

ORIGINAL

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF DUKE ENERGY )  
INDIANA, LLC FOR: (1) APPROVAL OF AN )  
ADJUSTMENT TO ITS ELECTRIC SERVICE )  
RATES THROUGH ITS TRANSMISSION, )  
DISTRIBUTION AND STORAGE SYSTEM )  
IMPROVEMENT CHARGE ("TDSIC") RATE )  
SCHEDULE, STANDARD CONTRACT RIDER )  
NO. 65; (2) AUTHORITY TO DEFER 20% OF )  
THE APPROVED CAPITAL EXPENDITURES )  
AND TDSIC COSTS FOR RECOVERY IN )  
PETITIONER'S NEXT GENERAL RATE )  
CASE; AND (3) APPROVAL OF )  
PETITIONER'S UPDATES TO ITS 7-YEAR )  
ELECTRIC PLAN, PURSUANT TO IND. CODE )  
§ 8-1-39-9. )

CAUSE NO. 44720 TDSIC 6

APPROVED: OCT 08 2019

ORDER OF THE COMMISSION

**Presiding Officers:**

**David E. Ziegner, Commissioner**

**Carol Sparks Drake, Senior Administrative Law Judge**

On April 30, 2019, Duke Energy Indiana, LLC ("DEI" or "Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") requesting: (1) approval of an adjustment to its Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Rate Schedule via Standard Contract Rider No. 65 ("TDSIC Rider") to effectuate the timely recovery of 80% of capital expenditures and TDSIC costs associated with in-service eligible transmission, distribution, and storage system improvements; (2) authority to defer, as a regulatory asset, the remaining 20% of eligible and approved capital expenditures and TDSIC costs, with carrying costs, for recovery in Petitioner's next general rate case; (3) approval of updates to DEI's seven-year plan for eligible transmission, distribution, and storage system improvements ("TDSIC Plan"), pursuant to Ind. Code § 8-1-39-9; (4) approval to defer for future recovery through the TDSIC Rider 80% of eligible and approved capital expenditures and TDSIC costs in connection with the TDSIC Plan; and (5) approval to adjust Petitioner's authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

On June 4, 2019, Petitioner prefiled the direct testimony and exhibits of the following:

- Cicely M. Hart, Vice President – Customer Delivery Engineering for Duke Energy Business Services, LLC;

- Donald E. Broadhurst, Vice President – Customer Delivery Midwest Region; and
- Diana L. Douglas, Director, Rates and Regulatory Planning for DEI.

That same day, DEI also filed a motion requesting the Commission to take administrative notice of certain exhibits Petitioner filed in Cause Nos. 44720 and 44720 TDSIC 5, along with a motion for protection of confidential and proprietary information. Both motions were granted in Docket Entries issued on June 17, 2019, with confidential treatment approved on a preliminary basis.

On June 5, 2019, DEI, on behalf of itself and the Indiana Office of Utility Consumer Counselor (“OUCC”), submitted an agreed proposed procedural schedule for the Commission’s consideration in lieu of conducting a prehearing conference. On June 19, 2019, a Docket Entry was issued establishing the procedural schedule in this Cause.

On August 5, 2019, the OUCC filed an unopposed motion to late-file the prefiled direct testimony and exhibits of Kaleb G. Lantrip, Utility Analyst. On August 6, 2019, a Docket Entry was issued authorizing Mr. Lantrip’s testimony to be late-filed. On August 23, 2019, the OUCC filed a motion requesting leave to late-file corrected testimony for OUCC witness Lantrip. This motion was granted on the record at the outset of the evidentiary hearing after confirming Petitioner had no objection to the requested relief. No rebuttal testimony was filed.

A public evidentiary hearing was held in this Cause at 9:30 a.m. on August 30, 2019, in Hearing Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared at the hearing by counsel and offered their respective evidence, which was admitted without objection.

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

**1. Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. DEI is a public utility as defined in Ind. Code §§ 8-1-2-1(a) and 8-1-39-4. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction over a public utility’s seven-year plan for eligible transmission, distribution, and storage improvements. Under Ind. Code ch. 8-1-39 and Ind. Code § 8-1-2-42, the Commission has authority over certain changes to Petitioner’s rates and charges; therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

**2. Petitioner’s Characteristics.** DEI is an Indiana limited liability company with its principal office located in Plainfield, Indiana. Petitioner is engaged in the business of rendering retail electric utility service and owns, operates, manages, and controls, among other things, plant and equipment within Indiana used for the production, transmission, delivery, and furnishing of such service. DEI provides electric service to more than 825,000 customers in 69 Indiana counties. Petitioner also sells electric energy for resale to municipal utilities, Wabash Valley Power Association, Inc. (“Wabash Valley”), Indiana Municipal Power Agency (“IMPA”), Hoosier Energy Rural Electric Cooperative, Inc. (“Hoosier Energy”), and other electric utilities.

