

ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Bennett	√		
Freeman	√		
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY D/B/A CENTERPOINT)
ENERGY INDIANA SOUTH (CEI SOUTH) FOR: (1))
APPROVAL OF CEI SOUTH’S 5-YEAR PLAN FOR)
TRANSMISSION, DISTRIBUTION AND STORAGE)
SYSTEM IMPROVEMENTS PURSUANT TO IND. CODE)
CH. 8-1-39 (“TDSIC PLAN”); (2) AUTHORIZATION OF)
TDSIC TREATMENT AS PROVIDED IN IND. CODE CH. 8-)
1-39 FOR THE ELECTRIC TRANSMISSION,)
DISTRIBUTION AND STORAGE SYSTEM)
IMPROVEMENTS (AND THE COSTS THEREOF) SET)
FORTH IN CEI SOUTH’S TDSIC PLAN; (3) APPROVAL)
OF CEI SOUTH’S USE OF ITS TDSIC RATE)
ADJUSTMENT MECHANISM AND RELATED)
ACCOUNTING DEFERRALS, PURSUANT TO IND. CODE)
8-1-39, FOR THE TIMELY RECOVERY AND DEFERRAL)
OF COSTS RELATED TO SUCH TRANSMISSION,)
DISTRIBUTION AND STORAGE SYSTEM)
IMPROVEMENTS (INCLUDING FINANCING COSTS)
INCURRED DURING CONSTRUCTION); AND (4))
APPROVAL OF OTHER RELATED RATEMAKING)
RELIEF AND TARIFF PROPOSALS CONSISTENT WITH)
IND. CODE CH. 8-1-39.)

CAUSE NO. 45894

APPROVED: DEC 27 2023

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Wesley R. Bennett, Commissioner

Jennifer L. Schuster, Senior Administrative Law Judge

On May 24, 2023, Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South (“Petitioner” or “CEI South”) filed its petition and case-in-chief with the Indiana Utility Regulatory Commission (“Commission”) initiating this Cause and requesting, among other things, approval of Petitioner’s five-year plan for transmission, distribution, and storage improvements pursuant to Ind. Code ch. 8-1-39 (“TDSIC Plan” or “Plan”). Petitioner’s case-in-chief consisted of direct testimony, attachments, and workpapers from the following witnesses:

- Richard C. Leger, Senior Vice President, Indiana Electric, CEI South (Pet. Ex. 1);
- Stephen R. Rawlinson, Director of Electric Engineering, CEI South (Pet. Ex. 2);
- Jason D. De Stigter, Director, Utility Investment Planning, 1898 & Co. (“1898”) (Pet. Ex. 3);

- Matthew R. Thibodeau, Senior Vice President and Senior project Director, Sargent & Lundy (“S&L”) (Pet. Ex. 4);
- Jason Christopher Freeman, Manager, Corporate Security, CEI South (Pet. Ex. 5);
- Chrissy M. Behme, Manager, Regulatory Reporting, CEI South (Pet. Ex. 6); and
- Matthew A. Rice, Director of Indiana Electric Regulatory and Rates, CEI South (Pet. Ex. 7).

A Petition to Intervene filed on June 2, 2023 by Citizens Action Coalition of Indiana, Inc. (“CAC”) was granted by the Presiding Officers on June 13, 2023.

On August 16, 2023, the Indiana Office of Utility Consumer Counselor (“OUCC”) and the CAC filed the direct testimony and exhibits constituting their respective cases-in-chief. The OUCC’s prefiled case-in-chief included testimony and attachments from the following OUCC employees:

- Kaleb G. Lantrip, Utility Analyst, Electric Division (Pub. Ex. 1);
- Gregory L. Krieger, Utility Analyst, Electric Division (Pub. Ex. 2); and
- Derek J. Leader, Utility Analyst (Pub. Ex. 3).

The CAC’s prefiled case-in-chief included testimony and attachments from Benjamin Inskeep, Program Director (CAC Ex. 1).

On August 29, 2023, CEI South filed its rebuttal testimony, attachments and workpapers for witnesses Rawlinson (Pet. Ex. 2-R), De Stigter (Pet. Ex. 3-R), Thibodeau (Pet. Ex. 4-R), Freeman (Pet. Ex. 5-R), Behme (Pet. Ex. 6-R), and Rice (Pet. Ex. 7-R).

A field hearing was held in this matter on September 13, 2023 at 6 p.m. local time at Old National Events Plaza, Locust Room, 715 Locust St. Evansville, Indiana. An evidentiary hearing was held in this matter on September 18, 2023 at 9:30 a.m. in in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the evidentiary hearing, the prefiled evidence of CEI South, the OUCC and the CAC was admitted into the record without objection.

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

1. Notice and Commission Jurisdiction. Notice of the hearings in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as that term is defined in Ind. Code § 8-1-2-1(a) and an energy utility as defined in Ind. Code § 8-1-39-4. Under Ind. Code §§ 8-1-39-10 and 8-1-39-11, the Commission has jurisdiction over a public utility’s plan for eligible transmission, distribution, and storage improvements. Under Ind. Code ch. 8-1-39 (“TDSIC Statute”) and Ind. Code § 8-1-2-42, the Commission has authority over certain changes to CEI South’s rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner’s Characteristics. Petitioner is a public utility incorporated under Indiana law. Petitioner has its principal office at 211 NW Riverside Drive, Evansville, Indiana. Petitioner has charter power and authority to engage in, and is engaged in, the business of rendering

retail electric service in Indiana under indeterminate permits, franchises, and necessity certificates. Petitioner owns, operates, manages, and controls, among other things, plant, property, equipment, and facilities that are used and useful for the production, storage, transmission, distribution, and furnishing of electric service to approximately 150,000 electric consumers in Pike, Gibson, Dubois, Posey, Vanderburgh, Warrick, and Spencer counties.

3. Requested Relief.

CEI South requests the following relief:

(1) A finding that the investments contained in CEI South’s 2024 – 2028 TDSIC Plan are “eligible transmission, distribution, and storage system improvements” within the meaning of Ind. Code § 8-1-39-2;

(2) A finding of the best estimate of the cost of the eligible improvements included in CEI South’s TDSIC Plan;

(3) A finding that public convenience and necessity require or will require the eligible improvements included in CEI South’s TDSIC Plan;

(4) A finding that the estimated costs of the eligible improvements included in CEI South’s TDSIC Plan are justified by the incremental benefits attributable to the plan;

(5) A finding that CEI South’s TDSIC Plan is reasonable;

(6) Approval of CEI South’s TDSIC Plan;

(7) Authorization of TDSIC treatment as provided in Ind. Code ch. 8-1-39 for the eligible transmission, distribution, and storage improvements included in the Plan, through CEI South’s existing TDSIC rate adjustment mechanism, which was approved in this Commission’s September 20, 2017 Order in Cause No. 44910;

(8) Approval of the use of Petitioner’s TDSIC rate adjustment mechanism for timely recovery of 80% of the approved capital expenditures and TDSIC costs of the TDSIC Plan, including allowance for funds used during construction (“AFUDC”), post-in-service carrying costs (“PISCC”), projected and annualized property tax and depreciation expense, and amortization of deferred depreciation expense, plan development costs, and PISCC;

(9) Authorization of the deferral of 20% of the approved capital expenditures and TDSIC costs for the TDSIC Plan, including depreciation, AFUDC, and PISCC for recovery as part of its next two general rate cases;

(10) Authorization to utilize interim deferrals related to the recovery of 80% of approved capital expenditures and TDSIC costs of CEI South’s TDSIC

Plan, which will be recovered via the TDSIC rate adjustment mechanism, until such costs are reflected in rates via the TDSIC rate adjustment mechanism or in base rates; and

(11) Approval of other related ratemaking relief and tariff proposals.

4. **Evidence Presented.**

A. **CEI South’s Case-in-Chief.** CEI South witness Leger testified that CEI South’s first TDSIC plan, approved in Cause No. 44910 (the “44910 TDSIC Plan”), was a seven-year plan that expires on December 31, 2023. He stated CEI South is on track to complete the committed scope within the \$446.5 million program cap established in Cause No. 44910 in the second half of 2023. Mr. Leger opined that the TDSIC Plan proposed in this Cause is needed to continue providing effective, safe, and reliable electric service to its customers. CEI South witness Rawlinson summarized what CEI South has accomplished through its investments under the 44910 TDSIC Plan. Mr. Rawlinson described the reduction of risk achieved through completion of projects in the 44910 TDSIC Plan. He stated that there is an ongoing need for CEI South to undertake new and replacement capital investment for purposes of safety, reliability, and system modernization.

i. **Overview of TDSIC Plan.** Mr. Leger and Mr. Rawlinson both testified that the proposed five-year TDSIC Plan, covering the period of January 1, 2024 through December 31, 2028, consists of approximately \$454 million in proposed investments across seven different programs: (1) Distribution 12kV Circuit Rebuild, (2) Distribution Underground Rebuild, (3) Distribution Automation, (4) Wood pole replacement, (5) Transmission Line Rebuild, (6) Substation Rebuild, and (7) Substation Physical Security. Mr. Leger and Mr. Rawlinson testified that the improvements, upgrades and, in some cases, new technologies and/or approaches included in the TDSIC Plan have been carefully selected by CEI South to preserve and further enhance system safety, reliability and resiliency with an aim of reducing the likelihood of equipment failures and unplanned outages. Mr. Leger testified that overall safety and reliability are improved by replacement of aging infrastructure to address the causes of outages, equipment failures, and interruptions in service, while the enhanced controls around distribution and transmission lines and substation equipment described in the TDSIC Plan will enhance safety.

Mr. Rawlinson testified that the transition to renewable generation resources, electrification, and Federal Energy Regulatory Commission (“FERC”) Order 2222 will transform the way the grid is utilized in the coming years and therefore Petitioner must prepare its transmission and distribution assets to accommodate renewable generation, Electric Vehicles (“EV”), and Distributed Energy Resources (“DER”).

Mr. Rawlinson outlined each of the programs in the TDSIC Plan as follows:

Distribution 12kV Circuit Rebuild Program: This program includes the replacement of: (a) obsolete and aged conductors, within a protection zone, with higher capacity and stronger aluminum cables, (b) aging wood poles with poles based on current, more robust material standards, and (c) other hardware and equipment as needed to satisfy current engineering and material standards designed to improve reliability. In addition, CEI South will incorporate looping

(circuit ties) with modern switches, where applicable, that will improve grid resilience by providing alternate feeds for reenergizing customers during extended outages.

Distribution Underground Rebuild Program: This program involves the replacement of deteriorating underground (“UG”) bare concentric neutral cable with jacketed cable. The program also includes the replacement of aged conductors, within a protection zone, with conductor that meets current engineering and material standards. In addition, CEI South will incorporate looping that will improve grid resilience by providing alternate feeds for reenergizing customers during extended outages.

Distribution Automation (“DA”) Program: This program consists of installing DA-capable equipment to allow automatic switching of customers during an outage event. This type of equipment can be opened and closed remotely from CEI South’s control room allowing for reduced mobilizations to return the system to normal conditions. The program includes new reclosers, communication devices, and other supporting equipment. The associated communication and automation can be leveraged in the future to enable more complex schemes to manage the evolving distribution system to accommodate EVs and DERs.

Wood pole replacement Program: This program includes a wood pole treatment and replacement program that utilizes inspection data of approximately 11,000 poles annually with the flexibility to address urgent and emergent situations as those are identified.

Transmission Line Rebuild Program: This program involves rebuilding aging transmission line sections to reduce the risk of failure, taking into consideration future communication and capacity needs. projects may include reconductoring, wood-to-steel pole conversions, and optical ground wire (“OPGW”) installation. The deployment of OPGW (or fiber optic communications) facilitates substation-to-substation and substation-to-control-center communication, and is used in a variety of communications use cases including high-speed protective relaying, supervisory control, and data acquisition (“SCADA”), and backhaul for corporate network traffic from power generation locations, service centers, substations, etc.

Substation Rebuild Program: This program consists of rebuilding and replacing obsolete and/or end of life substation equipment. Assets replaced include transformers, breakers, relays, communications, and others. Modernized substation engineering designs and material standards facilitate both flexibility and optionality to manage a modern grid.

Substation Physical Security Program: This program addresses the evolving security threat at CEI South’s substation facilities by investing in additional security measures.

CEI South witness Freeman testified about the addition of various security monitoring control technologies and fencing to substations. He explained that the specific controls being added at each site have been determined based on the criticality rating of each substation. The controls include tools to deter, delay, detect, and report substation intrusions. Mr. Freeman emphasized that unauthorized entry into a substation is commonly associated with criminal activity related to theft of materials onsite, theft of copper components, gaining unauthorized access to industrial control or cyber systems, or sabotage of equipment on site. He testified that unauthorized entry could lead to damage to station components, resulting in a service outage and/or increased risk to authorized

personnel on site. Mr. Freeman explained that unauthorized entry presents a significant risk of severe injury or death to the intruder due to contact with live electrical components. Any issues caused in the substation due to an intrusion can ultimately result in electric service reliability issues for customers. He outlined in confidential testimony the details of the full security monitoring controls that are being added and the locations at which they will be installed. He also described the upgraded fencing controls and intrusion monitoring controls to be added.

