the request for accurate contact information.

8. News Release

- CEI South will use a news release to provide information on this process change and the request for accurate contact information.

Ms. Folz testified that Mr. Inskeep's recommendation to impose a moratorium on CEI South for disconnections is contrary to the Commission rules (170 IAC 4-1-16), which allow for disconnection due to non-payment under certain conditions. Aside from violating the Commission's rules, Ms. Folz asserted that imposing a mandatory, 12-month delay in disconnections due to non-payment would counteract affordability efforts. She explained that timely disconnections prevent customers from obtaining service without paying. The longer the amount of time of receiving service without paying for that service, the larger the customer's arrears payment will become. Pet. Ex. 5-R at 9. Contrary to Mr. Inskeep's assertion that the proposal would make it easier for utilities to disconnect residential ratepayers without adequate notice through an on-premise visit, Ms. Folz testified that CEI South's proposal actually will enhance and streamline the communication process, making it easier for customers to prevent a disconnection for non-payment. *Id.* at 10. CEI South is proposing a process change for disconnects due to non-payment that will increase communication, which ideally will prompt quick action from CEI South's customers to either pay their bill, request payment assistance, or get low-income support, ultimately reducing disconnections due to non-payment. *Id.* at 11. Ms. Folz also provided evidence of CEI South's compliance with each of the four criteria set forth in the AUR Statute. *Id.* at 11-12.

v. Settlement.

Section B.9 of the Settlement Agreement addresses Petitioner’s proposed Alternative Regulatory Plan for Remote Disconnection (“ARP”).

Specifically, CEI South agreed to incorporate the protections contained in the rebuttal testimony of CEI South witness Folz and Paragraph B.10 of the Settlement Agreement. The Settling Parties stipulated that the approval of the ARP, as modified pursuant to the foregoing sentence, will be left to the Commission’s discretion and determination.

In his settlement testimony, CEI South witness Rice testified that, given neither CAC nor OUCC joined the Settlement Agreement, the Settling Parties stipulated and agreed in Section B.9 that the approval of CEI South’s request for approval of the ARP, as modified pursuant to Section B.9, will be left to the Commission’s discretion and determination. Section B.9 further provides that CEI South agrees to incorporate certain customer protections as set forth in Section B.10 of the Settlement Agreement. Pet. Ex. 19-S at 18.

vi. Settlement Opposition.

OUCC witness Paronish provided testimony taking issues with certain positions taken in CEI South’s rebuttal that she said did not fully transfer to the Settlement Agreement, noting an inconsistency between the rebuttal position incorporated into Section B.9 of the Settlement Agreement and Section B.10.d.i.1 of the Settlement Agreement, which states: “CEI South will provide at least thirty (30) days advance notice to customers before implementing the remote disconnection/reconnection proposal.” Pub. Ex. 13-S at 4-5. She continued to recommend there be at least a three-month communication campaign in connection with the remote disconnect program. She characterized the discrepancy as “CEI South inexplicably walk[ing] back its offer of a more reasonable approach that would have benefited residential ratepayers by giving these customers more time to become aware of Petitioner’s new disconnection process.” *Id.* at 5. She concluded that this settlement term is not in the public interest and consequently the OUCC objects to the Settlement Agreement’s 30-day notice and recommends approval of the three-month communication campaign referenced in Ms. Folz’s rebuttal testimony. *Id.* at 5-6.

Ms. Paronish recommended that, since CEI South indicates the language she proposed may be modified, the Commission should afford the OUCC at least seven business days to review and comment, if necessary, on CEI South’s proposed modified language. Pub. Ex. 13-S at 8.

CAC witness Inskip testified that the consumer protections in the Settlement Agreement are “too modest to significantly reduce the rate of disconnection, especially in light of the proposed bill increase that will increase the likelihood of arrearages.” CAC Ex. 6 at 21.

vii. Settlement Rebuttal.

CEI South witness Rice responded to Mr. Inskip’s concerns about the consumer protections accompanying the ARP for remote disconnects, noting objection to Petitioner’s proposed ARP is no reason to reject the Settlement, since the terms included within the Settlement Agreement that relate to remote disconnections are expressly left to the Commission’s determination as to approval of the ARP. Pet. Ex. 19-SR at 24.

In response to Ms. Paronish's concerns that CEI South retracted its three-month minimum advance notice before remote disconnections begin, Mr. Rice explained that was not CEI South's intention. He reiterated that Section 9 of the Settlement Agreement specifically provides "CEI South agrees to incorporate the protections contained in the rebuttal testimony of CEI South witness Folz" and that Paragraph B.10 of the Settlement Agreement then addresses the minimum amount of time that CEI South would wait following an order to disconnect, stating "CEI South will provide at least thirty (30) days advance notice to customers before implementing the remote disconnection/reconnection proposal." He testified that CEI South will keep its commitment to communicate approval of the ARP in a campaign to update customer contact information three months in advance of beginning remote disconnections should the ARP be approved by the Commission. He explained that doing so will not conflict with the Settlement Agreement. *Id.* Mr. Rice also indicated CEI South's agreement to afford the OUCC seven business days to review the language CEI South intends to use during the three-month campaign to solicit customer information. *Id.* at 25.

viii. Commission Discussion and Findings.

This Commission has previously granted waivers from 170 IAC 4-1-16(f) to electric utilities to allow for remote disconnection for non-payment. 170 IAC 4-1-16(f) provides that prior to disconnection of electric service, a CEI South employee is required to, among other things, make an on-site premises visit. CEI South substantially agreed with the OUCC's recommendation on this issue and has committed to undertake a campaign to notify its customers of its ability to remotely disconnect/reconnect upon our approval of the requested waiver. Medical need customers and life support customers will be exempt from the remote disconnection process and will continue to have field personnel on premise, as will customers who do not have AMI installed. Pet. Ex. 5 at 12; Pet. Ex. 5-R at 4. In addition, if at the time of the disconnect for non-payment, CEI South is notified that a customer is applying for, or received funds for, Low Income Home Energy Assistance Program ("LIHEAP") (during that current LIHEAP season), CEI South would not process the disconnect for non-payment during that LIHEAP season. Pet. Ex. 5 at 16.

Given that Petitioner's waiver request is part of an ARP under Ind. Code ch. 8-1-2.5, we proceed to our findings under the four criteria set forth in that chapter for granting an ARP. We must determine

- (1) whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render the exercise, in whole or in part, of jurisdiction by the commission unnecessary or wasteful;
- (2) whether the commission's declining to exercise, in whole or in part, its jurisdiction will be beneficial for the energy utility, the energy utility's customers, or the state;
- (3) whether the commission's declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency;
- (4) whether the exercise of commission jurisdiction inhibits an energy utility from competing with other providers of functionally similar energy services or equipment.

The record shows that due to the advancement in technology and through the use of AMI, there are safer and more effective ways to notify a customer of potential disconnect due to non-payment and to ultimately disconnect the customer than what was historically available when 170 IAC 4-1-16(f) was promulgated. Modern technology allows CEI South to notify the customer multiple times and in many different forms in the event of a potential disconnect. Further, through the use of AMI and the remote connect/disconnect capability, Petitioner does not need to be physically present on the customer's premises to connect or disconnect service. Thus, the goals of 170 IAC 4-1-16(f) – to sufficiently notify a customer of potential disconnect and to identify oneself if you are on a customer's property – can be achieved in a safer and more effective way through the use of modern technology because AMI allows for remote connect and disconnect. As such, modern technology and AMI have rendered these provisions of 170 IAC 4-1-16(f) no longer applicable given the current environment. Pet. Ex. 5 at 17-18.

The record also reflects that this Commission's approval of CEI South's proposed ARP will be beneficial for the utility, its customers, and the state, as remotely performing disconnect for non-payment orders will further reduce safety risks, improve work efficiencies, and significantly reduce the reconnect charge for remote reconnects. Pet. Ex. 5 at 18.

The record reflects that by waiving the requirements under 170 IAC 4-1-16(f), CEI South will be able to complete disconnects for non-payment more safely, quickly, and efficiently through the remote disconnect capability through AMI than through the traditional truck roll and field personnel being dispatched to the customer's premise. Pet. Ex. 5 at 18.

The exercise of this Commission's jurisdiction would inhibit CEI South from competing with other providers of functionally similar services or equipment insofar as it would deny CEI South a waiver of a requirement that has been waived for other similarly situated utilities in the State of Indiana. We have approved similar waivers for Duke Energy Indiana in Cause No. 45253, Indiana Michigan Power in Cause No. 45567, and AES Indiana in Cause No. 45911.

Based on the evidence presented, we find that CEI South's proposed ARP to provide a waiver of the requirement of an on-site premises visit prior to disconnection is in the public interest and so approve it. CEI South shall pursue the three-month customer communication plan outlined in Ms. Folz's rebuttal testimony (Pet. Ex. 5-R at 7-8) regarding the Commission's waiver of the premises visit being approved in this Order. We find that CEI South should provide the OUC 7 seven business days to review language to use during the three-month campaign to solicit customer information. Pet. Ex. 19-SR at 25.

We further find that CAC witness Inskip's recommendation to impose a moratorium on CEI South for disconnections should be rejected as contrary to the Commission rules (170 IAC 4-1-16), which allow for disconnection due to non-payment under certain conditions. The evidence shows that imposing a mandatory, 12-month delay in disconnections due to non-payment would counteract affordability efforts as it could cause customers' arrears payment obligations to become larger than they would be with timely disconnections for non-payment.

K. Customer Protection Provisions and Bill Transparency.

i. OUCC Position.

OUCC Witness Paronish raised issues about CEI South's bill transparency and the ability for customers to call in once to request a perpetual detailed bill. She testified that the bills are very high level and do not provide an itemization of the specific billing components. She noted that a customer can receive an itemization only upon request and must call in each month to keep receiving itemized bills. She recommended that all customers receive an itemized breakdown of all components of the bill. Pub. Ex. 13 at 15-16. She also stated that there had been unusually higher bills received by customers during the period December 2023-January 2024 due to a longer-than-normal billing cycle. She recommended that the billing cycle be no longer than 32 days. Pub. Ex. 13 at 17-18.

ii. CEI South Rebuttal.

Mr. Rice testified in response to Ms. Paronish's issues with the format of the CEI South bill. He noted that very few customers request an itemized bill – in 2023 it was 130 out of a total of nearly 2 million bills – and that most of those questions are about the gas portion of combined bills. He also explained that CEI South is willing to provide more detail on the bill and may be able to do so as a part of the new billing system being deployed in the Summer of 2024. He noted that the team's focus is currently on ensuring bills are accurate and go out on time when the cut over occurs. However, CEI South is reviewing options to increase the level of information on the bill following the cut over. Pet. Ex. 19-R at 49-50.

Mr. Rice also responded to the testimony about the longer-than-normal billing cycle issue. He explained that this was due to the implementation of the billing system change. CEI South had postponed conversion to a new billing system that was originally scheduled to take place at the beginning of the year. This created one-time bills that had a longer than normal billing cycle. He expressed regret and noted that CEI South works to keep the typical billing cycle as close to 30 days as possible. In order to help affected customers, CEI South had waived late fees for all customers that received a longer than normal billing cycle. He also noted that CEI South plans to move to the new billing system on July 1, 2024, and is working to keep billing cycles as close to 30 days as possible to minimize the potential for high bills caused by longer than normal billing cycles. Pet. Ex. 19-R at 4-5.

iii. Settlement.

Section B.10 addresses customer protection provisions, including: (a) LIHEAP Customer Deposits, (b) residential late payment charge, and (c) LIHEAP Qualified Participant fees and reporting, and (d) disconnections / reconnection.

Section B.12 discusses CEI South's commitment to customer bill transparency.