**3. Background to this Proceeding.** On June 29, 2016, the Commission issued an Order in Cause No. 44720 (the “44720 Order”) approving DEI’s seven-year TDSIC Plan and the TDSIC Settlement Agreement (the “TDSIC Settlement”) entered into on March 7, 2016, by and among DEI, the OUCC, Duke Industrial Group, Companhia Siderurgica Nacional, LLC, Steel Dynamics, Inc., Wabash Valley, IMPA, Hoosier Energy, and the Environmental Defense Fund (collectively the “Settling Parties”). In the 44720 Order, the Commission also (a) found the projects designated in Petitioner’s seven-year TDSIC Plan are “eligible transmission, distribution, and storage system improvements” within the meaning of Ind. Code § 8-1-39-2 and eligible for TDSIC treatment in accordance with Ind. Code ch. 8-1-39; (b) authorized Petitioner to implement its TDSIC Rate Schedule pursuant to Ind. Code § 8-1-39-9(a) to recover 80% of eligible and approved capital expenditures and TDSIC costs; (c) authorized Petitioner to recover 80% of its \$1.408 billion TDSIC Plan costs through Petitioner’s proposed TDSIC cost recovery mechanism, the TDSIC Rider; (d) authorized Petitioner to defer 20% of eligible and approved capital expenditures and TDSIC costs with carrying costs under Ind. Code § 8-1-39-9(b) and recover the deferred capital expenditures and TDSIC costs as part of Petitioner’s next general rate case; and (e) approved DEI’s proposed allocation factors based on the revenue requirement by rate group from DEI’s last retail base rate case in Cause No. 42359.

On March 22, 2017, the Commission issued its order in Cause No. 44720 TDSIC 1 (“TDSIC 1”) approving: (a) an adjustment to Petitioner’s TDSIC Rate Schedule via the TDSIC Rider to effectuate the recovery of 80% of approved capital expenditures and TDSIC costs in the amount of \$18,049,845; (b) the capital expenditures and TDSIC costs incurred for in-service TDSIC projects through June 30, 2016, and the forecasted TDSIC costs upon which the proposed factors were based; (c) Petitioner’s TDSIC Plan as updated in Cause No. 44720 TDSIC 1; (d) interim deferral and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with Petitioner’s updated TDSIC Plan through the TDSIC Rider and the deferral of 20% of eligible and approved capital expenditures and TDSIC costs, with carrying costs, in connection with the updated TDSIC Plan, for recovery in Petitioner’s next general rate case; and (e) an adjustment of Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect approved incremental earnings resulting from the TDSIC Rider, pursuant to Ind. Code § 8-1-39-13(b).

On October 17, 2017, the Commission issued an Order in Cause No. 44720 TDSIC 2 (“TDSIC 2”) approving: (a) an adjustment to Petitioner’s TDSIC Rate Schedule via the TDSIC Rider to recover 80% of the eligible and approved capital expenditures and TDSIC costs in the amount of \$63,216,347; (b) deferral as a regulatory asset, until such costs are included for recovery in Petitioner’s next general rate case, of \$15,804,086 which represents 20% of eligible and approved capital expenditures and TDSIC costs; (c) deferral on an interim basis and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with the TDSIC Plan through the TDSIC Rider; and (d) an adjustment of Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect incremental earnings resulting from the TDSIC Rider, pursuant to Ind. Code § 8-1-39-13(b).

On April 11, 2018, the Commission issued an Order in Cause No. 44720 TDSIC 3 (“TDSIC 3”) approving Petitioner’s updated TDSIC Plan.

On October 9, 2018, the Commission issued an Order in Cause No. 44720 TDSIC 4 (“TDSIC 4”) approving: (a) an adjustment to Petitioner’s TDSIC Rate Schedule via the TDSIC Rider to recover 80% of the eligible and approved capital expenditures and TDSIC costs in the amount of \$217,078,355; (b) deferral as a regulatory asset, until such costs are included for recovery in Petitioner’s next general rate case, of \$62,474,738 which represents 20% of eligible and approved capital expenditures and TDSIC costs; (c) deferral on an interim basis and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with the TDSIC Plan through the TDSIC Rider; and (d) an adjustment of Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect incremental earnings resulting from the TDSIC Rider, pursuant to Ind. Code § 8-1-39-13(b).

On June 19, 2019, the Commission issued an Order in Cause No. 44720 TDSIC 5 (“TDSIC 5”) approving Petitioner’s TDSIC Plan as updated (“Updated TDSIC Plan”).