Mr. Freeman testified that the threat of physical attack on the electric grid has increased in the past few years and discussed recent examples of such attacks from the news.

Mr. Rawlinson testified that CEI South will require the ability to move projects already within the five-year Plan timeline, as well as remove, adjust, or add projects to the Plan. He stated that CEI South recognizes the need for flexibility within the Plan as paramount so that it may stay responsive to changing risks to the ever-evolving electric system and to maximize the investments Petitioner is proposing. Mr. Rawlinson opined that it is also important for CEI South to have the ability to move a project into the five-year Plan from the Potential Substitution Project (“PSP”) list. The PSPs may be selected to move into the Plan as an output of Petitioner’s assessment of the electric grid and associated risks. Mr. Rawlinson described the PSPs and stated the PSPs underwent the same engineering and estimating process as the projects in the five-year Plan.

Mr. Rawlinson opined that the eligible improvements included in the TDSIC Plan are required or will be required to maintain the safety, integrity, and reliability of CEI South’s transmission and distribution systems consistent with the public convenience and necessity.

ii. Plan Development. Mr. Rawlinson testified that CEI South, in collaboration with 1898, developed the TDSIC Plan and identified and prioritized potential programs and associated projects that meet the following goals: maintain and enhance CEI South’s grid reliability and resiliency, manage life-cycle investments from aging equipment, and modernize CEI South’s grid for long-term customer benefit while continuing to deliver service safely. Upon identification, Mr. Rawlinson said the programs and associated projects were screened for the eligibility requirements of the TDSIC Statute and the goals of increasing safety, reliability, system modernization, and deliverability (“TDSIC Purposes”). Mr. Rawlinson described how CEI South analyzed potential TDSIC Plan projects. He stated that all projects that were identified by 1898’s AssetLens Analytics Engine (“Risk Model”) and included within the Plan were selected based on a benefit-to-cost ratio (“BCR”) of 1 or greater.

Mr. Rawlinson confirmed that none of the TDSIC Plan investments and costs are currently reflected in CEI South’s rate base in its most recent base rate proceeding (Cause No. 43839).

Mr. De Stigter explained how 1898 helped to develop CEI South’s TDSIC Plan, by identifying and aligning investments to CEI South’s Plan Objectives (Deliver Service Safely, Maintain Reliability & Resiliency, Manage Asset Lifecycles, and Modernize the Grid) and TDSIC Purposes (Safety, Reliability, Economic Development, Modernization). He stated that 1898 and CEI South prioritized the investments into the Plan to provide the most value to customers after accounting for CEI South execution constraints. For the investments identified using this quantitative approach, the business case also included qualitative factors as additional benefit streams. Mr. De Stigter testified that approximately 81.2% of the Plan investment level was

developed using this approach. He said that CEI South also identified investments based on other system needs based on their alignment to CEI South Plan Objectives and TDSIC Purposes. These investments were identified by CEI South planning, engineering, field operations, and maintenance teams (“CEI South System Stakeholders”). According to Mr. De Stigter, approximately 18.8% of the Plan was developed using this approach. He opined that many of these investments are needed to manage safety risks and to continue to deliver electric service.

Mr. De Stigter testified that CEI South and 1898 also identified PSPs that each had quantified benefits that justified the cost. Given the uncertain nature of project execution and unknown challenges, he opined that PSPs provide CEI South needed execution flexibility, as realities outside of CEI South’s control—such as supply chain issues—may cause changes to the execution of the TDSIC Plan.

iii. **TDSIC Plan Benefits.** Mr. Rawlinson opined that the programs in the TDSIC Plan are designed to strengthen CEI South’s electric system and prepare the system to meet customers’ future expectations and needs. He said that some of the main benefits of the TDSIC Plan include reduction in number and duration of unplanned outages, as well as overall improvements to system reliability and safety through the replacement of aging assets, improved deliverability, and enhanced abilities to monitor real time system performance. Additional benefits include improved system ability to serve customers even during outage events, quicker identification and isolation of customer interruptions and outages, improved accuracy with estimated restoration times and faster outage restoration; all of which add up to increased system hardening, resiliency, and overall improved customer experience. Mr. Rawlinson testified that a more resilient system maintains service to customers even when some system components fail. He said CEI South understands the importance and related savings, not only to the system but also for customers, of replacing aging, poorly performing assets before they fail. He said the proactive replacement of assets before failure enables Petitioner to plan the work rather than be reactive in an emergency, creating fewer customer disruptions and reduces after-hours work and emergency work. He noted that modernization projects, such as distribution automation, SCADA upgrades, microprocessor relay upgrades and optical ground wire installation increase flexibility and functionality of the overall electric system.

Mr. Rawlinson also said that, where applicable, CEI South incorporated looping into projects that will improve grid resilience by providing alternate feeds for reenergizing customers during extended outages. He opined that this investment should provide reduced future reactive/restorative costs to customers from aging equipment failures and that Petitioner will maintain and improve reliability by lowering the number of outages that customers experience during blue sky days, extreme weather events, and unexpected system changes.

Mr. Rawlinson testified that Petitioner’s TDSIC Plan will increase and continue to advance the electric grid design to support renewable investments by the state and by customers, including CEI South’s distribution automation (“DA”) program that was started in the 44910 TDSIC Plan. He stated that the DA program builds out the ability to have a communication restoration scheme which in turn can assist DER applications to come back online quicker. He stated that programs in the TDSIC Plan, such as Substation Rebuilds, DA, and some Distribution 12kV Rebuilds and Transmission Rebuilds directly support this effort. Under FERC Order 2222, utilities will need a

host of monitoring and control systems to support the grid as DER/EV penetration evolves over time.

Mr. Freeman testified that the purpose of the substation physical security projects described in his testimony is to add additional security control measures at Petitioner’s substations to prevent a physical attack on those assets. Due to the inherent risk of severe injury or death due to a trespasser entering a substation, these added controls increase public safety. He stated that these added controls will help protect system reliability, as such outages put the health, safety, and welfare of Petitioner’s customers and the public at-large at risk and can cause millions of dollars in property damage.

Mr. Thibodeau presented the economic impact analysis performed by S&L to calculate the projected economic benefits of the estimated capital expenditures associated with the projects included in the TDSIC Plan, including net employment, labor income, value added to the market, wages injected into the economy (output), and federal, state, and local taxes. S&L reviewed and evaluated the economic impact of CEI South’s projected construction and development expenditures associated with CEI South’s 2024 – 2028 TDSIC Plan. S&L’s study was limited to capital expenditures relating to transmission and distribution systems and did not include the economic impact of operation and maintenance (“O&M”) expense. S&L’s economic impact report estimates the direct, indirect, and induced impacts of these expenditures on two different geographic regions—Indiana and the rest of the United States. Each impact is broken down into the following types: supported employment, labor income, value added (in gross domestic product (“GDP”)), and total economic output. From these impact types, estimates of wages, federal taxes, and state and local taxes were then calculated. The cost input used in the analysis was entirely based on the direct project costs that are proposed by CEI South. The results of the analysis quantify the estimated employment, labor income, GDP (value added), economic output, and tax income resulting from the proposed projects.

Mr. De Stigter described other customer benefits identified in the Risk Model as the avoided costs to customers by the replacement of assets prior to failure; these benefits were identified using the United States Department of Energy’s Interruption Cost Estimate (“ICE”) calculator.

iv. Cost Estimates. Mr. Leger stated that CEI South engaged with both internal and external subject matter experts (“SMEs”) to arrive at the cost estimates and that, with the exception of the Wood pole replacement program and the five Substation Physical Security Surveillance System projects, each project within the complete TDSIC Plan was estimated to follow the recommended practices of AACE International (“AACE”), with projects planned to be completed in the first two years of the TDSIC Plan designed to AACE Class 2 criteria and the remaining projects designed to AACE Class 4 estimate criteria.

Mr. Rawlinson presented the estimated cost of the TDSIC Plan, stating that CEI South has created a detailed cost estimate for each project, including PSPs, for all programs within the TDSIC Plan except the wood pole replacement program and the five projects in the substation physical security program. The wood pole replacement program and substation physical security surveillance system projects do not represent a specific location and therefore have an estimated cost at the program level by planned year, but do not have unique projects identified with an

associated estimated cost for this filing. For all other projects, each detailed cost estimate includes a line-item breakdown of the cost including engineering, contract labor, material, construction and material loadings, land, easements, and survey work as applicable. As explained below, escalation and contingency are included in the total best estimate. A confidential list of the best estimates of the TDSIC Plan can be found in Petitioner's Exhibit 2, Attachment SRR-1.

Mr. Rawlinson described CEI South's methodology for developing estimates with both internal and external SMEs. Over 5,000 prospective projects were initially identified, and he stated that CEI South intends to complete 319 projects within the five-year Plan. An additional 114 projects were identified as PSPs.

According to Mr. Rawlinson, CEI South estimated costs by reviewing each project's associated scope of work and leveraged historical cost information to create a high-level preliminary estimate. Petitioner then grouped these projects into tentative planned years by program using the preliminary estimates along with an expected annual Plan budget. As a result, a draft five-year Plan by year was created. Then, each project within the complete TDSIC Plan was estimated to follow the recommended practices of AACE, formerly Association for the Advancement of Cost Engineering International. AACE specifies five estimate classes, with Class 1 estimates representing those projects that have the greatest level of detail and an accuracy range of -10% to 15% and Class 5 having the least amount of detail with an expected accuracy range of -50% to 100%. With the exception of the Wood pole replacement program and the five Substation Physical Security Surveillance System projects, all projects, including PSPs, have a unique estimated cost at the AACE Class 2 or Class 4 accuracy level. projects planned to be completed in the first two years of the TDSIC Plan were designed to AACE Class 2 criteria and the remaining projects, including PSPs, have been designed to AACE Class 4 estimate criteria. Mr. Rawlinson opined that Class 2 estimates, which have accuracy ranges of -15% to +20%, balance the level of detail and confidence in design with appropriate engineering resource utilization to ensure accurate estimates and work plans are developed for projects to be executed in the next two years. He said Class 4 estimates have an accuracy range of -30% to +50% and are appropriate for projects completed beyond the first two years by balancing a reasonable level of work scope detail and estimate accuracy while effectively utilizing engineering resources.

Mr. Rawlinson opined that designing all projects to a Class 2 accuracy level is not an effective or efficient use of resources due to potential changes in work scope and fluctuating material and labor costs that occur as time passes. He stated the Class 4 estimates will be refined about a year in advance of execution and then updated in the TDSIC Plan.

With these criteria established, the estimates were developed with a combination of internal and external engineering resources using CEI South's engineering systems and standards. For direct costs, CEI South worked with 1898 and CHA Consulting to utilize previously completed projects of similar size and scope, quotes from material vendors, and SME knowledge of constructing projects in southwest Indiana to determine the direct capital costs for project estimation. Mr. Rawlinson testified that Petitioner reviewed historical indirect capital costs and long-term forecasted capital investments to derive a projected indirect percentage. That percentage was utilized in each project cost estimate. Mr. Rawlinson testified that CEI South used 12% for indirect capital costs in the Plan.

Mr. Rawlinson testified that escalation associated with inflation of materials, labor, and services was calculated on each project's summary workpaper, which shows the total project cost. 1898 utilized various economic, and inflation forecast information, to determine the short-term escalation at 4% per year starting in 2024 through 2028.

He stated that the contingency applied to projects was based on the amount of detail and confidence in the scope of work and design to ensure accurate estimates were developed for projects. CEI South used a 12.5% contingency on projects in years 2024 – 2025 and a 17.5% contingency on projects for years 2026 – 2028 and PSPs. The percentage of contingency added to each project's summary workpaper was determined by the comprehensiveness of the scope of work, level of engineering, complexity of the project, and site condition detail. Mr. Rawlinson explained the same percentage of contingency was not applied to all projects. He testified that the use of contingencies is standard practice throughout the utility industry to capture costs for unknowns which often occur and opined that including a contingency is needed for Petitioner to create the best estimate of costs of eligible improvements, as required by the TDSIC Statute.

v. **Incremental Benefits Analysis.** Mr. Leger testified that CEI South analyzed the incremental benefits of the TDSIC Plan as compared to the estimated costs and that the TDSIC Plan's incremental benefits justify its cost, while reducing risk associated with the electric grid and increasing overall reliability and safety of the system. Mr. Rawlinson opined that each project and program completed in CEI South's TDSIC Plan will bring customers some combination of the following incremental benefits: enhanced system reliability, resilience, deliverability, safety, and modernization.

Mr. De Stigter testified that the Plan has a quantified benefit in excess of cost for a benefit-cost ratio of 1.7. He stated that the benefits exceed costs for the five programs that included a quantitative business case. He also said that, for each individual investment for which a quantitative benefit was measured, the quantified incremental benefits exceed the costs.

