STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER COMPANY, AN INDIANA CORPORATION, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE THROUGH A PHASE IN RATE ADJUSTMENT; AND FOR APPROVAL OF RELATED RELIEF INCLUDING: (1) REVISED DEPRECIATION RATES; (2) ACCOUNTING RELIEF; (3) INCLUSION OF CAPITAL INVESTMENT; (4) RATE ADJUSTMENT MECHANISM PROPOSALS; (5) CUSTOMER PROGRAMS: (6) WAIVER OR DECLINATION OF JURISDICTION WITH RESPECT TO CERTAIN RULES; AND (7) NEW SCHEDULES OF RATES, RULES AND REGULATIONS.	)	**CAUSE NO. 45576**

SUBMISSION OF UNOPPOSED JOINT PROPOSED ORDER

Indiana Michigan Power Company ("I&M", "Company" or "Petitioner"), by counsel, respectfully files the attached Unopposed Joint Proposed Order on behalf of itself, the Indiana Office of Utility Consumer Counselor, and the following Intervenors: Citizens Action Coalition of Indiana, Inc.; City of Auburn Electric Department, City of Fort Wayne, City of Marion and Marion Municipal Utilities, City of Muncie, City of South Bend, I&M Industrial Group, The Kroger Company, Wabash Valley Power Association, Inc. d/b/a Wabash Valley Power Alliance, and Walmart, Inc. ("Settling Parties"). Intervenor Steel Dynamics, Inc. ("SDI") has authorized undersigned counsel to represent that SDI has no objection to the proposed order. An editable version in Word format will be provided to the presiding Administrative Law Judge.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing was served this 17th day of December, 2021 via electronic email, hand delivery, or First Class, United States Mail, postage upon the following:

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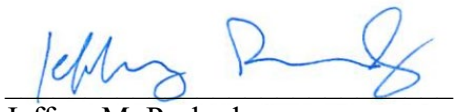

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ORDER OF THE COMMISSION

Presiding Officers:
David L. Ober, Commissioner
Carol Sparks Drake, Senior Administrative Law Judge

On July 1, 2021, Indiana Michigan Power Company ("I&M," "Petitioner," or "Company") filed a Petition with the Indiana Utility Regulatory Commission ("IURC" or "Commission") seeking authority to increase its rates and charges for electric utility service and associated relief as discussed below.[1] On July 1, 2021, Petitioner also filed its case-in-chief, workpapers, and information required by the minimum standard filing requirements ("MSFRs") set forth at 170 Ind. Admin. Code ("IAC") 1-5-1 *et seq*. I&M's case-in-chief included testimony, attachments, and workpapers from the following witnesses:

- Steven F. Baker, I&M President and Chief Operating Officer. [2]
- Dona Seger-Lawson, I&M Director of Regulatory Services.[3]
- David A. Lucas, I&M Vice President – Regulatory and Finance.
- David S. Isaacson, I&M Vice President of Distribution Operations.
- Quinton Shane Lies, I&M Site Vice President at Donald. C. Cook Nuclear Plant.
- Timothy C. Kerns, I&M Vice President – Generating Assets.

[1] On June 1, 2021, I&M provided its notice of intent to file a rate case in accordance with the Commission's General Administrative Order 2013-5.
[2] On October 14, 2021, I&M filed a notice that Mr. Baker was being substituted for and adopting the prefiled testimony of Toby L. Thomas, President and Chief Operating Officer for I&M.
[3] On October 14, 2021, I&M filed a notice that Ms. Seger-Lawson was adopting the testimony prefiled by Brent Auer, Regulatory Analysis & Case Manager in the Regulatory Services Department for I&M.

- Nicolas C. Koehler, Director of East Transmission Planning for American Electric Power Service Corporation ("AEPSC").
- Shelli A. Sloan, AEPSC Director Financial Support and Special Projects in Corporate Planning and Budgeting.[4]
- Andrew J. Williamson, I&M Director of Regulatory Services.
- Curtis H. Bech, Senior Manager, Utilities Strategy and Consulting, Accenture PLC.
- Jon C. Walter, I&M Consumer and Energy Efficiency Programs Manager.
- Jason A. Cash, AEPSC Accounting Senior Manager in Corporate Accounting.
- Aaron L. Hill, AEPSC Director of Trusts and Investments.
- Roderick W. Knight, Decommissioning Manager TLG Services, Inc.
- Jessica M. Criss, AEPSC Tax Accounting and Regulatory Support Manager.
- Ann E. Bulkley, Senior Vice President, Concentric Energy Advisors, Inc. ("Concentric")
- Franz D. Messner, AEPSC Managing Director of Corporate Finance.
- Tyler H. Ross, AEPSC Director of Regulatory Accounting Services.
- Chad M. Burnett, AEPSC Director of Economic Forecasting.
- Jennifer C. Duncan, AEPSC Regulatory Consultant Staff in the Regulated Pricing and Analysis Department.
- Stephen Hornyak, AEPSC Regulatory Consultant Principal in the Regulated Pricing and Analysis Department.
- Jenifer L. Fischer, AEPSC Manager, Regulated Pricing and Analysis.
- Kurt C. Cooper, I&M Regulatory Consultant Principal in the Regulatory Services Department.[5]

Petitions to Intervene were filed by the I&M Industrial Group, a group of industrial customers located in I&M's service territory, that ultimately included the following customers: General Motors LLC, I/N Tek L.P., Linde, Inc., Marathon Petroleum Company LP, Messer LLC, and University of Notre Dame ("IG" or "Industrial Group");[6] The Kroger Company ("Kroger"); Steel Dynamics, Inc. ("SDI"); Walmart, Inc. ("Walmart"); Citizens Action Coalition of Indiana, Inc. ("CAC"); City of Fort Wayne, Indiana, ("Ft. Wayne"); City of Marion, Indiana and Marion Municipal Utilities ("Marion"); City of South Bend, Indiana ("South Bend", and collectively with Ft. Wayne and Marion, the "Joint Municipals"); City of Auburn Electric Department ("Auburn"); Wabash Valley Power Association, Inc. d/b/a Wabash Valley Power Alliance ("WVPA"); and City of Muncie, Indiana ("Muncie"). These petitions were granted without objection. The Indiana Office of Utility Consumer Counselor ("OUCC") also participated as a party.