**4. Relief Requested in this Cause.** Petitioner requests approval of updates to the Updated TDSIC Plan for “eligible transmission, distribution, and storage system improvements” and its fourth cost recovery pursuant to Ind. Code § 8-1-39-9 using the rate adjustment mechanism the Commission approved in the 44720 Order. In accordance with Ind. Code § 8-1-39-9(a), Petitioner seeks an Order: (a) approving an adjustment to its TDSIC Rate Schedule to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs to be effective for bills rendered after a final order in this Cause until replaced by subsequently approved factors; (b) approving the capital expenditures and TDSIC costs incurred for in-service TDSIC projects through December 31, 2018, and the forecasted TDSIC costs upon which the proposed factors are based; (c) approving updates to the Updated TDSIC Plan filed concurrent with DEI’s Verified Petition, pursuant to Ind. Code § 8-1-39-9; (d) authorizing the interim deferral and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with Petitioner’s Updated TDSIC Plan through the TDSIC Rider and the deferral of 20% of eligible and approved capital expenditures, with carrying costs, and TDSIC costs, in connection with the Updated TDSIC Plan, for recovery in Petitioner’s next general rate case; and (e) adjustment of Petitioner’s authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

**5. DEI’s Case-In-Chief.**

**A. Ms. Hart.** Ms. Hart testified the projects being implemented under the Updated TDSIC Plan have been approved by the Commission and meet the eligibility requirements in Ind. Code § 8-1-39-2. She testified that in this filing, DEI is updating its costs and requesting rate recovery for TDSIC Plan projects placed in service through December 31, 2018. Ms. Hart testified that during the 2019 legislative session, the TDSIC statute, Ind. Code § 8-1-39-9, was amended via House Bill 1470 to allow a utility to add new projects in its plan update filings and include projects that are based on planning criteria and inspections. She stated these changes do not directly impact the cost recovery DEI seeks in this proceeding because all of DEI’s currently approved TDSIC projects were appropriately included under the TDSIC statute before its amendment.

Ms. Hart testified that after the first three years of executing the TDSIC Plan, DEI is on-track to deliver the improvements and associated customer benefits at the \$1.408 billion capital cost agreed upon and approved in Cause No. 44720. She testified that as of year-end 2018, actual capital costs incurred for the entire TDSIC Plan were approximately 4% lower than estimated, including use of contingency and under-run. TDSIC project operation and maintenance (“O&M”) expenses associated with calendar year 2018 in-service projects were 5% under DEI’s Updated TDSIC Plan estimate approved in TDSIC 5.

Ms. Hart testified that each TDSIC project undertaken has been for purposes of safety, reliability, or system modernization. She testified the projects being implemented are consistent with the Updated TDSIC Plan approved in TDSIC 5 and meet the requirements of Ind. Code § 8-1-39-2. Ms. Hart explained that this Cause and future spring TDSIC filings are for rate recovery and project updates for projects placed in-service during the prior calendar year, while Petitioner’s fall 2019 TDSIC filing will be for plan updates with no request for rate recovery.

Ms. Hart testified that DEI continues to apply and follow a management and oversight structure for its TDSIC program that is similar to what was described in previous TDSIC filings. She testified that for 2018, the updated TDSIC Plan was executed within scope, schedule, and budget. The total spent on in-service investments in 2018 was \$241.2 million, compared to \$297.3 million estimated for 2018. At the end of the third year of the seven-year TDSIC Plan, Ms. Hart testified the cumulative investment in-service is \$517.8 million, compared to the agreed 2018 cumulative cap of \$516.9 million under the TDSIC Settlement, representing 0.2% over the cap. She testified that Petitioner’s recovery request in this Cause is limited to the cumulative cap. Ms. Hart stated DEI is on-track to complete the full seven-year TDSIC Plan. She noted movement of projects between years will continue, and the approved contingency is being subsumed by projected cost increases, as expected, but Petitioner remains confident in its ability to deliver on its commitment and the Updated TDSIC Plan.

Ms. Hart explained that factors such as storms, vendor material delays, planned outages, resource challenges, technology changes, and standards changes are considered in DEI’s project management and TDSIC oversight strategy to assure maximum plan performance and benefits to DEI’s customers. She testified that in 2018, three significant items impacted TDSIC work plan performance. First, Duke Energy deployed a new work management system in August 2017. While she testified this system has tremendous long-term benefits by aligning all Duke Energy jurisdictions, this new technology resulted in a period of inefficiency as employees learned the new program. Second, Petitioner deployed a high number of resources to assist in storm restoration after Hurricanes Florence and Michael interrupted power to approximately 3 million Duke Energy customers. Ms. Hart testified that due to thorough planning and mitigation practices, these risks had minimal impact on DEI’s TDSIC Plan. Lastly, she stated there is an industry-wide construction labor shortage resulting in electric line laborers trending down while costs are trending up. Ms. Hart testified this shortage is expected to continue through the remaining Updated TDSIC Plan projects.