Mr. Rice summarized the customer protection provisions set forth in Section B.10 and compared those provisions to similar terms that had been included and recently approved in other proceedings before the IURC. He presented a comparison of the consumer protections

incorporated in the Settlement Agreement and those approved in other settlement agreements. Pet. Ex. 19-S at 19. The protections include:

- Limiting the residential deposit for Low Income Home Energy Assistance Program (“LIHEAP”) Qualified Participant customers (Settling Parties’ Jt. Ex. 1 at Section B.10.a)
- Waiving, once a calendar year at the residential customer’s request, a late payment charge (Settling Parties’ Jt. Ex. 1 at Section B.10.b)
- Stipulating and agreeing to certain reporting requirements related to LIHEAP Qualified Participant customers, and waiving certain fees for such customers. (Settling Parties’ Jt. Ex. 1 at Section B.10.c)
- Stipulating and agreeing to not disconnect service for any residential customer on Fridays, Saturdays, Sundays and during eight specified holidays. (Settling Parties’ Jt. Ex. 1 at Section B.10.d.ii)
- Stipulating and agreeing to increase the current protection from disconnection for Medical Need (10 days) or Life Support (20 days) to 30 days for both categories. Before any disconnection of a LIHEAP Qualified Participant designated as Medical Need or Life Support, CEI South will place a collection call to such customer that prompts the customer to contact CEI South to establish an installment plan. (Settling Parties’ Jt. Ex. 1 at Section B.10.d.iii).

In addition, if CEI South’s request for an ARP is approved by the Commission, Section B.10.d includes several provisions related to remote disconnection/reconnection:

- Agreeing to provide at least 30-days advance notice prior to implementing any remote disconnect for nonpayment program (Settling Parties’ Jt. Ex. 1 at Section B.10.d.i.1)
- Reducing the fee for remote reconnection from \$5 to \$3 (Settling Parties’ Jt. Ex. 1 at Section B.10.d.i.2)
- Waiving, once a calendar year, the after-hours remote reconnection charge set forth in CEI South’s tariff as \$54.19 (Settling Parties’ Jt. Ex. 1 at Section B.10.d.i.3)
- Stipulating and agreeing to certain additional protections for customers designated as Medical Need or Life Support (Settling Parties’ Jt. Ex. 1 at Section B.10.d.i.4)

See Pet. Ex. 19-S at 19.

He also explained how the Settlement addresses an issue raised in OUCC Witness Paronish’s case-in-chief testimony concerning bill transparency. OUCC Witness Paronish requested that CEI South provide itemized bills to its electric customers. He explained that, currently, every customer can request an itemized bill. The process is manual and time intensive. But CEI South is in the process of moving to a new billing system, with a new bill format being released in July. Mr. Rice testified that as a result of that upgrade, and in response to consumer concerns related to transparency of bills, the Settling Parties stipulated and agreed that CEI South will provide more transparency on its customer bills for CEI South as soon as practicable after issuance of a final order and after implementation of its new billing system – EIP Phase 2, to include additional line items that break out: (1) Service Charge; (2) Variable charges (charges tied to usage); (3) FAC; (4) Sales Tax; and (5) the Total. In Section B.12 of the Settlement Agreement, CEI South agreed to provide a copy of these changes to the bill format to all parties to this Cause prior to implementation.

iv. Settlement Opposition.

Ms. Paronish testified that the Settlement did not address all the issues she had raised in her direct testimony. She indicated that the Settlement does not respond to bills that may be issued on more than a 30-day billing cycle, which can lead to high bills. She requested the Commission, to the extent possible, enforce the “Bills will be rendered monthly” provision contained in CEI South’s Terms and Conditions, Sheet No. 80, page 6 and the reference to “monthly” rates and charges in Rate RS Residential Service, Sheet No. 10, p. 1. Pub. Ex. 13-S at 9. As to the billing system upgrade, she testified “it is both unfortunate and nonsensical” that CEI South did not explore the potential for an automated detailed billing solution before cutting over to its new system as of July 1, 2024. She ultimately recommended the Commission direct CEI South to comply with the OUCC’s position regarding bill transparency, as set forth in her direct testimony, and provide a more detailed breakdown within customers’ bills. Furthermore, if CEI South cannot automate its process for customers to receive monthly detailed bills, she recommended the Commission direct Petitioner to find a way to capture the customers who want to have a monthly bill and effectuate this billing without customers needing to call each month. Pub. Ex. 13-S at 11.

CAC Witness Inskeep took issue with the Settling Parties including terms to which the CAC had agreed in other settlements. He noted the other settled cases were non-precedential and argued they cannot be considered by the Commission in other proceedings. CAC Ex. 6 at 16-17. He also disputed that the inclusion of these consumer protection provisions alleviated his overall concerns with the Settlement Agreement.

v. Settlement Rebuttal.

Mr. Rice responded to Mr. Inskeep. He noted that CEI South is not a party to these other settlement agreements and so is under no commitment not to cite them. Each of the Orders approving settlement agreements that had been consulted indicated that they were to be construed in a manner consistent with Richmond Power & Light, Cause No. 40434. Mr. Rice explained that the Richmond Power & Light Order rejects a ban on citing settled cases and states “This Commission is charged with certain statutory duties and in order for this Commission to fulfill those obligations, the Commission should retain the flexibility to determine the appropriateness of the use of prior Commission action on a case-by-case basis.” *Richmond Power & Light*, Cause No. 40434, p. 10 (IURC 3/19/1997). Pet. Ex. 19-SR at 6-7.

He also responded to Witness Paronish’s opposition. As to her claim that it was “nonsensical” that CEI South had not evaluated an automated solution to her bill transparency concerns before cutting over to the new system, he testified that CEI South did in fact evaluate this option, but it was not feasible to incorporate this update prior to the system cut over on July 1, 2024. Meeting that system cut-over was the most important task. Pet. Ex. 19-SR at 19. As to the level of detail in the bill, Mr. Rice testified that CEI South’s bills fully comply with the Commission’s rules, which set forth at 170 IAC 4-1-13 the level of detail that is required to be on electric bills. Nevertheless, CEI South committed to breaking out fuel cost on a separate line and including all other trackers in one line called variable charge. The variable charge would include all charges from trackers. CEI South does not believe that it is necessary to create a rate from the variable charge line, as Witness Paronish suggests. This rate would not be found in CEI South’s tariff and would drive confusion rather than help provide clarity. Pet. Ex. 19-SR at 20. As to billing

frequency, he explained that Ms. Paronish is referencing a single unfortunate isolated incident in December 2023, which was the original system cut over for the new billing system. Lessons were learned and the amount of time in each billing cycle was minimized to prevent this from happening again when the system cut over eventually occurred in July. He testified that Ms. Paronish's request would impose a requirement that is unnecessary and not imposed on any other Indiana electric utility. *Id.*

vi. Commission Discussion and Findings.

The OUCC has raised substantial concerns regarding the level of information provided on a customer's bill and the ability of CEI South to provide this information to customers. Customers should have the ability to request a more detailed bill, and CEI South should have the ability to provide this bill on a consistent basis. Customers who request a detailed bill should not have to request this level of detail month after month. CEI South indicated it recently implemented a new customer billing system but has not evaluated the ability to consistently provide detailed bills on a monthly basis without the customer needing to re-request the detailed bill. We direct CEI South to investigate and file, within 90 days, a plan to implement providing detailed bills to customers on a consistent basis. Further, we agree that bills should be provided on a monthly basis as recommended by the OUCC. CEI South's "unfortunate" incident with a customer receiving a bill after 39 days should not have occurred. We further direct CEI South to investigate and file, within 90 days, a plan to implement a limit that billing cycles be no more than 32 days, as recommended by the OUCC.

L. Cost of Service and Rate Design; Multi-Family Rates; BAMP.

i. Summary of CEI South's Case-in-Chief Position.

CEI South witness Taylor presented Petitioner's cost of service study ("COSS") and rate design. He proposed the 4CP method be used for allocating production cost, which allocates demand-related costs based upon the coincident peak during the four summer months of the historic base period. Mr. Taylor analyzed several years of monthly peak loads (2010-2022) and applied the FERC's three-peak ratio tests. These tests are used by the FERC to determine when a 12CP method is appropriate. The years 2022, 2021, 2020, 2019, and 2017 failed all three tests, and 2018 failed two of the three tests. He recommended CEI South continue to use the 4CP methodology, consistent with CEI South's last rate case. Pet. Ex. 18 at 11-12.

For transmission demand-related costs, Mr. Taylor recommended the 12CP method. Pet. Ex. 18 at 13.

For the distribution system, CEI South witness Taylor used non-coincident peak demand to allocate demand-related costs. Pet. Ex. 18 at 13. To determine the demand/customer split for distribution system costs, he relied upon a minimum system or zero intercept study for transformers, consistent with CEI South's last rate case. *Id.* at 9-10.²⁷ Poles, overhead conductors, underground conductors, and conduit were classified as demand-related and allocated based on non-coincident peak demand. *Id.*

²⁷ *CEI South*, Cause No. 43839, 289 PUR4th 9 (IURC 4/27/2011), p. 65, 2011 WL 1690057.

Mr. Taylor presented the results of his COSS study, including the revenue deficiency/excess for each class and the class rate of return. He set street lighting service at its cost to serve, and the resulting revenue increase was used to reduce outdoor lighting. Water heating service was increased by 1.5 times the system average. The remaining rate classes were increased proportionately. Pet. Ex. 18 at 21. Table JDT-4 presents Petitioner's proposed revenue increase by class.

Mr. Taylor also proposed increases in CEI South's customer charges to move these closer to straight fixed variable pricing. Pet. Ex. 18 at 23-26.

Within Rate BAMP, Mr. Taylor proposed modifications that included making the Backup and Maintenance Service rate a daily charge, using the applicable customer rate charge for base service charges, setting backup services for capacity at 110% of MISO's Cost of New Entry ("CONE"), setting backup services for energy at daily MISO Locational Marginal Price ("LMP"), and basing Petitioner's backup services for transmission and distribution on the ACOSS unit costs. Pet. Ex. 18 at 26-27.

Mr. Rice described CEI South's proposed updates to Rate BAMP, including updating the name to Base, Backup, and Maintenance. Three main influences were identified in the update of Rate BAMP. First, a better differentiation between firm and non-firm for both Rate BAMP transmission and distribution services was clarified. Second, Rate BAMP was adjusted to reflect backup on a daily basis, rather than monthly. Third, Rate BAMP now points to MISO's CONE to provide a more appropriate price signal for capacity. Pet. Ex. 19 at 22. Customers that require firm transmission and distribution service receive instantaneous backup without a break in electrical service. Interruptible customers, however, have a minimum of one hour between a trip event and restoration of service. *Id.* Because backup events occur tend to occur over days and not months, CEI South is proposing to bill customers in a way that is more reflective of how co-generation equipment operates. The generation capacity used to supply the Backup Service provided by Rate BAMP is incremental by its nature. *Id.* at 23. CEI South is located in MISO's Zone 6. MISO's Zone specific CONE rate represents the generation capacity cost of the newest generation combustion turbine unit within a particular MISO geographical area. CEI South does not include Rate BAMP backup kW in its generation plan or reserve planning; therefore, assigning a specific CEI South generation capacity amount to Rate BAMP does not make sense. Mr. Rice stated Rate BAMP customers benefit by being able to pay generation capacity "rent" by the day, only when needed, and without prior notice for what is a year-round fixed cost for non-Rate BAMP customers. *Id.* A Rate BAMP customer will have the choice to buy-through a trip event and pay the real time available MISO LMP for Backup Energy or, alternatively, reduce load and pay no Backup Energy charges. It is expected these changes will better match Rate BAMP revenue with cost. The Rate BAMP transmission and distribution rates are subcomponents of other rate schedules that were updated in the ACOSS Mr. Taylor provided. Mr. Rice also testified that CEI South is proposing to place \$4,557,012 of backup charges in base rates and place variances from the base backup rates in the Reliability Cost and Revenue Adjustment ("RCRA") for capacity and the MISO Cost and Revenue Adjustment ("MCRA") for transmission variances. *Id.* at 24.

ii. **OUC Position.**

OUC Witness Dismukes objected to Mr. Taylor's ACOSS to the extent it classified fixed costs associated with production plant assets as exclusively demand-related. He testified that Mr. Taylor assumed the only purpose of these assets is to support maximum system demands. Dr. Dismukes testified such an assumption is inconsistent with the dual role these production/generation assets play in serving both peak demand and low cost energy requirements for off-peak periods on CEI South's system and deviates from commonly accepted cost allocation practices that recognize the dual role production facilities serve. He testified that equally important is the fact that Petitioner's proposed classification ignores the significant portion of its current production plant in service associated with renewable generation assets that provide very limited capacity benefits and should not be exclusively classified as demand related. Pub. Ex. 12 at 21. Dr. Dismukes noted that Average and Peak cost allocation methodology, also called the Peak and Average ("P&A") cost allocation methodology, as well as the Average and Excess ("A&E") cost allocation methodology more appropriately recognize the dual functions of production plant. *Id.* at 23. He further analyzed the split between demand and energy using individual generation unit capacity factors. For non-renewable generation, facilities with an annual capacity factor less than 15 percent were assumed to be fully classified as demand, while those units with a capacity factor greater than 15% were divided between energy and demand. He presented Exhibit DED-5, showing that 47.32% of non-renewable generation was devoted to the provision of energy. *Id.* at 25-26.

