

ORIGINAL

[Handwritten signatures]

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) CAUSE NO. 44720 TDSIC 1
SCHEDULE, STANDARD CONTRACT RIDER)
NO. 65; (2) AUTHORITY TO DEFER 20% OF) APPROVED: MAR 22 2017
THE APPROVED CAPITAL EXPENDITURES)
AND TDSIC COSTS FOR RECOVERY IN)
PETITIONER'S NEXT GENERAL RATE)
CASE; AND (3) APPROVAL OF)
PETITIONER'S UPDATED 7-YEAR)
ELECTRIC PLAN, PURSUANT TO IND. CODE)
§ 8-1-39-9)

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Carol Sparks Drake, Administrative Law Judge

On October 24, 2016, 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 DEI's updated seven-year plan for eligible transmission, distribution, and storage system improvements ("Updated TDSIC Plan"), pursuant to Ind. Code § 8-1-39-9; (4) approval to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with the Updated TDSIC Plan through the TDSIC Rider and to defer 20% of eligible and approved capital expenditures and TDSIC costs associated with the Updated TDSIC Plan for recovery in Petitioner's next general rate case, pursuant to Ind. Code § 8-1-39-9; 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 October 25, 2016, DEI prefiled the direct testimony and exhibits of the following employees of Duke Energy Business Services LLC, Petitioner's service company affiliate:

- William H. Fowler, Vice President Design Engineering and Construction Planning-Midwest;
- Donald E. Broadhurst, General Manager Transmission Construction and Maintenance; and
- Diana L. Douglas, Director, Rates and Regulatory Planning.

Duke Industrial Group (“Industrial Group”), Nucor Steel-Indiana, a division of Nucor Corporation (“Nucor”); and Steel Dynamics, Inc. (“SDI”) filed petitions to intervene, each of which was granted.

On November 16, 2016, Petitioner, on behalf of itself and the Indiana Office of Utility Consumer Counselor (“OUCC”), Industrial Group, Nucor, and SDI (collectively the “Parties”) filed a proposed procedural schedule and requested the scheduled prehearing conference be vacated and the agreed procedural schedule be approved. The proposed schedule provided for filing and hearing dates beyond the statutory time periods applicable under Ind. Code § 8-1-39-12(a) and (b); therefore, in granting this request on November 23, 2016, Petitioner was found to have waived the statutory time periods applicable to filings, hearings, and issuance of an order upon DEI’s pending TDSIC petition.

On January 11, 2017, the OUCC prefiled the direct testimony and exhibits of Stacie R. Gruca, Senior Utility Analyst in the OUCC’s Electric Division, and Leon A. Golden, Utility Analyst for the OUCC’s Resource Planning and Communications Division.

On January 26, 2017, DEI prefiled the rebuttal testimony of Ms. Douglas.

The Commission conducted an evidentiary hearing in this Cause at 9:30 a.m. on February 8, 2017, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Petitioner, the OUCC, Nucor, and the Industrial Group appeared at the hearing by counsel and participated. The evidence of DEI and the OUCC was admitted without objection, and the parties present waived cross-examination. No members of the public sought to testify at the hearing or were present.

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 that term is 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 petition to approve rate schedules establishing a TDSIC that will allow for the periodic adjustment of the public utility’s basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. The Commission, therefore, has jurisdiction over DEI and the subject matter of this proceeding.

2. Petitioner’s Characteristics. DEI is a public utility and an Indiana corporation 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 utility service to more than 810,000 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 the 7-Year Plan and TDSIC Settlement Agreement (the “TDSIC Settlement”) entered into on March 7, 2016, by and among DEI, the OUCC, the Industrial Group, Companhia Siderurgica Nacional, LLC, SDI, 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 DEI’s seven-year TDSIC plan (“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 DEI 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 DEI to recover 80% of DEI’s \$1.408 billion TDSIC Plan costs through Petitioner’s proposed TDSIC cost recovery mechanism, the TDSIC Rider; (d) authorized DEI 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 DEI’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.

