FILED March 24, 2015 INDIANA UTILITY REGULATORY COMMISSION

#### STATE OF INDIANA

#### INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF **INDIANA** ) MICHIGAN POWER COMPANY (I&M) ) FOR APPROVAL OF I&M'S 7-YEAR ) PLAN FOR ELIGIBLE TRANSMISSION, ) DISTRIBUTION AND **STORAGE** ) SYSTEM IMPROVEMENTS, PURSUANT ) TO IND. CODE § 8-1-39-10(a). )

**CAUSE NO. 44542** 

#### PETITIONER'S' REPLY TO OUCC AND INDUSTRIAL GROUP'S POST-HEARING FILINGS

Petitioner, Indiana Michigan Power Company ("I&M" or "Company"), by counsel, respectfully submits this reply in opposition to the proposed order and post hearing brief filed by the Office of Utility Consumer Counselor ("OUCC") and Intervenor Industrial Group ("IG").<sup>1</sup> I&M's Proposed Order reconciles the contested issues with the record evidence, sound regulatory policy and the governing statute. The OUCC and the Industrial Group provide little, if any, direct response to I&M's filing or record evidence but instead offer proposals which are summary in nature. These filings ignore substantial record evidence and the very nature and purpose of the TDSIC Statute. The OUCC and Industrial Group filings target the Clearance Zone Widening Program and Future Major Projects. The vast majority of the OUCC and Industrial Group arguments were addressed in I&M's Proposed Order. I&M provides a general reply below and has incorporated its specific reply to the OUCC and Industrial Group in a revised version of I&M's Proposed Order.<sup>2</sup>

<sup>&</sup>lt;sup>1</sup> The OUCC Proposed Order is cited herein as "OUCC PO, [X]"). The Industrial Group Post-Hearing Brief is cited herein as "IG, [X]".

 $<sup>^{2}</sup>$  A clean copy of the updated I&M Proposed Order is included herewith together with a redlined copy identifying changes to I&M's original filing. The absence of a specific reply to any OUCC or Industrial Group argument does not constitute I&M's acceptance of the argument.

## 1. <u>The Clearance Zone Widening Program Clearly Qualifies Under the TDSIC</u> <u>Statute, Provides Important Safety and Reliability Benefits and Should Be</u> <u>Approved.</u>

The OUCC opposition to the Clearance Zone Widening Program reflects the OUCC's disagreement with the policy underlying the TDSIC Statute, *i.e.*, a personal belief that vegetation management in any manner should not be included in a TDSIC filing. This apparent blanket opposition blinds the OUCC from analyzing I&M's proposed program in light of the actual statutory language.

In an attempt to minimize the purpose of the statute and the real benefits of the program, the OUCC (p. 12) argues that the proposed Clearance Zone Widening Program cannot be TDSIC eligible because the governing statute was not intended to be used to capture "virtually any expenditure" that improves the system "in some remote sense". This of course is not what I&M has argued. Contrary to the OUCC allegations (p. 12), substantial record evidence demonstrates that the safety and reliability attributes of this Program are neither remote nor tangential. To the contrary, the Program protects the flow of electricity, and this directly impacts the distribution system in numerous ways that are beneficial to consumers. *See, e.g.,* Chodak Direct, pp. 8, 12; Isaacson Direct, pp. 15-16; Kratt Direct, pp. 13-14. When discussing the Program, Mr. Isaacson reiterates its significant benefits include the reduction in the frequency and duration of customer outages, improved employee and public safety due to less frequent vegetation contacts, and the extended life of assets. Isaacson Rebuttal at 16. Mr. Alvarez states in his testimony that he understands the benefits of vegetation management. Alvarez Direct at 3. The OUCC Proposed Order (p. 11) includes this recommended Commission language:

The Commission agrees with both I&M and the OUCC that the Clearance Zone Widening Program could produce benefits such as improved reliability, reduced frequency of outages and perhaps shorter outage durations.

Thus there is agreement that there is a benefit to the proposed I&M Program including improved reliability, reduced frequency of outages and perhaps shorter outage durations. Coincidentally, the Clearance Zone Widening Program, which is a specifically tailored program proposed by I&M, was requested under Ind. Code § 8-1-39 that was enacted to implement programs that a public utility undertakes for purposes of safety, reliability, system modernization, or economic development. Ind. Code § 8-1-39-2. In sum, this Program is a targeted expenditure on a significant safety and reliability issue, not just "any expenditure." Likewise, the record in this case supports a significant reliability and safety impact and this is not merely an improvement "in some remote sense." The Clearance Zone Widening Program is an eligible TDSIC project that fits squarely within the parameters of the statute.

The OUCC arguments that attempt to redefine I&M and FERC accounting standards and reclassify the Clearance Zone Widening Program as an O&M project are also without merit. Substantial record evidence establishes that clearance zone widening is a capital cost and as such is part of the distribution system and therefore an eligible project under the TDSIC Statute. *See, e.g.*, Williamson Rebuttal, pp. 3-5; Chodak Rebuttal, p. 3; Isaacson Rebuttal, pp. 18-19.

I&M's classification of tree trimming costs is not specific to this proceeding. Mr. Williamson testified that the Clearance Zone Widening Program costs <u>are</u> a capital cost under the FERC USofA Account 365. This is not a matter of interpretation. The classification of tree trimming costs follows AEP's and I&M's established internal accounting policies and procedures which comport with Generally Accepted Accounting Principles and the FERC USofA and have been and continue to be audited by AEP's and I&M's external auditors. Although the OUCC suggests otherwise (p. 13), the record shows that Mr. Williamson did not urge the Commission to "read" the FERC USofA in a particular way. Rather, the accounting for

these costs is a matter of fact offered by a Certified Public Accountant with significant regulatory accounting experience. Mr. Williamson's credentials demonstrate that he is in a position to know how the FERC USofA is applied. No record evidence refutes the sworn testimony of I&M's regulatory accountant on this point.

"[T]he Commission cannot act on its own independent information, but must base its findings upon evidence presented in the case . . . , and nothing can be treated as evidence which has not been introduced as such." *Monon R.R. v. Public Serv. Comm'n*, 241 Ind. 142, 170 N.E.2d 441, 442 (1960) (quoting *Public Serv. Comm'n v. Indiana Bell Tel. Co.*, 235 Ind. 1, 27, 130 N.E.2d 467 (1955)). Therefore, as a matter of law, the Commission cannot reject I&M's unimpeached evidence based on the argument of the OUCC's counsel because argument of counsel is not evidence. *See, Vanco v. Sportsmax, Inc.*, 448 N.E.2d 1198, 1200 (Ind. Ct. App. 1983) (citation omitted) ("A memorandum does not fall within the class of documents to be considered by the trial court under T.R. 56(C). It can only be examined for legal propositions -- not for facts."); *Conard v. Waugh*, 474 N.E.2d 130, 134 (Ind. Ct. App. 1985) (citation omitted) ("[S]tatements of fact set forth in a brief filed in support of or in opposition to a motion for summary judgment may not be relied upon by the trial court.").

AEP's officials, like Mr. Williamson, are entitled to a presumption of honesty and good faith and the Commission may not simply disregard this unimpeached sworn testimony. *Ohio Utils. Co. v. Public Utils. Comm'n of Ohio*, 267 U.S. 359, 362-63 (1925); *City of St. Petersburg v. Vinoy Park Hotel Co.*, 352 So.2d 149, 151 (Fla. Dist. Ct. App. 1977). Consequently, and as further discussed in I&M's Proposed Order, the Commission must reject OUCC's proposed findings regarding the Clearance Zone Widening Program.

Moreover, the OUCC contention (p. 13) that Mr. Williamson's opinion somehow contradicts the plain language of the FERC USofA is erroneous. Mr. Williamson established that the first time an area is cleared of vegetation the cost of creating the cleared zone is a capital cost recorded to Account 365. This testimony is consistent with the plain language of Account 365, which provides that initial trimming costs are capitalized to this USofA account. Put another way, the word "initial" applies to the initial or first cutting of trees and vegetation. This initial work is a capital cost. The subsequent trimming or cutting of trees in the area previously cleared is recorded as O&M. Consequently, I&M's Proposed Order gives effect to both the plain language of the USofA and the unimpeached sworn testimony of the Company's duly qualified accounting expert.

In contrast, the OUCC's proposed findings contort the language of the USofA by limiting the word "initial" to the first placement of the distribution line notwithstanding the absence of any language in the account description to support this narrow view. In the account description the word "initial" is addressed to the cutting of trees and vegetation. The OUCC's proposed finding fails to apply the word "initial" to the first cutting of trees and vegetation in a given area. This OUCC argument, offered at the briefing stage of this proceeding, reflects an effort to try any argument the OUCC can think of to support its general policy position against any type of vegetation-related program being included in a TDSIC Plan. But redefining basic accounting principles is not an appropriate basis upon which to sustain the OUCC opposition to the TDSIC Statute and its proper application. Therefore, as discussed in detail in I&M's Proposed Order, the OUCC's proposed finding should be rejected and I&M's proposed Clearance Zone Widening Program should be approved.

#### 2. <u>Substantial Record Evidence Describes and Justifies The Future Major</u> Projects and Estimated Cost.

The governing statute provides an opportunity for utilities to obtain Commission approval of a 7 year plan for eligible transmission, distribution and storage improvements. Ind. Code § 8-1-39-10. There is no question that I&M presented a 7 year plan and no question that the Major Projects are proposed capital improvements to the I&M's system. The entire plan is based upon a thorough review of the Company's existing assets and practical planning for the future. The record also reflects that I&M identified a specific amount of expenditures for each year of the 7 years in the Plan based on clearly established criteria.

The OUCC (p.10) and Industrial Group (p. 1) argue that the Company's TDISC Plan should be rejected in whole or in part because the Future Major Projects are not as detailed as the Major Projects in the earlier years of the Plan. The Commission has previously rejected this argument. *Re Northern Ind. Pub. Serv. Co.*, Cause No. 44370 (IURC 2/17/2014), p. 11. There is no legitimate reason to reach a different conclusion here.

Substantial record evidence demonstrates that the Company's TDSIC Plan is complete and refutes the OUCC contention (p. 10) that I&M seeks "approval of unknown future projects at unknown locations for unknown reasons." I&M's Plan is limited to distribution system projects. Unlike the plan approved in Cause No. 44370, I&M presented detailed plans for the first two years of the Plan, not just Year 1. The criteria for Future Major Projects were included in the filing and focused on the known need for station projects. (See Summary at Isaacson Rebuttal at 3-5.) This type of project has been described in sufficient detail, both in the narrative testimony and through the analogous details provided to support the Plan Years 1 and 2 Major Projects. The record demonstrates that the OUCC did not challenge the TDSIC eligibility of the Major Projects for Plan Years 1 and 2. The Major Projects for Plan Years 1 and 2 were developed using the same criteria as those being used for the Future Major Projects as identified in the Company's case in chief, and as summarized in the rebuttal testimony of Company witness Isaacson. (Isaacsson Rebuttal at 3-6.) If there is no dispute that the Major Projects are TDSIC eligible, then more projects meeting the same criteria should also qualify as TDSIC eligible projects. Virtually the only fact not included in the record is the actual address of particular Future Major Projects. The rationale for not including the specific addresses at this time was also addressed by Mr. Isaacson, when he discussed both the best management practices for investing in the system and the expectations of the Company's partners in the local communities when planning these Future Major Projects. *Id.* at 5-6. The record evidence provides a substantial basis for the Commission to conclude that the projects are eligible improvements under the TDSIC Statute.

Furthermore, while the OUCC Proposed Order (p. 10) represents that Mr. Rutter recommended the Commission "reject the Future Major Projects," the record shows that Mr. Rutter's testimony addressed the satisfaction of the "best estimate" statutory criterion, not the eligibility as a TDSIC project. Rutter, at 5. Mr. Rutter's testimony does not support a finding that the Future Major Projects are not eligible distribution system improvement projects and the OUCC proposal that the Commission rely on this testimony in this manner should be rejected. Moreover, no credible argument can be made that the OUCC has not been provided additional details underlying I&M's proposal. Mr. Rutter conceded that I&M provided the OUCC a detailed Excel spreadsheet showing the development of all costs across the 7-Year Plan. Rutter at 5.

7

Finally, the record provides the defining characteristics of the Future Major Projects and justifies their need. The OUCC contention otherwise is meritless. The estimated cost of the Future Major Projects was derived using the same process used to develop the other cost estimates which the OUCC found to meet the statutory criterion, including Mr. Rutter's support of the Major Projects for Years 1 and 2. The record establishes that "I&M understands how to develop cost estimates for inclusion in the 7-Year Plan." Rutter, at 5. The cost estimates "are reflective of historical performance" and "are based on what was known and understood at the time the cost estimates were prepared." *Id.* The basis for the cost estimate was the same in all Plan years. Therefore, the OUCC testimony actually supports the conclusion that the estimated cost of the Future Major Projects is reasonable and satisfies the statutory criterion.

In sum, the Indiana legislature has decided that electric systems around the state should be modernized and substantial evidence demonstrates that I&M's 7 year TDSIC Plan complies with the governing statute. The OUCC and IG may disagree with the latitude provided by the General Assembly to approve programs that achieve this policy. But disagreement with an approved and valid statute does not rise to the level of an argument that would cause any of the projects proposed by I&M in this case to be denied. Therefore, the OUCC and Industrial Group opposition to the relief sought by I&M should be rejected and I&M's petition should be approved as set forth in I&M's Proposed Order.

Respectfully submitted,

By: ston eur

Teresa Morton Nyhart (Atty/No. 14044-49)Jeffrey M. Peabody (Atty. No. 28000-53)BARNES & THORNBURG LLP11 South Meridian StreetIndiana 46204Nyhart Phone: (317) 231-7716Peabody Phone (317) 231-6465Fax: (317) 231-6465Fax: (317) 231-7433Nyhart Email: tnyhart@btlaw.comPeabody Emailjeffrey.peabody@btlaw.com

Attorneys for Indiana Michigan Power Company

#### **CERTIFICATE OF SERVICE**

The undersigned certifies that a copy of the foregoing was served this  $\mathcal{X}$ day of March.