Dr. Dismukes next reviewed the levelized cost of each generation unit relative to established market analyses. In Exhibit DED-6 he presented the results of an analysis that examined the levelized annual cost for each of CEI South's non-renewable units compared with the CONE prices estimated by MISO in its most recent analysis of the 2023/2024 Planning Resource Auction ("PRA") results. He concluded that costs less than the MISO CONE price can be classified as demand-related, whereas prices above the MISO CONE can be classified as energy-related. Pub. Ex. 12 at 27-28. Based on the levelized cost analysis in Exhibit DED-6, he testified that, at most, 45.31% of Petitioner's non-renewable production plant in service could be classified as associated with the provision of demand functions.

Dr. Dismukes was also critical that Petitioner's classification ignores the significant portion of CEI South's production plant in service that is related to renewable generation. He explained that renewable generation facilities provide limited capacity service for a utility, mainly providing energy service. He noted nearly 52.5% of CEI South's test year net plant in service is associated with non-dispatchable solar renewable generation resources. Pub. Ex. 12 at 33. Dr. Dismukes testified that renewable generation should be classified as 100% energy-related, and when this is done, 26.2% of CEI South's test year net plant in service should be classified as energy-related, with the remainder classified as serving joint demand and energy. He ultimately concluded 61.49% of Petitioner's production plant costs should be classified as energy-related, with the inverse (38.51%) classified as demand related for the test year. *Id.* at 33-34.

OUC witness Dismukes was also critical of the MSS because it assumes there is a hypothetical "minimum system," even though a minimum system would have the capability of serving some load. He cited the NARUC Cost Allocation Manual as recognizing this challenge. Pub. Ex. 12 at 39. Dr. Dismukes asserted the true driving factors of utility distribution system costs

are much more complicated and depend on a host of other factors, such as the size of the service territory and the population density within. The incremental costs of constructing an appropriate distribution system to serve an additional customer within an urban area with existing nearby infrastructure is substantially less than the cost to extend an existing utility system by potentially miles to serve an additional customer located in a rural area, which he testified is inherently ignored by a MSS. *Id.* at 40. Dr. Dismukes ultimately recommended the Commission reject CEI South's MSS. He recommended distribution costs, instead, be allocated as 100% demand related.

OUC witness Dismukes also disagreed with Petitioner's proposed revenue allocation and rate design. He contended that capping the increase at 1.5 times the system average was inconsistent with gradualism and affordability. Dr. Dismukes recommended the increase to individual classes be capped, instead, at 1.15 times the overall system average increase. Pub. Ex. 12 at 4. Finally, Dr. Dismukes also opposed CEI South's proposal to increase customer charges, and he recommended the Commission direct Petitioner to eliminate its design of the TDSIC as a fixed charge. *Id.* at 48. Dr. Dismukes testified that Petitioner's proposed increase to its base customer charges and its current practice of increasing its monthly customer charge through fixed TDSIC charges detrimentally impact the public policy goals of promoting energy efficiency and burden low-use customers. *Id.* at 56.

iii. CAC Position.

CAC Witness Barnes presented CAC's alternative COSS and rate design. He recommended production costs be allocated based upon the Probability of Dispatch ("POD") method. Mr. Barnes testified the 4CP method fails to reflect the diverse and evolving character of CEI South's generation fleet, ignoring factors such as the operational characteristics of different types of facilities (*e.g.*, baseload, peaker units, intermittent resources), the role that energy loads and long-term energy costs play in resource planning, and the shift in MISO's reliability planning paradigm to a seasonal construct. CAC Ex. 3 at 7. He testified Petitioner's projected suite of rate-based generation resources that would be allocated using the 4CP allocator includes multiple resource types with varying operational profiles and other characteristics, including Posey Solar and A.B. Brown Units 5 and 6 (the CT Project). *Id.* at 8. He also pointed to the MISO seasonal resource adequacy construct, setting requirements for each of the four seasons of summer, fall, winter, and spring. Mr. Barnes testified that an accurate cost allocation methodology must consider the multitude of factors that drive investment decisions, which requires consideration of time-varying loads throughout the day and year, resource adequacy requirements, and how different resources are actually used to meet those needs. He ultimately concluded the POD method of production cost allocation provides the most accurate reflection of cost causation because it reflects the hourly characteristics of both electric demand and the generation resources used to meet that demand. The POD method establishes an hourly cost at the generation unit level by dividing each generation unit's costs by the hours it operates, assigning those costs to those hours of operation, and then allocating those costs to customer classes based on their contributions to hourly loads. *Id.* at 18. He prepared a POD allocation and compared it to the 4CP, which showed a reduction for residential. *Id.* at 22. Mr. Barnes cited the Commission's Order in Duke Energy Indiana's rate case in Cause No. 45253 as demonstrating why cost allocation should evolve. *Id.* at 23.

CAC witness Barnes also objected to the allocation of expenses included in FERC Accounts 911 and 912 as customer related. He noted Petitioner had indicated in discovery that CEI

South had included DSM program costs in base rates in these accounts but was willing (if there was objection) to continue to recover these costs through the tracker. Mr. Barnes indicated the DSM program costs should not be recovered through base rates, and the remaining costs included in these accounts (\$1,165,148) should be allocated based on total revenue requirement. CAC Ex. 3 at 28.

After citing evidence concerning the magnitude of the requested increase, Mr. Barnes testified the Commission should conclude that a rate impact mitigation mechanism is not only warranted, but is critically necessary to moderate disparate and, ultimately, unreasonable rate increases on different rate classes. He proposed a rate increase mitigation methodology under which no class receives a percentage revenue increase of more than 20% greater or 20% less than the system average revenue increase. CAC Ex. 3 at 37.

Mr. Barnes also proposed different allocations for various trackers. He disagreed in part with CEI South's correction to 12CP for the MCRA allocation because significant portions of the MISO costs that are incorporated within the MCRA are allocated to CEI South based on its share of monthly peak loads, not only loads during summer peak hours. However, he stated the use of a singular 12CP allocation factor for all MISO costs does not fully reflect the character of all MISO changes encompassed by the MCRA. CAC Ex. 3 at 42. Mr. Barnes proposed that CEI South be directed to allocate costs reflected in the MCRA according to the manner in which MISO charges Petitioner for those costs. Likewise, the base rates component of MISO costs should reflect an approximate or generalized portion of MISO costs consistent with a typical breakdown of energy-based or demand-based MISO charges based on the recent history of MISO charges to CEI South. *Id.* at 43. For the ECA, Mr. Barnes disagreed with a 4CP production demand allocator, asserting it is not an accurate reflection of the cause of costs for Petitioner's ongoing environmental projects, which include significant costs for CCR mitigation. He testified the creation of CCRs has no plausible relationship to the peak demands used in the 4CP allocator or any variety of peak demand allocator. Based on the most recently established revenue requirements, he testified the allocation of ECA should be 42.5% energy and 57.5% demand. *Id.* at 48. For CECA, Mr. Barnes testified the costs should be allocated according to the POD method that he recommended for allocation of production related costs. This would create consistency between allocation regimes. *Id.* at 54.

Finally, Mr. Barnes objected to the proposed treatment of special contract revenues in the COSS. CEI South excluded Section 24²⁸ contract customers from the ACOSS that is used to establish the general class cost allocation proposal. That is, the allocator percentages that are used to allocate costs in the ACOSS (*e.g.*, 4CP and 12CP) exclude load from Section 24 contract customers. Instead, proposed rates and revenue requirements for Section 24 contract customers are determined outside the COSS model, and associated revenues from Section 24 contracts are allocated to all classes as Other Revenues. Mr. Barnes recommended CEI South, instead, be directed to fully incorporate Section 24 contracts into any new cost of service evaluations Petitioner performs, such as in future rate cases or any other applicable proceedings, in order to provide a transparent picture of subsidization and cost-shifting issues that special contracts inherently raise. CAC Ex. 3 at 58.

²⁸ Ind. Code § 8-1-2-24

With regard to rate design, Mr. Barnes objected to the proposed customer charges. First, he questioned whether the underlying premise that all costs associated with the shared distribution system are “customer-related” and should, therefore, be recovered via a fixed monthly customer charge design is inconsistent with cost causation. Second, he claimed CEI South’s calculation of the fixed (\$/month) component of the residential TDSIC rate ignores the current limitation on increases in the fixed charge component under the settlement that gave rise to the TDSIC fixed charge, which, if continued through 2025, would limit it to an average 2025 rate of \$7.75/month. Relatedly, he stated CEI South’s assertion that the proposed residential customer facilities charge will not produce an incremental impact on low-usage customers is misleading because it assumes the 2025 fixed charge component of the TDSIC will be significantly higher than a rate constrained by the current fixed charge increase limits. CAC Ex. 3 at 60. Mr. Barnes claimed that only those portions of the system that serve individual customers, the meter and the service drop, are allocated based on customer numbers. As to the TDSIC, he claimed Petitioner’s current TDSIC is governed by a settlement the Commission approved which provided for a maximum semi-annual increase of \$0.50/month capped at \$7.00 over the seven-year period of CEI South’s TDSIC. He testified that, therefore, if CEI South’s stated intention of a 1:1 movement of the TDSIC fixed charge into the residential customer facilities charge were accepted, the fixed rate would be \$18.59/month, not \$23.20/month. *Id.* at 63. Mr. Barnes recommended the residential customer facilities charge be established based on the so-called “Basic Customer Method,” which confines the customer charge to the costs that are directly attributable to an individual customer, such as metering and billing, excluding portions of the distribution system shared by multiple customers. He explained that many states do not accept the underlying conceptual premise that there is a customer-related component to the costs of the shared distribution system. Apart from that core reason, a rate design weighted towards fixed charges produces a smaller customer incentive to pursue energy efficiency because collecting a larger amount of revenue via fixed charges lowers the amount to be collected from other charges. He calculated a residential customer facilities charge of \$8.71/month based on the Basic Customer Method. *Id.* at 68. Mr. Barnes also recommended a multi-family rate schedule be studied. CAC Ex. 3 at 71.

CAC Witness Inskeep similarly opposed the proposed residential fixed charge and compared the proposal to Indiana’s other five electric investor-owned utilities. CAC Ex. 2 at 59.

Mr. Inskeep also proposed an Affordable Power Rider. The Affordable Power Rider would be a new rider that provides a tiered discount mirroring the current Universal Service Fund Rider discount percentages CEI South Gas (15% at Tier 1, 26% at Tier 2, and 32% at Tier 3) uses, with costs recovered through a per-kWh charge assessed identically on all retail sales. CAC Ex. 2 at 32. Mr. Inskeep claimed that bill discounts applied to low-income customer bills will first and foremost help eligible customers afford their CEI South electric bill, which will encourage timely bill payments, thereby reducing delinquencies, arrearages, and disconnections. He stated this will improve CEI South’s revenues and customer satisfaction in the long run. *Id.*

iv. Industrial Group Position.