On July 21, 2021, the Commission issued a Docket Entry establishing a procedural schedule and related requirements, and approving certain stipulations the parties agreed upon in the Stipulation and Agreement in Lieu of Prehearing Conference filed by I&M on July 14, 2021.

[4] On October 14, 2021, I&M filed a notice that Ms. Sloan was being substituted for and adopting the prefiled testimony of Nancy A. Heimberger, Financial Analyst Senior Staff in Corporate Planning and Budgeting for AEPSC.

[5] I&M filed additional MSFRs on July 15, 2021 and revisions to testimony on September 2, 2021, including a clarification of Mr. Cash's direct testimony explaining how the Company plans to implement the calculated depreciation rates for the Rockport Plant as a whole.

[6] General Motors LLC and University of Notre Dame were added to the I&M Industrial Group on September 30, 2021.

Public field hearings were held on August 24, 2021, in South Bend, Indiana and on September 7, 2021, in Fort Wayne, Indiana, the largest municipality in Petitioner's Indiana service area. At these field hearings, members of the public made statements under oath to the Commission.

On October 12, 2021, the OUCC and certain intervenors filed their respective cases-in-chief. For purposes of its case-in-chief, the OUCC prefiled written consumer comments and testimony and attachments from the following witnesses:

- Michael D. Eckert, Assistant Director of the OUCC's Electric Division.
- Mark E. Garrett, President of Garrett Group Consulting, Inc.
- David J. Garrett, Managing Member of Resolve Utility Consulting, PLLC.
- Anthony A. Alvarez, Utility Analyst, in the OUCC's Electric Division.
- Peter M. Boerger, PhD, Senior Utility Analyst, in the OUCC's Electric Division.
- Cynthia M. Armstrong, Senior Utility Analyst, in the OUCC's Electric Division.[7]
- John E. Haselden, Senior Utility Analyst, in the OUCC's Electric Division.
- Kaleb G. Lantrip, Utility Analyst, in the OUCC's Electric Division.
- Caleb R. Loveman, Utility Analyst, in the OUCC's Electric Division.
- Wes R. Blakley, Senior Utility Analyst, in the OUCC's Electric Division.
- Glenn A. Watkins, President and Senior Economist of Technical Associates, Inc.

The Industrial Group provided testimony and attachments from James R. Dauphinais and Michael P. Gorman, both Consultants and Managing Principals with Brubaker & Associates, Inc.[8]

Kroger prefiled the testimony and attachments from Justin Bieber, Senior Consultant for Energy Strategies, LLC.

Walmart prefiled the testimony and attachments of Steve W. Chriss, Director, Energy Services for Walmart.

CAC prefiled the testimony and attachments of John Howat, Senior Policy Analyst at the National Consumer Law Center.

Muncie prefiled the testimony and attachments of Dan Ridenour, Mayor and chief executive of the City of Muncie, and Ryan Stout, National Solar Developer for Performance Services, Inc.

Joint Municipals provided testimony and exhibits from Joseph A. Mancinelli, Director and President Emeritus of NewGen Strategies and Solutions, LLC ("NewGen"), and Constance T. Canady, Executive Consultant at NewGen.[9]

[7] On November 4, 2021, the OUCC submitted a corrected version of Ms. Armstrong's testimony and attachments to remove redactions for information subsequently determined to be public. At the evidentiary hearing, Ms. Armstrong's corrected testimony and attachments were admitted into the record.

[8] On October 25, 2021, the Industrial Group submitted a corrected version of Mr. Gorman's testimony and attachments to remove redactions for information subsequently determined to be public. At the evidentiary hearing, Mr. Gorman's corrected testimony and attachments were admitted into the record.

[9] On October 26, 2021, the Joint Municipals submitted a corrected version of Mr. Mancinelli's and Ms. Cannady's testimony and attachments to remove redactions for information subsequently determined to be public. At the evidentiary hearing, the corrected testimony and attachments were admitted into the record.

On November 9, 2021, the OUCC prefiled cross-answering testimony from Glen A. Watkins. That same day, the Industrial Group prefiled cross-answering testimony from James R. Dauphinais.

Also on November 9, 2021, I&M prefiled rebuttal testimony, exhibits, and workpapers for the following witnesses:

- David A. Lucas.
- Andrew J. Williamson.
- Dona Seger-Lawson.
- David S. Isaacson.
- Aaron L. Hill.
- Jason A. Cash.
- Ann E. Bulkley.
- Franz D. Messner.
- Tyler H. Ross.
- Jessica M. Criss.
- Andrew R. Carlin, AEPSC Director of Executive Compensation and Benefits.
- Kimberly Kaiser, AEPSC Director of Compensation.
- Jon C. Walter.
- Jennifer C. Duncan.
- Stephen Hornyak.
- Jenifer L. Fischer.
- Kurt C. Cooper.