2015, via email transmission to:

Randall C. Helmen Office of Utility Consumer Counselor PNC Center 115 W. Washington St., Suite 1500 South Indianapolis, Indiana 46204 Indianapolis, Indiana 46204 rhelmen@oucc.in.gov infomgt@oucc.in.gov

Jennifer A. Washburn Citizens Action Coalition of Indiana, Inc. 603 East Washington Street, Suite 502 jwashburn@citact.org

Bette J. Dodd Timothy L. Stewart Lewis & Kappes, P.C. One American Square, Suite 2500 Indianapolis, Indiana 46282 Telephone: (317) 639-1210 Facsimile: (317) 639-4882 Email: TStewart@Lewis-Kappes.com BDodd@Lewis-Kappes.com

A courtesy copy was provided to the following via electronic email, hand delivery or

First Class, United States Mail, postage prepaid, to:

Mike Mooney Manager, Corporate Planning Hoosier Energy Rural Electric Cooperative, Inc. P.O Box 908 Bloomington, Indiana 47402-0908 mmooney@hepn.com

Christopher M. Goffinet Huber Goffinet & Hagedorn 727 Main Street Tell City, Indiana 47586 cgoffinet@hepn.com

Jeffrey M. Peabody

INDS01 1503181

#### STATE OF INDIANA

#### INDIANA UTILITY REGULATORY COMMISSION

VERIFIEDPETITIONOFINDIANA)MICHIGANPOWERCOMPANY(I&M))FORAPPROVALOFI&M'S7-YEAR)C.PLANFORELIGIBLETRANSMISSION,))DISTRIBUTIONANDSTORAGE)AISYSTEMIMPROVEMENTS, PURSUANT))TOIND.CODE § 8-1-39-10(a).)

CAUSE NO. 44542 APPROVED:

#### **ORDER OF THE COMMISSION**

#### **Presiding Officers:**

David E. Ziegner, Commissioner David E. Veleta, Administrative Law Judge

On October 14, 2014, Indiana Michigan Power Company ("Petitioner," "I&M" or "Company") filed its Verified Petition together with its verified direct testimony and exhibits.

Petitions to intervene were filed on November 10, 2014, by Citizens Action Coalition of Indiana, Inc. ("CAC"), on November 20, 2014, by Hoosier Energy Rural Electric Cooperative, Inc. ("Hoosier"), and on February 6, 2015 by an ad hoc group of industrial customers ("I&M Industrial Group" or "IG"). Each petition to intervene was granted by the Presiding Officers.<sup>1</sup>

On January 12, 2015, the OUCC filed its direct testimony and exhibits. On January 30, 2015, I&M filed its rebuttal testimony and exhibits. On February 9, 2015, the Commission issued a docket entry requesting information from I&M and the Company provided the information on February 10, 2015.

The Commission convened the evidentiary hearing in this Cause at 9:30 a.m. on February 11, 2015, in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana, at which time all evidence was heard. I&M, the OUCC, and IG appeared at and participated in the hearing. No members of the general public attended the hearing.

Based upon the applicable law and evidence presented the Commission finds:

1. <u>Notice and Jurisdiction.</u> Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a "public utility" under Ind. Code §§ 8-1-2-1 and 8-1-39-4. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction to approve a public utility's seven (7) year plan for eligible transmission, distribution, and storage improvements ("TDSIC Plan" or "Plan"). Therefore, the Commission has jurisdiction over

<sup>&</sup>lt;sup>1</sup> Hoosier subsequently filed a Motion to Withdraw on January 16, 2015, which was granted by the Presiding Officers.

Petitioner and the subject matter of this proceeding in the manner and to the extent provided by Indiana law.

2. **Petitioner's Characteristics.** I&M, a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M is engaged in rendering electric service in the State of Indiana, and owns, operates, manages and controls plant and equipment within the State of Indiana that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public.

3. **<u>Requested Relief.</u>** I&M requests approval of its TDSIC Plan pursuant to Ind. Code § 8-1-39-10(a). The Programs in I&M's 7 year Plan include:

- Pole Inspection and Replacement;
- Overhead Circuit Rebuilds;
- Underground Cable Replacement;
- Underground Station Exit Replacements;
- Station Breaker Replacements;
- Station Rehabilitation;
- Network Improvements; and
- Clearance Zone Widening.

The Major Projects component of I&M's TDSIC Plan includes a range of station projects aimed at retiring obsolete equipment, improving reliability and power quality, serving more customers, and expanding service. This body of work includes expansion projects that will add a transformer and breakers, partial upgrades that will replace/upgrade an existing transformer, rebuilds that include replacing equipment in-kind, full upgrades where equipment will be resized and/or rebuilt, installation of new stations, and retiring stations.

## 4. **I&M's Evidence.**

## A. <u>Overview.</u> Paul Chodak III, I&M's President and Chief Operating Officer

provided an overview of I&M's request for approval of I&M's TDSIC Plan, and discussed the customer benefits of the Plan which he explained is an important part of I&M's long-term strategy to provide safe, reliable and economic service to its customers. Mr. Chodak explained that the TDSIC Plan is needed to continue to provide adequate service to customers and added that the need to invest in improvement and modernization of energy delivery infrastructure is not unique to I&M. Mr. Chodak stated that system performance and resiliency will be achieved through the sustained expenditures focused on replacing infrastructure, providing appropriate clearances from facilities, modernizing I&M's energy delivery system, and meeting the needs of customers.

Thomas A. Kratt, I&M Vice President of Distribution Operations provided an overview of I&M's Indiana distribution system, history, and existing asset information. He explained the development of the Plan, including its overall objective, the process utilized to analyze I&M's system, the program selection process, the methodology and asset analysis used to develop the Plan, and the determination of investments that would be included in the Plan.

Mr. Chodak explained that the TDSIC Plan includes some projects that involve transmission assets but the TDSIC Rider, as proposed, does not recover those transmission costs. Chodak Direct, pp. 12-13. Mr. Chodak explained that transmission investments made by IM Transco will be billed to I&M under IM Transco's Open Access Transmission Tariff ("OATT") and recovered through I&M's PJM Rider in accordance with the settlement agreement approved by the Commission in Cause No. 43774 PJM 4. He added that after the PJM-4 agreement expires, I&M may propose to modify the proposed TDSIC Rider to allow recovery of costs I&M will incur under an OATT for projects involving IM Transco or IM transmission assets. Chodak Direct, pp. 13-14.

## B. **TDSIC Plan Programs and Major Projects.** Mr. Chodak and David S.

Isaacson, I&M Distribution Projects Manager, discussed the TDSIC Plan, described the Programs and Major Projects in detail, explained how the Programs and Projects in the TDSIC Plan were determined. These witnesses also discussed how both the Programs and Projects enable I&M to meet customer expectations of maintaining and improving reliability in the future. Mr. Isaacson (pp. 21-22) explained that I&M's Plan was developed based on the best information and data available at this time. He added that I&M's energy delivery system is dynamic, which creates a variety of reasons why I&M's TDSIC Plan deserves flexibility. He said providing flexibility for I&M's TDSIC Plan will help provide I&M with the tools necessary to allow it to best manage the benefits with the cost. Mr. Isaacson explained how I&M will implement and execute the Plan.

Messrs. Isaacson (pp. 4-17) and Chodak (pp. 5-6) also discussed why the Programs and Major Projects are necessary. Mr. Isaacson (p. 20) elaborated on how I&M will continue to prioritize its TDSIC projects by monitoring and evaluating progress and costs. Mr. Chodak explained that approval of the Programs will allow I&M the ability to start planning for those long-term actions performed in a series over multiple years, as well as secure the necessary resources and materials. He explained that taking a long-term approach with prior planning helps the Company take advantage of economies of scale and provides I&M with the needed flexibility to react to circumstances beyond the Company's control. Chodak Direct, at 6-7.

Mr. Chodak (pp. 14-15) also explained that I&M believes that it is necessary and appropriate to support economic growth in I&M's service area. He testified that I&M seeks approval of TDSIC projects, such as the Kenmore and Oliver Plow Station Projects that have an economic development component. See also, Isaacson Direct, pp. 17-18. Mr. Chodak (p. 15) explained that economic development results in additional electric load from new and expanding businesses, which allows the Company's fixed costs to be spread over a larger number of customers and supports the efficient use of the Company's energy delivery system.

**C.** <u>Incremental Benefits.</u> Mr. Kratt explained (pp. 9-11) that in order to evaluate each TDSIC Program and Major Project, I&M specifically focused on safety; reliability; modernization; and economic development. Mr. Kratt (pp. 11-16) discussed the incremental and other benefits achieved by each of the TDSIC Programs and Major Projects.

**D.** Estimated Cost. Mr. Chodak (p. 16) and Mr. Kratt (pp. 21-24) explained that the total estimated cost of I&M's TDSIC Plan over seven years is approximately \$787 million. Mr. Chodak said \$53 million of the total \$787 million is O&M expenses directly associated with

TDSIC capital projects. He stated that this O&M work is necessarily performed during the construction of the project. Mr. Chodak testified that the cost estimate also includes costs for engineering and procurement of long lead-time materials that will be incurred in advance to ensure the TDSIC Plan can be effectively and efficiently executed. Mr. Isaacson (pp. 20-21) provided cost and project details and explained how I&M will monitor costs and track the investment and O&M expense associated with its TDSIC Plan.

Mr. Chodak (p. 16) and Mr. Kratt (pp. 21-25) explained that the TDSIC Plan estimated costs are based on I&M's own expertise and knowledge of its system and its engineering methodologies that evaluated the specific projects and programs to be performed. Mr. Chodak (p. 16) and Mr. Kratt (p. 23) explained that I&M employed the services of EASI Engineering and IJUS LLC, to review I&M's cost estimates. Mr. Chodak stated that I&M intends to continuously examine more cost-effective ways to provide the benefits envisioned by the TDSIC Plan, which may provide additional opportunity to reduce the scope or cost of the Plan. He added that, while the estimates may change as more detailed engineering and design work is accomplished, I&M is committed to employing rigorous project management practices similar to those successfully employed to manage I&M's generation projects. See also Kratt, pp. 23-24. Mr. Chodak said the estimates will be reconciled with actual costs to assure that customer rates only reflect the actual costs incurred to complete the work. In his opinion, the estimates may reasonably be relied on for ratemaking purposes as the best estimate of the TDSIC Plan.

**E.** <u>Annual Filings.</u> Mr. Kratt (pp. 25-26) testified that I&M will file an updated TDSIC Plan annually, based on the most recent information available in an effort to provide transparency with regards to the Plan progress and any requested changes. He identified the information which I&M proposed to include in the annual updates and discussed the process I&M plans to use to provide interested stakeholders a roadmap of changes and plans for the Programs and Major Projects each year.

## 5. <u>OUCC Evidence.</u>

**A.** <u>Cost Estimates.</u> Edward T. Rutter, Utility Analyst in the OUCC Resource Planning and Communications Division, discussed his view of what constitutes a "best estimate" and the steps he took to analyze the Plan cost estimates. He stated (p. 3) that I&M's request includes only distribution projects and that Attachment TAK-1 provides the capital cost estimates by FERC account and in terms of eligibility as a new or replacement electric distribution project, this attachment supports the inclusion of the total capital cost estimate in I&M's TDSIC Plan.

Mr. Rutter explained why he emphasized I&M's estimates in his review of the Plan and stated that detailed costs estimates and a detailed explanation of the process used to determine the estimates are equally important. Mr. Rutter testified that I&M understands how to develop cost estimates for inclusion in the 7-Year Plan and what detail would be required by an independent analyst to make a determination of the "best" estimate. Mr. Rutter testified that I&M's cost estimates were based on recent actual experience for similar projects, and also considered possible economic development impacts for certain projects. He said I&M provided a detailed Excel spreadsheet showing the development of all costs across the 7-Year Plan and detailed historical cost for the completed historical projects that formed the base for the cost

estimate development. Mr. Rutter testified that any 7-Year Plan involves long term cost estimates that are dependent on many factors beyond the control of the estimator. He said the cost estimates were prepared by I&M employees, they are reflective of historical performance, and are based on what was known and understood at the time the cost estimates were prepared. He stated that, with the exception of the future Major Projects, given the transparency, the support documentation and the information provided by I&M in its case-in-chief and in meetings with I&M personnel, it would not be unreasonable to find these estimates sufficient to meet the Statute's "best" estimate criteria. Mr. Rutter recommended (pp. 3, 5) the Commission find the estimated costs of the Plan to be "best" estimates as required by the statute except for the proposed Futurefuture Major Projects that begin in 2017.

**B. TDSIC Projects and Programs.** Anthony A. Alvarez, Utility Analyst in the OUCC Resource Planning and Communications Division, evaluated the Major Projects and Programs. He testified that with two exceptions the Year 1 projects appear robust, reasonable and feasible. He stated that from an engineering perspective, these proposed projects were relatively well defined, their scopes of work identified, and the benefits made apparent and attainable. Mr. Alvarez recommended approval of I&M's Plan with two exceptions. Mr. Alvarez's two exceptions were: 1) the Clearance Zone Widening Program; and 2) future Major Projects.

**1.** <u>Clearance Zone Widening Program.</u> Mr. Alvarez (p. 3) testified that while the OUCC understands the benefits of vegetation management, the Clearance Zone Widening Program should not be considered a TDSIC eligible project because: 1) this program is an expansion of existing vegetation management projects associated with existing lines; 2) it is not a part of I&M's transmission, distribution or storage system; 3) I&M also proposes implementing a four-year vegetation management cycle in this Program; and 4) this Program expands the definition of "capital projects" and includes O&M expenses not related to new TDSIC projects. He recommended the Commission reject this Program.

2. <u>Future Major Projects.</u> Mr. Alvarez asserted that no I&M witness offered any explanation as to what the future Major Projects might be, where they are located or why they are necessary and said it is impossible to determine if these projects meet the Statute's eligibility criteria and are required by the public convenience and necessary. He recommended the Commission reject the future Major Projects commencing in year 3 of the Plan.