4. Relief Requested in this Cause. DEI seeks approval of its Updated TDSIC Plan for “eligible transmission, distribution, and storage system improvements” and its first 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 June 30, 2016, and the forecasted TDSIC costs upon which the proposed factors are based; (c) approving the Updated TDSIC Plan filed concurrent with DEI’s 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 DEI’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 T&D Plan, for recovery in DEI’s next general rate case; and (e) approving 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 Evidence.

A. Mr. Fowler. Mr. Fowler testified that the Updated TDSIC Plan includes actual costs incurred through June 30, 2016, an updated forecast for the remainder of 2016, and an updated forecast for the remaining six years of DEI’s TDSIC Plan. Petitioner seeks to recover in this Cause the costs for approved TDSIC projects in-service as of June 30, 2016. Mr. Fowler

testified that for the first six months of the plan's execution, the scope, schedule, and budget tracked closely with the TDSIC Plan approved in the 44720 Order. For all projects in service as of June 30, 2016, capital costs were approximately 7.5% lower than originally estimated, not including use of contingency, and 11% lower than the estimate including contingency. He confirmed that no new projects have been added to the TDSIC Plan; however, as approved and allowed by the TDSIC Settlement, projects have moved into and out of the approved alternate list and changed years within the plan. Mr. Fowler testified that each project identified in the Updated TDSIC Plan is an eligible project under Ind. Code § 8-1-39-2 and has not previously been included in DEI's rate base or duplicated within the plan.

Mr. Fowler described how DEI proposes prospectively to make TDSIC filings with the Commission. DEI plans in the spring 2017 TDSIC 2 filing to update its rates for projects placed in-service through December 31, 2016, along with making any needed plan updates. In the fall TDSIC 3 filing, DEI intends to provide a full plan update for the last six months of 2017 through 2022. Petitioner intends to follow this schedule for the remaining years of the TDSIC Plan (*i.e.*, spring filing will be for rate recovery for projects placed in-service during the prior calendar year, and the fall filing will be used for plan updates). Mr. Fowler noted that the OUCC agreed with this proposal, and this plan allows DEI to appropriately allocate resources for these filings and fits well with its budgeting process.

Mr. Fowler testified that DEI has executed the TDSIC Plan in a safe, reliable, and cost effective manner to achieve the planned scope within the overall costs estimated. Mr. Fowler testified that an updated forecast, provided as Petitioner's Confidential Exhibit 1-C, projects completion of the entire TDSIC scope of work identified for 2016 at approximately \$5.7 million less than initially estimated. In addition, Petitioner's Updated TDSIC Plan, reflected in Petitioner's Exhibit 1-A, shows completion of the initial scope within the estimated overall seven-year costs.

Mr. Fowler testified that DEI is executing the TDSIC Plan as agreed in the TDSIC Settlement and approved in the 44720 Order. He provided a more detailed view of the updated cost estimates for the Distribution Circuit Improvement in Petitioner's Confidential Exhibit 1-D and a detailed cost breakdown for every project in the Distribution Circuit Improvement portion of the plan in Petitioner's Confidential Exhibit 1-E. DEI also provided the actual costs, by functional category, for the six months ending June 30, 2016, which Petitioner seeks to recover in this proceeding. Mr. Fowler testified that DEI did not exceed the settlement limits for cost recovery in this six-month period, and he projected the 2016 annual cap will not be exceeded by year-end.

Mr. Fowler testified that although the distribution circuit projects were overall under initial estimates for the first six months of 2016 and projected to be under for calendar year 2016, four projects had larger variances. First, the costs of the in-service Ground Line Treatment (GLT) projects for the first six months of 2016 were about 20% higher than initially estimated after contingency. He explained that this is an inspection-based project that includes inspection of poles and the condition of attached assets for potential replacement due to wear and tear. Mr. Fowler attributed the variance to three reasons: 1) DEI changed inspection vendors which contributed to a higher number of units failing; 2) Petitioner replaced contract construction resources on short-notice due to safety reasons, resulting in additional labor and equipment charges; and 3) an internal accounting practice was changed. Mr. Fowler explained that the inspection vendor change