On November 16, 2021, I&M, the OUCC, the Industrial Group, CAC, Auburn, Joint Municipals, Muncie, Kroger, WVPA, and Walmart (collectively, the "Settling Parties") filed an Unopposed Joint Motion for Leave to File Settlement Agreement and Request for Settlement Hearing ("Joint Motion"). In the Joint Motion, the Settling Parties advised a settlement had been reached resolving all issues in this proceeding.[10] The Joint Motion included a copy of the Settling Parties' Stipulation and Settlement Agreement ("Settlement Agreement"), including attachments. Also on November 16, 2021, I&M submitted a Stipulation and Settlement between I&M and Muncie ("Muncie Settlement Agreement").

By Docket Entry dated November 18, 2021, the Presiding Officers revised the procedural schedule to accommodate presentation of the settlement and supporting evidence.

On November 19, 2021, I&M prefiled the settlement testimony, attachments, and workpapers of Mr. Williamson in support of both the Settlement Agreement and the Muncie Settlement Agreement. Also on November 19, 2021, the following witnesses filed additional evidence supporting the Settlement Agreement:

- Michael D. Eckert
- Michael P. Gorman

[10] The Joint Motion indicated the one remaining party of this case, SDI, was included in the settlement communications but is not a party to the Settlement Agreement. Joint Motion, ¶3. The Joint Motion further indicated SDI had no objection to the Joint Motion or the Settlement Agreement and waived cross-examination. Joint Motion, ¶3.

- James R. Dauphinais.

A request for information was issued by Docket Entry on December 9, 2021, to which the City of Muncie, the OUCC, and I&M responded on December 13 and 14, 2021.

On December 2, 2021, the public evidentiary hearing was continued and reconvened at 9:30 a.m. on December 17, 2021, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the evidentiary hearing, the Settlement Agreement, Muncie Settlement Agreement, and all of the direct, cross-answering, rebuttal, and settlement testimony and exhibits of each party and the responses to the December 9, 2021 Docket Entry were offered and admitted into the record without objection. Further, per the terms of the Settlement Agreement, the parties mutually waived cross-examination of each other's witnesses.

The Commission, based upon applicable law and the evidence, finds as follows:

1. Notice and Jurisdiction. Legal and timely notice of the public hearings held in this Cause was given and published as required by law. I&M is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code §§ 8-1-2-42 and 42.7, the Commission has jurisdiction over I&M's rates and charges for utility service. The Commission, therefore, has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Organization and Business. I&M is a public utility with its principal place of business located at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M renders retail electric utility service to approximately 470,000 retail customers located in the following Indiana counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells and Whitley. I&M also provides electric service in Michigan to approximately 130,000 retail customers. Petitioner's Ex. 1 (Baker Direct), Attachment TLT-1 (Petition), ¶3. I&M is also subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC").Petition, ¶3. I&M is a member of PJM Interconnection, L.L.C. ("PJM"), a regional transmission organization operated under the FERC's authority which controls the use of I&M's transmission system and the dispatching of I&M's generating units. Petition, ¶¶5-6.

I&M renders electric service by means of electric production, transmission, and distribution plant, as well as general property, equipment, and related facilities, including office buildings, service buildings, and other property, which are used and useful for the convenience of the public in the production, transmission, delivery, and furnishing of electric energy, heat, light, and power. Petition, ¶7. I&M's property is classified in accordance with the Uniform System of Accounts as prescribed by the FERC and approved and adopted by the Commission. Petition, ¶8.

3. Existing Rates. The Commission approved I&M's current base rates and charges on March 11, 2020, in its Order in Cause No. 45235 ("45235 Order"), based upon test year operating results for the 12 months ended December 31, 2020. The petition initiating Cause No. 45235 was filed with the Commission on May 14, 2019; consequently, in accordance with Ind. Code § 8-1-2-42(a), it has been more than 15 months since I&M filed its most recent petition for an increase in basic rates and charges and the filing of I&M's petition in this Cause.

4. Test Year and Rate Base Cutoff. As authorized by Ind. Code § 8-1-2-42.7(d)(1) ("Section 42.7"), Petitioner proposed a forward-looking test period using projected data, with the test year used for determining Petitioner's projected operating revenues, expenses, and net

operating income being the 12-month period ending December 31, 2022. Petition, ¶12. I&M is utilizing the test year end, December 31, 2022, as the general rate base cutoff date. Petition, ¶13. The historical base period is the 12-month period ending December 31, 2020. Petition, ¶16.

5. I&M's Requested Relief. In its Petition, I&M requested Commission approval of an overall annual increase in revenues of approximately $104 million, or approximately 6.5%. Petition, ¶24. I&M proposed to implement the requested revenue increase in two steps through the Phase-In Rate Adjustment ("PRA") process used in the Company's two most recent basic rate cases. Petition, ¶26. In Phase I, revenue would increase by approximately $73 million or 4.55%. The second step would reflect an increase of $31 million, or approximately 2%, as adjusted for actual test year investments. Petition, ¶26. As detailed in I&M's case-in-chief, Petitioner also requested Commission approval of specific accounting and ratemaking relief, including new depreciation accrual rates, modifications to rate adjustment mechanisms, and I&M's proposed revenue allocation and rate design.

6. Opposition, Rebuttal, and Cross-Answering. The OUCC and intervenors raised numerous challenges to Petitioner's filing, including challenging rate base, rate of return, operating and maintenance ("O&M") expenses, depreciation rates, rider proposals, cost of service allocation, and rate design. The extent to which these parties disagreed with each other is shown in their cross-answering testimony. The extent to which I&M disagreed or agreed with the OUCC and intervenors was addressed in I&M's rebuttal evidence.

