STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS CORPORATION FOR APPROVAL OF AN ADJUSTMENT IN ITS BASE RATES RELATED TO ITS TDSIC PLAN FOR ELIGIBLE TRANSMISSION AND DISTRIBUTION IMPROVEMENTS PURSUANT TO IND. CODE § 8-1-39-1, *et seq.*	)))))	**CAUSE NO. 44942 – TDSIC-2**

PROPOSED ORDER

Comes now Midwest Natural Gas Corporation ("Petitioner") by counsel and submits the attached proposed order of the Petitioner in this Cause. Petitioner's counsel has discussed this proposed order with counsel for the OUCC and has included all of the OUCC's suggestions. Petitioner's counsel would note that the docket entry outlining the procedural schedule in this Cause initially permitted Petitioner to file its proposed order on or before May 8; followed by any exceptions from the OUCC or any intervenors on or before May 22nd and thereafter followed by any reply on or before May 29, 2020. In light of the lack of any intervenors in this Cause, and in recognition that the OUCC has participated with the Petitioner in preparing the attached proposed order, Petitioner's counsel believes that the remaining dates for post hearing filings are no longer necessary.

Respectfully submitted,

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ORDER OF THE COMMISSION

Presiding Officer:
James F. Huston, Chairman
Carol Sparks Drake, Administrative Law Judge

On February 4, 2020, Midwest Natural Gas Corporation ("Midwest" or "Petitioner") filed its case-in-chief consisting of its Verified Petition, direct testimony of its President David A Osmon, various accounting schedules, and various workpapers with the Indiana Utility Regulatory Commission ("Commission") requesting approval of a transmission, distribution, and storage system improvement ("TDSIC") charge to recover a portion of Petitioner's capital expenditures and TDSIC costs as permitted under Ind. Code § 8-1-39-9. On March 6, 2020, Petitioner filed the supplemental testimony of Mr. Osmon, along with revised schedules, which provided revisions in two of Petitioner's original schedules, related to property tax and the 2% cap.

On April 3, 2020, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony of Angela J. Griffith, and Brien R. Krieger, both Utility Analysts within the OUCC's Natural Gas Division addressing Midwest's request.

On April 9, 2020, Petitioner filed its waiver of rebuttal testimony indicating that it would not be offering rebuttal testimony to that previously filed by the OUCC in this TDSIC-2 proceeding.

On April 13, 2020, the Presiding Officers issued a docket entry requesting additional information related to COVID-19. On April 20, 2020 Petitioner responded to the docket entry.

The Commission set this matter for a public hearing to be held on May 1, 2020, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. A docket entry was issued on April 22, 2020 advising that, in accordance with Indiana Governor Holcomb's Executive Order 20-09, the hearing would be conducted via teleconference and providing related participation information. At the hearing, Midwest and the OUCC participated telephonically by counsel. The testimony and exhibits prefiled by Petitioner and the OUCC were admitted into the record without objection. No members of the general public sought to participate in these proceedings.

Based upon applicable law and the evidence of record, the Commission now finds as follows:

1. Notice and Jurisdiction. Notice of the evidentiary hearing was given and published by the Commission as required by law. Midwest is a public utility as that term is defined by Ind. Code §§ 8-1-2-1(a) and 8-1-39-4. Pursuant to Ind. Code §§ 8-1-39-9, and 10, the Commission has jurisdiction over a public utility's seven-year plan ("TDSIC Plan") and has jurisdiction to allow for the periodic adjustments of a public utility's base rates and charges which provides for the timely recovery of up to 80% of the approved capital expenditures and TDSIC costs associated with the approved TDSIC Plan. Therefore, the Commission has jurisdiction over Midwest and the subject matter of this proceeding.

2. Petitioner's Characteristics. Midwest is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner currently provides natural gas service to customers in rural areas within the following Indiana counties: Daviess, Greene, Monroe, Jackson, Jennings, Knox, Orange, Scott, Clark, and Washington. Midwest owns, operates, manages, and controls various plant and equipment for purposes of providing natural gas service to the public. Its existing rates were established by the Commission in Cause No. 44880 by the Commission's Order issued on August 16, 2017.