3. <u>Pole Inspection and Replacement Program.</u> Mr. Alvarez (pp. 5-6) discussed the purpose of this Program and the impact that deteriorated poles can have on system reliability. He testified that I&M provided sufficient detail demonstrating that this Program will deliver incremental value to the Company's ratepayers. He testified that this Program meets the criteria of a TDSIC eligible project, appears to be reasonable and added that the OUCC does not object to the Program. Mr. Alvarez recommended that I&M provide annual reports with their TDSIC tracker filings that include details on the number of poles inspected over the past year; recommended for replacement; and the actual number of poles replaced.

## 6. <u>I&M Rebuttal.</u>

A. <u>Clearance Zone Widening Program.</u> Messrs. Chodak, Isaacson and Williamson each disagreed with the OUCC position that this Program is not an eligible TDSIC Project. Mr. Chodak explained that the statute encourages utilities to undertake projects that will improve the reliability of service to customers and there is no project that will accomplish this goal more than the Clearance Zone Widening Program. Mr. Chodak added that Indiana's law is consistent with many other laws and regulations across the country that recognizes the reasonableness of tracking clearance zone costs. He explained that vegetation is a leading cause of outages for I&M's customers and when the storms come, a fully cleared zone around the Company's facilities will reduce the number and shorten the duration of outages.

Mr. Chodak also disagreed with Mr. Alvarez's contention that the clearance zone is not part of I&M's distribution system. Mr. Chodak (pp. 3-5) explained that the clearance zone is an integral part of I&M's distribution system and widening the clearance zones across the system will contribute significantly to its reliability. He testified that the clearance zone around I&M's distribution facilities is as much a part of the system as the air zone above a runway is a part of an airport system. He stated that it makes no sense to replace the hardware of the system without also creating adequate physical space around the facilities. He stated that ice-laden branches and wind-blown trees will, if located in close proximity to distribution facilities, bring down new poles and wires and interrupt service. He added that they will also cause equipment to cycle more frequently and thus deteriorate more rapidly. He stated that it is difficult to propose a plan to spend the capital on replacing the hardware of the system without recognizing the commensurate value of investing in a program that can widen the physical space in which the distribution facilities function to provide greater reliability. *Id*.

Mr. Isaacson (Rebuttal, p. 10) noted that Mr. Rutter concluded that I&M's cost estimate for the Clearance Zone Widening Program meets the "best estimate" requirement of the TDSIC statute. He explained the difference between clearance zone widening and other vegetation management activities. *Id.* at 12-14. He clarified what is included in I&M's proposed TDSIC Program and what is not. *Id.* at 15. Mr. Isaacson testified that this Program, just like all of the Programs and Projects included in I&M's TDSIC Plan, is part of I&M's system. He stated that clearance zone widening expands the clearance zone around primary distribution facilities. He explained that approval of this Program will allow I&M to strategically and effectively widen the 3,600 miles of primary distribution line clearance zones that I&M has identified as narrow, have not been previously widened, and cause the greatest need for reactive vegetation management activity due to weather-related events and hot-spotting. He testified that this provides significant benefits to I&M's customers and the distribution system.

Mr. Isaacson (Rebuttal, p. 18) and Mr. Williamson (p. 4) explained that the Clearance Zone Widening Program costs are primarily capital costs with associated O&M costs. These witnesses explained that I&M is not trying to re-label O&M as capital costs. Mr. Isaacson testified that the only vegetation management costs included in I&M's TDSIC Plan, as part of the Clearance Zone Widening Program, are those related to specific clearance zone widening activities in this Plan associated with the 3,600 miles of primary distribution system. Mr. Williamson explained that Mr. Alvarez confuses the ongoing maintenance associated with maintaining clearances with I&M's TDSIC Plan request to widen its clearance zones beyond the zone that has been previously cleared. He testified that widening clearance zones is an initial clearing and does qualify as creating an asset for regulatory accounting purposes. He said the

FERC Uniform System of Accounts ("USofA") requires capitalization of initial clearing, or "initial tree trimming," costs, which creates an asset no different than property rights, for example, that are recorded as an asset. Mr. Williamson stated that I&M's Clearance Zone Widening TDSIC Plan Program will result in capital projects recorded to FERC account 365 Overhead Conductors and Devices. He stated that like other capital projects included in a TDSIC Plan, a level of associated O&M costs will also be required for this Program, which will be recorded to FERC account 593 Maintenance of Overhead Lines. Mr. Williamson added that the tree trimming/clearing cost related to the emerald ash borer mitigation work included with this Program will be treated as outlined above, meaning that I&M will follow the FERC USofA guidance requiring capitalization of any initial clearing cost and expense recognition for maintaining clearances.

Mr. Williamson concluded that the FERC USofA provides clear guidance on what constitutes a part of I&M's distribution system and this establishes that the Clearance Zone Widening Program is an eligible improvement project under the TDSIC Statute.

Mr. Isaacson clarified that the Clearance Zone Widening Program included in the TDSIC Plan does not include the cost of a four-year trim cycle. He explained how this program has a set and defined task and will end upon completion of that task. He said the eventual implementation of a four-year trim cycle is an added benefit performed outside the confines of the TDSIC Plan, once the Clearance Zone Widening Program is completed after Plan Year 4. He stated that the Commission should approve I&M's TDSIC Plan, including the Clearance Zone Widening Program, as filed. He testified that this will provide I&M the most significant increase to customer reliability and also allow I&M to gain the most benefit out of the other components of its TDSIC Plan. He noted that I&M's Clearance Zone Widening Program cost estimates have met the best estimate requirement of the TDSIC Plan as demonstrated by OUCC witness Rutter. He concluded that this Program is a series of projects that improve I&M's distribution system by way of new critical investment, providing long-term assets and benefits to I&M and its customers.

**B.** <u>**Future Major Projects.**</u> Mr. Isaacson (Rebuttal, pp. 2-10) responded to Mr.

Alvarez's contentions regarding the future Major Projects and explained why the future Major Projects meet the TDSIC Statute eligibility requirements and are required by the public convenience and necessity. He explained that the future Major Projects are based on the same criteria underlying the Year 1 and Year 2 station projects. He testified that the difference is that the precise location of the future Major Projects was not specifically listed because of the need to maintain flexibility. Mr. Isaacson reiterated that the Major Projects component of I&M's 7-Year Plan includes a range of station projects aimed at retiring obsolete equipment, improving reliability and power quality, and increasing capacity in support of economic development (where applicable). He added that this work includes expansion projects that will add a transformer and breakers, partial upgrades that will replace/upgrade an existing transformer, rebuilds that include replacing equipment in-kind, full upgrades where equipment will be resized and/or rebuilt, installation of new stations, and retiring stations.

Mr. Isaacson explained that I&M specified the station projects for the first two years of the Plan and provided a blueprint for the work and station issues it would address that are similar to the first two years for the remaining years based on its knowledge of the system and expected needs. *Id.* at 5; see also Isaacson direct testimony, including Attachment DSI-3, as well as Witness Kratt's direct testimony, p. 21, Figure 4. He explained that while the Company has a plan for the later years, it is premature to finalize exact locations and lock in the final projects. He testified that doing so fails to recognize best management practices. Mr. Isaacson explained that the estimated costs of these planned projects are based on representative work that I&M projects will be needed at that time. He testified that prematurely locking in projects would not reasonably position the Company to address the needs of the system as the future unfolds. He added that providing the level of detail sought by the OUCC now could unreasonably raise an expectation at the local city or township level because the Plan may be amended as the future unfolds.

Mr. Isaacson explained that I&M used the same basis and methodology for estimating all Major Projects included in its TDSIC Plan. Isaacson Rebuttal, at 8. Therefore, Mr. Rutter's recommendation that the Commission approve I&M's best estimate due to the steps taken by I&M in the other areas of the filing equally support the approval of the future Major Projects, because I&M used the same criteria praised by Mr. Rutter. Isaacson Rebuttal, p. 7. Mr. Isaacson discussed the methodology used to develop the cost estimates and need for the future Major Projects and explained the stakeholder process I&M plans to use to review plan updates.

C. <u>Pole Inspection and Replacement Program Reporting.</u> Mr. Isaacson explained that I&M is amendable to providing a report similar to what Mr. Alvarez outlined in his testimony and agrees to work with the OUCC to develop a Pole Inspection and Replacement Program report for submission on an annual basis.

7. <u>Statutory Requirements.</u> Ind. Code § 8-1-39-10 permits a public utility to petition the Commission for approval of the public utility's seven (7) year plan for eligible transmission, distribution, and storage improvements. We refer to this as the "TDSIC Plan" or "Plan." As used in the statute, "eligible transmission, distribution, and storage system improvements" means new or replacement electric or gas transmission, distribution, or storage utility projects that: (1) a public utility undertakes for purposes of safety, reliability, system modernization, or economic development; (2) were not included in the public utility's rate base in its most recent general rate case; and (3) were designated in the Commission-approved TDSIC Plan. Ind. Code § 8-1-39-2.

Ind. Code § 8-1-39-10(b) states that after notice and hearing, and not more than 210 days after the petition is filed, the Commission shall issue an order that includes the following:

- (1) A finding of the best estimate of the cost of the eligible improvements included in the plan;
- (2) A determination whether public convenience and necessity require or will require the eligible improvements included in the plan; and
- (3) A determination whether the estimated costs of the eligible improvements included in the plan are justified by incremental benefits attributable to the plan.

"If the commission determines that the public utility's seven (7) year plan is reasonable, the commission shall approve the plan and designate the eligible transmission, distribution, and storage improvements included in the plan as eligible for TDSIC treatment." *Id.* 

## 8. Commission Discussion and Findings.

**A.** <u>**I**&M's **TDSIC** Plan.</u> Consistent with the provisions of Ind. Code ch. 8-1-39, I has developed a 7-year **TDSIC** Plan that is a comprehensive package of Programs a

I&M has developed a 7-year TDSIC Plan that is a comprehensive package of Programs and Major Projects that improve and modernize I&M's energy delivery system. I&M's witnesses explained that the TDSIC Plan provides a structured means of investing approximately \$734 million of capital and an additional \$53 million of associated O&M expense over the seven-year period 2015-2021. The TDSIC Plan includes: replacing overhead and underground distribution facilities, modernizing stations through which electricity is delivered, widening line clearance zones to enhance safety clearances and reliability, modernizing the underground networks in the larger cities served by I&M, and encouraging economic development in I&M's service area. Chodak Direct, p. 5; Isaacson Direct, p. 24. Uncontested record evidence shows that I&M's TDSIC Plan will improve the customer experience in I&M's service area by modernizing I&M's energy delivery system, improving reliability and assuring public and employee safety. Chodak Direct, pp. 5-6.

The OUCC's witnesses supported the need for and reasonableness of the majority of I&M's TDSIC Plan. Other than the two exceptions discussed below, Mr. Alvarez testified that from an engineering perspective, the proposed projects were relatively well defined, their scopes of work identified, and the benefits made apparent and attainable. The evidence shows that I&M and the OUCC worked cooperatively to facilitate the OUCC's review of the TDSIC Plan and related TDSIC Rider filing docketed as Cause No. 44543 and that I&M is committed to carrying that cooperation forward to the periodic TDSIC Rider filings.

We now turn to the only two proposed TDSIC projects challenged for inclusion in the TDSIC Plan, and by only one party- the OUCC.

1. <u>Clearance Zone Widening Program.</u> The TDSIC Statute allows a utility to recover costs to implement transmission and distribution ("T&D") system improvements for the purposes of safety, reliability, system modernization, or economic development. Ind. Code § 8-1-39-2. Mr. Alvarez (p. 3) testified that <u>while</u> the OUCC understands the benefits of vegetation management. His concern was to raise the question of whether the Clearance Zone Widening-Program is, it should not be considered a TDSIC eligible project. He recommendsrecommended the Commission deny I&M's proposed Clearance Zone Widening Program based on his argument that because he believed it expands the definition of "capital projects" and includes O&M expenses not related to new TDSIC projects. The Commission declines to adopt the OUCC's argument and finds that the Clearance Zone Widening Program is a TDSIC eligible project as proposed by the Company.

<u>The Commission declines to adopt the OUCC's argument and finds that the Clearance</u> <u>Zone Widening Program is a TDSIC eligible project as proposed by the Company.</u> The Statute defines "eligible transmission, distribution, and storage system improvements" as new or replacement electric or gas transmission, distribution, or storage utility projects undertaken for purposes of safety, reliability, system modernization, or economic development. Our analysis begins with a determination as to whether the proposed Clearance Zone Widening Program is part of I&M's transmission, distribution or storage systems. The OUCC suggested that if this program is an eligible TDSIC project, then "virtually any expenditure by a utility could be argued to improve, at least in some remote sense, safety and reliability." We disagree. I&M's proposal is directly tied to capital improvements. Furthermore, as explained below, the relationship between clearance zone widening and safety and reliability is neither remote nor tangential.

The OUCC argued that the Clearance Zone Widening Program does not fall within the statute because it does not replace infrastructure. The statute is not limited to "infrastructure replacement"; it includes new transmission or distribution system improvement projects and as discussed below substantial evidence establishes that the Clearance Zone Widening Program qualifies as such.

Substantial<u>More specifically, substantial</u> record evidence refutes Mr. Alvarez's suggestion that the Clearance Zone Widening Program is not a capital project. I&M is not attempting to re-define capital costs but is adhering to the FERC USofA adopted by this Commission. As explained by I&M witness Williamson, widening clearance zones falls within the FERC definition of a capital project. Mr. Rutter testified (p. 2) that a TDSIC Plan project should be determined by the FERC USofA. Thus both parties agree that the FERC USofA is authoritative on this issue. The record shows that FERC USofA provides clear guidance for what constitutes a "part of I&M's distribution system."