contributed to an increased failure rate compared to the historical averages used to estimate the failure rate. The new vendor is placing greater emphasis on the pole inspection criteria in an effort to minimize unplanned failures. This has resulted in more units failing and, therefore, more costs than initially estimated. Mr. Fowler testified that due to serious safety violations in other areas of work for Petitioner, DEI suspended the primary contract vendor originally identified to perform the GLT work. The new vendor worked on a time and equipment based rate, which resulted in additional costs. He testified that the costs are still reasonable and necessary for completion of the project, but the discounts included in the earlier contract could not be realized. Mr. Fowler expects the GLT variances will continue since this is an inspection-based project. Because the GLT inspection-based projects and unit cost estimates were based on historical averages, Petitioner considers these estimates equivalent to an AACE Class 3; however, both the number of units and unit costs are subject to ongoing changes. Mr. Fowler testified that Petitioner continues to seek ways to improve efficiency and manage these costs by adjusting the GLT work plan to align this work with other TDSIC improvements on the same circuit. He also testified that DEI could not have foreseen the GLT variances when the cost estimates were initially submitted in Cause No. 44720. As an inspection-based project, it is not possible to know the actual condition of the assets until the inspections are completed. Mr. Fowler testified that the scope of this work has not changed and is typical of an inspection-based project.

Mr. Fowler testified the second distribution circuit project with a larger variance is the Limited Access Road Crossing Upgrade Project, which ensures compliance with Indiana Department of Transportation standards as Petitioner's engineers identify and review locations where overhead distribution circuits cross limited access roadways. He testified that only one work order was completed for this project during the first six months of 2016, and the cost of this project was about 20% higher than estimated due to additional clearance required to comply with the most recent National Electric Code.

The third distribution circuit project with a larger variance is the Circuit Sectionalization Project, which is a power outage mitigation project designed to improve the reliability of distribution circuits by adding and/or reconfiguring protective devices on mainlines, circuit backbones, and branch circuits. Mr. Fowler testified the main driver for this variance was an increase in labor costs which, after applying contingency, resulted in about 20% higher costs than initially estimated. He testified that contract negotiations are underway for future years to try to mitigate these increases.

The fourth distribution circuit project with a larger variance is the Surface Mounted Equipment ("SMEI") Project. The SMEI Project focuses on examining pad mounted equipment such as transformers, switchgear, meter panels, and switching cabinets. Mr. Fowler testified the cost of the in-service SMEI Project for the first six months of 2016, after application of contingency, was about 20% higher than initially estimated. He explained that the estimate was developed using historical costs where the transformer was pre-capitalized and excluded from the project costs, but this accounting practice has changed. Pre-capitalization is no longer applied to this asset. The transformer cost is now included in the actual capital project unit cost which increased this cost as compared to the initial estimates. Mr. Fowler testified that future estimates in the Updated TDSIC Plan have been updated and include transformer costs.

Mr. Fowler testified that Petitioner prorated and applied contingency when needed at the project level to the Distribution Circuit Projects that went in-service during the first six months of 2016 to bring all overruns to within 20%. Mr. Fowler explained that given the annual and cumulative caps, any unutilized project variances between actual annual costs and the caps will be carried to subsequent years and used to offset future negative project variances or additional projects will be pulled forward from the alternate list. DEI is projecting that approximately \$5.7 million of unused cap will be carried over to 2017.

Mr. Fowler testified that project operation and maintenance (“O&M”) expense forecasts have increased primarily due to the addition of two project O&M categories that are part of the Updated TDSIC Plan but were not fully included in the initial O&M cost estimates. First, the costs for field inspections to support GLT, SMEI, and Capacitor Bank Changeouts were inadvertently omitted from the initial O&M estimates, although the construction related O&M for these projects was included. Because these projects are inspection driven, the O&M inspections are a prerequisite. Mr. Fowler testified that the inspection O&M is project O&M and includable in the Updated TDSIC Plan. Second, the O&M cost for field verification of Petitioner’s Geospatial Information System (“GIS”), which is needed for the Integrated Volt-VAR Controls (“IVVC”) project, was also inadvertently omitted from the initial O&M estimates. Although these costs were included in the IVVC cost benefit analysis DEI provided in Cause 44720, they were inadvertently left out of the O&M projections. Mr. Fowler testified the GIS verification is necessary to ensure the Distribution Management System circuit model is accurate and can be used to optimize the benefits of IVVC. Mr. Fowler testified that the Updated TDSIC Plan reflects the updated O&M estimates which are directly related to projects that were approved and, as such, are recoverable project O&M.