3. Background and Requested Relief. On September 27, 2017, the Commission issued an Order in Cause No. 44942 ("TDSIC Order") approving Midwest's TDSIC Plan. In that TDSIC Order, the Commission made several findings relevant here including: (a.) that the projects included in Petitioner's TDSIC Plan are eligible TDSIC improvements under Ind. Code § 8-1-39-2; (b.) that Petitioner's TDSIC Plan, which included construction in phases, was reasonable and was approved pursuant to Ind. Code § 8-1-39-10; (c.) that Petitioner was authorized to defer post in service TDSIC Plan costs on an interim basis until such costs are recovered for ratemaking purposes through a TDSIC tracker or a base rate proceeding; (d.) that Petitioner should file updates on its progress under its TDSIC Plan by January 31 of each calendar year until the expiration of the TDSIC Plan; and (e.) that Petitioner should file a base rate petition no later than September 27, 2024 in accordance with Ind. Code § 8-1-39-9.

On January 25, 2019, Petitioner filed its initial request for a TDSIC tracker (TDSIC-1). Petitioner sought the approval of its capital expenditures and TDSIC costs incurred for its Phase I; and portions of its Phase II, and Phase III of its TDSIC Plan actually constructed. In our Order of May 15, 2019 ("TDSIC-1 Order") the Commission granted Petitioner's request to recover up to 80% of its eligible and approved capital expenditures and TDSIC costs in the amount of $58,893; and permitted deferral of the remaining costs associated with its Phase I construction including ongoing carrying costs for recovery in its next general base rate case. The TDSIC-1 Order also approved the requested TDSIC factors and authorized Petitioner to adjust its net operating income to reflect the TDSIC-1 approval for purposes of future gas cost adjustment proceedings pursuant to Ind. Code § 8-1-2-42(g)(3). The Commission also directed Petitioner to make certain corrections to future schedules, and provide additional information in its next TDSIC filing. Following the recommendations of the OUCC, the Commission removed the requirement that Petitioner file annual update reports with the Commission, concluding that future updates should be included in future TDSIC tracker filings. Finally the Commission approved the updates to Petitioner's TDSIC Plan as described in its prior annual update reports and its TDSIC-1 filings.

On February 4, 2020, Petitioner initiated this proceeding, its second tracker ("TDSIC-2"). Petitioner seeks recovery of 80% of the capital expenditures previously invested, but not as yet recovered as related to its updated TDSIC Plan. Petitioner also seeks to recover 80% of certain statutorily permitted TDSIC costs. Petitioner is requesting that it be permitted to change its volumetric rates to recover an additional $77,777 based on the TDSIC Plan improvements completed before November 30, 2019. Petitioner indicates that this second tracker covers expenditures and investments related to its previously identified Phase II; along with portions of Phase IV, V, and VI as described by Petitioner's evidence. Petitioner's seeks such recovery pursuant to Ind. Code § 8-1-39-9. Petitioner also seeks approval of additional updates to its TDSIC Plan related to changes in the initial sizing and material used for certain distribution mains; certain changes in routes; additional increase in the cost of steel; and recognition that 2019 weather events have impacted the TDSIC Plan.