Mr. De Stigter testified that approximately 81.2% of the Plan investment was identified utilizing a risk and resiliency analytics approach. He stated that the total investment of \$325.8 million (in 2023 dollars) produces a life cycle present value of benefits of \$681.3 million. He testified that all such projects have a total net present value of \$355.5 million for customers and a benefit-cost ratio of 2.1.

Mr. Rawlinson and Mr. De Stigter testified about certain projects for which 1898 was unable to monetize the incremental benefits, including the wood pole replacement program and the substation physical security program, among others. For the qualitatively evaluated investments identified by CEI South System Stakeholders, Mr. De Stigter testified that the main benefit drivers are safety and delivering service, which he stated align with CEI South's Plan Objectives and the TDSIC Purposes. Mr. De Stigter said that approximately 18.8%, or \$85 million, of the Plan comprises projects and programs identified by CEI South System Stakeholders (planning, engineering, field operations, and maintenance).

Mr. De Stigter said the largest program from these identified investments is the wood pole replacement program, accounting for over half of the approximately \$85 million investment. He testified that the wood pole replacement program will involve inspecting ten percent of wood poles

across the CEI South system annually as part of a ten-year cycle, which he stated is the industry standard. Those poles replaced or treated will meet the National Electric Safety Code (“NESC”) requirements and CEI South’s engineering design and material standards.

Mr. De Stigter stated that the substation physical security program is the second-largest investment program, approximately 16.4% of the total, identified by CEI South System Stakeholders. He testified that intentional vandalism toward substation equipment has increased recently, and these events can be costly and cause significant disruption to serving customers. The investments in this program will provide additional substation monitoring through equipment such as cameras.

He said the remaining investment of \$26.3 million for transmission line rebuild, substation rebuild, and distribution 12kV circuit rebuild are mainly to mitigate against system capacity constraints and improve power quality. This accounts for approximately 30.8% of the investment identified by CEI South System Stakeholders and comprise approximately 5.8% of the total Plan investment. He opined that, if capacity constraints are not mitigated, there is risk of overloading equipment causing it to burn or not being able to utilize switching schemes to minimize disruptions to customers.

Mr. Rawlinson also discussed the distribution substation expansion projects that consist of the installation of power transformers and high voltage equipment to support required new distribution circuits for economic growth and switching capacity. He stated that increasing capacity across the system supports planned switching and future DA device installations to use during an outage event. He said CEI South has proposed to either rebuild or install new distribution capacitor banks to improve the power factor on the selected 12kV circuits. Mr. Rawlinson testified that circuits with low or lagging power factor are inefficient and cause the utility to generate excess power to offset circuit losses. He opined that improving the power factor on the distribution system will have a cumulative effect of improving the power factor on the transmission system, which reduces the overall power generation demand.

Mr. De Stigter also discussed the business case results for the PSP investments, including a total potential investment of \$188.2 million producing life cycle present value of benefits of \$359.1 (\$190.0 plus \$169.1) million, for a benefit-cost ratio of 1.9. From an aggregate perspective, this investment category has a positive business case. The reactive cost benefits alone cover approximately 53% of the total investment.

vi. Plan Updates. Mr. Rawlinson testified that the TDSIC Plan will require periodic updating. He stated that, as Class 4 estimates change to Class 2 estimates, there may be increased or decreased project costs that require new cost estimates to be filed. He identified factors that may drive these changes, including the impact of market forces on major equipment suppliers and their costs, unforeseen changes in site conditions, and movement of planned construction years due to changing system or operational needs or availability of materials. He explained that portfolio management to maximize efficiencies of the annual capital investments is achieved through these periodic updates. CEI South proposes to update for actual costs every six months and include the actual completed costs of the projects for the current filing period and any variance commentary as required in the semi-annual tracker filings. CEI South also proposes to update the TDSIC Plan at least once a year through a semi-annual filing, including

potential changes to the Plan that include any new best estimate of costs, information about projects that are moving between plan years, or information about projects that are moving in or out of the Plan. He stated that Petitioner proposes to adjust project estimates once per year in one of the semi-annual filings.

vii. Accounting Treatment. Ms. Behme described the accounting treatment CEI South is requesting in this case. She stated CEI South is requesting: (1) recovery of 80% of approved capital expenditures and TDSIC costs via a rate adjustment mechanism, including costs associated with (a) capital investment in eligible projects, both completed and under construction, (b) financing costs on projects under construction (i.e., AFUDC), (c) PISCC, (d) projected and annualized property tax and depreciation expense, (e) amortization of deferred depreciation expense, planning development expense, and PISCC; (2) deferral of 20% of approved capital expenditures and TDSIC costs, for subsequent recovery in a base rate case, including costs associated with (a) capital investment in eligible projects, both completed and under construction, (b) financing costs on projects under construction (i.e., AFUDC), (c) PISCC, (d) projected and annualized property tax and depreciation expense, (e) amortization of deferred depreciation expense, planning development expense, and PISCC; and (3) interim depreciation and PISCC deferrals and subsequent recovery of deferred amounts via the rate adjustment mechanism.

Ms. Behme explained that, for purposes of the revenue requirement for CEI South's semi-annual TDSIC filings, new capital investment includes gross plant, both in service and Construction Work in Progress ("CWIP"), specific to investments under the TDSIC Plan as well as amounts associated with prepayments made in 2022 and 2023 for essential equipment ordered in advance. She testified that the prepayments were necessary in order to receive equipment by the 2024 – 2028 TDSIC Plan start date. Ms. Behme explained that the accumulated depreciation on these new capital investments, net of any cost of removal or salvage related to the disposal of assets retired and replaced because of these investments, will be included as a reduction to the gross plant balance. Ms. Behme also stated the PISCC on in-service investments not yet captured for recovery in the TDSIC will be added to the net new capital investments. She said CEI South will utilize the actual balance as of the filing cut-off date to calculate the annualized depreciation expense and PISCC not yet captured for recovery in the TDSIC.

According to Ms. Behme, CEI South proposes that the pre-tax return on the new capital investment will be calculated by multiplying the pre-tax rate of return, based on the weighted average cost of capital ("WACC"), by the total new capital investment related to the proposed TDSIC Plan. The same rate would be used to calculate pre-tax return on CWIP. CEI South proposes to use a WACC for the TDSIC based upon the actual capital structure at the end of each respective measurement period in the TDSIC, inclusive of the typical items included in Petitioner's base rate case capital structure: (1) long-term debt, (2) common equity, (3) customer deposits, (4) cost-free capital, including deferred income taxes, and (5) investment tax credits. Ms. Behme testified that, consistent with the TDSIC Statute, the balances and cost of debt will be based on the actual amounts, and the cost of equity will be set at 10.4% as approved in Petitioner's most recent rate case order. This rate will be used in the TDSIC revenue requirement calculation, and the equity component will be grossed up for recovery of income taxes, both state and federal, at then current rates.

Ms. Behme also explained that CEI South proposes that, as provided for in the TDSIC Statute, the remaining 20% of eligible revenue requirement amount shall be deferred in a regulatory asset for recovery as part of CEI South's next two base rate case proceedings with the Commission. Consistent with the 80% portion recoverable in the TDSIC, the revenue requirement calculation will be used to derive the 20% deferred for future recovery. Mr. Rice testified that the 20% that is deferred is to be recovered as a part of the "next general rate case." CEI South is required to, and will, file its "next general rate case" before December 31, 2023. Petitioner has proposed that the portion that has been deferred pursuant to the 2024 – 2028 TDSIC Plan by the cutoff in the rate case to be filed later this year would be recovered in the upcoming rate case. Mr. Rice stated the remainder that is deferred over the remainder of the 2024 – 2028 TDSIC Plan would be recovered as a part of the general rate case after the one to be filed later this year.

Ms. Behme testified that CEI South proposes to defer depreciation expense on the capital investments in the TDSIC Plan from their in-service dates until the date TDSIC rates are effective. Beginning on the date the projects are placed in service, the depreciation expense will be charged to FERC Account 403, Depreciation Expense, with a corresponding credit to FERC Account 108, Accumulated Provision for Depreciation of Electric Utility Plant. Ms. Behme said the deferral of depreciation would be recorded as a charge to FERC Account 182.3, Other Regulatory Assets, and a credit for FERC Account 407.4, Regulatory Credits, until such point as the assets will be included in the TDSIC and recovered through rates. She testified that the proposed accounting for the deferral of depreciation is in accordance with GAAP and, specifically, Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 980. ASC 980 specifies that an entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if it is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes and the future revenue will be provided to permit recovery of the previously incurred cost.

Ms. Behme explained that CEI South will amortize the cumulative deferred balances over time and include the amortization amount in the TDSIC revenue requirements. Specific to depreciation expense, CEI South proposes to amortize the deferred balance through the TDSIC over the life of the assets that generated the depreciation expense. She said the calculation will utilize the depreciation rates applicable to the class of plant as the basis for the amortization period, as approved in the most recent CEI South general rate case.

Ms. Behme also explained that CEI South has incurred costs to assist in the development of the TDSIC Plan, including engineering and development of detailed cost estimates, incremental benefit analysis, and support during case development. She testified that these costs are directly linked with the TDSIC Plan proposed in this filing. CEI South proposes to defer these costs in FERC Account 182.3 for subsequent recovery in the proposed TDSIC. CEI South proposes to amortize and recover this deferred balance through the TDSIC over a period of five years, similar to how such costs were treated in the 44910 TDSIC Plan, although in the 44910 TDSIC Plan the costs were amortized over a shorter period of time.

Ms. Behme testified that CEI South is seeking authority to recover through the TDSIC annualized depreciation, amortization, and property tax expenses. She said that, in order to provide for timely recovery, CEI South's proposed TDSIC mechanism will project an annualized level of expense related to the depreciation, amortization, and property tax expenses associated with new

capital investments. Depreciation expense included for recovery will reflect an annualized level of expense related to the gross new capital investment as of the cut-off date of the TDSIC filing. Property tax expense will also reflect an annualized level. Consistent with the current TDSIC, the annualized level will be calculated by multiplying the gross new capital investment by the then-current or most recent tax rate for the projected period. Because the projected amount is calculated consistent with the actual property tax expense and because the property tax rates do not materially vary year over year, she testified that there will be no reconciliation of property tax expense.

CEI South proposes to implement CWIP ratemaking treatment related to the recovery of financing costs incurred during the construction of eligible investments under the TDSIC Plan. Under CWIP ratemaking treatment, Ms. Behme explained that CEI South will recover, through the TDSIC, financing costs incurred during the construction period attributable to eligible capital investments. She stated CWIP ratemaking treatment allows a utility to recover its costs in a timely manner and avoid the impacts of regulatory lag by recovering financing costs as the capital costs are being incurred. In connection with CWIP ratemaking treatment, Ms. Behme stated CEI South will cease accruing AFUDC the earlier of the date in which the project expenditures receive CWIP ratemaking treatment through the TDSIC or the month after the investment is used and useful and the project is placed into service.

Ms. Behme described CEI South's proposal to accrue PISCC on all eligible new capital investment from the date the investment is placed in service until the date when the investment is included in rates for recovery. She stated the PISCC balance will be calculated as the gross new capital investment multiplied by the pre-tax rate of return at the overall WACC. She explained that CEI South proposes to amortize the deferred PISCC regulatory asset balance through the TDSIC over the life of the assets that generated the deferred PISCC, using the depreciation rates applicable to the applicable class of plant asset. Ms. Behme stated CEI South is not seeking the authority to accrue and subsequently recover in the next base rate case PISCC on the 20% deferred balance previously discussed.

Ms. Behme also described in detail the process that will be used to segregate and record the new capital investments under the TDSIC Plan while they are under construction. She confirmed that the requirements of the FERC USOA will be followed in recording of the project construction costs. Actual retirements will be reflected in the filings, impacting the gross plant balance used to determine the recoverable depreciation expense. Other than the incremental cost of removal and salvage (discussed above), the retirement of property being replaced will have no change to the overall rate base.

viii. TDSIC Revenue Requirement and Recovery. Ms. Behme testified that, in each semi-annual TDSIC filing, CEI South will calculate a revenue requirement for the TDSIC mechanism, using a set of schedules from the 44910 TDSIC. She stated that the revenue requirement for the TDSIC, shown on Schedule 1, will include the return on new capital investments' property tax and depreciation expenses, both projected and amortized; and recovery of the regulatory assets recorded through the interim deferral of depreciation expense, plan development expense, and PISCC through amortization of the regulatory assets. Ms. Behme explained the revenue requirement will be divided between transmission and distribution investments, consistent with FERC USOA guidelines, in order to align with Petitioner's TDSIC allocation proposal discussed by Mr. Rice. She said CEI South will then multiply the transmission

and distribution annual revenue requirement by 80% to achieve the recoverable portion of the revenue requirement. Per the TDSIC Statute, 80% of approved costs is to be recovered through a periodic rate adjustment mechanism. Accordingly, the recoverable amounts for Transmission and Distribution investments will be utilized to derive semi-annual TDSIC rates and charges based on annualized billing determinants.