In its post hearing filing, the OUCC urged the Commission to reject Mr. Williamson's unimpeached, sworn testimony that these vegetation management costs are capitalized and as such are part of the distribution system. We decline to reject this testimony. Mr. Williamson is an expert regulatory accountant and his testimony is consistent with the plain language of Account 365 of the FERC USofA, which provides that initial trimming costs are capitalized. Put another way, the word "initial" in the Account 365 description applies to the initial or first cutting of trees and vegetation. This initial work is a capital cost. The subsequent trimming or cutting of trees in the area previously cleared is recorded as O&M. The OUCC also asked the Commission to find that the cost of this program "could equally appropriately be booked to USofA Account 593." OUCC PO, at 13. This proposed finding must be rejected because it is not supported by the record evidence. To the contrary, substantial record evidence refutes it. The Commission's decisions must be based on the record evidence, not argument from the OUCC's counsel. *See Monon R.R. v. Public Serv. Comm'n*, 241 Ind. 142, 170 N.E.2d 441, 442 (1960) (quoting *Public Serv. Comm'n v. Indiana Bell Tel. Co.*, 235 Ind. 1, 27, 130 N.E.2d 467 (1955))

The OUCC also argued that the Clearance Zone Widening Program does not qualify as a new project because the 3,600 miles of primary distribution already exists. This is not determinative. The statute applies to new or replacement projects. Thus it does not matter whether the wider zone is a replacement zone or a new zone. It is still a distribution system improvement. By way of analogy, when a one lane road is widened, the additional lanes may be viewed by some as a new road and by others as a replacement road. Regardless, the wider road

constitutes a transportation system improvement. Similarly, when the clearance zone is widened the newly cleared area is an improvement to the distribution system.

We also find the benefits of the Program are substantial. The record reflects that I&M's reliability will improve significantly compared to what would be expected without the Program. In particular, I&M expects the frequency of outages will be less and the duration of outages will be reduced. The benefits stemming from this Program, like the benefits that will be achieved from all of the Programs and Projects proposed as part of I&M's TDSIC Plan, fall under the benefits outlined in the TDSIC Statute. Even the OUCC filing indicates that it recognizes that this Program provides benefits. Therefore, we find the Clearance Zone Widening Program is a set of capital-based distribution system projects the Company is undertaking for the purpose of safety and reliability. We further find that this is new investment and, as such, the proposed capital projects were not included in rate base in I&M's most recent general rate case.

Recognition that the Clearance Zone Widening Program is an eligible TDSIC project does not broaden the statute to include virtually any expenditure. The O&M included in I&M's Clearance Zone Widening Program is directly related to the proactive capital project included in I&M's TDSIC Plan for the sole purpose of fully clearing the clearance zones of 3,600 miles of I&M's primary distribution facilities. The TDSIC Statute contemplates recovery of capital expenditures and TDSIC costs including O&M. Specifically, Ind. Code § 8-1-39-7(2) provides that associated O&M is an eligible TDSIC cost eligible for recovery under the statute. While Mr. Alvarez suggested otherwise, substantial evidence shows that this Program is separate and apart from the normal, ongoing vegetation management. This TDSIC Program is designed to increase reliability by avoiding outages and to provide an extra benefit by preparing the Company's system for a four-year vegetation management cycle at the conclusion of the TDSIC Program. I&M's witnesses explained that neither the costs of implementing a four-year vegetation management cycle nor the costs of the Company's current ongoing vegetation management program are included in the TDSIC Plan.

Accordingly, we find the Clearance Zone Widening Program in I&M's 7-Year Plan complements the other TDSIC Plan components and will provide numerous benefits for customers and I&M's system by improving reliability and safety. In addition, I&M's Clearance Zone Widening Program cost estimates meet the "best estimate" requirement of the TDSIC Statute, which is supported by OUCC witness Rutter's testimony, and the estimated costs of this program are justified by the incremental benefits, as supported by Company witnesses Chodak and Isaacson. Without the Clearance Zone Widening Program, new TDSIC equipment will be unnecessarily more susceptible to damage by tree limbs and branches on a daily basis. We find it does not serve the customers' best interest to improve the hardware of the system without also hardening the system to potential tree damage that can bring down the newly installed poles and wires. This will allow I&M to address its two leading causes of outages, failing infrastructure and outages caused by vegetation. Accordingly, we find and conclude that I&M's Clearance Zone Widening Program is consistent with the purpose of the TDSIC Statute and meets the criteria of the Statute. Therefore we find this Program is an eligible improvement project under the TDSIC Statute and should be approved.

2. Future Major Projects. I&M's TDSIC Plan includes both Programs and Major Projects. The OUCC argues that future projects that are under the Major Projects "umbrella" lack sufficient detail for the Commission to conclude they are eligible system improvements. We disagree. The OUCC argument that the Commission is being asked to approve "some future project somewhere replacing some unknown plant for an unknown reason" is erroneous. (OUCC PO-R, 11) The OUCC did not challenge the TDSIC eligibility of the Major Projects and the record demonstrates that the future Major Projects are more of the same type of project. Thus, as explained below, if there is no dispute that the Major Projects are TDSIC eligible, it is logical and reasonable to conclude that more of the same type of project is also a TDSIC eligible project.

<u>I&M's TDSIC Plan includes both Programs and Major Projects.</u> The record demonstrates that a Program is a systematic deployment of a practice across the system, such as pole replacements. Major Projects encompass more complex individual projects such as adding a new substation. The Major Projects are focused on a specific outcome and often take longer than a year. As explained by I&M Witness Kratt (Direct, p. 8), the Major Projects component of I&M's 7-Year Plan includes a range of station projects aimed at retiring obsolete equipment, improving reliability and power quality, and increasing capacity in support of economic development (where applicable). Major Projects address reliability by eliminating such issues as transformer capacity overload and potential failure. As Mr. Kratt also explained (Direct, p. 8), Major Projects address reliability by improving planned and unplanned outage recovery contingencies. The record reflects that these Projects also support economic development by providing electric service and capability to address the community's service needs in I&M's service territory.

Mr. Alvarez recommended the Commission deny the future Major Projects commencing in Year 3 of the TDSIC Plan. He argued that it is impossible to determine if the future Major Projects meet with TDSIC statute eligibility requirements and are required by the public convenience and necessity. We disagree. I&M's filing defined Major Projects for all seven Plan years and provided the cost estimates for all of the Major Projects for all seven Plan years. The future Major Projects were defined by type to be the same as the Major Projects in Years 1 and 2. We find that this category of projects is not unduly broad and is reasonably defined. The record shows and we find that the Major Projects for Plan Years 3-7 will be similar in scope to Major Projects for Years 1 and 2, and will also result in similar benefits.

The record also reflects that I&M used the same basis and methodology for estimating the cost of all the Major Projects included in its TDSIC Plan. Isaacson Rebuttal, at 8. This methodology used I&M historical data for similar completed projects. The Plan for the future Major Projects permits the Commission and stakeholders to reasonably identify what projects will be undertaken, when they will be undertaken and why these projects are necessary. I&M specifically described the system statistics I&M is experiencing with aging stations and facilities such as station transformers and switching circuit ties with inadequate capacity and otherwise showed the need for the Major Projects. In addition to this factual analysis of the distribution system, I&M explained how the Major Projects achieve all four benefits identified in the TDSIC Statute.

We recognize that the Company plans to provide additional details regarding the future Major Projects as the future unfolds but disagree with Mr. Alvarez that this means the future Major Projects must be rejected. Rather we agree with Mr. Isaacson that prematurely locking in projects would not reasonably position the Company to address the needs of its system as the future unfolds. The record shows that I&M's energy delivery system is dynamic and subject to a variety of factors that can affect its system. Since these factors are largely outside of the control of I&M, and may be unpredictable, I&M needs flexibility to tailor its TDSIC Plan. I&M provided a plan that necessarily incorporates flexibility while still tying the scope and best estimate to current projects for validation. The future Major Projects are properly based on the criteria I&M provided for this component of the TDSIC Plan.

We note that I&M intends to solicit input from stakeholders such as the OUCC, as the future unfolds to ensure the best TDSIC Plan possible. This is consistent with guidance provided in previous Commission decisions. As we have found in other TDSIC proceedings, the development and subsequent regulation of a multi-year plan that is sufficiently detailed while affording reasonable flexibility to adapt to changes in need and priority over time is a balancing act that requires a utility sponsored and supported process and the application of the regulating agency's expertise in applying the underlying statutory framework. *Southern Indiana Gas and Electric Company*, Cause No. 44429/44430, p. 17 (IURC 8/27/2014); *Northern Indiana Public Service Co.*, Cause No. 44403, p. 18 (IURC 4/30/2014); *Northern Indiana Public Service Co.*, Cause No. 44370, p. 11 (IURC 2/17/2014).

The evidence of record demonstrates that I&M's TDSIC Plan provides a reasonably detailed overview of what types of Major Projects need to be undertaken and shows why these types of projects are necessary. Furthermore, we find I&M's TDSIC Plan includes a defined roadmap for how the Company intends to achieve its objective of maintaining safe, reliable service for its customers. Consequently, we find that the future Major Projects are eligible projects under the TDSIC Statute, otherwise meet the statutory criteria and are sufficiently identified in the Company's TDSIC Plan. Therefore, we find that the future Major Projects are appropriately included in the TDSIC Plan and should be approved.

3. <u>Pole Inspection and Replacement Program.</u> The OUCC recommended the Company provide an annual Pole Inspection and Replacement report with its annual TDSIC Rider filings. The record reflects that I&M is amenable to providing a report and agrees to work with the OUCC to develop a Pole Inspection and Replacement Program report for submission on an annual basis. Therefore, in accordance with the testimony of Mr. Alvarez and Mr. Isaacson, we find that I&M should provide a report on this program as part of its annual TDSIC filings.

4. <u>Conclusion on TDSIC Plan.</u> Based on the evidence presented in this proceeding, and as discussed further herein, we find that I&M has presented a 7 year plan that meets the requirements of Ind. Code § 8-1-39-10. Accordingly, we further find that I&M's TDSIC Plan should be approved.

**B.** <u>Best Estimate of the Cost of the Eligible Improvements.</u> Ind. Code § 8-1-39-10(b)(1) requires that an order approving a TDSIC Plan must include "a finding of the best estimate of the cost" of the proposed eligible improvements contained therein. <u>The words</u> "best estimate of the cost" are not defined in the statute. The OUCC argued (p. 10) that it is impossible to conclude that I&M's future Major Projects cost estimate is "reasonable, let alone best" because there are no "defining characteristics" or "any justification" for any future Major Project. We disagree. As discussed above, the defining characteristics were provided in the

testimony of I&M witness Kratt. I&M specifically described the system statistics I&M is experiencing with aging stations and facilities such as station transformers and switching circuit ties with inadequate capacity and otherwise showed the need for the Major Projects. In addition to this factual analysis of the distribution system, I&M explained how the Major Projects achieve all four benefits identified in the TDSIC Statute. Kratt Direct, pp. 9-11; Isaacson Direct, pp. 16-17.

I&M estimates the total cost of the TDSIC Plan is \$787 million. The Plan is comprised of approximately \$734 million in capital and approximately \$53 million in associated O&M. Kratt Direct, pp. 21-22. The record reflects that I&M developed detailed project cost estimates using the same methodology used for its normal work order estimating process. I&M also created detailed project scopes to arrive at the project costs, including equipment specifications and construction standards. In addition, I&M relied on its experience and engineering expertise, as well as historical project cost information, to develop the best estimate of the Plan's cost. To verify the reasonableness of I&M's cost estimates, I&M utilized site visits to help identify and include key variable components, such as wetland remediation at a station site. I&M used two independent third parties, IJUS LLC. and EASI Engineering to validate I&M's cost estimates for the Programs and Major Projects.

OUCC witness Rutter supported the process used by I&M to develop its cost estimates. Mr. Rutter testified that the TDSIC estimate should first start with the historical budgeting or estimating practices and policies in place within the utility's normal budgeting and forecasting procedures. He said I&M's project cost estimates were developed using the Company's existing budgeting and estimating practices and policies. He added that I&M's Plan was developed by I&M employees who have day-to-day responsibility for designing, operating, and maintaining the distribution plant as well as responsibility for cost control for any distribution projects undertaken by I&M. Mr. Rutter stated that the information provided by I&M was transparent, based on the most recent historical experience with similar projects and fully supports a baseline estimate for future estimate comparisons. Mr. Rutter testified that I&M understands how to develop cost estimates for inclusion in the 7-Year Plan and what detail would be required by an independent analyst to make a determination of the "best" estimate. He said I&M's cost estimates were based on recent actual experience for similar projects, and also considered possible economic development impacts for certain projects. He said I&M provided a detailed Excel spreadsheet showing the development of all costs across the 7-Year Plan and detailed historical cost for the completed historical projects that formed the base for the cost estimate development. Mr. Rutter testified that any 7-Year Plan involves long term cost estimates that are dependent on many factors beyond the control of the estimator. He testified that the costs are based on what was known and understood at the time the cost estimates were prepared. While we excepted the future Major Projects addressed by Mr. Alvarez, Mr. Rutter testified that given the transparency, support documentation and the information provided by I&M in its case-in-chief and in meetings with the OUCC, it would not be unreasonable for the Commission to find these estimates sufficient to meet the statute's "best" estimate criterion.

As discussed above, through its rebuttal testimony, I&M confirmed that its cost estimate for the future Major Project followed the same process used for the other cost estimates which Mr. Rutter found to meet this criterion for approval. Mr. Isaacson explained that this methodology included the use of I&M historical data for similar completed projects, I&M expertise and I&M's station and circuit capacity load forecast which is updated on an annual basis. Because the basis for the cost estimate was the same in all Plan years, we find I&M has reasonably supported the estimated cost of the TDSIC Plan.

Based on the evidence presented, we find the record demonstrates that the estimated cost of I&M's TDSIC Plan, including the future Major Projects, rests on a sound factual and analytical foundation and is reasonable. Accordingly, we find the best estimate of the cost of the eligible improvements included in the Plan is the estimate provided by I&M. Therefore, we find that this statutory criterion is satisfied.

**C.** <u>Public Convenience and Necessity.</u> Ind. Code § 8-1-39-10(b)(2) requires that an order approving a TDSIC Plan must include "[a] determination whether public convenience and necessity require or will require the eligible improvements included in the plan." The public convenience and necessity criterion is common in public utility matters and generally concerns whether the proposal is fitted or suited to the public need. Put another way, the Commission must be satisfied that there is a reasonable and apparent need for the Plan.

Petitioner's witnesses Chodak, Kratt and Isaacson discussed the need for and benefits of the TDSIC Plan projects. In general, the Company seeks to minimize customer outages and restoration times through the planned replacement of electric system components and investments that maintain and improve customer reliability. Some TDSIC Programs will be performed to improve the safe and reliable functioning of the system, such as work to replace aging equipment, which, if not undertaken, would likely result in more frequent or extended outages for customers. Certain parts of the TDSIC Plan are designed to harden I&M's energy delivery system and minimize emergency restoration through planned replacement of infrastructure that has reached the end of its useful life.