Ms. Hart testified she had leadership responsibility for the distribution system circuit improvement portion of the TDSIC Plan throughout 2018, except for the distribution system circuit under-build that is physically attached to transmission infrastructure. She provided the in-service

costs for TDSIC distribution system circuit projects completed during 2018 in Petitioner's Exhibit 1-B, with more detailed cost information shown in Petitioner's Confidential Exhibits 1-D and 1-E. Ms. Hart testified that while the overall scope and intent of the Updated TDSIC Plan have not changed, some individual distribution system circuit improvement plan projects were advanced or delayed based on typical conditions such as customer requests, outage delays, weather, or difficult access; however, she stated no significant work scope was uncompleted. Ms. Hart testified that costs from 21 in-service projects prior to 2018 are included in the 2018 recovery costs due to normal business accounting rules associated with invoice timing, reconciliation, etc. According to Ms. Hart, this is expected and will continue throughout the Updated TDSIC Plan. She also testified there were distribution system circuit improvement projects advanced into 2018 from future years.

Ms. Hart testified that at 2018 year-end, the actual total spent on in-service distribution system circuit investments, minus costs for carryover projects, was \$77.1 million which is on target when compared to the 2018 forecast of \$77.1 million, with contingency applied. Although the overall portfolio of distribution system circuit improvement projects was on target with Petitioner's 2018 estimates, Ms. Hart stated some individual projects had larger variances, as shown in Petitioner's Confidential Exhibit 1-D. She testified the distribution system circuit improvement project types with larger variances include: (1) Capacitor Changeout, (2) Line Sensor, (3) Hydraulic Recloser Replacement, and (4) Capacitor Automation. Ms. Hart explained what drove the cost overage for each of these. She also testified that the approved contingency for 2018 was applied to the variances for these project types to bring each project within the acceptable tolerance for Association for Advancement of Cost Engineering ("AACE") Class 2 of 20% or less.

In response to the OUCC's recommendation in TDSIC 5, Ms. Hart provided additional information in this Cause regarding indirect costs. She explained that transmission and distribution indirect overhead costs represent project costs that cannot judiciously be directly assigned to a project. For planning purposes, the TDSIC project estimates utilize an estimated annual rate for the indirect overhead costs. Ms. Hart testified the actual indirect overhead rates applied to projects may vary on a monthly basis based upon the timing and the project amounts that are absorbing the indirect overheads; however, over the course of a year, the actual indirect overhead rate for each project grouping tends to average to the estimated annual rate utilized for planning. Ms. Hart testified that indirect overhead costs are charged into an allocation pool using FERC account 186 and then fully cleared out each month by allocating to O&M or capital projects (and their respective FERC accounts) on the basis of the direct labor charges incurred that month. This clearing out method results in differing overhead percentages being applied to different projects. Ms. Hart testified that since Petitioner's threshold TDSIC Plan, the ongoing trend reflects indirect costs decreasing. From Petitioner's threshold plan through TDSIC 5, Petitioner's transmission and distribution combined seven-year total indirect projections have decreased 17%.

Ms. Hart testified that as defined by AACE, contingency is an amount added to an estimate to allow for items, conditions, or events for which the state, occurrence, or effect is uncertain and experience shows will likely, in aggregate, result, in additional costs. Ms. Hart stated Petitioner uses contingency to manage estimate uncertainty and risk that may result in a cost increase. Similar to DEI's previously approved TDSIC filings, contingency and under-run were applied to projects with increases greater than 20% to bring all TDSIC projects within 20% as required for AACE Class 2 estimating standards.

Ms. Hart testified that DEI's methodology and approach to variances, contingency, and yearly caps remains consistent with the TDSIC Settlement. Given the cumulative caps by year under the TDSIC Settlement, any unutilized project variances between actual annual costs and the caps are carried forward to subsequent years and used to offset future negative project variances or additional projects are pulled from the alternate list. Based on the 2018 actual in-service costs, the TDSIC Settlement cap was exceeded by \$868,836. Ms. Douglas testified this amount is the difference between the approved cumulative TDSIC Settlement cap of \$516.9 million and the 2018 cumulative in-service investments of \$517.8 million.

Ms. Hart testified that DEI's methodology for recoverable O&M expense has not changed from what was included in its previous TDSIC filings, and there have not been significant changes to the estimated project O&M expenses included in previous TDSIC filings. These are O&M expenses that are directly related to the TDSIC capital projects. She also testified that Petitioner provided a comprehensive list of the projects in its Updated TDSIC Plan and their respective variances as part of its workpapers.

Ms. Hart testified the 2016 Black & Veatch risk profile analysis projected a 29% reduction in DEI's risk score. She stated the risk model was updated for this filing by Black & Veatch to reflect the assets that have gone into service during the first three years of the TDSIC Plan, as well as to include actual costs incurred and the estimated cost and projected timing reflected in the Updated TDSIC Plan filed in TDSIC 5. She testified the resulting updated analysis shows a 30% reduction in DEI's risk score, which is similar to the benefits the TDSIC Settlement projected.

Ms. Hart noted the Updated TDSIC Plan was provided in Petitioner's TDSIC 5 filing, and DEI's next full TDSIC Plan update will be included in its TDSIC 7 filing.