4. Evidence Presented.

A. Petitioner's Case-in-Chief. Petitioner's President David A. Osmon offered testimony and exhibits in support of Petitioner's requested TDSIC-2 tracker. He explained that he had previously offered testimony in support of Petitioner's original TDSIC Plan as well as Petitioner's TDSIC-1 tracker. Mr. Osmon described that Petitioner is seeking to recover in this TDSIC-2 up to 80% of its capital investments and a portion of its TDSIC costs. He described the capital investments associated with Phase II which consists of new and replacement distribution main projects as described in Petitioner's TDSIC Plan. He noted that the TDSIC-Plan generally provides for high pressure and low pressure mains, regulator stations, and easements. The original plan was divided into six phases (Phase I-VI). He pointed out that a portion of Phase IV, V, and VI have now been completed as part of Petitioner's Phase II. He explained that Petitioner worked on portions of Phase IV, V, and VI because of requests for service by customers; because the general contractor was available to continue construction on these other phases once Phase II was completed; and because the construction for the completed portions of Phase IV, and Phase V were part of the overall backbone of the distribution mains. Mr. Osmon also pointed out that Petitioner had advised the OUCC of its intent to move the date of construction for portions of Phase IV, V, and VI into this Phase II; which was recognized by the Commission in its TDSIC-1 Order. He also pointed out that the movement of the construction time frame related to Phases IV, V, and VI will not materially impact Petitioner's TDSIC Plan. Mr. Osmon also described that Petitioner has incurred additional increases in steel pipe prices beyond those previously described in the 2018 and 2019 annual updates, and referenced in the TDSIC-1 Order.

Mr. Osmon described the schedules that he prepared and presented to the Commission as his Exhibit DAO-1, and the slightly revised schedules of Exhibit DAO-2. He noted Schedule 1 calculates the total recoverable TDSIC component, including those TDSIC costs associated with pre-tax return, depreciation and property tax. He indicated that this total is then reduced by 20%

in order to reflect the 80% recoverable amount under the TDSIC statutes. Schedule 2 reflects the gross investment in plant in this Phase II. He pointed out that Schedule 2 breaks down the investment by type, ledger account, and the township in which such plant is located. Such Schedule 2 also reflects depreciation and property tax expenses associated with such investment. Schedule 3 reflects the recovery of the TDSIC tracker per therm by customer class. Such recovery is based on the allocation factors used in the compliance filing of Petitioner's last base rate case, Cause No. 44880. The estimated sales used for Schedule 3 are the sales used in the most recently completed GCA (GCA 144) which was available to Petitioner when the schedules for TDSIC-2 were being prepared. Schedule 4 calculates the pre-tax rate of return. Mr. Osmon noted that the components were those that were taken from the capital structure in Petitioner's last base rate case, but were updated to November 2019 because certain debt was paid off. Schedule 5 shows the calculation of the 2% cap on Petitioner's revenue requirement and reflects that this TDSIC-2 falls well below the 2% cap. Schedule 6 shows the adjustment to the net operating income that will be used in future GCAs for this Petitioner based on this TDSIC-2 filing. Schedule 7 shows the accumulated deferrals which are occurring through the TDSIC filings, and ultimately will be addressed in a future base rate case. Schedule 8 reflects the impact of the TDSIC-2 on current rates showing the expected bill impact to the average residential customer in keeping with suggestions from the OUCC as to how this information should be presented. The testimony filed by Petitioner and its schedules also reflect future TDSIC filings and the impact of such future filings on rates. Mr. Osmon points out that the average monthly bill will increase from the \$0.31 increased in TDSIC-1 to \$0.69 increased in TDSIC-2. The annual impact on the average residential customer for the TDSIC-1 and TDSIC-2 recovery combined is \$8.28 per year. The estimated impact on the average residential customer once the entire TDSIC Plan has been completed and future TDSIC trackers have been approved is currently estimated to be \$15.98 per year.

Mr. Osmon described in detail how Phase II changed from that originally anticipated when the TDSIC Plan was presented in 2017. In addition to the cost increases from the increase in the price of steel; and the changes in the timing of phases; Petitioner has changed certain types of pipe material going from 2 inch steel pipe mains to 4 inch polyethylene mains for certain extensions. Such change in the size and type of pipe occurred because Petitioner learned of new customers and recognized that using polyethylene mains would reduce the overall costs associated with regulators that would have to be constructed.