While CEI South is not proposing a TDSIC revenue requirement amount for recovery in this proceeding, Ms. Behme presented illustrative schedules demonstrating how that amount would be calculated. She explained that excess accumulated deferred income tax (“EADIT”) credits are initially included within this TDSIC and that TDSIC rates and charges include EADIT credits. With respect to EADIT, Mr. Rice explained that the Commission’s order in Cause No. 45722 (“45722 Order”) required CEI South to make a compliance filing on or before February 3, 2023 in that Cause with an updated tariff for the 44910 TDSIC tracker reflecting the shorter amortization period for excess ADIT related to the retirement and securitization of CEI South’s A.B. Brown generation units 1 and 2. He explained that the EADIT related to A.B. Brown units 1 and 2 was protected under Internal Revenue Service (“IRS”) normalization rules but became unprotected after the securitization bonds were issued. As a result, the 45722 Order required CEI South to update its TDSIC tariff to reflect a shorter amortization period for the A.B. Brown Units 1 and 2 EADIT ending with the scheduled maturity date of the securitization bonds. Attachment MAR-3 shows a sample post-securitization A.B. Brown Units 1 and 2 EADIT amortization schedule that assumes securitization bonds are issued on June 30, 2023, and have a final maturity date in 2041 (18 years). Attachment MAR-3 also includes a comparison to the current amortization of the A.B. Brown Units 1 and 2 EADIT.

Ms. Behme also explained that the exemplar schedules are consistent with Petitioner’s TDSIC Plan approved in Cause No. 44910 in defining the prioritization of recovery to ensure Petitioner receives the return on its investments granted by the TDSIC statute in accordance with ASC 980. Under this prioritization, the first dollar collected will represent the full return and the remaining amount collected will cover a portion of the incremental expense. This prioritization does not impact the amounts to be recovered in rates, as the amount recovered through the TDSIC will still be 80% of the total revenue requirement and the amount deferred will still be 20%.

Ms. Behme testified that CEI South does not expect that the TDSIC Plan would produce a TDSIC in any year of the Plan that would result in an average aggregate increase in CEI South’s total retail revenues of more than 2% in a 12-month period.

Mr. Rice testified that CEI South plans to maintain the existing TDSIC filing schedule currently in place with its 44910 TDSIC Plan, with its two periods: May through October and November through April. The approved recoveries for the TDSIC reconciliation period will represent the TDSIC-approved amounts for either May through October or November through April and will be noted in Attachment MAR-1, Schedule 4. Mr. Rice described how variances would be calculated for the TDSIC Reconciliation Period and included in the TDSIC. The resulting variance is an over- or under-recovery and will be credited to customers in the TDSIC rates and charges over a six-month period. Petitioner proposes to include the over- or under-recovery variances resulting from TDSIC rates in place from the 44910 TDSIC 13 and 44910 TDSIC 14 periods in the first semi-annual filing in this Cause. He stated the specific identification of the

variance by rate schedule ensures that customers are paying only for the costs allocated and approved for recovery from that rate schedule.

ix. **TDSIC Rate Allocation.** Mr. Rice explained that CEI South is proposing to use the allocation percentages agreed to by the parties in the Cause No. 44910 settlement until such a time as the percentages are updated in a future rate case. He said allocators would be adjusted in CEI South's next general rate case. Mr. Rice explained that while the Petitioner's last base rate case was in Cause No. 43839 (the order in which was issued in April 2011), Petitioner proposes to continue to allocate the revenue requirements for TDSIC charges based on the 44910 settlement allocation percentages until such time as new allocators are in place in its next rate case. He said the settlement allocations account for the move of a large customer from the HLF rate class to the LP rate class and are more representative of cost causation than allocations that were put into place 12 years ago. Currently, the one remaining HLF customer pays for 0.7% of the total transmission component of the revenue requirement, as opposed to 9.1% from the 43839 Order. Mr. Rice stated the separation of the revenue requirement into transmission and distribution, as well as the exclusion of some rate groups from the distribution portion of the revenue requirement is consistent with that Settlement allocation.

Attachment MAR-1, Schedule 2 shows the allocation of the TDSIC revenue requirement components, supported by Ms. Behme, and the derivation of TDSIC rates and charges by Rate Schedule for each component (transmission and distribution). The schedule is divided into three sections to reflect the different allocation percentages applicable to TDSIC costs to derive the proposed TDSIC charges by Rate Schedule.

Attachment MAR-1, Schedule 3 presents the illustrative proposed TDSIC rates and charges by Rate Schedule using information from Schedule 2. Following the first 2024 – 2028 TDSIC Plan recovery filing, Mr. Rice explained that Schedule 3 will include current TDSIC rates and charges by Rate Schedule. He said these rates and charges will be used to calculate a percentage change in the proposed rate, by Rate Schedule.

x. **Tariff.** Mr. Rice sponsored, for illustrative purposes, Attachment MAR-2, which sets forth the proposed CEI South Tariff Sheet, Sheet No. 75 – Appendix K, containing the TDSIC rates and charges.

xi. **Bill Impacts.** Mr. Rice presented the projected impact on retail rates and charges of the proposed TDSIC Plan. Attachment MAR-4 summarizes the estimated year-over-year impact that the costs associated with the 2024 – 2028 TDSIC Plan will have on customer rates, by rate schedule, over the life of the TDSIC Plan. In order to align the customer impacts to the TDSIC Plan investments, Mr. Rice stated these impacts exclude the EADIT Credits to be reflected in future TDSIC rates and charges.

B. **OUC's Case-in-Chief.** OUC witnesses Lantrip, Krieger, and Leader offered testimony in response to CEI South's requested relief. In summary, they recommended the Commission do the following: (1) deny CEI South's request to defer 20% of capital expenditures and TDSIC costs as a regulatory asset and recover over Petitioner's next two rate cases; (2) require CEI South to update its tracker filings to ensure that the rider reflects base rate case revisions to cost of service, capital structure, cost of capital, and depreciation rates; (3) allow Petitioner to

record retirements of the utility plant against the accumulated depreciation, consistent with Cause No. 44910's caveat of netting of depreciation expense of retired assets against depreciation expense of the new capital investment; (4) allow reconciliation of Cause No. 44910 TDSIC 13 and 14 filings through the rider updates filed under this cause, provided that such reconciliations are labelled clearly and distinctly; (5) deny Petitioner's requested contingency factors and approve the OUCC's recommendation of a 10% factor; (6) approve witness Mr. Leader's recommendations regarding inflation, wages, and security; (7) deny TDSIC rate recovery of \$85 million of project estimates lacking quantifiable benefits, per Mr. Krieger's recommendations discussed in more detail below; (8) require more appropriate and more accurate project estimates per Mr. Krieger's recommendations discussed in more detail below, and use its discretion to limit project approvals to those that are fully supported with complete and accurate cost estimates; and (9) require CEI South to implement a filing schedule which alternates on a semi-annual basis between rate recovery and plan updates, consistent with what the Commission has approved in Cause Nos. 45264 and 45647.

i. **Timing of Filing.** Mr. Lantrip opined that CEI South's proposal to defer 20% of the approved capital expenditures and TDSIC costs for the TDSIC Plan, including depreciation, AFUDC, and PISCC for recovery as part of its next two general rate cases amounts to accelerated recovery of the required deferred amount under the new Plan. He contended that the statute applies only once the utility has actually incurred capital expenditures and TDSIC costs and petitions for the approval and recovery of those costs, which he said wouldn't be until after the start of the approved multi-year TDSIC plan (on or after January 1, 2024). He opined that the "next general rate case" means after the utility has incurred expenditures and TDSIC costs and after the utility has begun recovery or petitioned for recovery of the approved capital expenditures and TDSIC costs. He opined that Petitioner would be inappropriately accelerating recovery and argued that CEI South should not receive approval to recover this 20% deferral of capital expenditures and TDSIC costs in the rate case to be filed yet this year, before the start of this TDSIC Plan.

Mr. Lantrip also expressed concern about the impact of the timing of Petitioner's TDSIC Plan filing, since he says the TDSIC statute defers to the base rate case for determining rate allocation and CEI South does not consider the Cause No. 42839 (Petitioner's last base rate case) allocation factors to accurately represent the migration of its customer base. He stated the staleness of current base rates and the impending new rate case after this TDSIC proceeding further complicate an already complex and voluminous proceeding. He suggested that CEI South should have waited until after its next general rate case to make its new TDSIC Plan filing. He recommended that the Commission's order in this case clarify that TDSIC Plan recovery will be updated for base rate case elements when and as such elements are approved and ordered by the Commission.

ii. **Reliability and Resilience.** Mr. Lantrip contended that CEI South's reliability metrics have not shown consistent improvement over the life of the 44910 TDSIC Plan, citing significant increases to outages in 2022 over the factors for 2021.

Mr. Krieger testified that the results of Petitioner's initial TDSIC Plan do not provide conclusive evidence that overall quantifiable benefits were provided for the investment. He stated

that reliability did not consistently improve during 2018 – 2022 and that the latest annual report shows all three reliability indices show poorer results for 2022 than for 2018.

iii. **Affordability.** Mr. Lantrip also urged the Commission to consider CEI South’s status of having the state’s highest electric rates in 13 consecutive annual surveys and to approve only what is verified and justifiable as reasonably necessary and at a prudent cost. He also stated that the Commission should factor customer affordability into the accounting treatment and into timing of project requests and prioritization. Mr. Lantrip opined that the 2% cap under Ind. Code § 8-1-39-14 is not a sufficient incentive for the utility to manage or control costs because it is an annual cap and any amount over it can be deferred with a return until the end of the plan.

iv. **Accounting Treatment.** Mr. Lantrip recommended continuation of depreciation expense accounting treatment approved in Cause No. 44910, which used an annualized level of expense related to gross new capital investment, netting the expense related to retired or replaced assets with depreciation expense of new capital investments. He said this treatment did not adjust for cost of removal or salvage related to disposal of assets retired or replaced because of the investments.

v. **Ratemaking.** Mr. Lantrip recommended the Commission’s order include a definitive finding that the utility is expected to update its plan’s capital structure and cost of equity after the effective date of its newest base rate case order. He did not object to using the current proceeding’s Cause number to file updates in reconciliation, provided the Cause No. 44910 costs to be reconciled are specifically identified and labeled.

Mr. Lantrip recommended adopting a filing schedule that is an annual update alternating on a semi-annual basis between plan updates and cost recovery updates, similar to those used by other utilities. He opined this would provide more flexibility given the timing of CEI South’s rate case, since Petitioner cannot file a rider filing within nine months of its rate case order. Under Mr. Lantrip’s proposal, Petitioner’s first filing would be a cost recovery update, followed by a plan update six months later.

vi. **Cost Estimates.** Mr. Lantrip took issue with Petitioner’s proposed 12.5% contingency on most projects, with 17.5% contingency for PSPs and projects in the last three years of the plan. He argued a 10% contingency was more consistent with other utilities.

Mr. Krieger recommended certain parts amounting to \$85 million of Petitioner’s TDSIC Plan be denied because they are not supported by quantifiable benefits. He contended Petitioner’s estimates for years three through five of the Plan are not specific enough and may result in greater expenses than necessary. He also opined that Petitioner’s reliability metrics have not improved despite the near completion of Petitioner’s initial TDSIC plan. Mr. Krieger testified that CEI South has a thorough understanding of rebuilds and replacement projects, the technologies involved, their locations, and how each location matters in the broader operational scope of its distribution and transmission systems. He said that this increases the importance for Petitioner to use stronger and more reliable cost estimates. He expressed concerns about the Plan’s cost-effectiveness based on Petitioner’s estimates, and Petitioner’s recent performance on system reliability metrics. Mr. Krieger contended that Petitioner should have used Class 1 to Class 3 estimates and that CEI South’s extensive experience in the technologies and materials utilized in the projects should

permit it to be able to produce better cost estimates. He argued only the substation physical security projects should require a lower Class 4 estimate since they are new technologies. He suggested that if an over-engineered solution can be implemented within the allowable excess over a Class 4 estimate inflated by contingency and escalation, a project team may elect to proceed because the added safety margins are perceived as desirable, even though those safety margins could be achieved at a lower and much more reasonable cost.

With respect to Petitioner's allocation of indirect capital costs of 12%, Mr. Krieger opined it is an error to allocate indirect capital costs in this manner on what he called "lower accuracy estimates" because he said a percentage multiplier may unnecessarily inflate TDSIC costs because indirect capital costs are not purely variable.