7. Settlement Agreement. Messrs. Williamson, Eckert, Gorman, and Dauphinais presented testimony in support of the Settlement Agreement. They discussed the terms of the Settlement Agreement and showed that the Settlement Agreement resolves all issues related to the revenue requirement and rate design issues presented in the case. Mr. Williamson explained this is a settlement of all the issues among all but one of the parties in this Cause. SDI, the one party not joining the Settlement Agreement, has communicated to the Commission and the Settling Parties that SDI does not oppose the Settlement Agreement. Petitioner's Ex. 15 (Williamson Settlement) at 2. As stated by Mr. Eckert, if approved, the Settlement Agreement will provide certainty regarding critical issues, including revenue requirements, authorized return, and the allocation of I&M's revenue requirement among its various rate classes. Public's Ex. 15 (Eckert Settlement) at 2. As stated by Mr. Gorman, at a high level, the Settlement brought the Settling Parties together to negotiate a wide range of contested matters including issues such as the Company's approved return on equity, its proposed capital structure, the regulatory treatment of capacity costs previously excluded from retail rates, the Company's position with respect to the Tax Sharing Agreement and treatment of Net Operating Loss Carryforward ("NOLC") and the treatment of the costs associated with Rockport Unit 2. Intervenor IG Ex. 4 (Gorman Settlement) at 3-5.

All four witnesses testified that the Settlement Agreement is a product of intense negotiations, with each party offering compromise to challenging issues. Public's Ex. 15 at 2; Petitioner's Ex. 15 at 6-8; Intervenor IG Ex. 4 at 3, 5; Intervenor IG Ex. 5 (Dauphinais Settlement) at 2, 6. As stated by Mr. Eckert, the nature of compromise includes assessing the litigation risk that the tribunal will find the other side's case more compelling. Public's Ex. 15 at 2; Intervenor IG Ex. 5 at 2. While the Settlement Agreement represents a balance of all interests, given the number of benefits provided to ratepayers as outlined in the Settlement Agreement and described below, the OUCC, as the statutory representative of all ratepayers, believes the Settlement Agreement is a fair resolution, supported by evidence and should be approved. Public's Ex. 15 at

2. As Mr. Dauphinais added, while no party received the full measure of the positions they took in their respective cases-in-chief, the total package represents a balancing of the parties' competing interests in favor of an overall result that is fair and reasonable. Intervenor IG Ex. 5 at 2. These witnesses supported the position that in their view, the Settlement represents the culmination of the parties' efforts to come together through the process of negotiations to find a result that reflects the purpose of utility regulation — the balancing of interests between the utility and its consumers. Public's Ex. 15 at 2; Public's Ex. 15 at 8; Intervenor IG Ex. 4 at 3; Intervenor IG Ex. 5 at 2.

A. Overview. Mr. Williamson explained Section I.A of the Settlement Agreement addresses I&M's test year revenue requirement and other matters. Petitioner's Ex. 15 at 8. He said Section I.B of the Settlement Agreement sets forth the Settling Parties' agreement regarding revenue allocation, rate design, and certain tariff language changes. *Id.* He said Section I.C addresses remaining issues — namely that any matters not addressed by the Settlement Agreement terms will be adopted as proposed by I&M. *Id.* He added it is important to recognize that the Settlement Agreement is presented as a complete negotiated package of terms that, taken as a whole, reflects compromise and the give and take of negotiations. Petitioner's Ex. 15 at 8.

Mr. Eckert explained that the Settlement Agreement addresses the issue of affordability, explaining the Settlement Agreement reduces I&M's requested revenue increase in several ways. Public's Ex. 15 at 2-3. He said for example, I&M's rate base request is reduced by $26.4 million, consisting of reductions to: (1) forecasted distribution plant investment; (2) Electric Vehicle ("EV") Fast Charging capitalized costs; (3) Flex Pay Program capitalized costs; and (4) unamortized COVID-19 deferred bad debt expense. Public's Ex. 15 at 2-3. He added that ongoing Rockport Unit 2 expenses and rate base-related revenue requirements are removed from customer rates effective December 7, 2022, when the Rockport Unit 2 lease ends and the Unit no longer provides retail energy utility service. Public's Ex. 15 at 3. He said that through December 7, 2022, I&M customers are receiving the benefit of the Commission's Cause No. 45235 excess capacity adjustment, which I&M had proposed to cease applying at the time Phase I rates were implemented. *Id.* He testified that the Settlement Agreement also reduces O&M expenses by approximately $6.3 million annually beyond O&M reductions related to Rockport Unit 2. Public's Ex. 15 at 3.

Messrs. Eckert and Williamson also discussed other benefits in the Settlement Agreement. Public's Ex. 15 at 5; Petitioner's Ex. 15 at 29-34. As stated by the witnesses, these other consumer benefits of the Settlement Agreement include: (1) continuation of the monthly residential customer charge of $15.00 from I&M's originally proposed $20.00 charge; (2) no increase to I&M's current 9.70 percent authorized return on equity ("ROE") (I&M proposed to increase its ROE to 10.0 percent); (3) limiting I&M's debt to equity ratio in its weighted average cost of capital ("WACC") to no higher than 50.00% equity; (4) an annual PJM Network Integration Transmission Service ("NITS") cost cap for purposes of recovery through the PJM Rider; (5) retention of approximately $159 million in cost free capital that I&M proposed to remove from its capital structure through its NOLC adjustment, pending receipt of a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"); (6) Removal of I&M's proposed $69.3 million (Indiana Jurisdictional) Other Post-Retirement Employee Benefit ("OPEB") asset from its rate base; (7) an agreed limitation on customer deposits to no more than $50 for customers identified as Low Income Home Energy Assistance Program ("LIHEAP") participants or LIHEAP-eligible; and (8) additional benefits negotiated by the Settling Parties. Public's Ex. 15 at 5; Petitioner's Ex. 15 at 8-39.