Mr. Fowler explained the changes made to the transmission and distribution operations center console project and to the IVVC project, both of which are reflected in later years of the Updated TDSIC Plan. He testified the transmission and distribution operations center console project costs have increased \$1.2 million based upon the final Map Board that was selected from the quotes used at the time of the estimate. Additionally, the project estimate was assumed to be all distribution; however, the equipment being installed has both transmission and distribution functionality, so the Updated TDSIC Plan reflects this change between Federal Energy Regulatory Commission (“FERC”) functions. The IVVC project change resulted from an improved line sensor strategy adopted to improve program quality and reliability. The change in line sensor to the Lindsey current-voltage sensor provides the ability to gather more line data, both current and voltage, while reducing cost. With better technology, Mr. Fowler testified the Stand Alone Line sensor quantities have decreased while the unit cost to purchase better line sensors has increased. According to Mr. Fowler, fewer End of Line Sensors will be needed and expended quantities have decreased. Mr. Fowler also noted that the Circuit Conditioning projects have gone from an AACE Class 4 to a Class 2 estimate. He testified that overall, the IVVC project is expected to achieve the original scope and program intent.

Mr. Fowler testified that Petitioner has met the requirements in Ind. Code § 8-1-39-9 to provide an updated seven-year plan and updated best estimates of its Distribution Circuit Projects. He testified that for the first six months of the plan’s execution, the Distribution Circuit Improvement projects are 14% under the initial cost estimates. Petitioner has updated its cost

estimates so the 2017 estimates are more reflective of AACE Class 2 estimates; the 2018 estimates are AACE Class 3, and the remainder of the Updated TDSIC Plan years remain AACE Class 4 estimates. Mr. Fowler testified that the estimated costs of the Updated TDSIC Plan remain consistent with the TDSIC Settlement and the 44720 Order. He testified Petitioner is within the initial cost estimates and the expected benefits will be achieved. Mr. Fowler also testified that the estimated costs of the eligible improvements included in the Updated TDSIC Plan continue to be justified by their incremental benefits.

B. Mr. Broadhurst. Mr. Broadhurst testified regarding the Transmission Line, Transmission Substation, and Distribution Substation portions of Petitioner’s TDSIC Plan and Updated TDSIC Plan. He testified that through June 2016, all 15 projects Petitioner had planned were placed in-service at a cost of \$7.9 million, which was 4% less than anticipated prior to the application of contingency. Mr. Broadhurst submitted exhibits detailing the costs for the projects in-service by June 30, 2016. He testified that the benefits of these projects exceed their costs. Mr. Broadhurst explained that contingency was applied as necessary to bring all estimates within a +20% range. As projects are placed into service, the available contingency is applied at the project level when required. There were four projects, i.e., Batesville AMIN1211, Crane Metering AMIN1215, Kokomo Delco AMIN1242, and Harrodsburg AMIN1224, that required application of contingency to bring the variance down to approximately 20% more than the cost originally estimated.

Mr. Broadhurst testified there was a variance of about \$242,000 as compared to an original estimate of \$60,000 through June 30, 2016, in O&M expense for the Transmission and Distribution (“T&D”) Substations and Transmission Line Projects. According to Mr. Broadhurst, the largest contributor to these increased costs was the Transmission GLT project. He explained that a GLT project begins with an inspection in the year prior to the work. When Petitioner estimated the GLT program for Cause No. 44720, an oversight occurred because the costs associated with these inspections were not included in the yearly plan, though this activity is required. Mr. Broadhurst testified that this omission was rectified, and approximately \$300,000 per year, before applying escalations, is now budgeted within all years of the Updated TDSIC Plan. Mr. Broadhurst testified that he believes the projects with larger variances remain reasonable and necessary and are still in the public interest. He also testified that the total plan is on target for all seven years, and these projects benefit DEI’s customers.