Mr. Leader recommended CEI South re-do its economic impact study calculations using a 3% inflation rate over the next five years, based on the year ended June 2023 consumer price index increase of 3%. Mr. Leader also recommended recalculation based on median wages for Indiana and outside Indiana of \$42,100 and \$58,130, respectively.

vii. Incremental Benefits. Mr. Krieger said CEI South provided no explanation of why the Stakeholder projects were not identified by the same data intensive process or why they don't have quantifiable benefits. Mr. Lantrip conceded that safety projects are crucial to reliability and resilience. However, he maintained that the projects must be documented and identified and that CEI South's case-in-chief falls short of this standard by not separately identifying projects that address safety issues or identifying individual project benefits. According to Mr. Krieger, because safety projects cannot be specifically identified among the 18.8% of projects in the Plan without quantifiable benefits, they have not been specifically justified and should be disallowed. He contended that if a project's benefits are not quantified, it must be removed from the Plan to ensure reliability, safety, and affordability. He opined that this part of the Plan is unreasonable and is not in compliance with Ind. Code § 8-1-39-10(b)(3). Mr. Krieger's recommended disallowance includes the funding for the substation physical security project. While recognizing that safety and security are critical, he maintained that it is Petitioner's burden of proof to demonstrate quantifiable benefits.

viii. Substation Physical Security Projects. Mr. Leader recommended that, if its proposed substation physical security projects are approved as part of the Plan, CEI South ensure compliance with applicable laws, place signage alerting visitors to the presence of cameras, and locate cameras consistent with requirements of applicable audio and video recording laws. He also recommended CEI South create a robust action plan if these projects are approved as part of the Plan.

C. CAC Testimony. CAC witness Inskeep opposed CEI South's proposal to recover distribution system costs allocated to residential and small commercial customers through a fixed charge as inconsistent with principles of rate design and cost allocation, including those contained in the National Association of Regulatory Utility Commissioners ("NARUC") cost allocation manual. He also took issue with statements made by CEI South with respect to the benefits of the TDSIC Plan for distributed generation, opining that they are unverifiable and unsupported. He opined that CEI South's TDSIC Plan would impose a substantial additional financial burden on CEI South's customers, who already pay very high bills. He recommended the

Commission deny CEI South's proposed TDSIC Plan cost recovery mechanism to recover 100% of distribution costs from residential and small commercial customers through a fixed charge. He stated that it is unusual for an electric utility to increase its fixed charges on residential customers outside of a base rate case. He instead advocated that Petitioner's cost recovery from these customers should be through variable per-kWh charges. He stated that CEI South customers with higher or growing demand put additional strain on the distribution system, which can lead to the need for upgrades and expansions, resulting in additional capital and operating costs ultimately borne by customers. According to Mr. Inskeep, CEI South should therefore recover distribution costs on the basis of customer end-use consumption. Mr. Inskeep testified that all costs, including distribution system costs, are actually variable in the long run.

D. CEI South Rebuttal.

i. **Cost Estimates.** In response to Mr. Krieger's testimony that CEI South should have used Class 1 and Class 3 estimates, Mr. Rawlinson responded in rebuttal that using Class 1 estimates as Mr. Krieger suggests is not necessary or appropriate for planning level estimates to meet the TDSIC requirements for the proposed Plan. He stated Class 1 estimates for projects that are not yet ready for final execution would likely result in wasted time and resources, as a new estimate may need to be prepared at the time of actual execution for any changes in scope or design. He opined that the same is true of Class 3 versus Class 4 estimates; preparing a detailed, Class 3 estimate for a project that will not be executed until later in the Plan would likely result in wasted resources. He testified that Class 2 and Class 4 estimates balance a reasonable level of work scope detail, estimate accuracy, and engineering resources consistent with the requirements of the TDSIC Statute, *i.e.*, the "best estimate."

Mr. Rawlinson opined that the Class 2 and Class 4 estimates within CEI South's Plan are substantial and well-defined; were prepared using CEI South's equipment and design standards; have an appropriate level of engineering and scope definition; and, excluding the wood pole replacement program, include site-specific factors to improve the accuracy of the estimate; and meet the Class 2 and Class 4 estimating criteria. He also opined that, because the accuracy ranges overlap for the AACE Class 2 and 4 estimate classes, CEI South adjusted the contingency values among the Class 2 and Class 4 estimates to account for the stage of the estimate along with the level of engineering and scope definition associated with that particular class.

Mr. Rawlinson also stated that the estimates provided within the subject Cause are best estimates, which are not the same as actual project costs that will be recovered. If the actual costs of the investments are below the best estimate, he said that CEI South will only seek to recover the final, actual costs of the investments in the filing for recovery.

Mr. Rawlinson also disputed the OUCC's testimony on contingency and opined that a cost estimate without contingency would not be considered a "best estimate" as required by the TDSIC Statute. In responding to Mr. Lantrip's recommendation of a flat 10% contingency, Mr. Rawlinson stated that a flat 10% contingency rate for all five years of the plan would not account for the difference in accuracy between a Class 2 and Class 4 estimate. He noted the difference in circumstances between the orders cited by Mr. Lantrip, which were issued before the inflation, supply chain constraints, and equipment lead times of today. He also noted that the level of contingency proposed here is below the levels included in Petitioner's the 44910 TDSIC Plan (15%

for the first three years and 25% for the remaining years). He also discussed again Petitioner's position that 4% escalation should be included in its best estimate to account for inflation of materials, labor, and services. He disputed the OUCC's proposed 3% inflation rate, noting that this average inflation factor does not accurately represent the inflation affecting an electric utility similarly situated to CEI South. He explained how the proposed 4% inflation rate was reached using information from 1898 and noted that the data used shows the most recent annual escalation for transmission and distribution is 5.39% and 8.48%, respectively, well above the four percent value proposed by CEI South.

Mr. Rawlinson disputed Mr. Krieger's suggestion that CEI South's allocation of 12% indirect capital costs on Class 4 estimates is erroneous. He opined that it is common in the utility industry for certain indirect costs related to engineering, supervision, and general corporate and various administrative functions to be capitalized to construction projects. He stated that the accepted practice is to allocate a percentage of these costs to each project estimate, regardless of whether the estimate is Class 2 or Class 4. Even though a Class 4 estimate has a wider range of accuracy, that does not imply that the estimate itself is higher as Mr. Krieger suggests. He opined that indirect capital costs are a component of the "best estimate" as required by the TDSIC Statute.

ii. Economic Impact Report. Mr. Thibodeau disputed Mr. Leader's suggestion that CEI South recalculate its economic impact report. He stated that S&L considers the wages calculated as part of this report to be reasonable and that S&L expects the average wage of those involved in the technical oversight, design/engineering, and construction of the projects included in the TDSIC Plan to be above the overall median wage of the entire state and entire country. He opined that these average wages are in-line with typical results of this type of analysis that S&L has performed and analysis conducted by other firms that S&L reviewed.

iii. Incremental Benefits. Mr. Rawlinson responded to OUCC witness Krieger's recommendation to disallow rate recovery for \$85 million of Plan project estimates that Mr. Krieger said are not supported by quantifiable benefits. He stated that the TDSIC Statute requires CEI South to show that the "estimated costs of the eligible improvements included in the plan are justified by incremental benefits attributable to the plan." Ind. Code § 8-1-39-10(b)(3). Mr. Rawlinson opined that the incremental benefits analysis is on the plan as a whole, not on individual programs or projects as Mr. Krieger suggests. Mr. Rawlinson stated that out the TDSIC Statute does not use the word "quantifiable" or otherwise require that a benefit must be quantified in order for it to be considered a benefit of the overall Plan.

Mr. Rawlinson disputed Mr. Krieger's opinion that the Commission should disallow \$85 million in investments that the OUCC believes are not quantified with a benefit-to-cost ratio, including the wood pole replacement (\$45 million), capacity constraints and power quality projects (\$26.3 million), and physical security (\$14 million) projects. Mr. Rawlinson testified that each of the programs the OUCC seeks to disallow generates benefits for continued service and the safety and security of the public, CEI South's employees, and its physical assets, although these benefits cannot always be quantified. For these projects, the CEI South System Stakeholders determined a quantified business case was not needed since their primary drivers are safety and to meet CEI South's duty to serve obligations with respect to system capacity issues.

iv. **Reliability and Resilience.** Mr. Rawlinson responded to Mr. Lantrip's testimony calling into question CEI South's reliability metrics and improvement, noting that reliability indices are driven by multiple factors, and CEI South's TDSIC investments do not directly target all outage causes. He stated that external factors, such as weather, can have a significant impact on reliability indices, even with normalization techniques such as Institute of Electrical and Electronics Engineers ("IEEE") Standard 1366 applied to the data. Mr. Rawlinson testified that the 44910 TDSIC Plan investments have impacted CEI South's reliability indices by reducing the number of system impacts due to equipment failures.

v. **TDSIC Filing Schedule.** Mr. Rawlinson testified that the current filing schedule that CEI South uses allows Petitioner flexibility to include changes to the Plan while providing Plan updates in both semi-annual tracker filings. He opined that limiting CEI South to Plan updates only one time per year would restrict Petitioner's ability to respond to the potential changing needs of the system.

vi. **DER Deliverability.** Mr. Rawlinson rebutted CAC witness Inskip's testimony regarding statements in CEI South's case-in-chief with respect to the benefit of hosting DER or EV projects. He opined that these benefits were not included in Petitioner's quantitative analysis, but are secondary benefits that provide better opportunities for interconnection through equipment upgrades, capacity reconductors, and increased reliability through Distribution Automation.

vii. **Substation Physical Security Improvements.** Mr. Freeman confirmed on rebuttal that CEI South plans to follow all applicable laws and regulations regarding video surveillance. He also described CEI South's action plan for physical security systems.

viii. **Accounting Treatment.** Ms. Behme responded to Mr. Lantrip's recommendation to continue the depreciation expense accounting treatment that was settled in Cause No. 44910. She noted the accounting treatment granted in Cause No. 44910 was reached in settlement and that CEI South initially requested to include cost of removal in the accumulated depreciation balance. She explained that when Petitioner installs an asset that replaces an existing asset, it must also retire the existing asset. The accounting entry to retire the asset is to debit accumulated depreciation and credit utility plant in service for the original cost of the asset. This accounting retirement entry does not have an effect on net original cost rate base; however, Petitioner also must physically remove the retired asset. The net costs to remove the retired asset (net of salvage) are recorded by debiting accumulated depreciation. Ms. Behme stated that, in this way, the cost of removing the retired asset does have an effect on net original cost rate base. She said Petitioner's position is that these costs should be included in the calculation because they are necessary actual costs Petitioner must incur in order to complete the installation of the TDSIC projects that will replace the assets being retired.

Ms. Behme testified that the accounting treatment recommended by Mr. Lantrip does not allow CEI South to include the cost of removal within the accumulated depreciation balance, thus postponing recovery of that cost until the next base rate case. She stated that including the cost of removal within the accumulated depreciation balance allows CEI South to more accurately reflect and request recovery of the cost incurred for the TDSIC Plan's new capital investments. The cost of removal incurred by CEI South is a cost that pertains to the TDSIC Plan and should be included

for timely recovery with all other TDSIC costs. She noted that in CEI South's most recent gas TDSIC case, Petitioner requested to include cost of removal within the accumulated depreciation balance for its TDSIC Plan. The OUCC did not oppose this request. The Commission approved CEI South's TDSIC plan for its gas business segment in Cause No. 45612.

ix. Affordability. Mr. Rice said the TDSIC Statute's limit on the annual revenue increase (2% in a 12-month period) produces more gradual increases in customer bills compared to large step changes in rates that may otherwise occur in a general rate case. He noted that CEI South's customer bills have remained relatively flat, below inflation levels since 2011. He stated CEI South's residential bills have grown by only \$9.90 (6.4%) in 12 years, or about 0.5% per year over this timeframe. *Id.*

Mr. Rice disputed Mr. Lantrip's interpretation of recent CPCN filings related to generation transition and other recovery requests. He stated Mr. Lantrip's presentation does not include O&M or fuel savings that result from these plant closures or savings associated with selling renewable energy credits ("RECs") from the renewable projects CEI South is pursuing, all of which will help to offset individual impacts included in its generation transition plan. Mr. Rice also stated Mr. Lantrip incorrectly double counted costs associated with purchasing temporary capacity. He stated that, once the new natural gas combustion turbines ("CTs") are online, CEI South will not need temporary capacity, currently proposed in 43406 RCRA 21, to cover its capacity need.

x. Timing of Filing. Mr. Rice testified that CEI South intends to update cost recovery under the TDSIC Plan for base rate case elements such as return on equity and revenue allocation following the issuance of an order in Petitioner's upcoming general rate case. He stated that CEI South will include a compliance filing to update the full capital structure and also back out investment through the rate base cutoff periods of the 2023 rate case. He disagreed with the OUCC's position that it would be more reasonable and more efficient to delay the TDSIC filing until after new base rates are fully established. Mr. Rice also noted that CEI South's Plan continues the same filing schedule and recovery schedule which the Commission, the OUCC, and CEI South have used for nearly seven years.