Mr. Osmon described one route change that occurred during the construction of Phase II and one route change expected to occur during the next phase of construction. With respect to the most recent route change, Mr. Osmon indicated that extensions along CR 875 in Daviess County occurred because of the identification of customers, and the recognition that such customers would use natural gas for purposes of fueling generators to generate electricity in this largely Amish area of Daviess County. He noted that while these extensions have been made to meet the customers' needs, Petitioner has not requested recovery of the cost of these particular extensions in this TDSIC-2. With respect to future potential changed routes, he noted that Petitioner anticipates the need to change the route along CR 800 North from CR 1000 East to CR 1300 East. Such additional route changes are expected to occur in the next phase of construction. With respect to these future route changes, Mr. Osmon described discussions with the OUCC including the need to add approximately 13,000 feet of 4 inch polyethylene mains. The estimate of the cost of these additional mains was $272,263. However the revenue from customers associated with the changed routes would be approximately $383,000 dollars. Thus the costs associated with these changed routes should be covered by the revenue received from gas sales.

In his supplemental testimony, and in Exhibit DAO-2 Mr. Osmon described two minor changes in the calculations from the original schedules included in Exhibit DAO-1. These changes related to property tax calculations and changes to the calculation related to the 2% cap. Mr. Osmon pointed out that these changes were based on discussions with and suggestions from the OUCC. However the changes made to these schedules included in Exhibit DAO-2 do not change the requested TDSIC factors as originally requested and presented in Petitioner's original Schedule 3.

Finally Mr. Osmon confirmed that all of the improvements made as part of Petitioner's Phase II; along with portions of Phases IV, V, and VI, included in Phase II; are used and useful in providing service to Petitioner's customers. Mr. Osmon also confirmed that no construction work in progress is being requested by this TDSIC-2 filing. Petitioner's exhibits and testimony reflect that Petitioner is requesting an additional $77,777 in TDSIC-2 recovery, which when totaled with TDSIC-1 will reflect that Petitioner's total TDSIC annual recovery will be $136,670. This would provide Petitioner with the opportunity to recover an additional $80,791 in net operating income for purposes of the earnings test in future GCA proceedings as reflected by Petitioner's Schedule 6.

B. <u>OUCC's Case-in-Chief</u>. Ms. Griffith discussed her review and analysis of Petitioner's request to recover 80% of its TDSIC costs through its TDSIC-2. Based on her review, she recommended: (1) approval of Midwest's request to recover no more than the 80% of approved capital expenditures and identified TDSIC costs in this proceeding; (2) approval of an adjustment to Midwest's authorized net operating income to reflect increased earnings for purposes of Ind. Code § 8-1-2-42(g)(3); and (3) approval of Midwest's proposed TDSIC factors as reflected on Petitioner's Schedule 3. Ms. Griffith also testified regarding the OUCC's general concern regarding rural extensions recovery being included in TDSIC filings. She stated Midwest has not included the total investment for services and meters for recovery in its TDSIC filing. As a result, Ms. Griffith does not suggest a margin credit at this time. However, she stated the OUCC will continue to review this item with each TDSIC filing and if Midwest changes its methodology, the OUCC may suggest a margin credit at that time.

Mr. Krieger described his review of Petitioner's TDSIC-2 filing. He testified Petitioner has incurred additional costs beyond that originally estimated in its 2017 TDSIC Plan primarily related to steel price increases and underground interference. Based on his review of work order detail, a map reflecting a portion of the Phase II project that needed different and longer installation routes, and a discussion with Petitioner's President on February 27, 2020, he concluded that Petitioner's proposed recovery in this TDSIC-2 is reasonable. He also addressed Petitioner's proposed route change for the future construction in Phase IV, which will require an additional 13,000 feet of 4 inch polyethylene pipe. He noted Petitioner provided work order detail for this route change covering: easements, Midwest labor, direct materials, indirect materials, contract labor, and contractor equipment. He testified Petitioner's Phase IV project cost estimates includes a 4% inflation factor for Midwest labor and indirect materials. He recommended Petitioner apply a 2% inflation factor because 2% is more in line with the February 2020 Consumer Price Index of 2.3%. Based on his analysis of such work order detail, and the 20 year revenue estimate, he recommended the Commission approve this route change as an update to Petitioner's TDSIC Plan related to Phase IV.