Mr. Broadhurst provided an updated T&D project work plan and cost estimate for 2017-2022. He explained that the projects targeted for 2017 have been updated to an AACE Class 2 estimate, and the 2018 projects have been refined to an AACE Class 3 estimate. He testified that most projects planned for 2019 and later remain AACE Class 4 estimates based upon the quantity of assets or activities the project targets and an estimated “typical unit cost” for each type of asset or activity. He also testified that the 2017 Transmission GLT program has been elaborated from a Class 4 to a Class 3 estimate. Completion of the 2016 GLT inspections enabled the estimated 2017 pole volume and the replacement cost per pole estimates to be updated based on the actual costs incurred during the first six months poles were placed in service. Mr. Broadhurst testified regarding the range of accuracy for the cost estimates and assured they are “best estimates.” He also testified that contingency is included in Petitioner’s Transmission Line and T&D Substation

cost estimates as recommended per AACE guidelines to cover estimate uncertainty and risk, as needed.

Mr. Broadhurst testified regarding the changes in the Transmission GLT pole replacement project, noting that DEI gained significant experience in steel pole installations over the first six months of the TDSIC Plan. The overall cost estimate increased due to the number of units and the overall cost of each unit increasing. He explained that greater emphasis was placed on diligence during the pole inspection process to minimize unplanned failures. Though an increase in failure rate was included in the original estimate, the failure rate was even higher than anticipated. In addition, Mr. Broadhurst explained that the age of poles within a circuit and the impact of a wide range of geographic conditions can affect decay rates and add to the unpredictability of the failure rate. Mr. Broadhurst testified that inspections performed in 2015 and 2016 resulted in identifying more transmission poles than anticipated for replacement. He stated that this underscores the variability of inspection-based projects due to specific physical or geographical circumstances. The cost per pole is trending approximately 30% over the original estimate. Mr. Broadhurst testified the 2017 pole volume increase and the per pole cost increase have resulted in a \$27 million increase in the Transmission GLT program cost in the Updated TDSIC Plan.

Mr. Broadhurst further testified that the costs associated with the GLT inspections were not initially included as part of the TDSIC Plan, though this activity is required for the capital replacement to occur. This omission has been rectified, and inspections are now within all seven plan years, resulting in an increase of \$2.4 million in capital or O&M costs charged to transmission function FERC accounts over the span of the program. The amount of O&M associated with the pole replacements has also increased due to additional vegetation clearing and expenses associated with ingress and egress to individual pole locations. Mr. Broadhurst testified that the overall impact to the Transmission TDSIC plan due to increased O&M for Transmission GLT is an increase of approximately \$10 million in T-FERC Line expenses, plus \$2.4 million in T-FERC inspection expenses, and \$1.5 million in associated D-FERC Circuit expenses over the years of the Updated TDSIC Plan.¹ Mr. Broadhurst testified that the total seven-year variance in T-FERC O&M is approximately \$15.5 million more than the original estimate. All but \$3.1 million of that \$15.5 million is attributable to the GLT project. The remaining \$3.1 million is due to 1) costs associated with performing substation projects, which includes temporary circuitry installation during planned projects; and 2) clearing encroachments from within the right-of-way for transmission line rebuilds, which are site specific and usually cannot be defined until engineering is complete.

Mr. Broadhurst provided as Petitioner's Confidential Exhibits 2-D and 2-E the updated work plans for Transmission and Distribution Substation and Transmission Line projects. He stated that no projects or project categories have been added to the Updated TDSIC Plan, and no alternate projects were incorporated into the active plan. Some projects have changed from one in-service year to another, and some projects have been deferred to the alternate project list. He testified that DEI has provided the best estimate of the costs of the eligible transmission improvements. Mr. Broadhurst opined that the Updated TDSIC Plan supports a significant reduction of operational risk by replacing aging infrastructure and improves the operational efficiency of Petitioner's transmission and distribution system, as well as improving the overall

¹ As used by Mr. Broadhurst, "T-FERC" refers to capital or O&M costs charged to transmission function FERC accounts, and "D-FERC" refers to capital or O&M costs which are charged to distribution function FERC accounts.

customer experience. He further testified that the projects and programs included in the Updated TDSIC Plan are reasonable, necessary, and justified by significant reliability and modernization benefits.