B. Revenue Requirement. As a result of the Settlement Agreement, if approved, I&M's base rates will be designed to reflect a lower revenue requirement than I&M proposed in its case-in-chief filing. The Settling Parties agreed to a Phase I annualized combined basic rate and rider revenue requirement decrease of $4.7 million, which is an approximate $78 million reduction from I&M's as-filed requested Phase I increase of $73 million. Public's Ex. 15 at 4. Mr. Eckert explained that as shown in Settling Parties' Joint Ex. 1, Settlement Agreement Attachment 1, this reduces the system-wide Phase I revenue increase impact from I&M's original proposal of 4.55% to a Phase I decrease of 0.29%. Public's Ex. 15 at 4.

Mr. Eckert explained that the Settling Parties agreed to a Phase II annualized combined basic rate and rider revenue requirement decrease of $95 million, which is an approximately $199 million reduction from I&M's as-filed request increase of $104 million. Public's Ex. 15 at 4; Petitioner's Ex. 15 at 7; Intervenor IG Ex. 4 at 3. As shown in Settling Parties' Joint Ex. 1, Settlement Agreement Attachment 1, this reduces the system-wide Phase II revenue increase impact from I&M's original proposal of 6.5% to a Phase II decrease of 5.90%. Public's Ex. 15 at 4. The Settlement Agreement reduces the rate impact for all major classes from I&M's original proposal. Public's Ex. 15 at 4.

C. Return on Equity, Capital Structure and Rate of Return.[11]

1. ROE and Capital Structure. In its case-in-chief, I&M proposed a 10.00% ROE and several intervenors, including the OUCC and Industrial Group, advocated for a considerably lower ROE. The testimony in support of the Settlement Agreement explained that as a result of the negotiations, a compromise was reached, resulting in a 9.70% ROE, which is the same ROE that the Commission found to be fair and reasonable under the totality of the circumstances in the Company's last basic rate case. Public's Ex. 15 at 6; Intervenor IG Ex. 4 at 3; Petitioner's Ex. 15 at 8-9. The ROE component of the WACC used in each of I&M's capital riders will be 9.70%. Public's Ex. 15 at 6.

Mr. Eckert testified that a ROE lower than what I&M originally sought benefits ratepayers by reducing the return on rate base reflected in customers' rates. Public's Ex. 15 at 6. He added that from the OUCC's perspective, using a 9.70% ROE for determining I&M's revenue requirement in its base rates and in I&M's ongoing capital riders more accurately reflects I&M's risk profile than the Company's proposed 10.0% ROE. Public's Ex. 15 at 6. Mr. Eckert added that in addition, the lower ROE reduces the return on capital investment that consumers must pay through capital riders between rate cases. Public's Ex. 15 at 6. Thus, Mr. Eckert testified that the Settlement Agreement establishes a balanced plan that is in the interest of ratepayers while still preserving the financial integrity of the Company. Public's Ex. 15 at 6.

The Settlement Agreement also addresses the Company's capital structure. Joint Ex. 1 (Settlement Agreement) at Section I.A.1.f. The Settling Parties agreed that for purposes of calculating the PRA for Phase I rates, the Debt/Equity ratio for investor-supplied capital will be 50.54%/49.46%. Petitioner's Ex. 15 at 14-15. As discussed by Messrs. Eckert, Gorman, and Williamson, for purposes of the Phase II compliance filing I&M's Debt/Equity ratio associated with investor-supplied capital will be adjusted to its December 31, 2022, actual ratio but will not exceed 50.00% equity. Public's Ex. 15 at 7; Intervenor IG Ex. 4 at 3; Petitioner's Ex. 15 at 15.

[11] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.1.

Petitioner's Ex. 15, Attachment AJW-1-S (which updates Exhibit A-7) sets forth the settlement WACC and Cost of Investor Supplied Capital for both Phase I and Phase II.

2. NOLC. Messrs. Eckert, Gorman, and Williamson discussed how the Settlement Agreement resolves the contested issue regarding I&M's NOLC. Public's Ex. 15 at 8-9; Intervenor IG Ex. 4 at 3; Petitioner's Ex. 15 at 9-13. As stated by Mr. Eckert, I&M will retain in its capital structure the approximately $159 million in cost free capital that it proposed to remove through its proposed NOLC adjustment. Public's Ex. 15 at 8; Petitioner's Ex. 15 at 10; Intervenor IG Ex. 4 at 4. Pending receipt of a PLR from the IRS, the Settling Parties agree that the Commission should authorize I&M to establish a regulatory asset for the return that would be associated with (1) the inclusion of the proposed NOLC adjustment in the calculation of accumulated deferred federal income taxes ("ADFIT") in I&M's capital structure and (2) for any differences in I&M's requested levels of protected and unprotected excess accumulated deferred income tax ("EADFIT") amortization and the settled levels of amortization. Public's Ex. 15 at 8; Petitioner's Ex. 15 at 10; Intervenor IG Ex. 4 at 4.

If the IRS issues a PLR concluding that failure to adopt I&M's position with respect to the NOLC adjustments would constitute a normalization violation, I&M will initiate a limited proceeding to update its Tax Rider to reflect the NOLC adjustments, along with any Commission-approved offsets, in rates on an ongoing basis and to recover the regulatory asset. The Settling Parties have expressly reserved the right to take any position in the limited proceeding related to the NOLC and the Company's proposed ratemaking related thereto. If the IRS PLR does not support I&M's proposed adjustment, I&M will write off the regulatory asset, and it will not be recovered from customers. Public's Ex. 15 at 8; Intervenor IG Ex. 4 at 4; Petitioner's Ex. 15 at 11. The Settlement also sets forth a process by which the Settling Parties may participate in the PLR process and details I&M's obligations to confer on a neutral description of the facts and Settling Parties' positions in the PLR request to objectively frame the issue while adhering to IRS guidelines and requirements before the PLR is submitted to the IRS for consideration. Public's Ex. 15 at 8-9; Intervenor IG Ex. 4 at 4; Petitioner's Ex. 15 at 11.