Finally Mr. Krieger concluded his testimony by indicating Petitioner has adequately substantiated the additional Phase II costs that have been incurred, justified why these additional costs were required, and explained why these additional costs were not reasonably foreseeable when the TDSIC Plan was originally approved or when previous updates to the TDSIC Plan were approved. Thus Mr. Krieger recommended Petitioner be allowed to recover all costs associated with Phase II as presented in this TDSIC-2 filing.

5. Statutory Requirements. Ind. Code § 8-1-39-9(a) permits a public utility that provides gas utility service to petition the Commission for approval of the utility's periodic adjustment of its basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. This subsection further provides that the petition must: (1) use the customer class revenue allocation factor based on firm load approved in the public utility's most recent retail base rate case order; (2) include the utility's seven-year TDSIC Plan; and (3) identify projected effects of the seven-year Plan on retail rates and charges. Ind. Code § 8-1-39-9(b) provides that the public utility shall defer the remaining 20% of approved capital expenditures and TDSIC costs, including depreciation, allowance for funds used during construction, and post-in-service carrying costs, and shall recover those deferred capital expenditures and TDSIC costs as part of its next general rate case. Ind. Code§ 8-1-39-9(c) provides that a public utility may not file a petition within nine months after the Commission issues an order changing the utility's basic rates and charges with respect to the same type of utility service. Ind. Code § 8-1-39-9(d) provides that a public utility that implements a TDSIC under this chapter shall petition the Commission for review and approval of its basic rates and charges before the expiration of its seven-year TDSIC Plan. Ind. Code § 8-1-39-9(e) provides that a public utility may file a petition for periodic relief under this section not more than once every six months.

6. Commission Discussion and Findings.

A. Past and Future Rate Case Timing and TDSIC Timing.

i. **Indiana Code § 8-1-39-9(c).** Ind. Code § 8-1-39-9(c). states that "[e]xcept as provided in section 15 of this chapter, a public utility may not file a petition under subsection (a) within nine (9) months after the date on which the commission issues an order changing the public utility's basic rates and charges with respect to the same type of utility service." Petitioner filed its Petition in this TDSIC-2 on February 4, 2020. At the time of filing, Midwest's most recent retail base rate order changing Midwest's basic rates and charges was issued on August 16, 2017 in Cause No. 44880. The Commission finds that the Verified Petition in this Cause was filed more than nine months after Midwest's last general rate case in accordance with Ind. Code § 8-1-39-9(c).

ii. **Indiana Code § 8-1-39-9(d).** Ind. Code § 8-1-39-9(d) states that "[a] public utility that implements a TDSIC under this chapter shall, before the expiration of the public utility's approved seven (7) year plan, petition the commission for review and approval of the public utility's basic rates and charges with respect to the same type of utility service." In accordance with this statute, the Commission ordered Midwest in the 44942 Order to file a base rate petition no later than September 27, 2024, before the expiration of the approved TDSIC Plan.

iii. **Indiana Code § 8-1-39-9(e)** Ind. Code § 8-1-39-9(e) states that "[a] public utility may file a petition under this section not more than one (1) time every six (6) months." This is the second TDSIC filing made by Midwest. Mr. Osmon recognized that the statute permits a request every six months and stated that, at this time, Petitioner intends to seek recovery at the end of each Phase of the 7-Year Plan, which will avoid any issues related to construction work in progress. More than one year has elapsed since Petitioner's TDSIC-1 filing. The Commission finds that Midwest's timeline for its TDSIC filings is consistent with Ind. Code§ 8-1-39-9(e).

B. Petitioner's Current TDSIC Plan. Mr. Osmon testified that the Commission approved Petitioner's TDSIC Plan in Cause No. 44942. He said the specific description of the projects that are included in the TDSIC Plan are as described by his testimony and exhibits filed on May 12, 2017 in Cause No. 44942 except as they have been updated. The Commission recognizes that it approved updates to the TDSIC Plan in the TDSIC-1 Order.