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 TDSIC Rider and the proposed 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 DEI'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 that the following costs were included in developing the TDSIC factors: 80% of the retail jurisdictional costs of (1) Petitioner's capital investment in the TDSIC Plan projects that were in-service as of June 30, 2016 (the "Cutoff Date"), which will be recovered via depreciation; (2) six months of return on the net book value (original investment less accumulated depreciation) of the included in-service projects; (3) the depreciation and O&M expenses, including fringe benefits and payroll taxes, incurred through the Cutoff Date for the in-service TDSIC Plan projects; (4) the forecasted depreciation, O&M, and property tax expenses for the January through June 2017 period related to the projects included in the Updated TDSIC Plan that are forecasted to be in-service by June 30, 2017; and (5) post-in-service carrying costs accrued for the in-service projects as of the Cutoff Date. In addition, an amount was included in rate development for six months of amortization of amounts incurred for plan development costs, to be amortized over three years. Ms. Douglas testified that the forecasted depreciation, O&M, and property tax expense 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. Ms. Douglas explained that beginning with Petitioner's 2017 filing, Petitioner plans to make TDSIC Rider rate update filings annually, covering in-service projects through December 31st of the prior calendar year, with the resulting rates to be billed to customers 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 that the total capital investment for in-service TDSIC projects as of the Cutoff Date was \$22,894,909, which is below the 2016 capital cost cap of \$91.8 million; therefore, no adjustments are needed to the investment amount to be included in the TDSIC Rider. DEI's TDSIC 2 filing will include a comparison of the actual 2016 investment with the approved 2016 cap.

Ms. Douglas testified that Petitioner's proposed revenue requirements do not exceed the two percent statutory revenue cap, so no additional revenue reductions or cost deferrals are required. She explained the revenue conversion factors used to develop the revenue requirements for this filing and testified that, pursuant to 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 the future 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 rate case and to include the costs related to approved TDSIC improvements in base rates.

Ms. Douglas testified that upon approval of the proposed factors, the monthly bill of a typical residential customer using 1,000 kilowatt hours (“kWhs”) per month will increase by \$1.51 or approximately 1.33% as compared to the June 30, 2016, total bill. For total retail, the average increase in revenue requirements is 1.08%, relative to revenue for the 12 months ended June 30, 2016. Ms. Douglas testified that based on the Updated TDSIC Plan cost estimates (subject to the annual and cumulative capital cost caps), estimated post-in-service carrying costs, and depreciation expense, the annual average total retail rate impact compared to retail revenue for the 12 months ended June 30, 2016, is estimated to be slightly less than 1% over the seven years of the plan.

Ms. Douglas testified that, in her opinion, the deferral and subsequent recovery of the retail jurisdictional portion of the TDSIC Plan costs until they can be included in the TDSIC Rider or base rates is reasonable and appropriate from both a ratemaking and an accounting perspective. She also testified that such deferral is probable of future recovery as it is permitted in the statutes and is consistent with the 44720 Order. She indicated DEI is asking the Commission to affirm the accounting and ratemaking treatment DEI proposed.

6. OUCC’s Evidence. Ms. Gruca testified that the OUCC does not oppose DEI filing TDSIC rate schedule adjustments annually beginning with the proposed 2017 filing. She testified that Petitioner’s tracking factor calculations in this proceeding appear to comply with the ratemaking and accounting treatment agreed upon in the TDSIC Settlement and approved in the 44720 Order. Ms. Gruca recommended DEI include a separate schedule in future TDSIC filings that provides the calculation of total 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 all TDSIC tracker 20% deferred costs DEI intends to recover in its next base rate case.