Industrial Group Witness York agreed with CEI South’s allocation of production costs on the basis of a 4CP demand as being consistent with Petitioner’s historic practice, cost-causation, and sound ratemaking. For transmission costs, she disagreed with CEI South’s proposal to deviate from its established method of allocating by shifting to a 12CP basis. Instead, she testified

Petitioner should continue in this case to allocate transmission costs on a 4CP basis, as it has historically. In addition, she claimed CEI South's ACOSS does not accurately measure its cost of providing service to each customer class due to an inaccurate classification and allocation of distribution costs. Indeed, CEI South's classification of distribution cost in its ACOSS does not follow CEI South's own stated policy on the proper classification of distribution costs. She agreed that a significant portion of distribution system costs are incurred simply to connect customers to the system, regardless of electric demand. However, CEI South's ACOSS ignores this reality. Specifically, CEI South's ACOSS fails to classify a portion of costs included in the FERC Accounts 364, 365, 367, and 368 as customer-related. Instead, Ms. York stated CEI South classifies and allocates these costs on only demand and, thus, does not properly allocate these costs across rate classes. She also proposed that CEI South's FAC should be modified to recognize the capacity component of renewable resource costs. Renewable resources contribute to the MISO resource adequacy requirements, and per Ms. York, the capacity component of renewable resource costs should be allocated across rate classes using the production demand allocator established in Petitioner's most recent rate case. She stated the renewable resource capacity costs should be recovered from Large Power Service ("LP"), Backup, Auxiliary, and Maintenance Power Service ("BAMP"), and High Load Factor ("HLF") customers using a demand charge. IG. Ex. 2 at 3-4.

Ms. York testified the change from 4CP allocation of transmission costs is not supported based on CEI South's monthly system demands. She noted Petitioner has not identified any material change in system characteristics or operational circumstances since its last rate case to justify the proposed change in allocation methodology. Ms. York stated the transmission system must be sized to be able to deliver power from the production resources to the distribution delivery point in all hours of the year, including the peak hour. Hence, the amount of transmission capacity needed to reliably deliver power to the distribution delivery point is based on the coincident peak hour demands. Also, transmission capacity should be allocated in a similar manner as production capacity because they are interdependent. IG Ex. 2 at 9.

As to distribution costs, Ms. York testified that CEI South separates distribution costs in FERC Accounts 364 (Poles, Towers and Fixtures), 365 (Overhead Conductors and Devices), and 367 (Underground Conductors and Devices) between primary and secondary distribution voltages. Primary distribution voltages range from 600 volts ("V") to 12.5 kilovolts ("kV"), while secondary voltages are less than 600 V. She stated CEI South allocates primary voltage distribution costs to all customer classes. However, Petitioner does not allocate secondary voltage distribution costs to customer classes that do not take service from secondary voltage distribution infrastructure, such as the LP and HLF classes. CEI South classifies the costs in FERC Accounts 364, 365, and 367 as entirely demand-related, rather than a combination of demand- and customer-related. She testified that CEI South's approach of allocating such costs only on demand fails to recognize there is a utility cost simply to connect each customer to the grid.

According to Ms. York, classifying a portion of distribution costs in these accounts as customer-related is common, widely accepted in the industry, and is supported by the NARUC Manual. She noted that Chapter 6 of the NARUC Manual discusses the classification and allocation of distribution costs. In this chapter, she stated the NARUC Manual describes methods for classifying distribution costs in Accounts 364 through 368 and classification methods containing both customer and demand components. None are shown as demand only. Multiple methods for determining the demand and energy classification are discussed, such as "Minimum

Size Method” and “Zero Intercept Method,” yet none yield results of zero cost being classified as customer-related for these accounts. In addition to being widely accepted in the industry and included in the NARUC Manual, Ms. York explained that it requires little more than common sense to understand that some portion of the installation of poles, conductors, underground conduit and conductors, and line transformers is undertaken simply to connect customers to the grid, even though their demands may be very small and well below the capacity of the minimum sized facilities needed to serve them. The aggregate demand level of customers certainly affects the sizing of these distribution facilities (over and above the minimum levels), but Ms. York testified that does not in any way nullify the fact that a portion of the investment is in the minimum system and caused by the existence of the customers. IG Ex. 2 at 10-11. She sponsored her own MSS, where she estimated the customer component of the distribution costs based on a Minimum Size approach. CEI South provided information on the replacement cost and quantity of the assets included in FERC Accounts 364, 365, and 367. Her analysis is contained in Attachment JAY-2. These customer percentages were significantly higher than the customer-related portion of costs in Account 368 developed by CEI South using Petitioner’s MSS. To be conservative, she applied the lower customer component of 56%, as calculated by CEI South for FERC Account 368, to FERC Accounts 364, 365, and 367. *Id.* at 15.

v. SABIC Position.

SABIC Witness Coyle proposed that the share of CEI South’s transmission costs that should be collected through Backup Transmission Service rates should be derived using a probability adjusted calculation of Backup Service demand. She also claimed that proxy capacity costs used to determine Backup Generation Capacity rates should be increased by no more than seven percent for administrative and general expenses, rather than the 10 percent Petitioner proposed. Consistent with CEI South’s redesign of Rate BAMP, she stated production-related rate adjustment mechanisms should no longer apply to Backup Generation Service. She agreed with Witness York that demand related transmission costs should be allocated to customer classes using a 4CP allocator, consistent with the quantitative evidence Petitioner presented and prior Commission decisions. Ms. Coyle reviewed CEI South’s load profile, applied the FERC three tests for 12CP, and concluded CEI South’s system did not warrant the use of 12CP and that the FERC tests could not be satisfied. SABIC Ex. 1 at 31.

vi. Cross-Answering Testimony.

a. CAC.

In his cross-answering testimony, CAC witness Barnes objected to Witnesses York and Coyle’s proposal to use a 4CP allocation method for transmission service. He claimed the 12CP method provides a “somewhat more balanced allocation regime.” Mr. Barnes also recommended that the Commission approve the POD allocation method for renewable resources included in the FAC in light of the issue Ms. York raised regarding renewable resource cost allocation in the FAC. He recommended the Commission reject Witness Coyle’s proposal to revise the methodology under which BAMP customers are charged for Backup Transmission Service because this amounts to a collateral attack on the known terms of the BAMP tariff and would result in unreasonable cost-shifting to non-BAMP customers. Further, CAC witness Barnes testified the Commission should reject Witness Coyle’s proposal to modify the BAMP tariff to eliminate the applicability

of cost trackers associated with legacy generation costs because doing so would absolve BAMP customers from paying their fair share of costs caused by their historic use of those generation resources. He also opposed Ms. York's MSS proposal for many of the same reasons that he opposed Witness Taylor's MSS. Finally, Mr. Barnes took issue with Dr. Dismuke's proposed customer charge, favoring his own proposed customer charge. CAC Ex. 5 at 3-4.

b. Industrial Group.

Ms. York opined that other parties had allowed concerns over affordability to the residential class to influence their recommendations concerning cost allocation, in deviation from the purpose of a COSS to determine cost-causation. IG Ex. 3 at 5. She opposed Dr. Dismukes's production split between demand and energy and use of the P&A approach. She also opposed CAC witness Barnes's use of the POD method for production plant. *Id.* at 14. Ms. York noted that neither witness cited a prior Commission electric order that approved the P&A or POD allocation methods. *Id.* at 18. Additionally, she opposed CAC witness Inskeep's proposed Affordable Power Rider as not being based on cost causation. *Id.* at 24. She also rejected Witness Barnes' recommendation to allocate CCR costs within the ECA Tracker based on energy. *Id.* at 26.

vii. CEI South Rebuttal.

CEI South witness Taylor presented an updated COSS that was based upon Petitioner's rebuttal revenue requirement. In addition, he corrected the allocation to 4CP for a few accounts as identified by SABIC witness Coyle. Further, he corrected an error Industrial Group witness York identified because the original study did not allocate transformers based upon Petitioner's MSS. Pet. Ex. 18-R at 6.

With respect to the changes Dr. Dismukes and CAC witness Barnes recommended, Mr. Taylor stated neither had demonstrated a change in the operational characteristics of CEI South's system warranting a change in the allocation of production costs. Mr. Taylor testified CEI South remains a predominantly summer peaking system, and there have not been enough changes in CEI South's system planning requirements or the operations of the system resources to warrant even considering what he described as the radical changes in allocation methodology these two witnesses recommended. Pet. Ex. 18-R at 9. Mr. Taylor stated that what drives the selection of a resource is the need to meet an identified resource adequacy at a reasonable cost. The fact that resources may also provide an energy benefit is secondary and does not change that the resource was added to supply capacity. *Id.* at 11. He cited Commission orders rejecting proposals to use an energy component in the classification of production plant. *Id.* at 13-14.

Mr. Taylor opposed Ms. Coyle and Ms. York's proposals to use 4CP for transmission plant. He claimed the transmission system and production plant are not planned in the same manner. Pet. Ex. 18-R at 19.

As to distribution plant and the MSS, Mr. Taylor agreed in principle with Industrial Group witness York's proposal to include additional accounts in the MSS, but he indicated CEI South's proposal was to use the MSS only for transformers, consistent with its last case. He presented the results of his ACOSS using the broader MSS Ms. York recommended, and he testified this will produce a significantly greater allocation of costs to the residential class. Pet. Ex. 18-R at 22-23.

As to CAC witness Barnes's recommendations regarding energy efficiency programs, Mr. Taylor testified CEI South agreed to move DSM related costs to the tracker. For the remaining expenses in Accounts 911 and 912, Mr. Taylor disagreed with Mr. Barnes's recommendation because Mr. Barnes had not presented evidence substantiating his view that expenses in these accounts correlate with revenue per class. Pet. Ex. 18-R at 24.

Mr. Taylor also rejected Mr. Barnes's approach with respect to Section 24 contracts. Mr. Taylor testified the treatment of these customers in the ACOSS aligns with the standard approach in base rate proceedings by distributing the costs and revenues across all customer classes. He noted Petitioner is bound by contractual commitments the Commission approved in docketed proceedings. Pet. Ex. 18-R at 25.

Mr. Taylor also responded to CAC witness Barnes's recommendations regarding allocation for the CECA. He agreed with Mr. Barnes that the allocation should be the same as is used for production plant. Because he recommends 4CP for production, Mr. Taylor opposed the recommendation to use POD.

With respect to customer charges, CEI South witness Taylor disagreed with the recommendations of Dr. Dismukes and Mr. Barnes. Pet. Ex. 18-R at 32-34. In discussing the impact of these recommendations on low-income customers, Mr. Taylor stated low-income customers are often higher use customers who would be negatively impacted by recovery of fixed costs through volumetric charges. *Id.* at 36. As to the TDSIC as a fixed customer charge, Mr. Taylor proffered multiple disagreements with Dr. Dismukes and Mr. Barnes, including his perspective that rolling the TDSIC customer charge into base rates is in line with the findings of the ACOSS model. He asserted this alignment indicates that when costs are integrated into base rates, the recovery of TDSIC fixed charges corresponds more closely with customer-related costs; therefore, this facilitates a better alignment of the type of cost recovery, specifically customer related costs. Based on the various customer charge analyses presented in this proceeding, Mr. Taylor recommended maintaining the TDSIC rate design and continuing with established practices. *Id.* at 39.

Mr. Rice testified the affordability pillar is concerned with retail electric utility service being "affordable and competitive across residential, commercial, and industrial customer classes." He stated that if affordability meant producing rates that were affordable for all customers, we would need legislative guidance and authority not only on how to design programs aimed at assisting those who are most financially disadvantaged but also to address the burdens they bear that are unrelated to their electric bill. Pet. Ex. 19-R at 4. Mr. Rice testified that rather than institute Mr. Inskeep's proposed Affordable Power Rider, CEI South is in the process of converting the Share the Warmth program back to a bill assistance program. He stated this change will also benefit customers that fall into the Asset Limited, Income Constrained ("ALICE") classification. *Id.* at 13-14. What is or is not affordable is going to be different for different customers. Mr. Rice testified that CEI South does not know the income of individual customers, the level of assistance they may receive outside of LIHEAP, or the number of people in a household. *Id.* at 14. Even Census Median Household Income does not present the full picture, as it does not, among other things, include non-cash benefits, such as food stamps, health benefits, or subsidized housing. Mr. Rice also introduced the "Relative Importance" of electricity to affordability. Using the costs of goods and services from the November 2022 Consumer Price

Index (“CPI”), he stated the Electricity Relative Importance value constituted 2.428% of the total CPI for the United States and 2.255% for the CPI in the Midwest Region. Mr. Rice testified a low Relative Importance value attributed to electricity indicates other factors possess superior Relative Importance values that are exerting a more substantial influence on affordability, particularly in the context of a general increase in the CPI. For instance, while electricity costs may contribute to overall expenses, items such as housing, transportation, and healthcare often command higher Relative Importance values within the CPI basket. Mr. Rice explained that this underscores the complexity of affordability dynamics, in which the relationship of various economic factors dictates the true impact on consumers’ financial well-being; therefore, while electricity costs remain a component of concern, a holistic understanding of the broader economic landscape is essential for effective mitigation strategies. *Id.* at 15-16.