Mr. Gorman testified that this is a fair resolution as it provides customers the immediate benefit of a higher amount of cost-free capital in the Company's capital structure, provides consumers and the Company a means to obtain a final resolution from the IRS on the issue. Intervenor IG Ex. 4 at 4. He added that if the IRS finds a normalization violation would occur, the Settlement also acknowledges the Settling Parties' right to challenge the continued benefit of I&M remaining in the AEP Tax Sharing Agreement on a going forward basis. *Id.* at 4.

3. Tax Rider. In her direct testimony, Ms. Seger-Lawson proposed to implement a Tax Rider to address the ongoing rate impacts of the Tax Cuts and Jobs Act of 2017 ("TCJA") consistent with the mechanism approved in the 45235 Order (p. 74) and explained how I&M would use deferral accounting to implement this Rider. Petitioner's Ex. 2 (Seger-Lawson Direct testimony) at 18, 41-43. Ms. Seger-Lawson also proposed to use the Tax Rider in the event of a change in the federal corporate income tax rate. *Id.* at 43-44. This proposed expansion of the Tax Rider was challenged.[12]

Messrs. Eckert and Williamson discussed the Settlement Agreement provisions regarding the Tax Rider. Public's Ex. 15 at 10; Petitioner's Ex. 15 at 13-14. Mr. Eckert stated that I&M's

[12] OUCC Ex. 11 (Blakley) at 14-15; Jt. Municipals Ex. 2 (Cannady) at 19; see also Petitioner's Ex. 31 (Ross Rebuttal) at 19-22.

direct case proposed to expand its Tax Rider to reflect potential, future changes to the federal corporate income tax rate, but the Settling Parties agreed to not make this change. Public's Ex. 15 at 10; Petitioner's Ex. 15 at 13-14. These witnesses explained that instead, I&M's Tax Rider serves two purposes: (1) to credit customers with EADFIT as outlined in the Agreement, and (2) in the event the IRS issues a PLR in I&M's favor regarding its proposed NOLC adjustment, to implement any associated ratemaking changes. Public's Ex. 15 at 10; Petitioner's Ex. 15 at 13-14.

More specifically, Mr. Williamson explained that simultaneous with the implementation of new base rates, I&M will implement a Tax Rider to credit customer rates for the remaining benefits associated with unprotected EADFIT. Petitioner's Ex. 15 at 14. He said the Settling Parties also agreed to increase the amount of monthly amortization. Petitioner's Ex. 15 at 14. He said this agreement will advance the benefit of this amortization to customers and, as a result, the amortization credit in the Tax Rider is expected to expire before the end of the test year. Petitioner's Ex. 15 at 14. He added that for purposes of setting rates in this proceeding for the Tax Rider, I&M agreed not to adjust the remaining balance of unprotected EADFIT for any NOLC impact. I&M also agreed to a $14,623,272 (Indiana Jurisdictional) unprotected EADFIT credit as proposed by Joint Municipals witness Cannady and a seven (7) month amortization period. Petitioner's Ex. 15 at 14. He explained that the total monthly unprotected EADFIT amount to be credited to customers through the Tax Rider will include a carrying charge on the unamortized balance based on the pre-tax WACC approved in this proceeding. Petitioner's Ex. 15 at 14. He stated that in addition, the monthly amortization will be grossed up for taxes at a rate of 1.3580 and will include carrying charges on the unamortized balance based on I&M's pre-tax WACC approved in Settlement. Petitioner's Ex. 15 at 14. Mr. Williamson testified that the Settling Parties agreed that I&M will reconcile the Tax Rider to reflect its actual unprotected EADFIT amortization and monthly remaining balance. Petitioner's Ex. 15 at 14.

4. Net Operating Income. As stated by Mr. Williamson, under the Settlement Agreement, the authorized base rate net operating income will be $296,733,906. Petitioner's Ex. 15 at 15-16.

D. Rockport Unit 2.[13] Messrs. Eckert, Williamson, and Gorman explained that the lower revenue requirement agreed to by the Settling Parties reflects in part the terms of the separate, then-pending Settlement Agreement in Cause No. 45546 regarding Rockport Unit 2.[14] Public's Ex. 15 at 5; Williamson at 7, 16-17; Intervenor IG Ex. 4 at 4-5. Mr. Gorman stated that consistent with the Settlement in Cause No. 45546, the Parties reached agreement on how to remove approximately $141 million in Rockport Unit 2 related costs from ongoing retail rates, while still recovering those costs that will continue to be incurred by I&M for most of the test year, until the lease expires on December 7, 2022. Intervenor IG Ex. 4 at 4; Petitioner's Ex. 15 at 16-17. Mr. Williamson and Mr. Gorman testified that the Settling Parties agreed to an efficient process to implement this, explaining that essentially, the Settling Parties agreed that almost all costs related to Rockport Unit 2 will be removed from base rates immediately upon implementation of new base rates associated with approval of this Settlement and instead recovered either through the riders by which they are already recovered, or through a special charge included in the PRA rider. Intervenor IG Ex. 4 at 4-5; Petitioner's Ex. 15 at 16-17. Mr. Gorman explained that in the case of costs recovered through the PRA, the collection only lasts through the time Unit 2 continues to be used

[13] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Sections I.A.2 and 3.
[14] The Commission approved the Settlement Agreement in Cause No. 45546 on December 8, 2021.

and useful in the provision of service to Indiana retail customers, or until the test year costs are fully recovered, whichever occurs first. Intervenor IG Ex. 4 at 5; Petitioner's Ex. 15 at 17-18.