Mr. Golden testified that although Petitioner’s TDSIC capital project cost recovery is capped pursuant to the TDSIC Settlement, the OUCC reviewed actual and estimated project costs and changes to ensure the projects in Petitioner’s Updated TDSIC Plan are planned, constructed, and put into service in a cost efficient manner that delivers the maximum value to DEI’s ratepayers. Mr. Golden testified that Petitioner’s indirect costs and AFUDC as allocated to the projects in the Updated TDSIC Plan are reasonable. He also testified that the OUCC has no concerns with the changes to Petitioner’s GLT inspection based projects or the changes to Petitioner’s Transmission System Line and System Substation Improvement projects. Mr. Golden testified that the OUCC reviewed DEI’s changes to its Distribution System Circuit Improvement projects and found that Petitioner provided sufficient explanation for the cost increases and that, overall, 2016 spending for distribution projects is on track to be below the original estimate. Mr. Golden testified that the OUCC recommends the Commission approve Petitioner’s Updated TDSIC Plan.

7. **DEI's Rebuttal Testimony.** In her rebuttal testimony, Ms. Douglas testified she agreed with the OUCC's recommendation that DEI include a schedule in its future TDSIC filings, starting with Petitioner's next TDSIC rate recovery filing, showing the 20% deferral amounts from each TDSIC filing and the cumulative 20% amount deferred for future recovery in DEI's next base rate case.

8. **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 seven-year plan; and (3) identify projected effects of the seven-year plan on retail rates and charges. Ind. Code § 8-1-39-9(b) provides that the public utility shall defer the remaining 20% of approved capital expenditures and TDSIC costs, including depreciation, allowance for funds used during construction, and post-in-service carrying costs, and shall recover those capital expenditures and TDSIC costs as part of its next general rate case. Ind. Code § 8-1-39-9(c) provides that a public utility may not file a petition 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(d) provides that a public utility that implements a TDSIC under this chapter shall petition the Commission for review and approval of its basic rates and charges before the expiration of its seven-year TDSIC plan. Ind. Code § 8-1-39-9(e) provides that a public utility may file a petition under this section not more than once every six months.

9. **Commission Discussion and Findings Regarding TDSIC 1.** 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(c) states that "[e]xcept as provided in section 15 of this chapter, a public utility may not file a petition under subsection (a) within nine (9) months after the date on which the commission issues an order changing the public utility's basic rates and charges with respect to the same type of utility service." 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 October 24, 2016. The Commission, therefore, finds that DEI's petition in this Cause was filed more than nine months after Petitioner's last general rate case in accordance with Ind. Code § 8-1-39-9(c).

Ind. Code § 8-1-39-9(e) states that "[a] public utility may file a petition under this section not more than one (1) time every six (6) months." DEI filed its petition in this Cause consistent with the terms of the TDSIC Settlement approved in the 44720 Order and not within six months of a previous TDSIC filing. Mr. Fowler testified that Petitioner plans to make its TDSIC 2 filing in spring 2017 with an update to its rates for projects placed in-service through December 31, 2016, along with any needed plan updates. The Commission finds Petitioner's TDSIC 1 filing and proposed timeline for TDSIC filings are consistent with Ind. Code § 8-1-39-9(e) and reasonable.

B. Petitioner's Updated TDSIC Plan. As described in the testimony and exhibits of Mr. Fowler and Mr. Broadhurst and incorporated into DEI's petition by reference, Petitioner provided an Updated TDSIC Plan. This testimony confirmed that in the Updated TDSIC Plan, no projects were added to the approved TDSIC Plan, and project moves between years were consistent with the approved TDSIC Settlement. No party contended that Petitioner's Updated TDSIC Plan does not meet the requirements of Ind. Code § 8-1-39-9, and Mr. Golden testified that the OUCC recommended the Commission approve DEI's Updated TDSIC Plan. The Commission finds the Updated TDSIC Plan is reasonable, meets the requirements of Ind. Code § 8-1-39-9, and should be approved.

C. Capital Expenditures and TDSIC Costs. Petitioner's total capital investment for its TDSIC projects placed into service through June 30, 2016, was \$22,894,909, of which the retail portion was \$22,562,306. This amount was below the 2016 capital cost cap of \$91.8 million agreed to in the TDSIC Settlement and approved in the 44720 Order. DEI's witnesses explained why the project variances were reasonable and justified as required by statute. Mr. Golden testified that his review on behalf of the OUCC identified no concerns with Petitioner's 2016 spending for transmission or distribution projects. Based upon the evidence presented, the Commission finds DEI should be authorized to recover 80% of these eligible and approved capital expenditures and TDSIC costs, \$18,049,845, and approves the forecasted TDSIC costs upon which the proposed factors are based.