The record is uncontroverted on the need for or benefit of the proposed TDSIC Plan projects. Mr. Alvarez took issue with the eligibility of the Clearance Zone Widening Program and the definition of the future Major Projects but otherwise found the proposed TDSIC projects are relatively well defined, their scopes of work identified, and the benefits made apparent and attainable. Again, he admits that the OUCC understands the benefits of vegetation management.

Based on the evidence presented, we find substantial evidence shows that the proposed TDSIC Plan projects are reasonably necessary for I&M to continue to provide reasonable and adequate retail service. The Company's Plan balances the need to invest in the reliability of its energy delivery system while maintaining reasonable and competitive rates for electric service. The evidence presented in this Cause shows that the Programs and Major Projects included in I&M's TDSIC Plan will serve the public convenience and necessity in various ways. I&M's Plan improves I&M's reliability and therefore improves the quality of life, economic enhancement and overall public safety of the communities I&M serves. In addition, I&M's request conforms with Indiana law, is consistent with good public policy and serves the public interest. The record shows that the TDSIC projects and investments are essential in supporting the reliable operation of I&M's system for all stakeholders. Therefore, we find that the public convenience and necessity requires or will require the eligible improvements included in the TDSIC Plan.

#### D. Incremental Benefits Attributable to the TDSIC Plan. Ind. Code §

8-1-39-10(b)(3) requires that an order approving a TDSIC Plan must include "[a] determination whether the estimated costs of the eligible improvements included in the plan are justified by incremental benefits attributable to the plan."

As discussed above, there is no challenge to the benefits of the proposed TDSIC projects in the record. I&M's Plan focuses on improving the safe, reliable service for customers in a cost conscious manner. In determining the eligible improvements to be included in the TDSIC Plan, I&M completed a comprehensive risk analysis that took into account both the potential for and the consequences of facility failure. To evaluate the incremental benefits associated with the Plan, I&M focused on safety, reliability, modernization, and economic development. Kratt Direct, pp. 10-11. I&M also engaged a third party consultant to examine the age profiles of key I&M assets and help prioritize and select projects to mitigate identified risks. See Attachment TAK-2. Mr. Kratt identified the incremental benefits of each of the TDSIC Plan components. Kratt Direct, pp. 10-11. Among other things, he explained inspecting and replacing deteriorated poles, wire, and other components of the overhead distribution system will provide reliability improvements through proactive replacement prior to failure. He added that replacing aging, and in some cases obsolete, assets with new equipment that meets current system design standards helps modernize the system. He testified that improvements that meet the new standards also result in infrastructure built to better withstand storms. We agree that this activity, commonly referred to as "hardening" the system, benefits I&M's customers in the form of improved reliability.

The record reflects that the Plan also addresses grid resiliency, which is targeted at minimizing the number of customers impacted by an outage and restoring power outages more efficiently when they occur. In addition, the record shows that the 7-year nature of the TDSIC Plan will allow I&M to better utilize capital dollars, realize economies of scale, and promote efficiency through better planning of workflow and resources, all of which benefit customers by reducing overall cost. The Plan will also allow I&M to proactively engage the communities that I&M serves to better coordinate and manage the required work and any necessary service interruptions. The record shows that the greatest customer benefit is realized by coupling the hardened system and strategic replacement of aging assets with a Clearance Zone Widening Program, which should improve safety and reliability while facilitating easier access to facilities when damage does occur.

Accordingly, based on the evidence presented, we find I&M has sufficiently demonstrated that the estimated costs of the TDSIC Plan improvements are justified by the incremental benefits attributable to them.

#### E. <u>Whether I&M's TDSIC Plan is Reasonable.</u> Substantial record evidence

demonstrates that the prevalence of aging infrastructure requires a systematic approach and I&M's TDSIC investments are reasonably required to improve and modernize I&M's energy delivery system. Aging infrastructure and vegetation-caused outages are the top two causes for outages on the I&M distribution system. This TDSIC plan addresses both of these areas by focusing on the system performance and resiliency that will be achieved through sustained expenditures focused on replacing infrastructure, providing appropriate clearances from facilities, modernizing I&M's energy delivery system, and meeting the needs of customers. As

discussed above, I&M's TDSIC Plan satisfies the TDSIC Statute criteria. The TDSIC Plan is reasonably and cost effectively designed to incrementally improve: I&M's public and employee safety; I&M's ability to serve its customers; the reliability of I&M's energy delivery system; and I&M's response to unplanned system events. The Plan will modernize I&M's system and encourage economic development. The record establishes that I&M's Plan is based on a logical approach and sound analysis that presents the best estimate of the cost of the investments. Substantial evidence shows the Plan is reasonably designed to yield substantial benefits to I&M's customers. Accordingly, based upon our review of the evidence of record, and the foregoing considerations of each component of Ind. Code § 8-1-39-10, we find that I&M's 7-Year TDSIC Plan is reasonable and should be approved. Therefore, in accordance with Ind. Code § 8-1-39-10(b) we hereby designate the system improvements included in the TDSIC Plan as eligible for TDSIC treatment.

**F. Process to Update the TDSIC Plan.** Ind. Code § 8-1-39-9(a) provides that a utility shall update its 7-year TDSIC Plan with each petition it files under section 9. I&M proposed to comply with this statutory requirement by filing an updated TDSIC plan annually, based on the most recent information available. Kratt Direct, p. 25. I&M proposes to include the following in its annual report: TDSIC Plan progress update; updated cost estimates; identification of changes to the Plan; comparison of actual to estimated cost; explanation of significant variances and changes; and new investment requested for approval. I&M explained that it met with the OUCC to develop this proposal and the Company intends to continue to meet with the OUCC to ensure it has the detail needed in the above categories to properly understand the progression and future of the TDSIC Plan. As noted above, the Company's annual update will also include a report on the Pole Inspection and Replacement Program.

Mr. Kratt explained that I&M is prepared to hold a meeting with the OUCC and interested stakeholders approximately eight weeks prior to the filing of the yearly TDSIC Plan updates. He said I&M expects interested stakeholders to provide feedback on the information provided in a timely manner so that the Company can factor the comments and concerns in the updates it provides the Commission annually. Kratt Direct, pp. 25-26.

We find I&M's proposal to be reasonable and consistent with the Statute. Accordingly, we find I&M's proposal should be approved.

9. **Confidentiality Findings.** I&M filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information on October 14, 2014, which Motion was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on October 27, 2014 finding such information to be preliminarily confidential, after which such information was submitted under seal. There was no disagreement among the parties as to the confidential and proprietary nature of the information submitted under seal in this proceeding. We find all such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

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

- 1. I&M's 7-Year TDSIC Plan is hereby approved.
- 2. The projects included in I&M's 7-Year TDSIC Plan are hereby designated as eligible for TDSIC treatment.
- 3. In accordance with Ind. Code § 8-1-39-9(a) and as discussed in Finding 8. F above, I&M shall update its 7-year TDSIC Plan with each petition it files under Ind. Code § 8-1-39-9.
- 4. The information filed by Petitioner in this Cause pursuant to its Motion for Protective Order is deemed confidential pursuant to Indiana Code § 5-14-3-4 and Indiana Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.
- 5. This Order shall be effective on and after the date of its approval

## STEPHAN, HUSTON, MAYS-MEDLEY, WEBER, AND ZIEGNER CONCUR: APPROVED:

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

Brenda A. Howe, Secretary to the Commission

INDS01 14940681503184v1

Document comparison by Workshare Compare on Tuesday, March 24, 2015 2:09:13 PM

Input:		
Document 1 ID	file://C:\Users\jxn\Desktop\TDISC\FINAL I&M TDSIC Plan Proposed Order (44542).docx	
Description	FINAL I&M TDSIC Plan Proposed Order (44542)	
Document 2 ID	file://C:\Users\jxn\Desktop\TDISC\FINAL I&M TDSIC Plan Revised Proposed Order (44542).DOCX	
Description	FINAL I&M TDSIC Plan Revised Proposed Order (44542)	
Rendering set	Standard	

Legend:			
Insertion			
Deletion-			
Moved from-			
Moved to			
Style change			
Format change			
Moved deletion-			
Inserted cell			
Deleted cell			
Moved cell			
Split/Merged cell			
Padding cell			

Statistics:		
	Count	
Insertions	15	
Deletions	6	
Moved from	3	
Moved to	3	
Style change	0	
Format changed	0	
Total changes	27	

## STATE OF INDIANA

#### INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA ) MICHIGAN POWER COMPANY (I&M) ) FOR APPROVAL OF I&M'S 7-YEAR ) PLAN FOR ELIGIBLE TRANSMISSION, DISTRIBUTION AND STORAGE ) SYSTEM IMPROVEMENTS, PURSUANT ) TO IND. CODE § 8-1-39-10(a). )

CAUSE NO. 44542 APPROVED:

#### **ORDER OF THE COMMISSION**

#### **Presiding Officers:**

David E. Ziegner, Commissioner David E. Veleta, Administrative Law Judge

On October 14, 2014, Indiana Michigan Power Company ("Petitioner," "I&M" or "Company") filed its Verified Petition together with its verified direct testimony and exhibits.

Petitions to intervene were filed on November 10, 2014, by Citizens Action Coalition of Indiana, Inc. ("CAC"), on November 20, 2014, by Hoosier Energy Rural Electric Cooperative, Inc. ("Hoosier"), and on February 6, 2015 by an ad hoc group of industrial customers ("I&M Industrial Group" or "IG"). Each petition to intervene was granted by the Presiding Officers.<sup>1</sup>

On January 12, 2015, the OUCC filed its direct testimony and exhibits. On January 30, 2015, I&M filed its rebuttal testimony and exhibits. On February 9, 2015, the Commission issued a docket entry requesting information from I&M and the Company provided the information on February 10, 2015.

The Commission convened the evidentiary hearing in this Cause at 9:30 a.m. on February 11, 2015, in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana, at which time all evidence was heard. I&M, the OUCC, and IG appeared at and participated in the hearing. No members of the general public attended the hearing.

Based upon the applicable law and evidence presented the Commission finds:

1. <u>Notice and Jurisdiction</u>. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a "public utility" under Ind. Code §§ 8-1-2-1 and 8-1-39-4. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction to approve a public utility's seven (7) year plan for eligible transmission, distribution, and storage improvements ("TDSIC Plan" or "Plan"). Therefore, the Commission has jurisdiction over

<sup>&</sup>lt;sup>1</sup> Hoosier subsequently filed a Motion to Withdraw on January 16, 2015, which was granted by the Presiding Officers.

Petitioner and the subject matter of this proceeding in the manner and to the extent provided by Indiana law.

2. <u>Petitioner's Characteristics.</u> I&M, a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M is engaged in rendering electric service in the State of Indiana, and owns, operates, manages and controls plant and equipment within the State of Indiana that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public.

**3.** <u>**Requested Relief.</u>** I&M requests approval of its TDSIC Plan pursuant to Ind. Code § 8-1-39-10(a). The Programs in I&M's 7 year Plan include:</u>

- Pole Inspection and Replacement;
- Overhead Circuit Rebuilds;
- Underground Cable Replacement;
- Underground Station Exit Replacements;
- Station Breaker Replacements;
- Station Rehabilitation;
- Network Improvements; and
- Clearance Zone Widening.

The Major Projects component of I&M's TDSIC Plan includes a range of station projects aimed at retiring obsolete equipment, improving reliability and power quality, serving more customers, and expanding service. This body of work includes expansion projects that will add a transformer and breakers, partial upgrades that will replace/upgrade an existing transformer, rebuilds that include replacing equipment in-kind, full upgrades where equipment will be resized and/or rebuilt, installation of new stations, and retiring stations.

## 4. <u>I&M's Evidence.</u>

A. <u>Overview</u>. Paul Chodak III, I&M's President and Chief Operating Officer provided an overview of I&M's request for approval of I&M's TDSIC Plan, and discussed the customer benefits of the Plan which he explained is an important part of I&M's long-term strategy to provide safe, reliable and economic service to its customers. Mr. Chodak explained that the TDSIC Plan is needed to continue to provide adequate service to customers and added that the need to invest in improvement and modernization of energy delivery infrastructure is not unique to I&M. Mr. Chodak stated that system performance and resiliency will be achieved through the sustained expenditures focused on replacing infrastructure, providing appropriate clearances from facilities, modernizing I&M's energy delivery system, and meeting the needs of customers.

Thomas A. Kratt, I&M Vice President of Distribution Operations provided an overview of I&M's Indiana distribution system, history, and existing asset information. He explained the development of the Plan, including its overall objective, the process utilized to analyze I&M's

system, the program selection process, the methodology and asset analysis used to develop the Plan, and the determination of investments that would be included in the Plan.

Mr. Chodak explained that the TDSIC Plan includes some projects that involve transmission assets but the TDSIC Rider, as proposed, does not recover those transmission costs. Chodak Direct, pp. 12-13. Mr. Chodak explained that transmission investments made by IM Transco will be billed to I&M under IM Transco's Open Access Transmission Tariff ("OATT") and recovered through I&M's PJM Rider in accordance with the settlement agreement approved by the Commission in Cause No. 43774 PJM 4. He added that after the PJM-4 agreement expires, I&M may propose to modify the proposed TDSIC Rider to allow recovery of costs I&M will incur under an OATT for projects involving IM Transco or IM transmission assets. Chodak Direct, pp. 13-14.

**B.** <u>**TDSIC** Plan Programs and Major Projects.</u> Mr. Chodak and David S. Isaacson, I&M Distribution Projects Manager, discussed the TDSIC Plan, described the Programs and Major Projects in detail, explained how the Programs and Projects in the TDSIC Plan were determined. These witnesses also discussed how both the Programs and Projects enable I&M to meet customer expectations of maintaining and improving reliability in the future.</u> Mr. Isaacson (pp. 21-22) explained that I&M's Plan was developed based on the best information and data available at this time. He added that I&M's energy delivery system is dynamic, which creates a variety of reasons why I&M's TDSIC Plan deserves flexibility. He said providing flexibility for I&M's TDSIC Plan will help provide I&M with the tools necessary to allow it to best manage the benefits with the cost. Mr. Isaacson explained how I&M will implement and execute the Plan.