Mr. Rice responded to Mr. Lantrip's statements that CEI South is not correctly applying the TDSIC statute, explaining there appears to be some confusion about when the plan will start relative to the decision on the CEI South's upcoming rate case ("2023 rate case"). Mr. Rice testified that CEI South will begin incurring capital expenditures and TDSIC costs beginning just after January 1, 2024; thus, before the order is issued in CEI South's base rate case, it will incur costs related to this proposed TDSIC Plan and will defer 20% pursuant to Ind. Code § 8-1-39-9(c). In addition, at that time, any TDSIC spend through the end of the rate base cut off period will be included within base rates, and CEI South will make a compliance filing to remove this spend from the TDSIC rider pursuant to Ind. Code § 8-1-39-15. He testified that, as further TDSIC projects are captured in later phases in the general rate case, the TDSIC will further be reset. No later than December 31, 2028, CEI South will file another general rate case as required by the TDSIC statute.

Mr. Rice testified that, assuming a project is part of the TDSIC Plan but is instead included within the rate case, this full investment, if approved by the Commission, would be 100% recovered from the customer in base rates when new rates go into effect.

xi. **Rate Design.** Mr. Rice responded to Mr. Inskeep’s concerns related to rate design. He testified that residential CEI South customers currently pay for a distribution component of TDSIC through a capped, fixed charge with costs in excess of the cap recovered on a per-kWh basis. He noted that, today, \$6 (65%) of a residential customer’s TDSIC charge is fixed. In comparison, by the end of the proposed plan approximately \$9 (62%) of a residential TDSIC charge is projected to be fixed. *Id.* Mr. Rice testified that the residential customer class is relatively homogeneous, and thus a fixed charge is a reasonable alternative to demand charges, which are typically included in commercial and industrial rate structures. Mr. Rice suggested that, if the CAC believes a change in rate design for the TDSIC rider is warranted, that is the time to present that issue for consideration. Until a change, if any, is made as a result of the next rate case order, CEI South is simply proposing to continue collecting TDSIC charges in the same manner as they are currently applied.

5. Commission Discussion and Findings.

A. **Statutory Requirements.** The TDSIC Statute permits a public utility to petition the Commission for approval of the public utility’s plan for eligible transmission, distribution, and storage improvements. The Commission’s order must include 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.
- (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 TDSIC plan is reasonable, the commission shall approve the plan and authorize TDSIC treatment for the eligible transmission, distribution, and storage improvements included in the plan.

Ind. Code § 8-1-39-10(b).

“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, including the extension of gas service to rural areas;
- (2) were not included in the public utility’s rate base in its most recent general rate case; and
- (3) were [among other things] described in the public utility’s TDSIC plan and approved by the commission under [Ind. Code § 8-1-39-10] and authorized for TDSIC treatment

Ind. Code § 8-1-39-2(a).

The term “eligible transmission, distribution, and storage system improvements” includes the following:

- (1) projects that do not include specific locations or an exact number of inspections, repairs, or replacements, including inspection-based projects such as pole or pipe inspection projects, and pole or pipe replacement projects; and
- (2) projects involving advanced technology investments to support the modernization of a transmission, distribution, or storage system, such as advanced metering infrastructure, information technology systems, or distributed energy resource management systems.

Ind. Code § 8-1-39-2(b).

Ind. Code § 8-1-39-7.8 requires that a TDSIC plan cover a period of at least five years and not more than seven years.

Ind. Code § 8-1-39-10(d) allows a utility to “terminate an existing TDSIC plan before the end of the original plan period by providing the commission a notice of termination at least sixty (60) days before the date on which the plan will terminate.”

B. Petitioner’s 2024 – 2028 TDSIC Plan. Petitioner requests approval of its TDSIC Plan pursuant to Ind. Code § 8-1-39-10. CEI South’s five-year TDSIC Plan covers the period of January 1, 2024 through December 31, 2028 and therefore meets the requirements of Ind. Code § 8-1-39-7.8.

C. Eligible Improvements Under Ind. Code § 8-1-39-2. CEI South’s TDSIC Plan consists of approximately \$454 million in proposed investments across seven different programs: (1) Distribution 12kV Circuit Rebuild, (2) Distribution Underground Rebuild, (3) Distribution Automation, (4) Wood pole replacement, (5) Transmission Line Rebuild, (6) Substation Rebuild, and (7) Substation Physical Security.

As discussed in the evidence summarized above, the record reflects that the improvements, upgrades and, in some cases, new technologies and/or approaches included in the TDSIC Plan were selected by CEI South to preserve and further enhance system safety, reliability and resiliency with an aim of reducing the likelihood of equipment failures and unplanned outages. The record also reflects that none of the TDSIC Plan investments and costs are currently reflected in CEI South’s rate base in its most recent base rate proceeding (Cause No. 43839, Order issued April 27, 2011).

No party disputed and we now find that the programs included within CEI South’s TDSIC Plan are “eligible transmission, distribution, and storage system improvements” within the definition set forth in Ind. Code § 8-1-39-2 because CEI South is undertaking them for the purpose of safety, reliability, or system modernization and they were not included in CEI South’s rate base in its most recent general rate case. Petitioner’s proposed wood pole replacement investments

included in the Plan fit within Ind. Code § 8-1-39-2(b)(1) which allows for “projects that do not include specific locations or an exact number of inspections, repairs, or replacements, including inspection-based projects such as pole or pipe inspection projects, and pole or pipe replacement projects.”

D. Best Estimate of the Cost of Eligible Improvements. Ind. Code § 8-1-39-10(b)(1) requires that an order approving a TDSIC plan must include a finding that the cost of the TDSIC plan represents “the best estimate of the cost” of the proposed eligible improvements contained therein.

Mr. Rawlinson presented the estimated cost of the TDSIC Plan. Petitioner’s witnesses Leger and Rawlinson explained that CEI South engaged with both internal and external subject matter experts to arrive at the cost estimates and that, with the exception of the wood pole replacement program and the five substation physical security surveillance system projects, each project within the complete TDSIC Plan was estimated to follow the recommended practices of AACE, with projects planned to be completed in the first two years of the TDSIC Plan designed to AACE Class 2 criteria and the remaining projects designed to AACE Class 4 estimate criteria.

The evidence reflects that the wood pole replacement program and substation physical security surveillance system projects do not represent a specific location and therefore have an estimated cost at the program level by planned year but do not have unique projects identified with an associated estimated cost for this filing. For all other projects, each detailed cost estimate includes a line-item breakdown of the cost including engineering, contract labor, material, construction and material loadings, land, easements, and survey work as applicable. Escalation and contingency were included in the total best estimate.

OUCG witness Krieger asks the Commission to require Petitioner to provide “more appropriate and more accurate” project estimates, making use of AACE Class 1 and Class 3 estimates instead. Pub. Ex. 2 at 5-7, 14. He accepted a Class 4 level estimate for the substation physical security improvements alone (though ultimately recommended disallowance of these improvements, as discussed below). Mr. Krieger also took issue with the way Petitioner built contingency, overhead, and escalation amounts into the best estimate of costs.

Mr. Krieger’s request regarding the AACE class level of the estimates is inconsistent with our prior TDSIC Orders. For instance, in CEI South’s current gas TDSIC, the level of AACE class estimate is less precise to that for its proposed electric TDSIC plan—Class 2 estimates only for the projects during the first year, with Class 4 estimates for the later years—yet we found this level of precision to be sufficient for the best estimate. *CEI South*, Cause No. 45612, at 15-18 (Apr. 20, 2022). We also have recently approved AACE-class-level estimates that are less refined than those presented here in other electric TDSIC cases. *Northern Ind. Pub. Serv. Co. (“NIPSCO”)*, Cause No. 45557, at 56 (Dec. 28, 2021) (approving Class 3 estimates for the first 18-24 months with later years being Class 4 or Class 5 estimates), *aff’d*, 197 N.E.3d 316 (Ind. Ct. App. 2022), *trans. pending on other grounds*. Thus, based on the evidence of record, we find that Class 2 and Class 4 estimates balance a reasonable level of work scope detail, estimate accuracy, and engineering resources. This level of detail is consistent with the requirements of the TDSIC Statute, our prior findings in TDSIC proceedings, and the determination of the “best estimate” of the costs.

When determining whether a utility has presented the best total cost estimate of project costs under the TDSIC Statute, this Commission has repeatedly found that it is reasonable to include of contingency as part of the “best estimate” of costs of eligible improvements. For example, in Cause No. 45612 related to CEI South’s Gas CSIA/TDSIC Plan, in response to challenges about the inclusion of contingency as part of project cost estimates from certain parties, this Commission found that the inclusion of contingency is “reasonable and appropriate in establishing a best cost estimate[.]” *CEI South*, Cause No. 45612, at 16. Similarly, in two 2020 orders, the Commission found that “the exclusion of contingency in the cost estimate would be unreasonable and would not establish the best cost estimate as required by the TDSIC Statute.” *NIPSCO*, Cause No. 45330, at 23 (July 22, 2020)); *see also Indianapolis Power & Light Co. (“IPL”)*, Cause No. 45264, at 22-23 (March 4, 2020), *aff’d*, 159 N.E.3d 617 (Ind. Ct. App. 2020). In Cause No. 45330, the Commission also found that “the level of contingency reflected in [NIPSCO’s] cost estimates is reasonable.” *NIPSCO*, Cause No. 45330, at 23, 2020. Given the length of the proposed TDSIC Plan and class of estimates included in the Plan, we find CEI South’s inclusion of contingency in its best estimate to be reasonable.

In responding to OUCC witness Lantrip’s recommendation of a flat 10% contingency, Mr. Rawlinson explained that a flat 10% contingency rate for all five years of the plan would not account for the difference in accuracy between a Class 2 and Class 4 estimate. With respect to contingency, he explained the contingency applied to projects was based on the amount of detail and confidence in the scope of work and design to ensure accurate estimates were developed for projects. CEI South used 12.5% contingency on projects in years 2024 – 2025 and 17.5% contingency on projects for years 2026 – 2028 and PSPs. We find that Petitioner’s contingency is in line with other recent orders and appropriately differentiates between Class 2 estimates for the first two years of the Plan as compared to the Class 4 estimates for the outer years of the Plan. The evidence shows that the level of contingency being proposed is below the levels included in CEI South’s current approved electric TDSIC plan (Cause No. 44910) (15% for the first three years and 25% for the remaining years). We find Mr. Lantrip’s recommendation of a flat 10% contingency is unreasonable.

Petitioner also applied 4% escalation to account for inflation of materials, labor, and services. The OUCC recommended a 3% inflation rate based on the Bureau of Labor Statistics inflation rate for consumer goods and services for the year ended June 2023. Escalation is a provision in estimates to account for changes in market or economic conditions over time and is both a component of cost estimating and risk mitigation. Specifically, escalation is an accepted method of modifying an estimate in today’s (or some other specified year’s) dollars to reflect the expected estimate in a future year. CEI South worked with 1898, who utilized various economic, and inflation forecast information, to calculate an escalation rate of 4% per year starting in 2024 through 2028. CEI South’s rebuttal evidence showed that escalation on a five-year rolling average basis aligns with CEI South’s five-year plan and is consistent with this rate. Thus, we find the 4% escalation rate to be appropriate.

As with contingencies, the Commission has recognized escalation as a generally reasonable component of a best estimate. In the orders in Cause Nos. 45611 and 45612, we found the inclusion of escalation on the contingency amounts for CEI North’s and CEI South’s TDSIC projects was reasonable. *Ind. Gas Co., Inc. (d/b/a CEI North)*, Cause No. 45611, at 17-18 (April 20, 2022); *CEI South*, Cause No. 45612, at 17. The record reflects that CEI South’s practice and methodology for

contingencies and escalation in this case is consistent with those gas TDSIC cases. Thus, we find that CEI South's use of reasonable contingencies and escalation to provide more accurate estimates is consistent with prior findings of this Commission.

It is also common in the utility industry that certain indirect costs related to engineering, supervision, general corporate, and various administrative functions are capitalized to construction projects. "[O]verhead costs are indirect actual costs associated with executing capital construction work. Because they are related to, and a portion of the actual project cost, we find the inclusion of overhead costs on base project costs with contingency is appropriate and reasonable for both Petitioner's Compliance and TDSIC projects." *CEI South*, Cause No. 45612, at 17-18. Indirect capital costs are a component of the "best estimate" as required by the TDSIC Statute. These are costs associated with executing capital construction work, but they cannot be easily quantified in discrete dollar amounts for each individual project. It is accepted practice to allocate a percentage of these costs to each project estimate, regardless of whether the estimate is a Class 2 or Class 4. We disagree with the OUCC's suggestion that Petitioner's application of 12% overhead is erroneous or otherwise inappropriate. Based on the evidence of record, we find that including escalation and contingency in its best estimate is reasonable and is therefore approved. Based on the evidence presented, we find that Petitioner's TDSIC Plan is consistent with the "best cost estimate" requirements of the TDSIC Statute.