C. Petitioner's Further Updates to its TDSIC Plan. Mr. Osmon stated Phase II changed from that described by his original testimony and exhibits in Cause No. 44942. Specifically, he stated the cost of steel originally estimated had increased, during the construction of Phase II. He explained that the routes used by Midwest had changed in order to meet the needs of Petitioner's customers. Further, Petitioner changed the type of material to be used for distribution mains in that portion of Phase VI which was included in the Phase II construction from 2 inch steel pipe to 4 inch polyethylene pipe. Mr. Osmon explained that the change in the type of pipe material was primarily done to reduce the number of regulators that would have been required had Petitioner continued to use the 2 inch high pressure steel mains.

In addition to the changes in Phase II, Mr. Osmon described expected changes that will be required in future phases including changes in the timing of construction and changes in routes previously described in phase IV. Mr. Osmon explained that based on customer demand, Petitioner expects that the route along CR 800 North in Daviess County will be changed in order to construct 2 additional mains along CR 1000 East and CR 1200 East. He indicated that such change will require an additional 13,000 feet of 4 inch polyethylene main. He provided an estimate of the costs of such mains and also provided an estimate of the revenue to flow from customers associated with such mains which significantly exceeds the cost of construction. Finally he indicated that he had discussions with Mr. Krieger of the OUCC about these future route changes and the additional polyethylene mains that Petitioner proposes to construct as part of Phase IV.

Mr. Krieger acknowledged that he had reviewed the further changes proposed by Petitioner to its original TDSIC Plan with respect to Phase II and the future Phase IV. He described discussions about these changes with Petitioner. He indicated that he reviewed purchase invoices, a map reflecting the changes in the Phase II projects, recognized that the different and longer installation routes were needed to avoid septic systems and parking lots. Based on his review, he opined that the changes associated with the Phase II construction are justified. With respect to the future changes associated with Phase IV and the additional mains that Petitioner is now proposing, Mr. Krieger reviewed work order detail, revenue estimates, and recognized the contiguity of these rural extensions to Petitioner's original described routes. Based on such review, he testified such changes are reasonable and are consistent with Ind. Code § 8-1-39-9. Mr. Krieger noted that he agrees with the cost estimates of these updates with one exception. He stated the inflation factor related to Midwest labor and indirect materials built into these Phase IV cost estimates should be reduced to 2% based upon the current Consumer Price Index, shown in Mr. Krieger's Attachment BRK-1.

Based on the evidence provided by Petitioner relative to changes to its TDSIC Plan, and in consideration of the review and analysis performed by the OUCC related to such changes, the Commission now finds that, except for Petitioner's proposed 4% inflation factor which it applied to its internal labor and indirect materials estimate, the further updates to Petitioner's TDSIC Plan as described in this TDSIC-2 proceeding should be approved. Given that the February 2020 Consumer Price Index ("CPI") is 2.3%, as shown in the OUCC's evidence, we find that Petitioner's proposed 4% inflation factor is inappropriate. As such, we order the inflation factor for the new Phase IV TDSIC project be reduced to 2% for application to Midwest's labor and indirect materials.

D. Revenue Requirement for Approved Capital Expenditures. As reflected in its schedules, Petitioner requests approval of an additional revenue requirement of $77,777. Such additional revenue recovers depreciation, property taxes, and a return on eligible transmission, distribution, and storage system improvements associated with Phase II of Petitioner's updated TDSIC Plan. Mr. Osmon testified that Schedule 1 calculates the total combined recoverable TDSIC component including the pre-tax return, depreciation and property tax. The schedule indicates each component individually in total and reduces it by 20% to represent the 80% recoverable amount. He said Schedule 2 focuses on gross investment in Phase II and then breaks down the investment by type, general ledger account and township in which it is located. This schedule also reflects depreciation for the applicable items, and property tax expenses using the current property tax rates of the specific taxing districts where Phase II construction has occurred. Mr. Osmon stated Schedule 4 is the determination of the pre-tax rate of return. He said the components were those taken from the most recent general base rate case capital structure in Cause No. 44880 approved August 16, 2017, but updated for current balances.