Mr. Rice rebutted Ms. Coyle’s testimony on the BAMP rate. In summarizing her position he stated that first, SABIC believes transmission service should be charged based on the Forced Outage Rate (“FOR”) of its generating unit with what it calls “probability adjusted demand.” In other words, SABIC has proposed dividing its transmission demand billing determinant by the number of days in the year and multiplying it by a FOR of 5%. Mr. Rice contended SABIC would like to spread the cost difference (\$3,889,940) to all other customer classes. Second, SABIC took issue with adding a 10% A&G cost to the MISO Cost of New Entry (“CONE”) for firm backup service and proposed that CEI South include a 7% A&G adder for backup power. Mr. Rice testified SABIC’s proposal allocates costs based on A&G Production costs only of a labor nature. Third, SABIC did not agree with being charged for CEI South production rate riders, specific to CEI South’s generation fleet for Backup Power. He explained this issue was raised by SABIC during discovery, and CEI South agreed. As such, Mr. Rice made corrections to Attachments MAR-1 and MAR-2, the proposed tariff, to remove the reference to the DSMA, CECA, ECA, SCP, SRR, SAC, and RCRA appendices applying to backup service. SABIC agreed it should be charged for the TDSIC and MCRA transmission riders, but disagreed with utilizing 12CP allocations for MCRA and proposed 4CP. Finally, Mr. Rice testified SABIC raised concern about its increase relative to the overall increase CEI South has proposed. He responded by claiming SABIC was essentially asking for an interruptible transmission rate for firm service. Pet. Ex. 19-R at 42-48.

viii. Settlement.

Sections B.13 and B.14 in the Settlement Agreement address cost of service, cost allocation and revenue distribution, and rate design. The Settling Parties agreed to use CEI South’s COSS, except the 4CP will be used for transmission instead of the 12CP CEI South proposed. Production plant will also be allocated using 4CP as CEI South originally proposed. In addition, customer-related costs, as determined using CEI South’s MSS, will be reflected only in the limited FERC accounts consistent with the last rate case, with the broader application of the MSS that IG proposed not be adopted.

As to revenue allocation, the Settlement Agreement provides for revenue to be allocated based upon the COSS with the following mitigation limitations:

1. No class will receive a rate decrease.

2. No class will receive an increase exceeding the increase CEI South proposed in rebuttal.
3. Other than Water Heating, no class will receive an increase greater than 1.35 times the system average increase. The Water Heating increase will be limited to 1.50 times the system average increase.

For purposes of rate design, under the Settlement Agreement, customer charges will be set at the level that was in place prior to the reduction approved for the repeal of the Utility Receipts Tax, provided this does not include the fixed portion of TDSIC recovery.

In Section B.15, Base, Backup, and Maintenance Power Services (“BAMP”) rates are discussed. CEI South has committed to evaluate the reasonableness of moving the Backup Service Transmission Rate towards parity with FERC Attachment O price and to hold discussions with SABIC in advance of CEI South’s next base rate case to determine the appropriate cost-of-service-based Backup Service Transmission Rate.

In Section B.11, CEI South commits to perform an analysis of potential multi-family rates. To do so, CEI South commits to collect data on residential customer housing types and to analyze cost differentials between single- and multi-family rate residential customers in advance of its next rate case.

In all other respects, the Settlement Agreement provides that cost of service and rate design will be as CEI South proposed in its case-in-chief, as modified on rebuttal.

Mr. Taylor described how the Settlement Agreement addresses the disputed cost of service and rate design issues. He sponsored the updated ACOSS and rate design schedules based upon the terms of the settlement. He testified the main issues in dispute among the parties were the allocation of production plant (with CEI South and the Industrial Group proposing 4CP and the OUCC and CAC using the P&A and POD methods, respectively, which allocate a portion of fixed production costs based on energy); the allocation of transmission plant (with CEI South, the OUCC, and CAC proposing 12CP and Petitioner’s industrial customers advocating to retain the existing 4CP), and the allocation of distribution plant (with CEI South utilizing a more limited MSS based upon the last case, the Industrial Group advocating for a more comprehensive MSS, and CAC and the OUCC eschewing the MSS altogether). He explained that the Settlement Agreement uses the 4CP for production related demand costs. Transmission costs are allocated based upon the 4CP as well, and distribution plant is allocated based upon CEI South’s more limited MSS. All of these allocation methods are consistent with the allocation used in CEI South’s last rate case. Mr. Taylor opined that the resolution was reasonable and is favorable to the residential customer class. He presented Tables JDT-S1 and JDT-S2 demonstrating that the move to 4CP on transmission resulted in only a 0.3% higher allocation for the residential class; however, use of the more robust MSS (which will not be used under the Settlement Agreement), would have resulted in the allocation of 7.7% more for residential customers. Pet. Ex. 18-S at 4-6. Notably, Mr. Taylor had not disagreed with the concept of Ms. York’s more robust MSS study in his rebuttal testimony. In fact, he had agreed with but noted that CEI South wished to stay with the more limited methodology used in the prior case. Pet. Ex. 18-R at 22-23.

As to revenue allocation, the Settling Parties agreed to a conceptually similar approach to that presented by CEI South’s rebuttal filing in terms of revenue increase distribution as a proportion to the total requested increase. Additionally, the Settling Parties stipulated and agreed, among other things, that: (1) no class will receive a rate decrease as a result of the rates implemented pursuant to the Settlement Agreement; (2) no class will receive a rate increase that is higher than what CEI South proposed in its rebuttal position in this Cause; and (3) other than water heating as explained later, no class will receive a rate increase greater than 1.35 times the system average. The Water Heating Service (“Rate B”) schedule’s revenues were increased by 1.5 times the system increase, which moved them closer to their cost to serve but not completely as this would have required an increase over two times the system increase. There are no proposed changes to the Street Lighting Service (“Rate SL”) and Outdoor Lighting Service (“Rate OL”) in alignment with Petitioner’s rebuttal. A moderate increase of 3.62% for High Load Factor Service (“Rate HLF”) revenue was agreed upon, compared to the 5.1% increase to that rate class that CEI South proposed on rebuttal. The remaining rate classes, Residential (“Rate RS”), Small General Service (“Rate SGS”), Demand General Service (“Rate DGS”), and Large Power Service (“Rate LP”), targeted revenues below their cost to serve. Mr. Rice testified the settled revenue allocation is as follows:

Customer Classes	Settlement ACOSS			Rebuttal ACOSS		
	Current Revenues	Settled Revenue Change	Percentage Change	Current Revenues	Proposed Revenue Change	Percentage Change
Residential (RS)	\$ 319,622,569	\$ 46,840,706	14.7%	\$ 319,953,137	\$ 62,331,515	19.5%
Water Heating (B)	1,759,173	291,642	16.6%	1,763,253	421,785	23.9%
Small General Service (SGS)	14,704,649	1,070,331	7.3%	14,759,589	1,855,123	12.6%
Demand General Service (DGS)	207,073,126	17,955,496	8.7%	207,394,694	27,473,132	13.2%
Large Power Service (LP)	167,222,380	13,539,857	8.1%	166,529,378	22,927,545	13.8%
High Load Factor Service (HLF)	8,607,350	311,586	3.6%	8,601,285	436,596	5.1%
Outdoor Lighting (OL)	1,836,828	-	0.0%	1,832,443	-	0.0%
Street Lighting (SL)	3,096,774	-	0.0%	3,089,124	-	0.0%
Total Base Rate Margin	\$ 723,922,849	\$ 80,009,17	11.1%	\$ 723,922,906	\$ 115,445,697	15.9%

Pet. Ex. 18-S at 6-8.

In addition, the Settlement Agreement provides for minimal increases to the customer charge. Mr. Rice explained that this will take the customer charges back to their level prior to repeal of the utility receipts tax. Pet. Ex. 19-S at 22.

As to the BAMP rate, Mr. Taylor explained that the settlement resolves the related disputes between SABIC and CEI South. The Settling Parties agreed on a modification of the BAMP rate. Utilizing CEI South’s proposed methodology to determine a cost-based Backup Transmission rate for the BAMP tariff, under the settlement revenue requirement, the BAMP Backup Transmission rate is \$0.22561. The Settlement Agreement sets the BAMP Backup Transmission rate at \$0.21322, which represents 95% of this cost-based rate. Mr. Taylor elaborated during his cross examination that this was a considerably higher rate than would have resulted under SABIC witness Coyle’s recommendation. Mr. Rice added that the Settlement Agreement provides that CEI South will evaluate the reasonableness of moving the BAMP rate towards parity with the FERC Attachment O price and will discuss with SABIC in advance of CEI South’s next base rate case the appropriate cost-of service-based Backup Service Transmission Rate. Pet. Ex. 19-S at 22-23.

As to CAC's request that Petitioner study a multi-family rate, Mr. Rice testified that CEI South does not currently have a reliable way to assess whether a home is a multi-family or single-family home. He noted that over the years, customers remodel homes, convert single family homes to duplexes and vice versa, or add lofts and in-law suites to garages. CEI South currently does not have reliable data on what premises are multi- or single family today, and the new billing system does not contain a field for this information. He explained that, in the spirit of compromise and with the customers' interests top of mind, the Settling Parties agreed that CEI South will collect data on residential customer housing types and analyze cost differentials between single- and multi-family residential customers. CEI South will also, in advance of its next rate case, offer to meet to discuss methodology and share the initial results of its analysis with any interested party to this Cause. Pet. Ex. 19-S at 20-21.

IG witness York testified the settlement resolution of cost of service and rate design issues represents a reasonable resolution of the issues in dispute and is consistent with the approved cost of service methodology that has been in place for CEI South for decades. IG Ex. 5 at 2-4.

ix. Settlement Opposition.

CAC Witness Inskeep opposed the rate design in the Settlement Agreement because it did not include his proposed Affordable Power Rider. CAC Ex. 6 at 19. CAC witness Barnes claimed the Settlement Agreement assigns a greater portion of the revenue increase to the residential class than under either CEI South's direct or rebuttal submission. CAC Ex. 7 at 6. He objected to using the 4CP for transmission costs. *Id.* at 7. Mr. Barnes also criticized the limitation of 1.35 times system average as not being a mitigation constraint, but rather, the result of the other revenue allocation parameters. *Id.* at 9. Additionally, he was critical of the Settlement Agreement for not addressing his concerns about Special Contract customers having cost trackers zeroed out without a corresponding increase to contract rates. *Id.* at 9-10. Mr. Barnes continued to recommend use of POD for production, CECA, and the FAC, and energy and 4CP for ECA. *Id.* at 13. He objected to exempting BAMP customers from production-related cost trackers, *Id.* at 17-18, and he claimed this provision will allow BAMP customers to be exempt from the Brown Securitization riders, in violation of the statute. *Id.* at 18-20. Mr. Barnes also objected to providing a discount to BAMP customers in the rate for transmission service because SABIC had agreed to a cost-based rate when it elected to take BAMP service. *Id.* at 20.