**B. Mr. Broadhurst.** Mr. Broadhurst testified that, generally, the Transmission Line, Transmission Substation, and Distribution Substation portions of the TDSIC Plan, which are the portions of the TDSIC Plan for which he has management oversight responsibility, are being executed within the scope and schedule identified in Cause No. 44720 and as updated in DEI's semi-annual rider proceedings. Although there are some variances in the cost estimates for individual projects, he testified actual costs continue to trend closely with DEI's overall estimate for the transmission line and substation costs identified in Cause No. 44720 and as updated in semi-annual rider proceedings.

Mr. Broadhurst testified that as of the end of 2018, DEI had placed 73 planned Transmission Line, Transmission Substation, and Distribution Substation projects in-service at a cost of \$152,192,553, which is 5% less than the \$159,928,653 anticipated, prior to the application of contingency. He stated some of these projects were placed in-service near the end of 2018, and DEI plans to seek recovery of charges received after December 31, 2018, in its TDSIC 8 filing scheduled for spring 2020. Mr. Broadhurst testified that due to outage constraints, delayed component delivery, and national storm response, 20 projects had portions of or the entirety of the project not go into service as planned by year-end 2018. These projects have been moved forward and included in DEI's 2019 or future year plans. They have a forecasted value of \$28 million or 17% of the overall 2018 transmission project plan. The 2018 projects carried over into 2019 have

been integrated into DEI's 2019 outage schedule with plans to place them in-service before December 31, 2019, so they are projected to be filed as in-service projects in DEI's TDSIC 8 recovery request. Mr. Broadhurst testified that \$25.4 million of these projects were placed in service through April 2019. He also testified that no transmission projects were moved from the alternate list into the TDSIC Plan during 2018.

Mr. Broadhurst provided the in-service costs for the Transmission Line, Transmission Substation, and Distribution Substation projects placed into service by December 31, 2018, in Petitioner's Exhibit 2-A and Confidential Exhibit 2-B. He testified that eight projects required the application of contingency and under-run to bring their variances within 20%. Mr. Broadhurst testified that for 2018 in-service TDSIC substation and transmission line projects, there was an overall O&M positive variance of 13%.

Mr. Broadhurst testified the Updated TDSIC Plan remains on target with the caps in the TDSIC Settlement and that as DEI moves further into this plan, customers will continue to experience more noticeable benefits and will see improving reliability as additional aged and deteriorating equipment is replaced. He noted that many of the projects include automated functionality that will shorten outage times and increase overall continuity of service. Mr. Broadhurst testified that DEI's system risk profile of the transmission and distribution system provided in Cause No. 44720 holds true for the actual work performed to date and that by executing the TDSIC Plan, the system risk profile of the transmission and distribution system can be reduced by approximately 30% versus not implementing this plan. Mr. Broadhurst stated the total TDSIC Plan is tracking on target for all seven years, and these projects benefit Indiana customers. He testified the projects and programs in the Updated TDSIC Plan are reasonable, necessary, and provide increased reliability and modernization benefits to all Petitioner's customers.

**C. Ms. Douglas.** Ms. Douglas testified that Petitioner used the ratemaking treatment approved in the 44720 Order in developing the proposed TDSIC factors. She testified that in this proceeding Petitioner requests ratemaking approval of: (1) the amounts included in the TDSIC Rider for recovery of the TDSIC Plan costs; (2) the value of the TDSIC Plan investment on which Petitioner is authorized to earn a return; (3) the adjustment of Petitioner's retail electric rates via the proposed Rider 65 TDSIC Factors to include the revenue effect of such investment and cost recovery; (4) deferral of the remaining 20% of the expenditures with carrying costs, as approved in the 44720 Order, until Petitioner's next electric base rate case; and (5) adjustment of Petitioner's authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

Ms. Douglas testified the following costs were included in developing the TDSIC factors: 80% of the retail jurisdictional costs of (1) Petitioner's capital investment in TDSIC Plan projects that were in-service as of December 31, 2018 (the "Cutoff Date"), which will be recovered via depreciation; (2) 12 months of return on the net book value (original investment less accumulated depreciation) of the included in-service projects; (3) the depreciation incurred for the in-service projects during calendar year 2018; (4) O&M expenses, including fringe benefits and payroll taxes, incurred through the Cutoff Date for the in-service TDSIC Plan projects, less amounts already included in developing prior TDSIC rates; (5) the forecasted depreciation and O&M and property tax expenses for July 2019 through June 2020 (12 months) related to the in-service projects