We find Petitioner's cost estimate of \$454 million for its TDSIC Plan projects as presented on Table SRR-1 in Petitioner's Exhibit 2 at 21 and Attachment SRR-1 (Confidential) is a "best estimate" of the eligible improvements included in the Plan and should be approved.

E. Public Convenience and Necessity. Ind. Code § 8-1-39-2 defines eligible transmission, distribution, and storage system improvements as projects undertaken for purposes of safety, reliability, system modernization, or economic development.

Petitioner's witnesses identified several aspects of the TDSIC Plan that would benefit the public. Mr. Rawlinson testified that the eligible improvements included in the 2024 – 2028 TDSIC Plan are required or will be required to maintain the safety, integrity, and reliability of CEI South's transmission and distribution systems consistent with the public convenience and necessity. With respect to the substation physical security programs that the OUCC seeks to exclude, Petitioner's witness Freeman offered testimony showing the purpose of these projects is to add additional security control measures at Petitioner's substations to prevent a physical attack on those assets. The evidence reflects that attacks on substations are a serious threat to the lives of many due to their impact on the reliability of the electric grid. Due to the risk of severe injury or death due to a trespasser entering a substation, these added controls increase public safety. These added controls will help protect system reliability.

No party offered evidence demonstrating that the TDSIC improvements included in the TDSIC Plan were unnecessary for the continued safe and reliable service to customers, or that the public convenience and necessity did not, or would not, require the TDSIC investments to be made.

Ind. Code § 8-1-2-4 requires Petitioner to provide reasonable and adequate service to customers. Safety and reliability are the first two objectives listed in the TDSIC Statute for "eligible transmission, distribution, and storage system improvements." Ind. Code § 8-1-39-

2(a)(1). Based on the evidence of record, we find that Petitioner has sufficiently supported that the investments described in its TDSIC Plan are reasonably necessary for CEI South to continue to provide reasonable and adequate retail service to the customers in its service territory. Therefore, we find that the public convenience and necessity requires or will require all of the eligible improvements included in the TDSIC Plan.

F. Incremental Benefits Attributable to the TDSIC Plans. Ind. Code § 8-1-39-10(b)(3) requires the Commission to determine whether the estimated cost of the eligible improvements included in the TDSIC Plan are justified by the incremental benefits attributable to the TDSIC Plan.

The approach to developing the Plan as reflected in Petitioner’s evidence supports our finding that the Plan investments will provide value to CEI South’s customers and other grid stakeholders. Based on the evidence of record, we find that the Plan as a whole has quantified incremental benefits in excess of eligible investment improvements and that, as a result, the incremental benefits attributable to the Plan justify the estimated costs of the eligible improvements included in the Plan. It has been the Commission’s position that this finding is what is required by Ind. Code § 8-1-39-10(b)(3). We acknowledge, however, that the question of whether the incremental benefits of each individual project must justify the costs of that project (rather than the incremental benefits of the plan as a whole) is currently being considered by the Indiana Supreme Court. *Office of Util. Cons. Couns. v. Duke Energy Indiana*, 205 N.E.3d 1026 (Ind. Ct. App. 2023), *trans. granted*.

The Supreme Court’s ultimate determination on that question, however, has no bearing on the instant case, because we also find that Petitioner has shown that all individual projects included in the TDSIC Plan have incremental benefits that justify their cost. As explained by the Indiana Court of Appeals in reviewing the IPL TDSIC plan, neither “incremental” nor “benefits” is defined in the TDSIC Statute and, therefore, ascribing the “plain, ordinary and usual meaning” to these terms, “benefit” means “‘something that guards, aids, or promotes well-being;’ while ‘incremental’ means ‘something that is gained or added.’” *IPL Industrial Group v. IPL*, 159 N.E.3d 617, 626 (Ind. Ct. App. 2020) (quoting dictionary definitions). These definitions do not require a monetary quantification demonstrating that dollar values of benefits exceed dollar values of costs. Rather, if the Indiana Supreme Court holds that Section 10(b)(3) requires an evaluation of each individual project’s incremental benefits, we would review whether the project “gain[s] or add[s]” “something that guards, aids or promotes well-being” which justifies that project’s costs.

Applying this test, all of the projects included in CEI South’s Plan pass. The record is clear that for those projects evaluated using the risk and resiliency project identification process, their quantified incremental benefits justify their cost. The only projects in dispute are those for which a dollar value quantification and comparison to costs could not be done. The disputed projects include the wood pole replacement program and its associated projects (approximately \$45 million), the substation physical security project (approximately \$14 million), and an assortment of projects including transmission line rebuilds, substation rebuild, and distribution 12kV circuit rebuilds (together totaling approximately \$26.3 million).

Each of these projects in dispute has significant alignment to CEI South Plan Objectives and TDSIC Purposes and they add “something that guards, aids or promotes well-being.” The

OUCG agreed that “[r]eliability and resilience are absolutely critical” and that “[s]afety projects are crucial to reliability and resilience.” Pub. Ex. 2 at 3 and 9. The incremental benefits from the transmission line rebuild, the substation rebuild, and the distribution 12kV circuit rebuild are to deliver service safely and to support CEI South’s duty to serve. Each of these projects mitigate against system capacity constraints and improve power quality. Without these projects, there is risk of overloading equipment, causing it to burn or disrupt, also presenting a safety concern. The projects in the wood pole replacement program also support the duty to serve and maintain reliability. The substation physical security project protects against intentional acts of vandalism, theft, or terrorism and thus provides the incremental benefit of maintaining service and protecting public safety. Each of the incremental benefits of these projects justifies the costs of the project and thus satisfies the Section 10(b)(3) requirement. We agree with CEI South witness De Stigter that these qualitative factors—such as safety—should not be ignored or dismissed.

Based on the evidence of record, we find that Petitioner has sufficiently demonstrated that the estimated costs of the TDSIC Plan’s eligible improvements are justified by the incremental benefits attributable to the Plan. This finding remains true whether the incremental benefits are viewed from the plan as a whole or whether the incremental benefits of each distinct project are considered. As noted earlier, the vast majority of Petitioner’s TDSIC Plan investments are for safety and reliability projects. In determining the eligible improvements to be included in the TDSIC Plan, Petitioner employed a robust process to identify and prioritize the projects in alignment with the purposes set forth in the definition of eligible improvements under the TDSIC Statute. The evidence shows Petitioner’s TDSIC Plan will enhance customer and employee safety, avoid outages, preserve and improve operational integrity, and support economic development.

G. Reasonableness of TDSIC Plan. Based upon our review of the evidence of record, the Commission finds Petitioner’s TDSIC Plan is reasonable and should be approved as set forth herein. Petitioner’s TDSIC Plan appropriately and reasonably addresses Petitioner’s aging infrastructure through projects intended to enhance, improve, and replace system assets for the provision of safe and reliable electric service. These are activities from which customers are reasonably expected to benefit.

The OUCG and CAC raised concerns about affordability in opposing CEI South’s TDSIC Plan. Petitioner responded to those concerns, pointing out errors in the OUCG’s presentation of its rates. We find there are safeguards built into the TDSIC Statute that help maintain affordability. First, the estimated costs of the eligible transmission and distribution system improvements must be justified by incremental benefits attributable to the plan, as required under Section 10(b)(3) of the TDSIC Statute. Second, Ind. Code § 8-1-39-14(a) establishes that “[t]he 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.” The limit on the annual increase in a 12-month period produces more gradual increases in customer bills compared to large step changes in rates that may occur otherwise in a general rate case. We have found elsewhere in this order that both of these provisions are satisfied by CEI South’s TDSIC Plan. We are sensitive to the concerns of affordability of ratepayers in Indiana. However, we find that CEI South’s use of the TDSIC mechanism can help to mitigate the impact of the investments we have already found serve the public convenience and necessity.

H. Updates to the TDSIC Plan. Ind. Code § 8-1-39-9(b) requires that a public utility update its TDSIC plan at least annually as a component of the TDSIC periodic automatic adjustment filings.

In accordance with Mr. Rawlinson's and Mr. Rice's testimony, and consistent with Petitioner's previous TDSIC mechanism, the Commission finds it reasonable that Petitioner makes its TDSIC filings every six months. In the semi-annual filings, CEI South proposes to include the actual completed costs of the projects for the current filing period and any variance commentary as required. CEI South also proposes to update the TDSIC Plan at least once a year to include potential changes to the Plan that include cost estimates and information related to projects that are moving between plan years, or projects that are moving in or out of the Plan. Petitioner proposes to adjust project estimates once per year in one of the semi-annual filings.

The OUCC's suggested alternative to this update process would unnecessarily restrict Petitioner's ability to respond to the potential changing needs of the system by limiting plan updates to one time annually.

We find Petitioner's proposed update process to be reasonable and consistent with the process used for its 44910 TDSIC Plan. This process has worked well in CEI South's previous TDSIC filings, and we find that this process will reasonably balance the needs of Petitioner for investment recovery confidence and customers for prudent investment assurance. Such a proposal is also consistent with the TDSIC Statute, which does not impose any limit on how frequently a TDSIC plan may be updated.

I. TDSIC Mechanism. Consistent with the terms of Petitioner's previous TDSIC Order, Petitioner has proposed to recover 80% of the costs associated with the TDSIC Plans through its electric TDSIC rate adjustment mechanism. We will discuss the OUCC's and CAC's specific concerns in the following sections.

Ultimately, and consistent with our findings below, we authorize Petitioner to continue using the TDSIC mechanism established in Cause No. 44910 for recovery of 80% of the TDSIC project costs. In its tracker filings under Ind. Code § 8-1-39-9(a) Petitioner shall file with the Commission's Energy Division a revised tariff sheet consistent with the format set forth on Attachment MAR-2, as well as with our findings below.

i. Customer Class Revenue Allocation. Petitioner proposes to use the allocation percentages agreed to by the parties in the Cause No. 44910 settlement until the percentages are updated in a future rate case. The allocators established in that settlement were approved by the Commission in order to address the move of a large customer and better represent cost causation than the allocators established in 2011 under the 43839 Order. CAC witness Inskeep opposed CEI South's proposed cost allocation, suggesting that CEI South should have utilized a different methodology, such as that described in the NARUC cost allocation manual, to determine cost allocation to residential and small commercial customers.

However, after reviewing the evidence of record, we find a continuation of the current revenue allocation under Petitioner's TDSIC until new allocation percentages can be determined through its pending base rate case (filed on December 5, 2023 as Cause No. 45990) is consistent

with the TDSIC Statute, is reasonable, and is therefore approved. As noted by CEI South, there will be an opportunity in Cause No. 45990 to examine and, if warranted, modify the customer class allocations.

ii. Rate Design. Petitioner is proposing the same rate design previously approved in Cause Nos. 44910, including that TDSIC costs be recovered from residential customers via a fixed monthly charge and from all other customers using a volumetric charge. CAC witness Inskeep disagreed with Petitioner's proposal, asserting that it is not reasonable to include a fixed monthly charge for residential customers for distribution costs related to TDSIC. Mr. Rice responded that residential CEI South customers currently pay for a distribution component of TDSIC through a capped, fixed charge with costs in excess of the cap recovered on a per-kWh basis. The record reflects that today \$6 (65%) of a residential customer's TDSIC charge is fixed. By the end of the proposed TDSIC Plan approximately \$9 (62%) of a residential TDSIC charge is projected to be fixed.

Mr. Rice opined that, because the residential customer class is relatively homogeneous, a fixed charge is a reasonable alternative to demand charges, which are typically included in commercial and industrial rate structures.

After reviewing the evidence of record, we find Petitioner's proposed rate design is a reasonable continuation of the rate design currently employed with respect to Petitioner's current TDSIC. The parties may propose a change in rate design for the TDSIC rider in CEI South's pending rate case, Cause No. 45990, in which a more holistic review of Petitioner's rate design will occur. Until a change, if any, is made as a result of the Commission's order in Petitioner's next general rate case, we find CEI South should continue collecting TDSIC charges in the same manner as they are currently applied.

iii. Projected Customer Impacts. Petitioner's witness Rice presented the projected impact on retail rates and charges of the proposed TDSIC Plan. Attachment MAR-4 summarizes the estimated year-over-year impact that the costs associated with the 2024 – 2028 TDSIC Plan will have on customer rates, by rate schedule, over the life of the TDSIC Plan. In order to align the customer impacts to the TDSIC Plan investments, Mr. Rice stated these impacts exclude the EADIT Credits to be reflected in future TDSIC rates and charges. Based on our review of the evidence and given that no specific factors are proposed in this proceeding, we find that Petitioner provided sufficient information regarding the projected effects of the TDSIC Plan on retail rates and charges as required by Ind. Code § 8-1-39-9(a)(3).

iv. Determination of Pretax Return. Petitioner proposed to use its WACC based upon the actual capital structure at the end of each respective measurement period in the TDSIC, inclusive of the typical items included in Petitioner's base rate case capital structure: (1) long-term debt, (2) common equity, (3) customer deposits, (4) cost-free capital, including deferred income taxes, and (5) investment tax credits. The WACC would apply both to TDSIC projects that have been placed in service and also CWIP. The OUCC asked that we clarify that CEI South is to update cost recovery under its TDSIC Plan for base rate case elements such as return on equity and revenue allocation following the issuance of an order in Petitioner's upcoming general rate case, to which Petitioner agreed. As noted in our discussion of the timing of this TDSIC Plan filing, we do not adopt the OUCC's view that CEI South should delay its TDSIC Plan

filing until after base rates are established in that case and we instead find that CEI South can accomplish the update for base rate case elements via a compliance filing as Mr. Rice outlined in his rebuttal testimony.