OUC witness Dismukes also had several objections, some of which were similar to those Mr. Barnes raised. Dr. Dismukes reiterated his concerns over the allocation of production costs, restating his preferred allocation methodology was as set forth in his direct testimony. Pub. Ex. 12-S at 8-17. As to transmission plant allocation, Dr. Dismukes objected to using the 4CP method and asserted the originally proposed 12CP method was appropriate. *Id.* at 17-18. He also objected to using CEI South's MSS for purposes of determining customer costs of the distribution system. *Id.* at 18-19. Dr. Dismukes explained that the mitigation caps on revenue allocation increases were inconsistent with gradualism, and he maintained the increase for any single customer class should be limited to 1.15 times the system average. *Id.* at 20-21. As to rate design, Dr. Dismukes objected that the Settlement Agreement did not address the recovery of monthly TDSIC costs through fixed monthly charges, and he continued to recommend the proposed customer charges set forth in his direct testimony. *Id.* at 22.

x. **Settlement Rebuttal.**

Mr. Taylor testified that ultimately, Dr. Dismukes and CAC Witness Barnes ignore that the system must be built to meet a maximum demand or peak load. He stated CEI South could not provide reliable service if Petitioner chose to only build capacity to support 90% of its peak load. Customers expect to have access to electricity as reasonably close to 100% of the time as possible. Per Mr. Taylor, this necessitates that CEI South build and invest in capital assets to meet the maximum demand to be placed on the system; therefore, the best method to accurately account for each customer class's contribution to the need for the production assets is based on a demand related allocation factor, i.e., the demand a respective customer class places on the system at the time when the most capacity is needed. To that same end, he testified the cost of the production assets are fixed in nature. There is no variability in their cost as they require large initial cash outlays. Mr. Taylor contended demand is the correct measure of deriving the allocation of production assets to the customer classes. Pet. Ex. 18-SR at 3-4. Further, he testified a change in the production plant allocation is not warranted at this time because there is no demonstrable evidence that CEI South's system has drastically changed from prior cases where Petitioner's production assets were allocated on a demand basis. *Id.* at 4.

As to the 4CP for transmission plant, Mr. Taylor testified CEI South's last rate case relied on the use of a 4CP allocation factor for transmission costs, whereas CEI South proposed in this case to move to a 12CP allocation. He acknowledged the continued use of the 4CP, rather than CEI South's proposed 12CP, was a settlement concession that conformed to the historical methodology approved for Petitioner in prior rate cases. Mr. Taylor noted that continuing to use a 4CP, rather than the proposed 12CP, added approximately \$1 million in costs or 0.3% to the residential class from what CEI South proposed in its rebuttal testimony. By contrast, he explained that the Industrial Group agreed not to use its MSS for distribution plant beyond transformers as Ms. York proposed, which if adopted would have added \$27 million or 7.7% to the residential allocation. He stated this concession (\$27 million) by the Industrial Group had far greater impact to the benefit of residential customers than retaining the 4CP for transmission. Pet. Ex. 18-SR at 6-7.

Mr. Taylor also supported the agreed modest increase to the customer charge. In responding to the objections by Dr. Dismukes and Mr. Barnes regarding recovery of the TDSIC as a fixed charge, Mr. Taylor reiterated that his rebuttal testimony provided the reasons why the OUCC's and CAC's recommendation concerning the TDSIC should be rejected. Most importantly, he stated the TDSIC is recovering the fixed cost of transmission, distribution, and storage, so it makes sense to recover the costs through a fixed charge. He asserted it is sound rate design practice to match the type of underlying cost. Additionally, CEI South is proposing a TDSIC in a manner the Commission has approved. Pet. Ex. 18-SR at 10.

Mr. Rice responded to Mr. Barnes's allegation that BAMP customers could illegally bypass the securitization charge. He explained that securitization charges are charged to BAMP customers today based on their Auxiliary load. In the proposed tariff, he stated this is the base component of the rate. BAMP Base is the amount of power that a BAMP customer uses above and beyond what is covered by the customer's generating unit. The Securitization of Coal Plant ("SCP") is not applicable to the backup rate, which is supplied by the system when the BAMP customer's generator trips offline, not necessarily by CEI South's generators. During a backup event, BAMP

customers will be charged LMP for energy and CONE with overheads for capacity. Mr. Rice testified no minimum charge is necessary for BAMP customers, as suggested by CAC. He claimed the Commission dismissed the same argument that customers would bypass the securitization charge in Cause No. 45722. Pet. Ex. 19-SR at 23.

Mr. Rice also responded to Mr. Inskip's criticism that the Settlement Agreement does not contain his proposed Affordable Power Rider. He explained why no such rate is in the settlement. Mr. Rice testified the only occasion where the Commission considered a universal affordability tariff similar to what CAC proposed was in Indiana American Water's Cause No. 45870. Mr. Rice explained that was a proposal under a statute that specifically allows for low-income programs (it applies only to water and wastewater). He stated the Commission rejected the proposal and specifically noted its "role in addressing [affordability] is not to reach a conclusion as to whether the rates approved herein are 'affordable' for each and every customer." Separately, the only electric case where a utility made a similar proposal as what CAC advocated here is Northern Indiana Public Service Company ("NIPSCO"), Cause No. 45772. Under NIPSCO's proposal, all customers would have paid a monthly charge that funded reduced electric bills for low-income customers. Absent a recent change, Mr. Rice stated he does not see how CAC's proposed Affordable Power Rider could have been a term unanimously supported in the settlement, and if such a term were included, he was uncertain whether it would be approved by the Commission. Pet. Ex. 19-SR at 5-6 and Attachment MAR-SR1.

Industrial Group witness York rebutted the proposals by Dr. Dismukes and Mr. Barnes to include a substantial energy-based component when allocating production related costs. She claimed these proposals were contrary to cost causation principles, established Commission practice, and the longstanding regulatory treatment for CEI South's system. IG Ex. 7 at 3. She pointed out the use of 4CP instead of 12CP was consistent with the approved approach for CEI South's system dating back to the 1970s. *Id.* In addition, Ms. York emphasized the significance of what she characterized as the Industrial Group's settlement concession to not utilize the MSS to apply a customer component to additional FERC accounts. *Id.* at 4-5.

Ms. York also rebutted the suggestions by Dr. Dismukes and Mr. Barnes advocating for greater mitigation for the benefit of the residential class. IG Ex. 7 at 5-6. She testified mitigation measures are appropriate where strict adherence to cost of service will lead to major disparities in the impact between classes, but she asserted it is important to recognize that basing rates on cost causation is a fundamental ratemaking principle. She noted CEI South's case-in-chief applied a 1.5x system average parameter to limit the increase to the Water Heating class, but under the settlement the revenue spread falls within a tighter 1.35x system-average tolerance. Ms. York characterized the OUCC and CAC positions as closer to an across-the-board approach, in derogation of cost of service results. *Id.*

With regard to affordability, Ms. York noted the statutory affordability pillar applies across all rate classes and is not limited to protecting only the residential class. She stated rates must reflect the other four statutory pillars as well as affordability. Industrial Group witness York asserted the settlement reasonably addresses affordability by reducing CEI South's proposed revenue increase by \$38 million, removing most of Petitioner's proposed increase to monthly customer charges, and instituting a number of customer protection provisions. IG Ex. 7 at 6-7.

SABIC witness Coyle rebutted the contentions regarding the BAMP terms. She explained BAMP customers have three components of service under the BAMP tariff: Base, Backup, and Maintenance Service. Base and Maintenance Service are both charged at the customer's Otherwise Applicable Rate Schedule, and the BAMP customer is responsible for paying all trackers that apply to those rates. She testified this means that all energy that is served as part of the Base and Maintenance Service are subject to all of CEI South's trackers, including the production related trackers. Ms. Coyle stated the only sale not subject to production related trackers for the BAMP class is the energy that is delivered during a Backup Event when the customer owned generator unexpectedly trips off-line. She noted that over the last three years, SABIC experienced a Forced Outage Rate (FOR) between 1.3 percent and 2.1 percent. This equates to Backup Events that constitute less than eight days a year worth of energy at a reduced level of capacity. In 2023, she testified this resulted in less than \$20,000 of associated revenues that CEI South will no longer collect from SABIC under the Settlement Agreement. Accordingly, she maintained that Mr. Barnes's concerns regarding the potential impact to other customers are overstated considering the small amount of revenue at issue. She also responded to the allegation regarding alleged avoidance of the Securitization tariff. Ms. Coyle testified the BAMP tariff does subject customers in this class to a minimum bill provision and payment of the securitization charges as part of its Base and Maintenance Service. SABIC Ex. 2 at 4-5.

Ms. Coyle also responded to Mr. Barnes's allegation that the BAMP rate is less than cost. She stated Backup Service customers are required to pay for transmission service at all hours for their full contracted load, even if a customer-owned generator is serving this load. SABIC's position in direct testimony was that Backup Service customers should pay based on their use of the transmission system; since Backup Service is different than full service customers, she proposed a probability weighted approach to ensure Backup Transmission Service charges contribute to the recovery of transmission costs. Ms. Coyle testified the Settlement Agreement represents a compromise between CEI South and SABIC on this point. Under the Settlement Agreement, SABIC pays a higher amount than CEI South's FERC transmission rates, and the FERC rates represent the cost of transmission service for all other CEI South customers. The FERC transmission rate for CEI South for the year 2024 is \$4.608/kW-month, which utilizes a forward-looking calculation that is equivalent to the estimated cost of service for the full 2024 calendar year and includes prior period true-ups. She stated the transmission cost of service agreed to in the Settlement Agreement is above this value at \$7.209/kW-month. SABIC Ex. 2 at 6-10.

xi. Commission Discussion and Findings.

As discussed above, the Commission has found the Settlement Agreement should not be approved; therefore, our findings on individual issues related to the cost of service that were disputed, are set forth below.

Production costs. The dispute over the allocation of production costs rests on whether production plant is built solely to meet maximum system demand or whether production plant also provides benefits to customers by generating low-cost energy throughout the year. The Commission has long recognized its reticence to make significant changes in cost allocation "unless evidence demonstrates that system operating characteristics have changed since the last approved COSS allocation methodology." *CEI South*, Cause No. 43839, 289 PUR4th 9 (IURC 4/27/2011), 2011 WL 1690057. In this case, the evidence shows we are presented with significant

changes to CEI South's generation fleet, as reflected in the lists of retired, current, and proposed generation facilities in Mr. Bradford's testimony. Pet. Ex. 7 at 5-8. In particular, CEI South anticipates the commercial operation of 956 MW of wind and solar generation within the next two years, out of a total of 1,416 MW of planned generation. We find this demonstrates a significant change to CEI South's generation portfolio. While CEI South attempts to argue that "substantial evidence has not been provided that indicate[s] the system operation has drastically changed," (Pet. Ex. 18-SR at 3), Petitioner's own testimony undercuts this position. Additionally, as Dr. Dismukes described, different types of generation perform different types of roles. The intermittent, renewable generation provides lower capacity benefits in meeting the capacity needs at times of system peak but does significantly contribute to providing low-cost generation. We find we are presented with a new mix of generation resources that are developed to both meet capacity needs at peak usage as well as provide low-cost energy throughout the year. As such, the allocation of costs related to these generation facilities must be allocated on both a capacity and energy basis.

Transmission Plant. CEI South initially proposed the use of 12CP to allocate transmission costs. The OUCC and CAC supported Petitioner's proposed change. Only IG and SABIC advocated for continued use of 4CP, consistent with the method used in Petitioner's last case. The Settlement Agreement provides for a 4CP allocation for transmission costs; however, we find the 12CP allocation methodology CEI South originally proposed is appropriate, as this approach is consistent with the methodology used by MISO to allocate network transmission costs. The evidence does not show this allocation methodology should be changed. Therefore, the Commission finds the 12CP allocation methodology for transmission plant should be approved.

Distribution Plant. CEI South proposed to allocate distribution costs based on both demand- and customer-related allocation factors. Demand related distribution costs were allocated using the non-coincident peak demand of the customer classes, and the customer related distribution costs were allocated based on the number of customers of each class. CEI South used a MSS to determine the division between customer and demand related costs for the FERC Account 368 – Line Transformers. IG Witness York initially recommended a more comprehensive MSS for additional distribution assets of Poles (FERC Account 364), Overhead Conductors (FERC Account 365), and Underground Conductors (FERC Accounts 367), but the Settling Parties accepted CEI South's original proposal. Dr. Dismukes explained how the MSS approach is fundamentally flawed and advocated classifying Line Transformers as 100 percent demand-related. Pub. Ex. 12 at 35-41. Dr. Dismukes also noted in his settlement testimony that there is a slight negative correlation between the average number of customers and CEI South's investment in Line Transformers, demonstrating that this Account does not have a customer-related component. CEI South witness Taylor explained the MSS concept in his rebuttal testimony, but he did not rebut the specific criticism of this approach that Dr. Dismukes presented. Pet. Ex. 18-R at 21-22. Furthermore, Mr. Taylor did not address the lack of correlation between Line Transformer investment and customer count in his settlement rebuttal testimony. Rather, he only explained the result of the disputed methodology on various customer classes. Pet. Ex. 18-SR at 5-7. The Commission finds the evidence supports classifying Line Transformers on a 100 percent demand related basis, consistent with the OUCC's proposal, and the allocation of Petitioner's distribution plant should be modified accordingly.