included in the Updated TDSIC Plan; and (6) post-in-service carrying costs accrued for the in-service projects during calendar year 2018. In addition, an amount was included for 12 months of amortization of amounts incurred for plan development costs, including additional costs incurred in 2018 for the updated risk analysis. Ms. Douglas testified the calculation also includes a reconciliation of amounts billed customers during 2018 based on forecasts included in TDSIC 2 and TDSIC 4 to actual costs incurred during the calendar year. The forecasted depreciation, O&M, and property tax expenses will be trued-up to actual expenses in a future TDSIC Rider filing. She testified that costs related to wholesale customers and joint owners were removed from the costs for rate development. In addition, a one-time credit to customers of \$852,819 is included in the factor representing the benefits from the reduction in the federal corporate income tax rate from the 2017 Tax Cuts and Jobs Act (“TCJA”) on the TDSIC 2 rider rates billed to customers from January 2018 through October 2018 prior to the TDSIC 4 rates being implemented in November 2018. Ms. Douglas also testified that Petitioner plans to continue making TDSIC Rider rate filings each spring covering in-service projects through December 31<sup>st</sup> of the prior calendar year, with the resulting rates to be billed over a 12-month period.

Ms. Douglas provided tariff sheets reflecting the proposed TDSIC factors to be billed upon Commission approval. She also provided schedules supporting the proposed TDSIC factors. Ms. Douglas testified the total capital investment for in-service TDSIC projects as of the Cutoff Date was \$517,768,836, which is \$868,836 above the annual cumulative 2018 capital cost cap of \$516,900,000; therefore, adjustments were made to reduce the total capital investment amount included in the TDSIC Rider to \$516,900,000. An adjustment was also made to forecasted depreciation to reflect the depreciation expense impact of the over the cap investment adjustments using the weighted average depreciation rates for transmission and distribution plant. Ms. Douglas testified that no adjustment was necessary to actual depreciation expense for 2018 because Petitioner did not exceed the cumulative cap at the November 30, 2018, cutoff for the depreciable investment used to calculate depreciation for December 2018. She testified that DEI will accrue post-in-service carrying costs at the same weighted average cost of capital using the approved 10% TDSIC return on equity that is used for other post-in-service carrying costs and will defer depreciation expense until these amounts can be included in retail rates in the TDSIC Rider.

Ms. Douglas testified that Petitioner’s proposed revenue requirements do not exceed the two percent statutory revenue cap, so no additional revenue requirement reductions or cost deferrals are required. She explained the revenue conversion factors used to develop the revenue requirements for this filing and testified that Petitioner used the new, lower 21% federal income tax rate. She testified the lower tax rates affected the amount of revenue requirements included for return on investment, as well as for depreciation and post-in-service carrying costs. Ms. Douglas explained that the tax amounts collected from customers when the federal income tax rate was 35% that were included in the deferred income tax accounts were recalculated using the 21% rate, with the difference reclassified into a separate regulatory liability account (“excess deferred income taxes”). To ensure DEI customers are not harmed by the reclassification from deferred income tax accounts, Ms. Douglas testified Petitioner included the balance of the excess deferred income tax regulatory liability account in the deferred income tax amount as a zero-cost source of capital. Ms. Douglas stated this is a transparent way to show that Petitioner’s customers will continue to get the benefit for return calculation purposes in the TDSIC Rider of the excess deferred income tax regulatory liability resulting from the TCJA until the excess deferred income

taxes are returned to customers. She noted the timing to return this excess was approved by the Commission in Cause No. 45032 S2.

Ms. Douglas testified that, consistent with the TDSIC Settlement, Petitioner will continue to collect revenues through the TDSIC Rider for the jurisdictional costs associated with the approved TDSIC projects until the costs of the TDSIC improvements that are in-service by the cut-off date for a future retail base rate case are included in base rates. Amounts deferred related to the TDSIC improvements will also be included in base rates at the time of this retail base rate case. Ms. Douglas testified that if years remain in the Updated TDSIC Plan (or a new TDSIC plan) after the future retail base rate case order, the TDSIC Rider will be adjusted to use the new return on equity and allocation factors approved in the subsequent retail base rate case and to reflect the inclusion of the costs related to approved TDSIC improvements in base rates.

Ms. Douglas testified that upon approval of the proposed factors, the monthly bill for a typical residential customer using 1,000 kilowatt hours (“kWhs”) per month will increase by \$0.40 or approximately 0.32% from the current total bill. For total retail, the average increase in revenue requirements is 0.72%, relative to revenue for the 12-months ended December 31, 2018.

Ms. Douglas also testified that, as requested by the OUCC in TDSIC 1 and included in the Commission’s Order in that Cause, Petitioner’s Exhibit 3-D shows the 20% deferral amounts from each TDSIC filing and the cumulative 20% amount deferred for future recovery in Petitioner’s next base rate case for in-service projects as of the Cutoff Date.