Messrs. Isaacson (pp. 4-17) and Chodak (pp. 5-6) also discussed why the Programs and Major Projects are necessary. Mr. Isaacson (p. 20) elaborated on how I&M will continue to prioritize its TDSIC projects by monitoring and evaluating progress and costs. Mr. Chodak explained that approval of the Programs will allow I&M the ability to start planning for those long-term actions performed in a series over multiple years, as well as secure the necessary resources and materials. He explained that taking a long-term approach with prior planning helps the Company take advantage of economies of scale and provides I&M with the needed flexibility to react to circumstances beyond the Company's control. Chodak Direct, at 6-7.

Mr. Chodak (pp. 14-15) also explained that I&M believes that it is necessary and appropriate to support economic growth in I&M's service area. He testified that I&M seeks approval of TDSIC projects, such as the Kenmore and Oliver Plow Station Projects that have an economic development component. See also, Isaacson Direct, pp. 17-18. Mr. Chodak (p. 15) explained that economic development results in additional electric load from new and expanding businesses, which allows the Company's fixed costs to be spread over a larger number of customers and supports the efficient use of the Company's energy delivery system.

**C.** <u>Incremental Benefits.</u> Mr. Kratt explained (pp. 9-11) that in order to evaluate each TDSIC Program and Major Project, I&M specifically focused on safety; reliability; modernization; and economic development. Mr. Kratt (pp. 11-16) discussed the incremental and other benefits achieved by each of the TDSIC Programs and Major Projects.

**D.** Estimated Cost. Mr. Chodak (p. 16) and Mr. Kratt (pp. 21-24) explained that the total estimated cost of I&M's TDSIC Plan over seven years is approximately \$787 million. Mr. Chodak said \$53 million of the total \$787 million is O&M expenses directly associated with TDSIC capital projects. He stated that this O&M work is necessarily performed during the construction of the project. Mr. Chodak testified that the cost estimate also includes costs for engineering and procurement of long lead-time materials that will be incurred in advance to ensure the TDSIC Plan can be effectively and efficiently executed. Mr. Isaacson (pp. 20-21) provided cost and project details and explained how I&M will monitor costs and track the investment and O&M expense associated with its TDSIC Plan.

Mr. Chodak (p. 16) and Mr. Kratt (pp. 21-25) explained that the TDSIC Plan estimated costs are based on I&M's own expertise and knowledge of its system and its engineering methodologies that evaluated the specific projects and programs to be performed. Mr. Chodak (p. 16) and Mr. Kratt (p. 23) explained that I&M employed the services of EASI Engineering and IJUS LLC, to review I&M's cost estimates. Mr. Chodak stated that I&M intends to continuously examine more cost-effective ways to provide the benefits envisioned by the TDSIC Plan, which may provide additional opportunity to reduce the scope or cost of the Plan. He added that, while the estimates may change as more detailed engineering and design work is accomplished, I&M is committed to employing rigorous project management practices similar to those successfully employed to manage I&M's generation projects. See also Kratt, pp. 23-24. Mr. Chodak said the estimates will be reconciled with actual costs to assure that customer rates only reflect the actual costs incurred to complete the work. In his opinion, the estimates may reasonably be relied on for ratemaking purposes as the best estimate of the TDSIC Plan.

**E.** <u>Annual Filings.</u> Mr. Kratt (pp. 25-26) testified that I&M will file an updated TDSIC Plan annually, based on the most recent information available in an effort to provide transparency with regards to the Plan progress and any requested changes. He identified the information which I&M proposed to include in the annual updates and discussed the process I&M plans to use to provide interested stakeholders a roadmap of changes and plans for the Programs and Major Projects each year.

## 5. <u>OUCC Evidence.</u>

A. <u>Cost Estimates.</u> Edward T. Rutter, Utility Analyst in the OUCC Resource Planning and Communications Division, discussed his view of what constitutes a "best estimate" and the steps he took to analyze the Plan cost estimates. He stated (p. 3) that I&M's request includes only distribution projects and that Attachment TAK-1 provides the capital cost estimates by FERC account and in terms of eligibility as a new or replacement electric distribution project, this attachment supports the inclusion of the total capital cost estimate in I&M's TDSIC Plan.

Mr. Rutter explained why he emphasized I&M's estimates in his review of the Plan and stated that detailed costs estimates and a detailed explanation of the process used to determine the estimates are equally important. Mr. Rutter testified that I&M understands how to develop cost estimates for inclusion in the 7-Year Plan and what detail would be required by an independent analyst to make a determination of the "best" estimate. Mr. Rutter testified that I&M's cost estimates were based on recent actual experience for similar projects, and also

considered possible economic development impacts for certain projects. He said I&M provided a detailed Excel spreadsheet showing the development of all costs across the 7-Year Plan and detailed historical cost for the completed historical projects that formed the base for the cost estimate development. Mr. Rutter testified that any 7-Year Plan involves long term cost estimates that are dependent on many factors beyond the control of the estimator. He said the cost estimates were prepared by I&M employees, they are reflective of historical performance, and are based on what was known and understood at the time the cost estimates were prepared. He stated that, with the exception of the future Major Projects, given the transparency, the support documentation and the information provided by I&M in its case-in-chief and in meetings with I&M personnel, it would not be unreasonable to find these estimates sufficient to meet the Statute's "best" estimate criteria. Mr. Rutter recommended (pp. 3, 5) the Commission find the estimated costs of the Plan to be "best" estimates as required by the statute except for the proposed future Major Projects that begin in 2017.

**B.** <u>**TDSIC Projects and Programs.**</u> Anthony A. Alvarez, Utility Analyst in the OUCC Resource Planning and Communications Division, evaluated the Major Projects and Programs. He testified that with two exceptions the Year 1 projects appear robust, reasonable and feasible. He stated that from an engineering perspective, these proposed projects were relatively well defined, their scopes of work identified, and the benefits made apparent and attainable. Mr. Alvarez recommended approval of I&M's Plan with two exceptions. Mr. Alvarez's two exceptions were: 1) the Clearance Zone Widening Program; and 2) future Major Projects.

1. <u>Clearance Zone Widening Program.</u> Mr. Alvarez (p. 3) testified that while the OUCC understands the benefits of vegetation management, the Clearance Zone Widening Program should not be considered a TDSIC eligible project because: 1) this program is an expansion of existing vegetation management projects associated with existing lines; 2) it is not a part of I&M's transmission, distribution or storage system; 3) I&M also proposes implementing a four-year vegetation management cycle in this Program; and 4) this Program expands the definition of "capital projects" and includes O&M expenses not related to new TDSIC projects. He recommended the Commission reject this Program.

2. <u>Future Major Projects.</u> Mr. Alvarez asserted that no I&M witness offered any explanation as to what the future Major Projects might be, where they are located or why they are necessary and said it is impossible to determine if these projects meet the Statute's eligibility criteria and are required by the public convenience and necessary. He recommended the Commission reject the future Major Projects commencing in year 3 of the Plan.

3. <u>Pole Inspection and Replacement Program.</u> Mr. Alvarez (pp. 5-6) discussed the purpose of this Program and the impact that deteriorated poles can have on system reliability. He testified that I&M provided sufficient detail demonstrating that this Program will deliver incremental value to the Company's ratepayers. He testified that this Program meets the criteria of a TDSIC eligible project, appears to be reasonable and added that the OUCC does not object to the Program. Mr. Alvarez recommended that I&M provide annual reports with their TDSIC tracker filings that include details on the number of poles inspected over the past year; recommended for replacement; and the actual number of poles replaced.

#### 6. <u>I&M Rebuttal.</u>

A. <u>Clearance Zone Widening Program.</u> Messrs. Chodak, Isaacson and Williamson each disagreed with the OUCC position that this Program is not an eligible TDSIC Project. Mr. Chodak explained that the statute encourages utilities to undertake projects that will improve the reliability of service to customers and there is no project that will accomplish this goal more than the Clearance Zone Widening Program. Mr. Chodak added that Indiana's law is consistent with many other laws and regulations across the country that recognizes the reasonableness of tracking clearance zone costs. He explained that vegetation is a leading cause of outages for I&M's customers and when the storms come, a fully cleared zone around the Company's facilities will reduce the number and shorten the duration of outages.

Mr. Chodak also disagreed with Mr. Alvarez's contention that the clearance zone is not part of I&M's distribution system. Mr. Chodak (pp. 3-5) explained that the clearance zone is an integral part of I&M's distribution system and widening the clearance zone across the system will contribute significantly to its reliability. He testified that the clearance zone around I&M's distribution facilities is as much a part of the system as the air zone above a runway is a part of an airport system. He stated that it makes no sense to replace the hardware of the system without also creating adequate physical space around the facilities. He stated that ice-laden branches and wind-blown trees will, if located in close proximity to distribution facilities, bring down new poles and wires and interrupt service. He added that they will also cause equipment to cycle more frequently and thus deteriorate more rapidly. He stated that it is difficult to propose a plan to spend the capital on replacing the hardware of the system without recognizing the commensurate value of investing in a program that can widen the physical space in which the distribution facilities function to provide greater reliability. *Id*.

Mr. Isaacson (Rebuttal, p. 10) noted that Mr. Rutter concluded that I&M's cost estimate for the Clearance Zone Widening Program meets the "best estimate" requirement of the TDSIC statute. He explained the difference between clearance zone widening and other vegetation management activities. *Id.* at 12-14. He clarified what is included in I&M's proposed TDSIC Program and what is not. *Id.* at 15. Mr. Isaacson testified that this Program, just like all of the Programs and Projects included in I&M's TDSIC Plan, is part of I&M's system. He stated that clearance zone widening expands the clearance zone around primary distribution facilities. He explained that approval of this Program will allow I&M to strategically and effectively widen the 3,600 miles of primary distribution line clearance zones that I&M has identified as narrow, have not been previously widened, and cause the greatest need for reactive vegetation management activity due to weather-related events and hot-spotting. He testified that this provides significant benefits to I&M's customers and the distribution system.

Mr. Isaacson (Rebuttal, p. 18) and Mr. Williamson (p. 4) explained that the Clearance Zone Widening Program costs are primarily capital costs with associated O&M costs. These witnesses explained that I&M is not trying to re-label O&M as capital costs. Mr. Isaacson testified that the only vegetation management costs included in I&M's TDSIC Plan, as part of the Clearance Zone Widening Program, are those related to specific clearance zone widening activities in this Plan associated with the 3,600 miles of primary distribution system. Mr. Williamson explained that Mr. Alvarez confuses the ongoing maintenance associated with maintaining clearances with I&M's TDSIC Plan request to widen its clearance zones beyond the

zone that has been previously cleared. He testified that widening clearance zones is an initial clearing and does qualify as creating an asset for regulatory accounting purposes. He said the FERC Uniform System of Accounts ("USofA") requires capitalization of initial clearing, or "initial tree trimming," costs, which creates an asset no different than property rights, for example, that are recorded as an asset. Mr. Williamson stated that I&M's Clearance Zone Widening TDSIC Plan Program will result in capital projects recorded to FERC account 365 Overhead Conductors and Devices. He stated that like other capital projects included in a TDSIC Plan, a level of associated O&M costs will also be required for this Program, which will be recorded to FERC account 593 Maintenance of Overhead Lines. Mr. Williamson added that the tree trimming/clearing cost related to the emerald ash borer mitigation work included with this Program will be treated as outlined above, meaning that I&M will follow the FERC USofA guidance requiring capitalization of any initial clearing cost and expense recognition for maintaining clearances.

Mr. Williamson concluded that the FERC USofA provides clear guidance on what constitutes a part of I&M's distribution system and this establishes that the Clearance Zone Widening Program is an eligible improvement project under the TDSIC Statute.

Mr. Isaacson clarified that the Clearance Zone Widening Program included in the TDSIC Plan does not include the cost of a four-year trim cycle. He explained how this program has a set and defined task and will end upon completion of that task. He said the eventual implementation of a four-year trim cycle is an added benefit performed outside the confines of the TDSIC Plan, once the Clearance Zone Widening Program is completed after Plan Year 4. He stated that the Commission should approve I&M's TDSIC Plan, including the Clearance Zone Widening Program, as filed. He testified that this will provide I&M the most significant increase to customer reliability and also allow I&M to gain the most benefit out of the other components of its TDSIC Plan. He noted that I&M's Clearance Zone Widening Program cost estimates have met the best estimate requirement of the TDSIC Plan as demonstrated by OUCC witness Rutter. He concluded that this Program is a series of projects that improve I&M's distribution system by way of new critical investment, providing long-term assets and benefits to I&M and its customers.

**B.** <u>Future Major Projects.</u> Mr. Isaacson (Rebuttal, pp. 2-10) responded to Mr. Alvarez's contentions regarding the future Major Projects and explained why the future Major Projects meet the TDSIC Statute eligibility requirements and are required by the public convenience and necessity. He explained that the future Major Projects are based on the same criteria underlying the Year 1 and Year 2 station projects. He testified that the difference is that the precise location of the future Major Projects was not specifically listed because of the need to maintain flexibility. Mr. Isaacson reiterated that the Major Projects component of I&M's 7-Year Plan includes a range of station projects aimed at retiring obsolete equipment, improving reliability and power quality, and increasing capacity in support of economic development (where applicable). He added that this work includes expansion projects that will add a transformer and breakers, partial upgrades that will replace/upgrade an existing transformer, rebuilds that include replacing equipment in-kind, full upgrades where equipment will be resized and/or rebuilt, installation of new stations, and retiring stations.

Mr. Isaacson explained that I&M specified the station projects for the first two years of the Plan and provided a blueprint for the work and station issues it would address that are similar to the first two years for the remaining years based on its knowledge of the system and expected needs. *Id.* at 5; see also Isaacson direct testimony, including Attachment DSI-3, as well as Witness Kratt's direct testimony, p. 21, Figure 4. He explained that while the Company has a plan for the later years, it is premature to finalize exact locations and lock in the final projects. He testified that doing so fails to recognize best management practices. Mr. Isaacson explained that the estimated costs of these planned projects are based on representative work that I&M projects will be needed at that time. He testified that prematurely locking in projects would not reasonably position the Company to address the needs of the system as the future unfolds. He added that providing the level of detail sought by the OUCC now could unreasonably raise an expectation at the local city or township level because the Plan may be amended as the future unfolds.