Mr. Williamson testified that the PRA Rockport Unit 2 Charge will include the following:

i. A return on a fixed $15,143,223 (Indiana Jurisdictional) level of fuel and consumables inventory through December 7, 2022, at I&M's Phase I WACC grossed up for taxes.

ii. I&M will recover the prorated share of a fixed $1,035,878 (Indiana Jurisdictional) annual level of fuel handling and disposal expenses through December 7, 2022.

iii. I&M will recover its Rockport Unit 2 lease expense incurred through the end of calendar year 2022, based on the prorated share of I&M's annual $48,924,630 (Indiana Jurisdictional) lease expense. Since the PRA Rockport Unit 2 Charge will end on December 8, 2022, I&M's Rockport Unit 2 lease expense will be grossed up to recognize the full lease expense in 2022 for purposes of setting the PRA Rockport Unit 2 Charge.

iv. I&M will recover the prorated share of a fixed $13,240,324 (Indiana Jurisdictional) annual level of other O&M expense ($12,177,941) and property tax expense ($1,062,383) through December 7, 2022.

v. Revenue requirement for implementing the PRA Rockport Unit 2 Charge will be allocated and retail rates designed based on agreement of the parties.

Petitioner's Ex. 15 at 18. He said this approach allows the removal of the Rockport Unit 2 costs from the revenue requirement in a reasonable and efficient manner. Among other things, the use of the PRA Rockport Unit 2 Charge avoids the need for the Company to prepare, and all the parties and the Commission to review and process two complete sets of tariffs and associated compliance support. Petitioner's Ex. 15 at 18-19. He explained it is an efficient and transparent approach for the timely removal of these costs from base rates while maintaining recovery of these costs during the term of the lease. Petitioner's Ex. 15 at 19. Mr. Williamson testified that upon the earlier of I&M determining it has fully recovered the PRA Rockport Unit Charge or December 7, 2022, I&M will submit a compliance tariff to the Commission in the Cause No. 45576 docket to eliminate the PRA Rockport Unit 2 Charge from the PRA factors. Petitioner's Ex. 15 at 19. He added that since this change will be fully eliminating this component, and the impact to the PRA is limited to the math associated with removing this component of the PRA factors, I&M asks the Commission to expeditiously approve the revision. *Id.*

Mr. Gorman and Mr. Williamson explained that with respect to other costs, which are already primarily recovered through the Environmental Cost Rider ("ECR") and Resource Adequacy Rider ("RAR"), they will continue to be recovered through those riders until the Commission approves filings seeking revisions to those rider rates. Intervenor IG Ex. 4 at 5; Petitioner's Ex. 15 at 19-20. Mr. Gorman added that those filings will be timed by I&M to receive orders from the Commission at the end of 2022/beginning of 2023. Intervenor IG Ex. 4 at 5; Petitioner's Ex. 15 at 19-20. Mr. Gorman stated that after that, the charges will be removed from those riders. Intervenor IG Ex. 4 at 5.

Mr. Williamson explained the Settling Parties agreed that I&M will recover its actual Rockport Unit 2 Fuel Cost Adjustment ("FAC") eligible fuel expenses, consistent with current FAC cases, incurred through December 7, 2022. Petitioner's Ex. 15 at 20. He said I&M's base cost of fuel will include $28,185,922 (Total Company), $19,608,596 (Indiana Jurisdictional), in

embedded Rockport Unit 2 fuel costs, which will serve as a proxy for replacement purchased power when Rockport Unit 2 is no longer used for retail energy needs. Petitioner's Ex. 15 at 20-21. He said this amount is incorporated into I&M's fuel basing points of 13.110 mills per kWh, which will be reconciled to actual fuel costs in I&M's FAC proceedings. Petitioner's Ex. 15 at 21. He said that continuing to include Rockport Unit 2 fuel expense in I&M's FAC basing point recognizes that at times I&M will have to purchase power from PJM and allows for a basing point that reasonably recognizes the amount of energy that may be needed to serve customers. Petitioner's Ex. 15 at 21.

The witnesses explained that the remaining net book value of I&M's investment in the Rockport Unit 2 Generating Station will be removed from rate base and recovered on a levelized basis. Public's Ex. 15 at 5, 7; Intervenor IG Ex. 4 at 5; Petitioner's Ex. 15 at 21-22. Mr. Williamson stated that when I&M makes its PRA compliance filing to implement final base rates (*i.e.* Phase II), I&M will adjust the PRA to reflect the removal of the remaining net book value of Rockport Unit 2 of $77,687,384 (Indiana Jurisdictional) from rate base. Petitioner's Ex. 15 at 21-22. He said at that time and going forward through December 31, 2028, I&M will be permitted to recover a total of $95,639,514 (Indiana Jurisdictional) associated with the net book value of Rockport Unit 2, on a levelized basis in I&M's ECR (or alternative rate adjustment mechanism if the ECR is discontinued in the future). Petitioner's Ex. 15 at 21-22. Mr. Williamson said the final PRA compliance filing made in January 2023 will result in final PRA tariff rates that will be applicable until I&M implements new base rates in its next general rate case. *Id.* at 22. Mr. Gorman testified that this is a reasonable means to effectuate the removal of Rockport Unit 2 related costs from retail rates, consistent with the settlement agreement in Cause No. 45546. Intervenor IG Ex. 4 at 5.

Mr. Eckert said the Settlement Agreement also incorporates other expense reductions consistent with the terms of the then-pending Cause No. 45546 Settlement Agreement. Public's Ex. 15 at 5. Mr. Eckert added that it is the OUCC's intention and belief that the Settlement Agreement reasonably implements and does not modify the terms of the Cause No. 45546 Settlement Agreement. Public's Ex. 15 at 7. He added that the expiration of the Rockport Unit 2 lease will result in significant reductions in I&M's costs and therefore, its cost of providing retail energy service to Indiana customers. Public's Ex. 15 at 8.