**6. OUCC’s Evidence.** Mr. Lantrip testified that DEI adjusted its tax calculations to reflect the TCJA by adjusting its tax calculations on the TDSIC revenue requirement to reflect the 21% federal income tax rate going forward, and the federal income taxes over-collected in TDSIC 2 are being refunded in this filing. Mr. Lantrip stated that he verified Petitioner’s calculation of the total TDSIC cost incurred in connection with Petitioner’s TDSIC Plan to be recovered in TDSIC 6 matches the amount DEI proposes to recover. His calculation yielded a total charge of approximately \$78,107,166 (or approximately \$39,201,114 for residential customers), which results in an increase of approximately \$0.000407 in the monthly bill of a typical residential customer using 1,000 kWhs per month.

Mr. Lantrip testified that when including other current DEI tracker costs with Petitioner’s base rates and charges and proposed TDSIC costs, a typical DEI residential customer using 1,000 kWhs per month will experience a bill of approximately \$122.37. He stated that tracker costs, excluding the fuel cost adjustment, make up approximately \$36.13 or 29.52%<sup>1</sup> of the total costs included on a typical DEI residential customer’s bill.

Mr. Lantrip testified that Petitioner provided a separate schedule showing the 20% deferred TDSIC costs DEI anticipates recovering in its next base rate case. As of TDSIC 6, this amount is \$117,708,946. He testified that Petitioner’s proposed TDSIC tracking factor calculations appear to comport with the ratemaking and accounting treatment the Commission authorized in the 44720 Order.

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<sup>1</sup> The amounts and percentages referenced are from Mr. Lantrip’s corrected testimony filed on August 23, 2019, at page 4.

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

8. **Commission Discussion and Findings Regarding TDSIC 6.** DEI submitted its Verified Petition and supporting testimony and exhibits to demonstrate compliance with the requirements of Ind. Code § 8-1-39-9 and the 44720 Order.

A. **Past and Future Rate Case Timing and TDSIC Timing.** Ind. Code § 8-1-39-9(d) states that "[e]xcept as provided in section 15 of this chapter, a public utility may not file a petition under subsection (a) within nine (9) months after the date on which the commission issues an order changing the public utility's basic rates and charges with respect to the same type of utility service." DEI's most recent retail electric base rate order changing basic rates and charges was issued in 2004 in Cause No. 42359. DEI filed its petition in this Cause on April 30, 2019. The Commission, therefore, finds that DEI's petition in this Cause was filed more than nine months after Petitioner's last general rate case order in accordance with Ind. Code § 8-1-39-9(d).

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." The petition in this Cause was not filed within six months of Petitioner's TDSIC 5 filing. Ms. Hart testified that Petitioner plans to make its TDSIC 7 filing in fall 2019 with a full TDSIC Plan update. This is consistent with the TDSIC filing timeline approved in TDSIC 1. The Commission finds Petitioner's TDSIC 6 filing is consistent with Ind. Code § 8-1-39-9(f).

B. **Petitioner's Updated TDSIC Plan.** The Commission approved Petitioner's Updated TDSIC Plan in TDSIC 5 on June 19, 2019. As described in the testimony and exhibits of Ms. Hart and Mr. Broadhurst, Petitioner provided a progress update in this Cause on that plan. This testimony demonstrated Petitioner is executing the Updated TDSIC Plan as approved and confirmed the overall scope and intent of the TDSIC Plan has not changed. In his

testimony, OUCC witness Lantrip raised no concerns. The Commission finds Petitioner is executing its TDSIC Plan pursuant to the TDSIC Settlement approved in the 44720 Order and the Updated TDSIC Plan approved in TDSIC 5.

**C. Capital Expenditures and TDSIC Costs.** Petitioner's Exhibit 3-B shows DEI's adjustment to reduce the total capital investment amount included in the TDSIC Rider to the \$516,900,000 agreed cumulative cap. Petitioner's total capital investment for its TDSIC projects placed into service through December 31, 2018, was \$517,768,836, of which the retail portion was \$506,652,101, after adjustment of \$868,836 to match the cumulative 2018 capital cost cap of \$516,900,000 as agreed in the TDSIC Settlement and approved in the 44720 Order. DEI witness Douglas explained that the weighted average depreciation rates for transmission and distribution plant were used to also adjust forecasted depreciation to reflect the depreciation expense impact of the over the cap investment adjustments. In addition, DEI's witnesses explained why the project variances were reasonable and justified. In its order in TDSIC 5, the Commission ordered DEI to provide additional detail in its TDSIC 6 filing on how the TDSIC indirect costs have changed over time. We find that Ms. Hart provided this additional detail in her testimony. The OUCC expressed no concerns with Petitioner's 2018 spending for transmission and distribution projects or the additional detail DEI provided regarding indirect costs. Based upon the evidence presented, the Commission finds \$405,321,681, which equates to 80% of the approved capital expenditures, is the DEI investment eligible for TDSIC Rider recovery.