D. TDSIC Factors. In Petitioner's Exhibit 3-A, DEI provided the TDSIC factors by rate code based on previously calculated revenue requirements. Ms. Douglas explained that the factors were developed using six months of costs, so six months of billing determinants (kWh or kW) were used for this filing. She also testified that the various components of the formula used in developing the factors were calculated consistent with Ind. Code § 8-1-39.

The Commission finds that based on the evidence, the TDSIC factors proposed in Petitioner's Exhibit 3-A, pages 1-6, 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 expenditures, \$4,512,461, associated with the approved TDSIC projects, with carrying costs, until Petitioner's next base rate case. The Commission finds these costs are reasonable, and DEI's proposed accounting and ratemaking for the costs should be approved. Consistent with the recommendation by the OUCC's witness, Ms. Gruca, the Commission also finds that Petitioner shall include in future TDSIC filings a separate schedule providing the calculation of total 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 20% of deferred costs it intends to recover in this rate case.

F. Adjustment of Net Operating Income. As provided for in Ind. Code § 8-1-39-13(b), DEI requests authority to 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 our review of the TDSIC statute and the evidence in this Cause, the Commission finds DEI's request is reasonable and should be approved.

G. Effect on DEI'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. Ms. Gruca testified she had verified Petitioner's calculations, and upon approval, the monthly bill of a residential customer using 1,000 kWhs will increase by \$1.51. This equates to an increase of approximately 1.33% as compared to the June 30, 2016, bill. For total retail, the average increase in revenue requirements is 1.08% relative to revenue for the 12-months ended June 30, 2016.

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

10. Confidential Information. DEI filed a motion for protection of confidential and proprietary information and a motion for administrative notice on October 25, 2016. In its motion for administrative notice, Petitioner requested certain documents the Commission found to be confidential in prior proceedings continue to be afforded confidential treatment in this Cause. Because no affidavit accompanied the motion for administrative notice, a Docket Entry was entered requesting DEI supplement its motion to substantiate the propriety of continued confidentiality. On December 2, 2016, Petitioner filed a supplement to its motion for administrative notice along with supporting affidavits demonstrating a need for confidential treatment for: (i) information related to Petitioner's prospective transmission and distribution projects, specific to the identity of transmission and distribution system assets, such as substations, circuits, or site specific location of capital projects; and (ii) sensitive and detailed cost information for prospective transmission and distribution projects. On November 9, 2016, and December 7, 2016, the Presiding Officers made preliminary determinations that certain information should be subject to confidential procedures. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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, and Petitioner is authorized to recover 80% of approved capital expenditures and TDSIC costs in the amount of \$18,049,845 incurred in connection with DEI's eligible transmission, distribution, and storage system improvements.

2. Petitioner is authorized to defer, as a regulatory asset, 20% of eligible and approved capital expenditures and TDSIC costs, \$4,512,461, 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 DEI's next general rate case.

3. Petitioner's Updated TDSIC Plan is approved and the approved projects are designated as eligible transmission, distribution, and storage system improvements under Ind. Code §§ 8-1-39-9 and -2.

4. Petitioner is authorized to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with the Updated TDSIC Plan through the TDSIC Rider and to defer 20% of eligible and approved capital expenditures and TDSIC costs in connection with the Updated TDSIC Plan, for recovery in its next general rate case.

5. Petitioner shall include in its future 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 net operating income to reflect any 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.

8. The information DEI filed in this Cause pursuant to its motion for confidential treatment and the information filed pursuant to DEI's motion for administrative notice and its supplementation which was denoted confidential shall be deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, exempt from public access and disclosure by Indiana law, and 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.

ATTERHOLT, FREEMAN, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: MAR 22 2017

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



Mary M. Becerra
Secretary of the Commission