Mr. Isaacson explained that I&M used the same basis and methodology for estimating all Major Projects included in its TDSIC Plan. Isaacson Rebuttal, at 8. Therefore, Mr. Rutter's recommendation that the Commission approve I&M's best estimate due to the steps taken by I&M in the other areas of the filing equally support the approval of the future Major Projects, because I&M used the same criteria praised by Mr. Rutter. Isaacson Rebuttal, p. 7. Mr. Isaacson discussed the methodology used to develop the cost estimates and need for the future Major Projects and explained the stakeholder process I&M plans to use to review plan updates.

C. <u>Pole Inspection and Replacement Program Reporting.</u> Mr. Isaacson explained that I&M is amendable to providing a report similar to what Mr. Alvarez outlined in his testimony and agrees to work with the OUCC to develop a Pole Inspection and Replacement Program report for submission on an annual basis.

7. <u>Statutory Requirements.</u> Ind. Code § 8-1-39-10 permits a public utility to petition the Commission for approval of the public utility's seven (7) year plan for eligible transmission, distribution, and storage improvements. We refer to this as the "TDSIC Plan" or "Plan." As used in the statute, "eligible transmission, distribution, and storage system improvements" means new or replacement electric or gas transmission, distribution, or storage utility projects that: (1) a public utility undertakes for purposes of safety, reliability, system modernization, or economic development; (2) were not included in the public utility's rate base in its most recent general rate case; and (3) were designated in the Commission-approved TDSIC Plan. Ind. Code § 8-1-39-2.

Ind. Code § 8-1-39-10(b) states that after notice and hearing, and not more than 210 days after the petition is filed, the Commission shall issue an order that includes the following:

- (1) A finding of the best estimate of the cost of the eligible improvements included in the plan;
- (2) A determination whether public convenience and necessity require or will require the eligible improvements included in the plan; and

(3) A determination whether the estimated costs of the eligible improvements included in the plan are justified by incremental benefits attributable to the plan.

"If the commission determines that the public utility's seven (7) year plan is reasonable, the commission shall approve the plan and designate the eligible transmission, distribution, and storage improvements included in the plan as eligible for TDSIC treatment." *Id.* 

## 8. <u>Commission Discussion and Findings.</u>

A. <u>I&M's TDSIC Plan.</u> Consistent with the provisions of Ind. Code ch. 8-1-39, I&M has developed a 7-year TDSIC Plan that is a comprehensive package of Programs and Major Projects that improve and modernize I&M's energy delivery system. I&M's witnesses explained that the TDSIC Plan provides a structured means of investing approximately \$734 million of capital and an additional \$53 million of associated O&M expense over the seven-year period 2015-2021. The TDSIC Plan includes: replacing overhead and underground distribution facilities, modernizing stations through which electricity is delivered, widening line clearance zones to enhance safety clearances and reliability, modernizing the underground networks in the larger cities served by I&M, and encouraging economic development in I&M's service area. Chodak Direct, p. 5; Isaacson Direct, p. 24. Uncontested record evidence shows that I&M's TDSIC Plan will improve the customer experience in I&M's service area by modernizing I&M's energy delivery system, improving reliability and assuring public and employee safety. Chodak Direct, pp. 5-6.

The OUCC's witnesses supported the need for and reasonableness of the majority of I&M's TDSIC Plan. Other than the two exceptions discussed below, Mr. Alvarez testified that from an engineering perspective, the proposed projects were relatively well defined, their scopes of work identified, and the benefits made apparent and attainable. The evidence shows that I&M and the OUCC worked cooperatively to facilitate the OUCC's review of the TDSIC Plan and related TDSIC Rider filing docketed as Cause No. 44543 and that I&M is committed to carrying that cooperation forward to the periodic TDSIC Rider filings.

We now turn to the only two proposed TDSIC projects challenged for inclusion in the TDSIC Plan, and by only one party- the OUCC.

1. <u>Clearance Zone Widening Program.</u> The TDSIC Statute allows a utility to recover costs to implement transmission and distribution ("T&D") system improvements for the purposes of safety, reliability, system modernization, or economic development. Ind. Code § 8-1-39-2. Mr. Alvarez (p. 3) testified that while the OUCC understands the benefits of vegetation management, it should not be considered a TDSIC eligible project. He recommended the Commission deny I&M's proposed Clearance Zone Widening Program because he believed it expands the definition of "capital projects" and includes O&M expenses not related to new TDSIC projects.

The Commission declines to adopt the OUCC's argument and finds that the Clearance Zone Widening Program is a TDSIC eligible project as proposed by the Company.

The Statute defines "eligible transmission, distribution, and storage system improvements" as new or replacement electric or gas transmission, distribution, or storage utility projects undertaken for purposes of safety, reliability, system modernization, or economic development. Our analysis begins with a determination as to whether the proposed Clearance Zone Widening Program is part of I&M's transmission, distribution or storage systems. The OUCC suggested that if this program is an eligible TDSIC project, then "virtually any expenditure by a utility could be argued to improve, at least in some remote sense, safety and reliability." We disagree. I&M's proposal is directly tied to capital improvements. Furthermore, as explained below, the relationship between clearance zone widening and safety and reliability is neither remote nor tangential.

The OUCC argued that the Clearance Zone Widening Program does not fall within the statute because it does not replace infrastructure. The statute is not limited to "infrastructure replacement"; it includes new transmission or distribution system improvement projects and as discussed below substantial evidence establishes that the Clearance Zone Widening Program qualifies as such.

More specifically, substantial record evidence refutes Mr. Alvarez's suggestion that the Clearance Zone Widening Program is not a capital project. I&M is not attempting to re-define capital costs but is adhering to the FERC USofA adopted by this Commission. As explained by I&M witness Williamson, widening clearance zones falls within the FERC definition of a capital project. Mr. Rutter testified (p. 2) that a TDSIC Plan project should be determined by the FERC USofA. Thus both parties agree that the FERC USofA is authoritative on this issue. The record shows that FERC USofA provides clear guidance for what constitutes a "part of I&M's distribution system."

In its post hearing filing, the OUCC urged the Commission to reject Mr. Williamson's unimpeached, sworn testimony that these vegetation management costs are capitalized and as such are part of the distribution system. We decline to reject this testimony. Mr. Williamson is an expert regulatory accountant and his testimony is consistent with the plain language of Account 365 of the FERC USofA, which provides that initial trimming costs are capitalized. Put another way, the word "initial" in the Account 365 description applies to the initial or first cutting of trees and vegetation. This initial work is a capital cost. The subsequent trimming or cutting of trees in the area previously cleared is recorded as O&M. The OUCC also asked the Commission to find that the cost of this program "could equally appropriately be booked to USofA Account 593." OUCC PO, at 13. This proposed finding must be rejected because it is not supported by the record evidence. To the contrary, substantial record evidence refutes it. The Commission's decisions must be based on the record evidence, not argument from the OUCC's counsel. *See Monon R.R. v. Public Serv. Comm'n*, 241 Ind. 142, 170 N.E.2d 441, 442 (1960) (quoting *Public Serv. Comm'n v. Indiana Bell Tel. Co.*, 235 Ind. 1, 27, 130 N.E.2d 467 (1955))

The OUCC also argued that the Clearance Zone Widening Program does not qualify as a new project because the 3,600 miles of primary distribution already exists. This is not determinative. The statute applies to new or replacement projects. Thus it does not matter whether the wider zone is a replacement zone or a new zone. It is still a distribution system improvement. By way of analogy, when a one lane road is widened, the additional lanes may be viewed by some as a new road and by others as a replacement road. Regardless, the wider road

constitutes a transportation system improvement. Similarly, when the clearance zone is widened the newly cleared area is an improvement to the distribution system.

We also find the benefits of the Program are substantial. The record reflects that I&M's reliability will improve significantly compared to what would be expected without the Program. In particular, I&M expects the frequency of outages will be less and the duration of outages will be reduced. The benefits stemming from this Program, like the benefits that will be achieved from all of the Programs and Projects proposed as part of I&M's TDSIC Plan, fall under the benefits outlined in the TDSIC Statute. Even the OUCC filing indicates that it recognizes that this Program provides benefits. Therefore, we find the Clearance Zone Widening Program is a set of capital-based distribution system projects the Company is undertaking for the purpose of safety and reliability. We further find that this is new investment and, as such, the proposed capital projects were not included in rate base in I&M's most recent general rate case.

Recognition that the Clearance Zone Widening Program is an eligible TDSIC project does not broaden the statute to include virtually any expenditure. The O&M included in I&M's Clearance Zone Widening Program is directly related to the proactive capital project included in I&M's TDSIC Plan for the sole purpose of fully clearing the clearance zones of 3,600 miles of I&M's primary distribution facilities. The TDSIC Statute contemplates recovery of capital expenditures and TDSIC costs including O&M. Specifically, Ind. Code § 8-1-39-7(2) provides that associated O&M is an eligible TDSIC cost eligible for recovery under the statute. While Mr. Alvarez suggested otherwise, substantial evidence shows that this Program is designed to increase reliability by avoiding outages and to provide an extra benefit by preparing the Company's system for a four-year vegetation management cycle at the conclusion of the TDSIC Program. I&M's witnesses explained that neither the costs of implementing a four-year vegetation management program are included in the TDSIC Plan.

Accordingly, we find the Clearance Zone Widening Program in I&M's 7-Year Plan complements the other TDSIC Plan components and will provide numerous benefits for customers and I&M's system by improving reliability and safety. In addition, I&M's Clearance Zone Widening Program cost estimates meet the "best estimate" requirement of the TDSIC Statute, which is supported by OUCC witness Rutter's testimony, and the estimated costs of this program are justified by the incremental benefits, as supported by Company witnesses Chodak and Isaacson. Without the Clearance Zone Widening Program, new TDSIC equipment will be unnecessarily more susceptible to damage by tree limbs and branches on a daily basis. We find it does not serve the customers' best interest to improve the hardware of the system without also hardening the system to potential tree damage that can bring down the newly installed poles and wires. This will allow I&M to address its two leading causes of outages, failing infrastructure and outages caused by vegetation. Accordingly, we find and conclude that I&M's Clearance Zone Widening Program is consistent with the purpose of the TDSIC Statute and meets the criteria of the Statute. Therefore we find this Program is an eligible improvement project under the TDSIC Statute and should be approved.

2. <u>Future Major Projects.</u> I&M's TDSIC Plan includes both Programs and Major Projects. The OUCC argues that future projects that are under the Major Projects

"umbrella" lack sufficient detail for the Commission to conclude they are eligible system improvements. We disagree. The OUCC argument that the Commission is being asked to approve "some future project somewhere replacing some unknown plant for an unknown reason" is erroneous. (OUCC PO-R, 11) The OUCC did not challenge the TDSIC eligibility of the Major Projects and the record demonstrates that the future Major Projects are more of the same type of project. Thus, as explained below, if there is no dispute that the Major Projects are TDSIC eligible, it is logical and reasonable to conclude that more of the same type of project is also a TDSIC eligible project.

The record demonstrates that a Program is a systematic deployment of a practice across the system, such as pole replacements. Major Projects encompass more complex individual projects such as adding a new substation. The Major Projects are focused on a specific outcome and often take longer than a year. As explained by I&M Witness Kratt (Direct, p. 8), the Major Projects component of I&M's 7-Year Plan includes a range of station projects aimed at retiring obsolete equipment, improving reliability and power quality, and increasing capacity in support of economic development (where applicable). Major Projects address reliability by eliminating such issues as transformer capacity overload and potential failure. As Mr. Kratt also explained (Direct, p. 8), Major Projects address reliability by improving planned and unplanned outage recovery contingencies. The record reflects that these Projects also support economic development by providing electric service and capability to address the community's service needs in I&M's service territory.

Mr. Alvarez recommended the Commission deny the future Major Projects commencing in Year 3 of the TDSIC Plan. He argued that it is impossible to determine if the future Major Projects meet with TDSIC statute eligibility requirements and are required by the public convenience and necessity. We disagree. I&M's filing defined Major Projects for all seven Plan years and provided the cost estimates for all of the Major Projects for all seven Plan years. The future Major Projects were defined by type to be the same as the Major Projects in Years 1 and 2. We find that this category of projects is not unduly broad and is reasonably defined. The record shows and we find that the Major Projects for Plan Years 3-7 will be similar in scope to Major Projects for Years 1 and 2, and will also result in similar benefits.

The record also reflects that I&M used the same basis and methodology for estimating the cost of all the Major Projects included in its TDSIC Plan. Isaacson Rebuttal, at 8. This methodology used I&M historical data for similar completed projects. The Plan for the future Major Projects permits the Commission and stakeholders to reasonably identify what projects will be undertaken, when they will be undertaken and why these projects are necessary. I&M specifically described the system statistics I&M is experiencing with aging stations and facilities such as station transformers and switching circuit ties with inadequate capacity and otherwise showed the need for the Major Projects. In addition to this factual analysis of the distribution system, I&M explained how the Major Projects achieve all four benefits identified in the TDSIC Statute.

We recognize that the Company plans to provide additional details regarding the future Major Projects as the future unfolds but disagree with Mr. Alvarez that this means the future Major Projects must be rejected. Rather we agree with Mr. Isaacson that prematurely locking in projects would not reasonably position the Company to address the needs of its system as the future unfolds. The record shows that I&M's energy delivery system is dynamic and subject to a variety of factors that can affect its system. Since these factors are largely outside of the control of I&M, and may be unpredictable, I&M needs flexibility to tailor its TDSIC Plan. I&M provided a plan that necessarily incorporates flexibility while still tying the scope and best estimate to current projects for validation. The future Major Projects are properly based on the criteria I&M provided for this component of the TDSIC Plan.