**D. TDSIC Factors.** In Petitioner's Exhibit 3-A, DEI provided the TDSIC factors by rate code based on the calculated revenue requirements, including a reconciliation of prior TDSIC factors. Petitioner's Exhibit 3-B shows these factors were designed to collect \$78,108,306 from retail customers over the next 12 months. Mr. Lantrip testified the proposed TDSIC factor calculations appear to comport with the ratemaking and accounting treatment the Commission authorized in the 44720 Order.

The Commission finds that based on the evidence, the TDSIC factors proposed in Petitioner's Exhibit 3-A were correctly calculated and should be approved.

**E. Deferred Costs.** DEI asked to defer and recover 80% of the post-in-service carrying costs, depreciation, and taxes associated with the approved TDSIC projects through the TDSIC adjustment factor. DEI also asked to defer and recover the remaining 20% of the capital expenditures, in the amount of \$101,330,420, and other TDSIC costs associated with the approved TDSIC projects, with carrying costs, as shown in Petitioner's Exhibit 3-D, until Petitioner's next base rate case. The Commission finds DEI's proposed accounting and ratemaking for these costs should be approved. Consistent with the Commission's Order in TDSIC 1, Petitioner shall continue to include in its TDSIC filings a separate schedule providing its calculation of the 20% deferred costs DEI intends to recover in its next base rate case as a result of each TDSIC tracker filing, as well as a running total of the 20% deferred costs DEI intends to recover in this rate case.

**F. Adjustment of Return Earned.** As provided under Ind. Code 8-1-39-13(b), DEI requests the Commission increase the authorized net operating income initially approved in Cause No. 42359, and modified by subsequent Commission orders, to include the earnings associated with the TDSIC projects for purposes of the Ind. Code § 8-1-2-42(d)(3) earnings test.

Based on the Commission's review of the TDSIC statute and the evidence in this Cause, the Commission finds DEI's requested adjustment of its return to reflect the incremental earnings of the TDSIC Rider is reasonable and should be approved.

**G. Effect on Petitioner's Customers.** Petitioner's Exhibit 3-C shows the impact of the proposed TDSIC factors on the monthly bill of a residential customer using 1,000 kWhs. Upon approval, this monthly bill will increase by \$0.40 or approximately 0.32% from the current total bill. OUCC witness Lantrip testified that he verified these calculations. For total retail, the average increase in revenue requirements is 0.72%, relative to revenue for the 12 months ended December 31, 2018.

**9. Confidential Information.** On June 4, 2019, Petitioner filed a motion for protection of confidential and proprietary information along with supporting affidavits demonstrating a need for confidential treatment for: (i) information related to the timing of DEI's prospective transmission projects; (ii) sensitive and detailed cost estimates for DEI's transmission and distribution projects; (iii) DEI's actual TDSIC Plan costs for its transmission and distribution projects; and (iv) sensitive load data involving certain special contracts approved by the Commission. On June 17, 2019, a Docket Entry was issued preliminarily approving certain information being subject to confidential treatment. The Commission finds such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. Petitioner's proposed adjustment to its TDSIC Rate Schedule via the TDSIC Rider (Standard Contract Rider No. 65) to be applicable for bills beginning with the first billing cycle following approval of this Order is approved.

2. Petitioner is authorized to recover 80% of the eligible and approved capital expenditures and TDSIC costs in the amount of \$405,321,681 incurred in connection with DEI's eligible transmission, distribution, and storage system improvements, plus the other TDSIC costs presented in the testimony of Ms. Douglas.

3. Petitioner is authorized to defer, as a regulatory asset, \$101,330,420, representing 20% of eligible and approved capital expenditures and TDSIC costs, plus 20% of the other TDSIC costs presented in the testimony of Ms. Douglas, for a total deferral of \$117,708,946, and record ongoing carrying charges based on the current overall weighted cost of capital on all deferred TDSIC costs until such costs are included for recovery in Petitioner's next general rate case.

4. Petitioner is authorized to defer on an interim basis and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with the Updated TDSIC Plan through Standard Contract Rider No. 65.

5. Petitioner shall continue including in its TDSIC filings a separate schedule that provides the 20% deferred amounts from each of DEI's TDSIC tracker filings that DEI intends to recover in its next base rate case, as well as a running total of the cumulative 20% amount deferred for future recovery in DEI's next base rate case.

6. Petitioner is authorized to adjust its authorized return to reflect approved earnings associated with the TDSIC for purposes of Ind. Code § 8-1-2-42(d)(3), pursuant to Ind. Code § 8-1-39-13(b).

7. Prior to implementing the authorized rates, Petitioner shall file the TDSIC Rider (Standard Contract Rider 65) under this Cause for approval by the Commission's Energy Division. Such rates shall be effective for the first billing cycle on or after the date of approval.

8. The information Petitioner filed in this Cause pursuant to its motion for confidential treatment is deemed confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

**HUSTON, FREEMAN, KREYDA, OBER, AND ZIEGNER CONCUR:**

**APPROVED: OCT 08 2019**

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

  
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Mary M. Becerra  
Secretary of the Commission