Ms. Griffith stated she performed a comprehensive analysis of Midwest's calculation of its additional revenue requirement. Such analysis included her tracing specific data to source documentation; recalculation of Petitioner's annualized depreciation expense and property tax expense; verifying the pretax rate of return; considering the residential bill impacts; and reviewing work order documentation to verify various expenditure amounts. Based on such comprehensive analysis, she agreed with Petitioner's proposed additional revenue requirement and confirmed Petitioner is allocating such revenue requirement consistent with the allocation in its last base rate case. She noted two minor corrections in the calculations, one related to the property tax application and one related to the 2% cap. She indicated that both issues were resolved in Petitioner's revised schedules filed in Petitioner's Exhibit DAO-2.

Based on the evidence of record, we find that Petitioner has properly calculated and allocated its additional revenue requirement to volumetric rates related to this TDSIC-2 proceeding which will require an additional $77,777. When the additional TDSIC-2 revenue requirement is added to Petitioner's approved TDSIC-1 revenue requirement, Petitioner's current approved TDSIC revenue requirement is an additional $136,670 above its base rates. We further find that Petitioner has provided sufficient information regarding the projected effects of its TDSIC-2 tracker and the potential impacts of TDSIC trackers to be filed in the future on retail rates and charges as required by Ind. Code § 8-1-39-9. Therefore, Midwest is authorized to recover 80% of eligible capital expenditures and TDSIC costs as proposed in this TDSIC-2 filing through an appropriate TDSIC rate adjustment, while deferring the remaining 20% for recovery in its next base rate case.

E. <u>Depreciation and Property Tax Expenses</u>. Petitioner has included depreciation and property tax expense in the proposed recoverable components of the TDSIC-2 filing. Petitioner's testimony reflects that Petitioner used the same methodology to calculate these components as it used in TDSIC-1. For purposes of calculating depreciation, Mr. Osmon explained that Petitioner kept a list of costs throughout the construction process, and at the end of construction allocated the constructed improvements to the appropriate plant account and applied a depreciation rate of 2.75% to such added amounts. Mr. Osmon noted he recognized that some costs are not depreciable such as those related to easements, and Petitioner did not apply depreciation to the non-depreciable plant classifications. With respect to property tax, Mr. Osmon explained that the construction in Phase II all occurred within Van Buren Township of Daviess County. Mr. Osmon explained how the property tax rate for Van Buren Township was applied to the 30% net value of the utility plant as described by the Property Tax Report of the Department of Local Government Finance. He indicated that a copy of this calculation and the current tax rate schedule was provided to the OUCC. Ms. Griffith of the OUCC confirmed the accuracy of Petitioner's calculation of depreciation and property tax expense as reflected in Petitioner's schedules included in Exhibit DAO-2.

Based on the record evidence, we find Midwest's total depreciation and property tax expense associated with the eligible Phase II TDSIC improvements and the 80% recoverable depreciation and property tax expense has been calculated correctly and are approved.

F. <u>Calculation of TDSIC Factors</u>. Mr. Osmon testified that his Schedule 3 determines the recovery tracker per therm by customer class. He said the recovery of each component (capital, depreciation, and property tax) is distributed based upon the allocation factors included in the compliance filing of the most recent general base rate case (Cause No. 44880). He said the total recovery is then divided by annualized sales from GCA 144 (Schedule 2). He explained GCA 144 was used since it was the most recent GCA with a Final Order from the Commission as these schedules were being prepared. He stated that by defining the tracker per therm, Midwest is requesting the recovery based upon volumetric throughput and not a fixed monthly charge. As noted above, the OUCC performed a comprehensive review of Midwest's

TDSIC factor calculation and agreed with Petitioner's calculation of the TDSIC factors. We find these TDSIC factors were properly calculated and are approved.

G. Average Aggregate Increase in Total Retail Revenues. Ind. Code § 8-1-39-14(a) states as follows:

> The commission may not approve a TDSIC that would result in an average aggregate increase in a public utility's total retail revenues of more than two percent (2%) in a twelve (12) month period. For purposes of this subsection, a public utility's total retail revenues do not include TDSIC revenues associated with a targeted economic development project.