We note that I&M intends to solicit input from stakeholders such as the OUCC, as the future unfolds to ensure the best TDSIC Plan possible. This is consistent with guidance provided in previous Commission decisions. As we have found in other TDSIC proceedings, the development and subsequent regulation of a multi-year plan that is sufficiently detailed while affording reasonable flexibility to adapt to changes in need and priority over time is a balancing act that requires a utility sponsored and supported process and the application of the regulating agency's expertise in applying the underlying statutory framework. *Southern Indiana Gas and Electric Company*, Cause No. 44429/44430, p. 17 (IURC 8/27/2014); *Northern Indiana Public Service Co.*, Cause No. 44403, p. 18 (IURC 4/30/2014); *Northern Indiana Public Service Co.*, Cause No. 44370, p. 11 (IURC 2/17/2014).

The evidence of record demonstrates that I&M's TDSIC Plan provides a reasonably detailed overview of what types of Major Projects need to be undertaken and shows why these types of projects are necessary. Furthermore, we find I&M's TDSIC Plan includes a defined roadmap for how the Company intends to achieve its objective of maintaining safe, reliable service for its customers. Consequently, we find that the future Major Projects are eligible projects under the TDSIC Statute, otherwise meet the statutory criteria and are sufficiently identified in the Company's TDSIC Plan. Therefore, we find that the future Major Projects are appropriately included in the TDSIC Plan and should be approved.

3. <u>Pole Inspection and Replacement Program.</u> The OUCC recommended the Company provide an annual Pole Inspection and Replacement report with its annual TDSIC Rider filings. The record reflects that I&M is amenable to providing a report and agrees to work with the OUCC to develop a Pole Inspection and Replacement Program report for submission on an annual basis. Therefore, in accordance with the testimony of Mr. Alvarez and Mr. Isaacson, we find that I&M should provide a report on this program as part of its annual TDSIC filings.

4. <u>Conclusion on TDSIC Plan.</u> Based on the evidence presented in this proceeding, and as discussed further herein, we find that I&M has presented a 7 year plan that meets the requirements of Ind. Code § 8-1-39-10. Accordingly, we further find that I&M's TDSIC Plan should be approved.

**B.** <u>Best Estimate of the Cost of the Eligible Improvements.</u> Ind. Code § 8-1-39-10(b)(1) requires that an order approving a TDSIC Plan must include "a finding of the best estimate of the cost" of the proposed eligible improvements contained therein. The words "best estimate of the cost" are not defined in the statute. The OUCC argued (p. 10) that it is impossible to conclude that I&M's future Major Projects cost estimate is "reasonable, let alone best" because there are no "defining characteristics" or "any justification" for any future Major Project. We disagree. As discussed above, the defining characteristics were provided in the testimony of I&M witness Kratt. I&M specifically described the system statistics I&M is

experiencing with aging stations and facilities such as station transformers and switching circuit ties with inadequate capacity and otherwise showed the need for the Major Projects. In addition to this factual analysis of the distribution system, I&M explained how the Major Projects achieve all four benefits identified in the TDSIC Statute. Kratt Direct, pp. 9-11; Isaacson Direct, pp. 16-17.

I&M estimates the total cost of the TDSIC Plan is \$787 million. The Plan is comprised of approximately \$734 million in capital and approximately \$53 million in associated O&M. Kratt Direct, pp. 21-22. The record reflects that I&M developed detailed project cost estimates using the same methodology used for its normal work order estimating process. I&M also created detailed project scopes to arrive at the project costs, including equipment specifications and construction standards. In addition, I&M relied on its experience and engineering expertise, as well as historical project cost information, to develop the best estimate of the Plan's cost. To verify the reasonableness of I&M's cost estimates, I&M utilized site visits to help identify and include key variable components, such as wetland remediation at a station site. I&M used two independent third parties, IJUS LLC. and EASI Engineering to validate I&M's cost estimates for the Programs and Major Projects.

OUCC witness Rutter supported the process used by I&M to develop its cost estimates. Mr. Rutter testified that the TDSIC estimate should first start with the historical budgeting or estimating practices and policies in place within the utility's normal budgeting and forecasting procedures. He said I&M's project cost estimates were developed using the Company's existing budgeting and estimating practices and policies. He added that I&M's Plan was developed by I&M employees who have day-to-day responsibility for designing, operating, and maintaining the distribution plant as well as responsibility for cost control for any distribution projects undertaken by I&M. Mr. Rutter stated that the information provided by I&M was transparent, based on the most recent historical experience with similar projects and fully supports a baseline estimate for future estimate comparisons. Mr. Rutter testified that I&M understands how to develop cost estimates for inclusion in the 7-Year Plan and what detail would be required by an independent analyst to make a determination of the "best" estimate. He said I&M's cost estimates were based on recent actual experience for similar projects, and also considered possible economic development impacts for certain projects. He said I&M provided a detailed Excel spreadsheet showing the development of all costs across the 7-Year Plan and detailed historical cost for the completed historical projects that formed the base for the cost estimate development. Mr. Rutter testified that any 7-Year Plan involves long term cost estimates that are dependent on many factors beyond the control of the estimator. He testified that the costs are based on what was known and understood at the time the cost estimates were prepared. While we excepted the future Major Projects addressed by Mr. Alvarez, Mr. Rutter testified that given the transparency, support documentation and the information provided by I&M in its case-in-chief and in meetings with the OUCC, it would not be unreasonable for the Commission to find these estimates sufficient to meet the statute's "best" estimate criterion.

As discussed above, through its rebuttal testimony, I&M confirmed that its cost estimate for the future Major Project followed the same process used for the other cost estimates which Mr. Rutter found to meet this criterion for approval. Mr. Isaacson explained that this methodology included the use of I&M historical data for similar completed projects, I&M expertise and I&M's station and circuit capacity load forecast which is updated on an annual basis. Because the basis for the cost estimate was the same in all Plan years, we find I&M has reasonably supported the estimated cost of the TDSIC Plan.

Based on the evidence presented, we find the record demonstrates that the estimated cost of I&M's TDSIC Plan, including the future Major Projects, rests on a sound factual and analytical foundation and is reasonable. Accordingly, we find the best estimate of the cost of the eligible improvements included in the Plan is the estimate provided by I&M. Therefore, we find that this statutory criterion is satisfied.

**C.** <u>Public Convenience and Necessity.</u> Ind. Code § 8-1-39-10(b)(2) requires that an order approving a TDSIC Plan must include "[a] determination whether public convenience and necessity require or will require the eligible improvements included in the plan." The public convenience and necessity criterion is common in public utility matters and generally concerns whether the proposal is fitted or suited to the public need. Put another way, the Commission must be satisfied that there is a reasonable and apparent need for the Plan.

Petitioner's witnesses Chodak, Kratt and Isaacson discussed the need for and benefits of the TDSIC Plan projects. In general, the Company seeks to minimize customer outages and restoration times through the planned replacement of electric system components and investments that maintain and improve customer reliability. Some TDSIC Programs will be performed to improve the safe and reliable functioning of the system, such as work to replace aging equipment, which, if not undertaken, would likely result in more frequent or extended outages for customers. Certain parts of the TDSIC Plan are designed to harden I&M's energy delivery system and minimize emergency restoration through planned replacement of infrastructure that has reached the end of its useful life.

The record is uncontroverted on the need for or benefit of the proposed TDSIC Plan projects. Mr. Alvarez took issue with the eligibility of the Clearance Zone Widening Program and the definition of the future Major Projects but otherwise found the proposed TDSIC projects are relatively well defined, their scopes of work identified, and the benefits made apparent and attainable. Again, he admits that the OUCC understands the benefits of vegetation management.

Based on the evidence presented, we find substantial evidence shows that the proposed TDSIC Plan projects are reasonably necessary for I&M to continue to provide reasonable and adequate retail service. The Company's Plan balances the need to invest in the reliability of its energy delivery system while maintaining reasonable and competitive rates for electric service. The evidence presented in this Cause shows that the Programs and Major Projects included in I&M's TDSIC Plan will serve the public convenience and necessity in various ways. I&M's Plan improves I&M's reliability and therefore improves the quality of life, economic enhancement and overall public safety of the communities I&M serves. In addition, I&M's request conforms with Indiana law, is consistent with good public policy and serves the public interest. The record shows that the TDSIC projects and investments are essential in supporting the reliable operation of I&M's system for all stakeholders. Therefore, we find that the public convenience and necessity requires or will require the eligible improvements included in the TDSIC Plan.

**D.** <u>Incremental Benefits Attributable to the TDSIC Plan.</u> Ind. Code § 8-1-39-10(b)(3) requires that an order approving a TDSIC Plan must include "[a] determination whether

the estimated costs of the eligible improvements included in the plan are justified by incremental benefits attributable to the plan."

As discussed above, there is no challenge to the benefits of the proposed TDSIC projects in the record. I&M's Plan focuses on improving the safe, reliable service for customers in a cost conscious manner. In determining the eligible improvements to be included in the TDSIC Plan, I&M completed a comprehensive risk analysis that took into account both the potential for and the consequences of facility failure. To evaluate the incremental benefits associated with the Plan, I&M focused on safety, reliability, modernization, and economic development. Kratt Direct, pp. 10-11. I&M also engaged a third party consultant to examine the age profiles of key I&M assets and help prioritize and select projects to mitigate identified risks. See Attachment TAK-2. Mr. Kratt identified the incremental benefits of each of the TDSIC Plan components. Kratt Direct, pp. 10-11. Among other things, he explained inspecting and replacing deteriorated poles, wire, and other components of the overhead distribution system will provide reliability improvements through proactive replacement prior to failure. He added that replacing aging, and in some cases obsolete, assets with new equipment that meets current system design standards helps modernize the system. He testified that improvements that meet the new standards also result in infrastructure built to better withstand storms. We agree that this activity, commonly referred to as "hardening" the system, benefits I&M's customers in the form of improved reliability.

The record reflects that the Plan also addresses grid resiliency, which is targeted at minimizing the number of customers impacted by an outage and restoring power outages more efficiently when they occur. In addition, the record shows that the 7-year nature of the TDSIC Plan will allow I&M to better utilize capital dollars, realize economies of scale, and promote efficiency through better planning of workflow and resources, all of which benefit customers by reducing overall cost. The Plan will also allow I&M to proactively engage the communities that I&M serves to better coordinate and manage the required work and any necessary service interruptions. The record shows that the greatest customer benefit is realized by coupling the hardened system and strategic replacement of aging assets with a Clearance Zone Widening Program, which should improve safety and reliability while facilitating easier access to facilities when damage does occur.

Accordingly, based on the evidence presented, we find I&M has sufficiently demonstrated that the estimated costs of the TDSIC Plan improvements are justified by the incremental benefits attributable to them.

E. <u>Whether I&M's TDSIC Plan is Reasonable.</u> Substantial record evidence demonstrates that the prevalence of aging infrastructure requires a systematic approach and I&M's TDSIC investments are reasonably required to improve and modernize I&M's energy delivery system. Aging infrastructure and vegetation-caused outages are the top two causes for outages on the I&M distribution system. This TDSIC plan addresses both of these areas by focusing on the system performance and resiliency that will be achieved through sustained expenditures focused on replacing infrastructure, providing appropriate clearances from facilities, modernizing I&M's energy delivery system, and meeting the needs of customers. As discussed above, I&M's TDSIC Plan satisfies the TDSIC Statute criteria. The TDSIC Plan is reasonably and cost effectively designed to incrementally improve: I&M's public and employee

safety; I&M's ability to serve its customers; the reliability of I&M's energy delivery system; and I&M's response to unplanned system events. The Plan will modernize I&M's system and encourage economic development. The record establishes that I&M's Plan is based on a logical approach and sound analysis that presents the best estimate of the cost of the investments. Substantial evidence shows the Plan is reasonably designed to yield substantial benefits to I&M's customers. Accordingly, based upon our review of the evidence of record, and the foregoing considerations of each component of Ind. Code § 8-1-39-10, we find that I&M's 7-Year TDSIC Plan is reasonable and should be approved. Therefore, in accordance with Ind. Code § 8-1-39-10(b) we hereby designate the system improvements included in the TDSIC Plan as eligible for TDSIC treatment.

**F.** <u>Process to Update the TDSIC Plan.</u> Ind. Code § 8-1-39-9(a) provides that a utility shall update its 7-year TDSIC Plan with each petition it files under section 9. I&M proposed to comply with this statutory requirement by filing an updated TDSIC plan annually, based on the most recent information available. Kratt Direct, p. 25. I&M proposes to include the following in its annual report: TDSIC Plan progress update; updated cost estimates; identification of changes to the Plan; comparison of actual to estimated cost; explanation of significant variances and changes; and new investment requested for approval. I&M explained that it met with the OUCC to develop this proposal and the Company intends to continue to meet with the OUCC to ensure it has the detail needed in the above categories to properly understand the progression and future of the TDSIC Plan. As noted above, the Company's annual update will also include a report on the Pole Inspection and Replacement Program.

Mr. Kratt explained that I&M is prepared to hold a meeting with the OUCC and interested stakeholders approximately eight weeks prior to the filing of the yearly TDSIC Plan updates. He said I&M expects interested stakeholders to provide feedback on the information provided in a timely manner so that the Company can factor the comments and concerns in the updates it provides the Commission annually. Kratt Direct, pp. 25-26.

We find I&M's proposal to be reasonable and consistent with the Statute. Accordingly, we find I&M's proposal should be approved.

9. <u>Confidentiality Findings.</u> I&M filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information on October 14, 2014, which Motion was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on October 27, 2014 finding such information to be preliminarily confidential, after which such information was submitted under seal. There was no disagreement among the parties as to the confidential and proprietary nature of the information submitted under seal in this proceeding. We find all such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

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

- 1. I&M's 7-Year TDSIC Plan is hereby approved.
- 2. The projects included in I&M's 7-Year TDSIC Plan are hereby designated as eligible for TDSIC treatment.
- 3. In accordance with Ind. Code § 8-1-39-9(a) and as discussed in Finding 8. F above, I&M shall update its 7-year TDSIC Plan with each petition it files under Ind. Code § 8-1-39-9.
- 4. The information filed by Petitioner in this Cause pursuant to its Motion for Protective Order is deemed confidential pursuant to Indiana Code § 5-14-3-4 and Indiana Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.
- 5. This Order shall be effective on and after the date of its approval

## STEPHAN, HUSTON, MAYS-MEDLEY, WEBER, AND ZIEGNER CONCUR: APPROVED:

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

Brenda A. Howe, Secretary to the Commission