Accounts 911-912.

[The OUCC takes no position on this issue.]

Section 24 contracts.

[The OUCC takes no position on this issue.]

Customer Charge and TDSIC as fixed residential charge. CEI South originally proposed to add the current customer charge, \$10.84 per month, to the test year TDSIC fixed charge, \$12.36 per month, to create a unified customer charge of \$23.20 per month. This approach was opposed by both the OUCC and CAC. The OUCC argued the customer charge should remain at its current amount, with CAC recommending a lower amount than CEI South currently charges. As part of the settlement, the Settling Parties agreed to a charge slightly higher than the current charge of \$11.00. However, in a sleight-of-hand shell game, the settlement would allow CEI South to also continue to collect a portion of the TDSIC through a fixed charge. While CEI South stated it “considered the recommendations of the OUCC and CAC by agreeing to a customer charge much lower than originally proposed and supported by the Company’s ACOSS,” (Pet. Ex. 18-SR at 10) we find the “settlement” on this issue was illusory, as it would produce a result that does not differ from either the status quo or what CEI South originally proposed. It is not a reduction of CEI South’s original proposal if CEI South still collects the same total amount through different fixed customer charges. Additionally, we are not persuaded by CEI South witness Taylor’s testimony that low-income customers are harmed by the recovery of fixed costs through a volumetric charge. We find CEI South’s customer charge should remain at the amount at which it is currently set, \$10.84 per month, because this amount reasonably reflects recovery of CEI South’s fixed costs.

Affordable Power Rider.

[The OUCC takes no position on this issue.]

Trackers

[The OUCC takes no position on this issue.]

Revenue allocation. The only material dispute over revenue allocation was the mitigation factor to apply to the rate increases for individual classes. Other than water heating, the Settlement Agreement caps the increase for individual classes at 1.35 times the system average. The OUCC proposed limiting any class increase to 1.15 times the system average, while CAC proposed 1.20 times the system average. As previously noted, the Five Pillars require that we strive to effectuate ratemaking constructs that “result in retail electric utility service that is affordable and competitive across residential, commercial, and industrial customer classes.” Ind. Code § 8-1-2-0.6(2). While the settlement testimony seeks to show how the settlement is a compromise and a “blend of the different parties’ positions,” (Pet. Ex. 18-SR at 8) Dr. Dismukes raised substantive concerns that the settlement is based on the results of a faulty ACOSS that overstated the extent of any current subsidy from Petitioner’s high-load factor industrial customers to low-load factor residential customers and that the settlement rate increases are inconsistent with rate gradualism. We share these concerns. Neither of these issues was addressed in Mr. Taylor’s settlement rebuttal testimony. Pet. Ex. 18-SR at 7-9. The Commission will not simply approve a settlement because it appears to be a compromise of the parties’ positions—in this case, a compromise between CEI South and certain of its industrial customers. There must also be substantive evidence the

Commission finds it may properly rely upon to support the agreed resolution. In this instance, we find Dr. Dismukes' proposal is consistent with the concept of gradualism while also addressing movement of the classes toward cost of service. Based on the un rebutted testimony of Dr. Dismukes, the Commission finds the OUCC's proposal to limit classes to a revenue increase of 1.15 times the system average increase is appropriate and should be approved because this rate design is consistent with gradualism, cost causation, and affordability across the rate classes, and it is in the public interest.

BAMP.

[The OUCC takes no position on this issue.]

M. Miscellaneous Fees and Charges.

[The OUCC takes no position on this issue.]

N. Policy Issues Addressed.

i. OUCC and CAC Positions.

In addition to the specific issues raised and discussed above, many of which are standard in rate cases, the OUCC and CAC challenged CEI South's proposed rate increase, as modified by the Settlement Agreement, on the basis of affordability, as well as CEI South's shortcomings in reliability and customer satisfaction. Hundreds of CEI South's ratepayers found the level of CEI South's proposed rate increase so burdensome and offensive that they waited hours at the field hearings in Evansville, Indiana, to share their concerns with the Commission. CEI South's ratepayers have experienced some of the highest electric rates among Indiana's investor-owned utilities for years while Petitioner has sought preapproval of additional expenditures and not tightened its belt to help mitigate this burden. CEI South's customer satisfaction has long ranked poorly, with Petitioner evidencing minimal improvement as opposed to decisive objectives. As the regulatory body with oversight of CEI South, we find it is time to incent affordability, reliability, and improved customer satisfaction. Common sense cries out for CEI South to take action to work with its ratepayers to achieve rates that are more affordable and provide service that garners greater customer satisfaction.

As OUCC witness Eckert testified, CEI South has not shown improved reliability over the last six years. Pub. Ex. 1-S at 8. Mr. Eckert noted CEI South presented reliability metrics in Mr. Rawlinson's initial testimony using the five-year period of 2018-2022 that showed an increase over this period (Pet. Ex. 4 at 29), but Mr. Rawlinson's rebuttal testimony showed reliability metrics over a different period, 2019-2023, that showed improvement. Pet. Ex. 4-R at 5. However, when looking over the full six-year period, 2018-2023, the overall presentation is actually flat, with no long-term improvement in the reliability metrics. CAC witness Inskeep similarly proffered that CEI South's reliability has actually gotten worse over time, notwithstanding the significant investments CEI South is making and recovering through its TDSIC plans. CAC Ex. 2 at 42.

In defining affordability, OUCC witness Dismukes discussed the concept of energy burden, referring to the amount of household income that is used to pay the electric bill. He stated energy burden becomes unaffordable when the percentage of a household's income spent on energy

exceeds 6%. Pub. Ex. 12 at 8. Dr. Dismukes presented an analysis of residential Energy Affordability Index estimates at both the 15th and 20th income percentiles. *Id.* at 10. In his testimony opposing the settlement, Dr. Dismukes disagreed with CEI South's claims that its rates are below the 6% affordability threshold discussed in his direct testimony. Pub. Ex. 12-S at 5-8. Dr. Dismukes testified CEI South's analysis was flawed insofar as it assessed the affordability of Petitioner's rates to the median household instead of examining affordability for low- and moderate-income households. *Id.* at 6. He presented an updated analysis using the 15th and 20th percentile of household incomes in each of the seven counties in which Petitioner operates. *Id.* at 7. Dr. Dismukes's updated analysis showed that for households earning at the 15th percentile, CEI South's rates currently exceed or will exceed the 6% affordability level in all but one county, and for households in the 20th percentile income level the rates currently exceed or will exceed the 6% energy burden in three of the counties. *Id.* at 7-8. He was unequivocal in characterizing the 6% threshold as representing a level of "extreme financial burden." *Id.* at 8.

CAC witness Inskip was critical of CEI South for not having performed a bill affordability analysis. CAC Ex. 2 at 18. He recommended the Commission adopt the following to further affordability: dismiss this case, impose a mandated freeze or curtailment on spending and investments, require a management audit, disallow a return of or on plant that is not in the public interest or does not result in just and reasonable rates, approve additional adjustments to remove a portion of management employee compensation, and approve an additional downward adjustment to ROE. *Id.* at 7. Mr. Inskip claimed the considerations CEI South described to address affordability do not actually help customer affordability or are misleading. He also stated that even if these were valid affordability considerations, they were insufficient to address affordability. *Id.* at 19. Mr. Inskip presented his own analysis and concluded many of CEI South's customers who are at or near the Federal poverty level have electricity burdens well above 6% and even higher energy burdens. *Id.* at 20-25. He testified that even the median household in Evansville would exceed the threshold for a high energy burden after giving effect to CEI South's initial proposed rate increase. *Id.* at 27-28. Mr. Inskip proposed that Petitioner implement an Affordable Power Rider to assist low-income customers. *Id.* at 32-38.

In his testimony opposing the settlement, Mr. Inskip updated his energy burden analysis to reflect the prospective impact of the Settlement Agreement and to update CEI South gas rates for current rates in effect as of July 2024. While median households in Evansville under his revised analysis have an energy burden of nearly 6%, low-income households continue to have energy burdens higher than the 6% threshold. CAC Ex. 6 at 7-8.

ii. CEI South Position.

In his direct testimony, CEI South witness Leger outlined the drivers of this rate case from his perspective. He stated it has been nearly 14 years since CEI South filed its last general rate case, although Petitioner has continued to invest in its used and useful utility plant in service to maintain reliability, comply with environmental regulations, and meet customer demands. Pet. Ex. 1 at 9. He characterized this rate request as driven by growth in rate base, noting the vast majority of that growth has already been approved by the Commission either through the issuance of certificates of public convenience and necessity or approval of Petitioner's TDSIC plans. *Id.* at 9-10. CEI South's rate base has grown from \$1,296 million in the last rate case to \$1,733 million as of December 31, 2022, *Id.* and is projected to grow an additional \$1,087 million through the end

of the test year in this Cause. He stated this is net of nearly \$340 million in securitization costs associated with retiring A.B. Brown Units 1 and 2 as approved in Cause No. 45722. *Id.* Mr. Leger testified Petitioner's rate base will grow by nearly \$1 billion during the test year itself. *Id.* According to Mr. Leger, CEI South is in the midst of the same industry transformation as its peers, and the majority of these test year rate base additions are driven by generation transition, including the Brown Combustion Turbines (CTs) and Posey Solar. *Id.* He stated more than one-third of the nearly \$1 billion test year investment is for the CTs, which are not eligible for a rate base adjustment mechanism. *Id.*

Mr. Leger described actions CEI South has taken for affordability purposes, beginning with securitization. He stated several affordability considerations were incorporated into Petitioner's requested relief in this Cause. Pet. Ex. 1 at 14-15. He also stated CEI South partners with a variety of organizations to offer programs to assist qualifying individuals. *Id.* at 16. Mr. Leger explained that CEI South offers customers the ability to set a preferred billing date, and offers budget billing to offset large bill increases during periods of higher electric use. *Id.* Payment plans are also available if a CEI South customer falls behind on bill payments. *Id.* Mr. Leger testified income eligible customers may also apply for the Energy Assistance Program through their local Community Action Agency. *Id.* Additionally, CEI South has partnered with the City of Evansville, local assistance agencies, and township trustee offices to host a series of access to service fairs throughout the winter season where attendees can speak with a customer service representative concerning bill assistance and general questions about their bill or service. *Id.*

Mr. Rice testified that since CEI South's last rate case Order in 2011, CEI South has endeavored to keep customer bills from rising too quickly, notwithstanding the addition of multiple rate adjustment mechanisms. He stated customer bills have since remained relatively flat and increased below inflation levels. Pet. Ex. 19 at 4. Mr. Rice noted the significant positive impact Petitioner's pursuit of securitization has had on affordability. *Id.* at 4-5.

On rebuttal, Mr. Leger took issue with Mr. Inskip's perspective that CEI South's rate case disregards affordability. He noted that Mr. Rice presented a compound annual growth rate ("CAGR") calculation highlighting that CEI South's residential bills have increased at less than 0.5% per year on average, which is far less than other Indiana utilities, thereby demonstrating CEI South's commitment to customer affordability. Pet. Ex. 1-R at 3-4. Mr. Rice also responded to the affordability arguments as well as Petitioner's ratepayers' concerns voiced at the field hearing in his rebuttal and settlement rebuttal. He described the difficulties inherent in addressing affordability since affordability does not lend itself to examination through modeling, spreadsheets, and statutory parameters. Pet. Ex. 19-R at 3.