Mr. Osmon testified that his Schedule 5 is a calculation which considers the 2% cap test on the TDSIC increased revenue requirement. As shown on Schedule 5, the recoverable component for TDSIC-2 is approximately 0.51%. Accordingly, the Commission finds that Petitioner's proposed TDSIC-2 factors will not result in an average aggregate increase in total retail revenues of more than 2% in a 12-month period.

H. Deferred TDSIC Costs. In the 44942 Order, the Commission authorized Midwest to defer post-in-service TDSIC Plan costs, on an interim basis, until such costs are recovered for ratemaking purposes in a future TDSIC trackers pursuant to Ind. Code§ 8-1-39-9 or in a future base rate proceeding. In this proceeding, Mr. Osmon sponsored Schedule 7 which shows the 20% deferral of the capital investment revenue requirement, depreciation, and property tax. He testified that Petitioner will update the accumulated deferrals in each subsequent TDSIC recovery filing. Based on the evidence of record, we find that Petitioner has properly calculated the costs to be deferred and recovered in Midwest's next general rate case.

I. Projected Effect on Retail Rates and Charges. Ind. Code § 8-1-39-9(a)(3) requires a petitioning utility, seeking recovery of additional revenue through a TDSIC tracker, to reflect the impact of the proposed tracker on Petitioner's residential customers' rates and charges. Petitioner here has provided through Mr. Osmon's Schedule 8 evidence reflecting the impact of this TDSIC-2 request on the average residential customer. That schedule reveals the impact per therm, average annual residential impact, average monthly residential bill impact, and begins with TDSIC-1 and flows through the expected future TDSIC-5 impacts. The OUCC's Ms. Griffith indicated she reviewed the resulting bill impacts described by Petitioner and agreed with Petitioner's calculations. Based on the evidence of record, we find that Petitioner has met its burden of proof as required by Ind. Code § 8-1-39-9(a)(3).

J. Adjustment to Authorized Net Operating Income. Mr. Osmon testified that his Schedule 6 focuses on the GCA earnings test. He said this schedule calculates the adjustment to net operating income ("NOI") to be used for future GCAs. He explained the calculation takes the new investment, reduced for the 20% deferral, and multiplies the result by the after-tax rate of return. He said the after-tax return will be shown as an adjustment on the Sum of Differentials attachment in subsequent GCA filings. Ms. Griffith testified that she found no errors in Petitioner's methodology of calculating the adjustment to authorized NOI. Based on the evidence of record, the Commission finds that Petitioner properly shows the NOI adjustment for the GCA earnings test. Therefore, effective with the approved rates in this TDSIC-2, Petitioner will adjust its authorized NOI by $80,791 for future GCA proceedings.

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

1. Midwest's Plan Update-2 is approved, with the inflation factor reduced to 2% for Midwest's labor and indirect materials related to the new project proposed in this proceeding.

2. Midwest is authorized to recover 80% of its updated, eligible, and approved capital expenditures and TDSIC costs incurred in connection with Phase II of its TDSIC Plan in the amount of $77,777; and to defer 20% of the eligible and approved capital expenditures and requested TDSIC costs incurred in connection with Phase II, including ongoing carrying charges on all deferred costs, for recovery in its next general rate case.

3. Petitioner's requested TDSIC factors, as set forth in Petitioner's Schedule 3 are approved to effectuate the timely recovery of 80% of eligible and approved capital expenditures and TDSIC costs associated with Phase II.

4. Prior to implementing the approved TDSIC factors, Petitioner shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the Order in this TDSIC-2.

5. Petitioner is authorized to adjust its net operating income to reflect the approved earnings of an additional $80,791 associated with its TDSIC for purposes of Ind. Code § 8-1-2-42(g)(3).

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

HUSTON, FREEMAN, KREVDA, OBER AND ZIEGNER CONCUR:
APPROVED:

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

____

Mary Becerra, Secretary of the Commission

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CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record by electronic mail this 1st day of May, 2020:

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