The parties did not oppose Petitioner's proposed cost of capital calculation to be used for the TDSIC, including agreement on the use of the cost of equity from the last base rate case to calculate TDSIC costs until such time as the update we discussed above is warranted. We find Petitioner's proposed cost of capital calculation is reasonable and should be approved. Per Ind. Code § 8-1-39-13(c), CEI South's authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) will be adjusted to reflect the incremental return from each approved TDSIC filing.

J. Accounting and Ratemaking Authority.

i. Undisputed Accounting and Ratemaking Treatment. The TDSIC Statute authorizes recovery of TDSIC costs incurred while the improvements are under construction and post in service. Ind. Code § 8-1-39-7. Petitioner seeks to recover financing costs incurred during construction attributable to the capital investments in the Plan. Once and to the extent CWIP ratemaking treatment begins, AFUDC will cease. Otherwise, AFUDC will cease the month after the investment becomes used and useful. Petitioner also proposes to accrue PISCC on all eligible new capital investments from the date the investment is placed in service until the date the investment is included in rate recovery. PISCC would accrue at the WACC. Petitioner also seeks to defer depreciation on used and useful investment during this same period. PISCC and deferred depreciation would be recorded as a regulatory asset. The regulatory assets would be included in rate base and amortized for recovery over the life of the underlying assets. This proposed deferral was not opposed and we find it should be approved. Finally, we approve Petitioner's request to defer its plan development costs as described by Ms. Behme and to recover such costs through the TDSIC over a period of five years.

The TDSIC Statute allows for recovery through the rider of 80% of the TDSIC costs. Petitioner proposes to defer for subsequent recovery as part of its next two general base rate cases 20% of the approved capital expenditures and TDSIC costs for the TDSIC Plan, including costs associated with (1) capital investment in eligible projects, both completed and under construction, (2) financing costs on projects under construction (i.e., AFUDC), (3) PISCC, (4) projected and annualized property tax and depreciation expense, and (5) amortization of deferred depreciation expense, planning development expense, and PISCC. PISCC on the 20% deferred would not accrue. As discussed below, we approve Petitioner's proposal with respect to the 20% of TDSIC costs. We also find that Petitioner's proposed prioritization of the 80% recovery through the rider in terms of accounting, as described by Ms. Behme in direct and not opposed by the OUCC or CAC, should be approved. As Ms. Behme explained, this prioritization is needed to assure Petitioner receives the return granted by Ind. Code § 8-1-39-9(c) in accordance with the Financial FASB ASC Topic 980 and is consistent with the recovery prioritization approved in Cause No. 44910. *See also Indiana-American Water Co.*, Cause No. 45609, at 8 (March 16, 2022).

ii. Cost of Removal. There is a dispute over whether cost of removal associated with retirements should be reflected in TDSIC costs. OUCC witness Lantrip recommended CEI South continue the depreciation expense accounting treatment that was settled

upon in Cause No. 44910, thereby excluding the cost of removal in the accumulated depreciation balance.

The accounting treatment sought by the OUCC here was reached in settlement in Cause No. 44910, so we are not bound to continue it under the current TDSIC. We note that CEI South initially requested to include cost of removal in the accumulated depreciation balance in that case as well. Ms. Behme described the accounting for asset retirement, which clearly results in the cost of removing retired assets having an effect on net original cost rate base.

We find these costs are appropriate to include in the calculation because they are necessary actual costs Petitioner must incur in order to complete the installation of the TDSIC projects that will replace the assets being retired. Pursuant to the FERC Uniform System of Accounts, “[t]he cost of removal and the salvage value shall be charged or credited, as appropriate, to such depreciation account [accumulated provision for depreciation applicable to such property].” 170 IAC 4-2-1.1(a) (“The rules and regulations governing the classification of accounts for all major private electric utilities operating within the state of Indiana, as approved, prescribed, and promulgated by the Federal Energy Regulatory Commission on February 12, 1985, are adopted by reference.”); 18 CFR Part 101, ¶ 15,060, Electric Plant Instruction 10(B)(2) (in effect on Feb. 12, 1985). This entry has the effect of increasing net original cost rate base, the cost is incurred in connection with replacing the retired unit with the new asset, and the cost of removal is therefore a capital cost in connection with the eligible transmission, distribution, and storage system improvement. The accounting treatment sought by CEI South allows it to more accurately reflect and request recovery of the cost incurred for the TDSIC Plan’s new capital investments. CEI South includes cost of removal within the accumulated depreciation balance in its most recent gas TDSIC Plan, approved in Cause No. 45612. *See* Pet. Ex. 6-R at 2 (citing *CEI South*, Cause No. 45612).

We find the cost of removal incurred by CEI South is a cost that pertains to the TDSIC Plan and should be included for timely recovery with all other TDSIC costs.

iii. 20% Deferral. There also is a dispute as to when the 20% deferral should be recovered. Ind. Code § 8-1-39-9(c) provides that a “public utility that recovers capital expenditures and TDSIC costs under subsection (a) shall defer the remaining twenty percent (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 capital expenditures and TDSIC costs as part of the next general rate case that the public utility files with the commission.”

In the context of the unique timing of CEI South’s TDSIC Plan filing in advance of a general rate case filing later this year, a dispute arose in this case as to the meaning of the language of Ind. Code § 8-1-39-9(b). Petitioner has interpreted this section of the statute to mean the recovery of the deferral will occur in the next general rate case final order following the placement in service of the TDSIC improvements. The OUCC takes the position that because CEI South’s TDSIC Plan will not commence until January 1, 2024 and it will be filing its next general rate case petition before that date, recovery of the 20% deferral is not available until the subsequent general rate case petition.

We find the OUCC's interpretation of this language without merit. While the OUCC appears to tie its interpretation to the verb "files" as suggesting that it is the date of the *petition* that dictates application of this section, no utility could ever "recover" its 20% deferral through rates until authorized to do so by this Commission in a final order. It is not the filing of a petition that triggers the recovery of the 20% deferral, but rather the Commission's order acting on that petition.

Based on the evidence of record, we find that 20% of the TDSIC costs shall be deferred in accordance with Ind. Code § 8-1-39-9(c) consistent with the methodology described in Petitioner's witness Behme's testimony.

K. Average Aggregate Increase in Total Retail Revenues Resulting from TDSIC. Ms. Behme sponsored Attachment CMB-2, which showed that CEI South does not expect that the TDSIC Plan would produce a TDSIC in any year of the Plan that would result in an average aggregate increase in CEI South's total retail revenues of more than 2% in a 12-month period.

Ind. Code § 8-1-39-14(a) requires the Commission to find that an approved TDSIC will not result in an average aggregate increase in a public utility's total retail revenues of more than two percent in a 12-month period. The Commission has previously found this determination requires comparing the increase in TDSIC revenue in a given year with the total retail revenues for the past 12 months. *See NIPSCO*, Cause No. 44371, at 20 (Feb. 17, 2014).

We find the Petitioner's proposal ensures the TDSIC being approved herein will not result in an average aggregate increase in total retail revenues of more than 2% in a 12-month period and is consistent with Ind. Code § 8-1-39-14(a).

L. TDSIC Timing under Ind. Code § 8-1-39-9(d). Ind. Code § 8-1-39-9(d) states that, "[e]xcept as provided in [Ind. Code § 8-1-39-15], 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's last general rate case order was issued in April 2011 in Cause No. 43839. Mr. Rice testified CEI South expects to file its first tracker proceeding to set new rates and charges in August 2024. Accordingly, we find the first tracker case will be filed more than nine months after Petitioner's last general rate case order was issued in accordance with Ind. Code § 8-1-39-9. Petitioner has also indicated it intends to forego the tracker filing that would naturally follow in February 2025, which would be within nine months of the anticipated date of an order in the general rate case Petitioner must file before December 31, 2023. *See Pub. Ex. CX-1* at 5 (CEI South response to OUCC data request).

Ind. Code § 8-1-39-9(e) also provides that "[a] public utility that implements a TDSIC under this chapter shall, before the expiration of the public utility's approved TDSIC 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." With respect to its 44910 TDSIC Plan, the record reflects that CEI South will be filing a general rate case petition prior to December 31, 2023. Moving forward, CEI South shall file a petition with the Commission for review and approval of its basic gas rates and charges before the expiration of Petitioner's TDSIC Plan in this Cause pursuant to Ind. Code § 8-1-39-9(e).

Ind. Code § 8-1-39-9(f) states that “[a] public utility may file a petition under this section not more than one (1) time every six (6) months.” Petitioner’s witness Rice testified that Petitioner plans to maintain the existing TDSIC filing schedule currently in place with its 44910 TDSIC Plan. The approved recoveries for the TDSIC reconciliation period will represent the TDSIC-approved amounts for one of two periods, either May through October or November through April, and will be noted in Attachment MAR-1, Schedule 4.

We find that Petitioner’s proposed timeline for its TDSIC filings is consistent with Ind. Code § 8-1-39-9(f) and is reasonable and should be approved. CEI South’s semi-annual filings following the issuance of this Order shall be filed under Cause No. 45894 TDSIC X.

Petitioner proposes to include the over- or under-recovery variances resulting from TDSIC rates in place from the 44910 TDSIC 13 and 44910 TDSIC 14 periods in the first semi-annual filing in this Cause. No party opposed this proposal and we find it to be reasonable and hereby approve it.

M. Ultimate Conclusion. Based on the evidence presented in this proceeding, and as discussed herein, we find that Petitioner has presented a plan that CEI South’s TDSIC Plan meets the requirements of Ind. Code ch. 8-1-39 and therefore approve the same.

6. Confidentiality. CEI South filed Motions for Protection and Nondisclosure of Confidential and Proprietary Information on May 24, 2023 and August 29, 2023, which were supported by affidavits showing that certain information to be submitted to the Commission was trade secrets under Ind. Code § 24-2-3-2. The Presiding Officers issued docket entries on June 6, 2023 and September 1, 2023 finding such information to be preliminarily confidential, after which such information was submitted under seal. After reviewing the information, we find this information qualifies as confidential trade secret information pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2. This information shall be held as confidential and protected from public access and disclosure by the Commission and is exempted from the public access requirements contained in Ind. Code §§ 8-1-2-29 and 5-14-3-4.

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

1. CEI South’s 2024 – 2028 TDSIC Plan is reasonable and is approved.
2. The projects identified in CEI South’s 2024 – 2028 TDSIC Plan constitute “eligible transmission, distribution, and storage system improvements” within the meaning of Ind. Code § 8-1-39-2.
3. Petitioner’s proposed method of calculating a pretax return under Ind. Code § 8-1-39-13 is hereby approved.
4. Petitioner is authorized to defer post in service TDSIC Plan costs, including carrying costs based on the WACC approved herein, on an interim basis until such costs are recovered for ratemaking purposes through Petitioner’s TDSIC mechanism or otherwise included for recovery in its base rates through its next general rate case. The regulatory asset resulting from

this accrual shall be included in Petitioner's rate base for ratemaking purposes and amortized over the life of the underlying assets.

5. Petitioner is authorized to defer depreciation expense on TDSIC Plan investments on an interim basis until such costs are recovered for ratemaking purposes through Petitioner's TDSIC mechanism or otherwise included for recovery in base rates through its next general rate case. The regulatory asset resulting from this deferral shall be included in Petitioner's rate base for ratemaking purposes and amortized over the life of the underlying assets.

6. Petitioner shall amortize and recover its TDSIC plan development costs over a period of five years.

7. Petitioner is authorized to allocate the costs associated with its TDSIC Plan in accordance with our findings set forth herein.

8. Petitioner shall be and hereby is authorized to continue assessing the TDSIC as a fixed monthly charge to residential customers.

9. Petitioner is authorized to defer 20% of eligible and approved capital expenditures and TDSIC Plan costs under Ind. Code § 8-1-39-9(b). Petitioner is also authorized to recover the deferred capital expenditures and TDSIC costs as part of Petitioner's next two general rate cases.

10. Petitioner's proposed process for updating the TDSIC Plan in future TDSIC semiannual adjustment proceedings under the Cause No. 45894 TDSIC X is approved as set forth herein.

11. Per Ind. Code §8-1-39-13(b), Petitioner's authorized return for purposes of Ind. Code §8-1-2-42(d)(3) shall be adjusted to reflect incremental earnings from each approved TDSIC.

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

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

APPROVED: DEC 27 2023

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

_____ on behalf of
Dana Kosco
Secretary of the Commission