In his settlement rebuttal, CEI South witness Rice reiterated that the affordability pillar is concerned with retail electric utility service being "affordable and competitive across residential, commercial, and industrial classes." Pet. Ex. 19-SR at 7. He explained all customer classes will experience a decrease in CEI South's proposed increase under the Settlement Agreement. *Id.* at 8. Mr. Rice testified that all Indiana electric public utilities are experiencing significant generation transition that will cause significant upward pressure on rates well into the future as they transition to cleaner resources. *Id.* Mr. Rice presented a comparison to other electric utilities in the State based on the Commission's 2024 Residential Bill Survey. This showed CEI South's residential electric bill (before the increase requested in this Cause) is no longer the highest in Indiana and

that between 2011 and 2024, CEI South's rates increased the least among its peers in terms of dollars, percentage change, and rate of change. *Id.* He noted the survey results do not reflect the effects of I&M's recent rate case order or the outcome in Duke Energy Indiana's pending rate case. *Id.* Mr. Rice opined that it would be incorrect to imply, at this point, that following approval of the Settlement Agreement in this case, CEI South's rates will be out of line when compared to other Indiana utilities. *Id.*

Regarding the energy burden associated with the electric portion for CEI South's customers, Mr. Rice asserted that at the proposed settled rates, the energy burden for the average CEI South customer in Vanderburgh County will drop while incomes have risen in Vanderburgh County and the City of Evansville with inflation and should continue to do so, helping to mitigate the effect of Petitioner's rate increases. *Id.* Mr. Rice also responded to Mr. Inskeep's updated analysis, stating it is important to reiterate that none of the parties knows the income of individual customers, the level of assistance they may receive, or the number of people in the household. *Id.* at 12-13. Mr. Rice testified it is also important to note that a family of three with a yearly income of \$48,064 or less is likely to qualify for Energy Assistance through the Community Action Program of Evansville. *Id.* at 13. Mr. Rice stated that Dr. Dismukes's updated affordability analysis shows the 20th percentile household income in CEI South's total service territory is currently under the 6% threshold and remains under the 6% threshold in 2026 at 5.8%. *Id.* at 14. He explained that OUCC witness Dismukes's updated analysis shows that customers with a 15th percentile household income in the total CEI South service territory have energy burdens of 7.3%. *Id.* at 14-15. Nonetheless, Mr. Rice testified that he still believes affordability is difficult to measure and dependent on an individual customer's circumstances. *Id.* He stands behind the methodology CEI South presented in rebuttal and settlement as a reasonable view of affordability. *Id.*

CEI South witness Rawlinson testified that Mr. Eckert did not appropriately correlate the TDSIC investment impacts with CEI South's reliability indices, explaining that TDSIC investments do not directly target all outage causes, and Mr. Eckert's analysis does not account for external factors such as weather. Pet. Ex. 4-R at 4-5. Moreover, Mr. Rawlinson testified that without the investments CEI South made in its first TDSIC Plan (Cause No. 44910) and those planned in CEI South's second TDSIC Plan (Cause No. 45894), CEI South's reliability performance would have declined. *Id.* at 6. He described CEI South's experience as a result of a severe weather event on April 2, 2024, involving multiple tornados. Mr. Rawlinson testified the investments CEI South made through its TDSIC Plans reduced the time required to restore service to CEI South's customers. *Id.* In his settlement rebuttal, Mr. Rice similarly reiterated that CEI South's capital investments cannot control the weather, prevent a tree from falling into a line, or stop someone from driving into the utility's poles. Mr. Rawlinson asserted that without the TDSIC investments, CEI South's reliability would suffer. Pet. Ex. 19-SR, Attachment MAR-SR2 at 1.

iii. Discussion and Findings on Reliability and Affordability.

The Commission has heard a myriad concerns over affordability, reliability, and customer satisfaction during this proceeding. Our findings above that the Settlement Agreement should not be approved and our resolution of multiple rate case related issues, as described above, have caused CEI South's requested rate relief to be reduced in service of affordability, while upholding the tenets of reliability, resiliency, stability, and environmental sustainability. The question remains,

however, whether additional Commission action is warranted in furtherance of achieving affordability and incenting CEI South to improve reliability and customer satisfaction. Ours is a balancing of interests the Commission has been tasked by the Indiana General Assembly to perform.

The OUCC and CAC's witnesses testified that CEI South has not shown improvement in reliability. While CEI South argues the appropriate benchmarks must take outside events into account, such as extreme weather events, the record reflects that Petitioner's reliability metrics from 2018 to 2023 were relatively flat, even taking these events into account.

CEI South also provided testimony regarding its attempts to tackle the issue of affordability for its customers. Pet. Ex. 1 at 4; Pet. Ex. 19 at 4-9. The proposed settlement, albeit contested, reflected a \$35 million decrease in CEI South's request from its rebuttal testimony. Nonetheless, we remain concerned with the affordability of CEI South's rates. Our concern stems, in part, from Petitioner's historically high rates, which were, until the past year, the highest in the state for the average residential customer. CEI South's argument that its rates have not grown as fast as other utilities does not change this reality. We are also mindful of Dr. Dismukes' settlement testimony that took issue with CEI South's arguments that its rates meet the 'affordability' requirement of the Five Pillars. Dr. Dismukes showed otherwise. He pointed out that CEI South's affordability analyses were based on median household income and median CEI South electric bills, meaning that half of the households in CEI South's service territory have more difficulty paying for monthly utility bills than shown in CEI South's analysis. Dr. Dismukes calculated the affordability of CEI South's rates for customers existing at the 15th and 20th percentile of household incomes in each of the seven counties where CEI South operates, as well as system-wide for CEI South. His analysis in Pub. Ex. DED-1-S showed that the impact of CEI South's proposed rates for customers at or below the 15th - 20th percentile income level is at, or exceeds, six percent. He pointed out that there is no universal definition of "unaffordability," and the 6% threshold represents a level of extreme financial burden. CEI South's portrayal of the proposed rates as "affordable" runs headlong into the unfortunate reality that they are not affordable for a significant portion of CEI South's ratepayers. We find the issues, as decided above, substantially address the affordability concerns that CEI South's customers have made overwhelmingly clear in this case through their participation at the field hearings and their customer comments filed in this Cause. In particular, our determination of the appropriate ROE balances investor and ratepayer interests more equitably than the ROE CEI South requested or the Settling Parties exchanged concessions to agree upon. The Commission finds our determinations above address the affordability of rates for customers while still allowing CEI South to meet its and customers' needs regarding reliability, resiliency, and stability. In addition, we remain persuaded that the downward adjustment the Commission approved above to Petitioner's ROE is necessary to break what has become a persistent pattern of customer dissatisfaction and to incent reliability, particularly given the significant TDSIC and other system investments CEI South has been making.

O. Ultimate Findings Denying Approval of the Settlement.

Consistent with our findings and the determinations above, the Commission finds the Settlement Agreement is not in the public interest and should not be approved. Instead, our findings and conclusions on the various issues represent the appropriate resolution of the issues in this

Cause and will enable CEI South to provide reliable, resilient, and stable electric service at fair, just, and reasonable rates, thereby furthering the public interest.

8. Overall Authorized Increase.

Based on our discussion above, the Commission finds CEI South should be authorized to increase its base rates and charges in multiple steps, calculated to produce additional annual base rate revenue of \$41,019,321,²⁹ total base rate revenue of \$741,397,336, and total net operating income of \$168,910,299. This is based upon a projected test year ending net original cost rate base of \$2,685,378,368 as follows:

1	Plant In Service	SCH B-2	\$	3,756,954,011
	Reserve for Accumulated		\$	
2	Depreciation	SCH B-3		(1,165,811,221)
3	Net Plant In Service	Line 1 + Line 2	\$	2,591,142,790
4	<u>Other Items:</u>			
5	Fuel Stock	SCH B-4	\$	8,990,701
6	Utility Material & Supplies	SCH B-4	\$	41,360,961
7	Allowance Inventory	SCH B-4	\$	-
8	Stores Expense	SCH B-4	\$	311,332
9	PISCC - AMI	SCH B-4	\$	10,585,830
10	PISCC - TDSIC 1.0	SCH B-4	\$	16,517,144
11	PISCC - TDSIC 2.0	SCH B-4	\$	5,433,980
12	PISCC - CECA	SCH B-4	\$	2,963,459
13	PISCC - ECA	SCH B-4	\$	2,863,643
	PISCC - ECA FB Culley East			
14	Ash Pond	SCH B-4	\$	2,712,341
15	PISCC - CT	SCH B-4	\$	2,496,186
		Sum of Lines 3 -		
	Jurisdictional Rate Base	16	\$	2,685,378,368

We further find that a fair return should be authorized based upon this net original cost rate base and a projected weighted average cost of capital of 6.29%, as follows:

²⁹ Net increase to gross revenue equals \$41,019,321 and reflects base revenue increase of \$49,920,129 less fuel and purchased power costs of \$8,900,808.

	Class of Capital	Reference in Pet. Ex. 20-S	Amount (\$000)	Percent	Cost	Weighted Cost
1	Long-Term Debt	SCH D-2	\$ 1,294,210	39.50%	5.12%	2.02%
2	Preferred Stock	SCH D-3	\$ -	0.00%	0.00%	0.00%
3	Common Equity	SCH D-4	\$ 1,582,041	48.29%	8.80%	4.25%
4	Cost Free Capital	SCH D-5	\$ 390,113	11.89%	0.00%	0.00%
5	Other Capital	SCH D-5	<u>\$ 10,754</u>	<u>0.32%</u>	5.87%	<u>0.02%</u>
	Total Capital	Sum of Lines 1 – 5	\$ 3,277,119	100.00%		6.29%

The rate increase authorized herein should be implemented in multiple steps as delineated in our discussion on Phased Rate Implementation above.

9. Confidentiality. CEI South filed motions for protection and nondisclosure of confidential and proprietary information on December 5, 2023, March 28, 2024, April 4, 2024, and April 9, 2024. The OUCC filed a motion for protection and nondisclosure of confidential and proprietary information on March 12, 2024. The Industrial Group filed motions for protection and nondisclosure of confidential and proprietary information on March 12, 2024, and March 14, 2024. Each of the motions for protection and nondisclosure of confidential and proprietary information was supported by affidavits showing certain documents to be filed with the Commission contain confidential trade secrets as defined under Ind. Code § 23-2-3-2. Docket Entries were issued finding such information to be entitled to confidential treatment on a preliminarily basis, after which the information was submitted under seal. The Commission finds all such information granted preliminary confidential treatment is confidential under Ind. Code §§ 5-14-3-4 and 8-1-2-29, is exempt from public access and disclosure by Indiana law, and shall continue to be held by the Commission as confidential and protected from public access and disclosure.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement filed in this Cause is not approved.
2. Petitioner’s ARP for waiver from 170 IAC 4-1-16(f) for remote disconnections is approved as set forth above in Findings Paragraph 7.J (ARP for Remote Disconnection).
3. CEI South is authorized to increase its rates and charges for electric utility service in multiple steps as set forth in Finding Paragraph 8.
4. New depreciation rates applicable to CEI South’s common and electric plant are approved as set forth in Finding Paragraph 7.E (Depreciation Rates and Amortization).

5. CEI South shall file appropriate tariffs under this Cause using the rate design approved in this Order, including the authorized rates and charges, for approval by the Commission's Energy Division. Said rates and charges shall be implemented upon approval of the filed tariffs by the Energy Division, to be applicable prospectively on a services rendered basis.

6. CEI South shall certify its net plant, original cost rate base, and capital structure at December 31, 2024 (Phase 1) and December 31, 2025 (Phase 2) and calculate the resulting rates and charges, which shall be made effective upon filing and approval of the Commission's Energy Division in accordance with the findings herein, subject to being contested and trued-up consistent with the requirements set forth in Finding Paragraph 7.B (Phased Rate Implementation).

7. To the extent either Posey Solar or the CT Project begins commercial operation between December 31, 2024 and December 31, 2025, CEI South is authorized to implement additional interim phases to its increase as set forth in Finding Paragraph 7.B (Phased Rate Implementation).

8. Petitioner's proposed Rider GE is approved as modified in Finding Paragraph 7.I (Additional Riders and Other Tariff Provisions).

9. CEI South shall timely file under this Cause all information required by this Order.

10. The information filed in this Cause pursuant to motions for protection and nondisclosure of confidential and proprietary information is deemed confidential under Ind. Code § 5-14-3-4, shall be exempt from public access and disclosure, and shall be held confidential and protected from public access and disclosure by the Commission.

11. This Order shall be effective on and after the date of its approval.

HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR:

APPROVED:

**I hereby certify that the above is a true
and correct copy of the Order as approved.**

Dana Kosco
Secretary of the Commission

CERTIFICATE OF SERVICE

This is to certify that a copy of the *Indiana Office of Utility Consumer Counselor's Proposed Order* has been served upon the following in the captioned proceeding by electronic service on October 16, 2024.

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