E. Jurisdictional Reallocation.[15] As discussed by Mr. Williamson, the prefiled evidence reflects a dispute regarding the treatment of the excluded capacity from Cause No. 45235. Petitioner's Ex. 15 at 22. The OUCC, IG, and Joint Municipals took the position that the adjustment ordered by the Commission in Cause No. 45235, or some version of that adjustment, should continue at least until the Rockport Unit 2 lease ends on December 7, 2022, at which point I&M will no longer have the "excess capacity" that supported the Commission's prior decision. *Id.* Mr. Williamson's rebuttal testimony explained that the Company's need to meet its PJM capacity obligation is as of June 1, 2022, at which point the Rockport Unit 2 capacity would be unavailable to I&M to meet its PJM obligation absent the acquisition of the unit or separate agreement making the capacity available through the entirety of the planning year. *Id.* at 22-23, Petitioner's Ex. 14 (Williamson Rebuttal) at 16.

Mr. Gorman and Mr. Williamson explained that the Settling Parties agreed to a resolution of the treatment of capacity related costs the Commission previously excluded from allocation to

[15] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.4.

Indiana's retail customers in Cause No. 45235. Intervenor IG Ex. 4 at 4; Petitioner's Ex. 15 at 23. Specifically, Mr. Gorman said the Company agreed to implement a monthly credit from the date rates first take effect through December 7, 2022, when the lease on Rockport Unit 2 expires, to effectively "remove" those capacity-related costs from retail rates. Intervenor IG Ex. 4 at 4. More specifically, Mr. Williamson said I&M agreed to implement Phase I rates and simultaneously implement a temporary PRA Excluded Capacity Credit to credit customers for excluded capacity costs consistent with the Commission's Final Order in Cause No. 45235; the credit will be eliminated from the PRA on a service rendered basis effective December 8, 2022. He said the credit will be developed based on a monthly amount of $4,702,533 offset by the fixed annual level of retained capacity and Off System Sales revenues of $24,926,096, prorated to a monthly level of $2,077,175, for a net monthly credit of $2,625,358. Petitioner's Ex. 15 at 23. Mr. Williamson stated that I&M will submit a compliance tariff to the Commission in the Cause No. 45576 docket to eliminate the PRA Excluded Capacity Credit from the PRA factors. Petitioner's Ex. 15 at 23. He added that since this change will be fully eliminating this component, and the impact to the PRA is limited to the math associated with removing this component of the PRA factors, I&M asks the Commission to expeditiously approve the revision. Petitioner's Ex. 15 at 23.

Mr. Gorman said this fairly reflects adherence to the Commission's Order in Cause No. 45235 during most of the test year, and the change that will occur in I&M's capacity position after December 7, 2022 when the Rockport Unit 2 lease expires. Intervenor IG Ex. 4 at 4; also Petitioner's Ex. 15 at 23.

F. PJM NITS Costs.[16] As stated by Messrs. Eckert, Dauphinais and Williamson, the Settling Parties have agreed to place an annual cap on I&M's PJM NITS costs reflected in specific FERC accounts (4561035 and 5650016) that may be recovered through the PJM Rider based on I&M's 2024 forecasted, Indiana Jurisdictional amount of these costs, plus a 15% buffer. Public's Ex. 15 at 3-4, 9; Intervenor IG Ex. 5 at 3; Petitioner's Ex. 15 at 24. The witnesses explained that annual PJM NITS costs in any year that exceed $381.3 million, together with the associated PJM NITS rider revenue requirement and carrying costs, will be placed in a regulatory asset for recovery in I&M's next base rate case. Public's Ex. 15 at 3-4, 9; Intervenor IG Ex. 5 at 3; Petitioner's Ex. 15 at 24. They also clarified that the Settling Parties reserve their rights to take any position with respect to the appropriate amortization period and related going-forward return on any unamortized balance of any regulatory asset created pursuant to this term of this Settlement Agreement Public's Ex. 15 at 3. He said PJM NITS are a significant expense borne by I&M's customers and the agreed annual cost cap is an important guardrail to contain this cost in a given period. Public's Ex. 15 at 3-4. Mr. Eckert added that the compromise made by Settling Parties provides limitations on I&M's PJM NITS cost recovery. Public's Ex. 15 at 9. He said the annual cost cap provides flexibility, allowing I&M to recover costs over or under its annual forecasted amounts plus an additional 15%. *Id.* He added that the cap also limits the PJM NITS cash recovery from ratepayers through the designated period. *Id.*

G. Base Cost of Fuel. Mr. Eckert stated that the Settling Parties accepted I&M's base cost of fuel of 13.110 mills per kWh. Public's Ex. 15 at 11.

H. Advanced Metering Infrastructure ("AMI").[17] The testimony in support of the Settlement Agreement also discussed the Settling Parties' negotiated resolution with respect

[16] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.5.
[17] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.6.

to AMI. Public's Ex. 15 at 12; Petitioner's Ex. 15 at 25. Mr. Eckert and Mr. Williamson stated that the Settling Parties: (1) agreed to include I&M's $54.649 million AMI capital 2021-4 2022 forecast and $4.77 million in related O&M costs in the base rates set in this Cause; and (2) I&M agreed to withdraw its request for an AMI rider. *Id.* Mr. Williamson stated that the Settlement Agreement makes clear that I&M is not prevented from seeking recovery of additional AMI investment and O&M costs in its next base rate case(s). Petitioner's Ex. 15 at 25. He added that the noncompany Settling Parties agree not to challenge the reasonableness of I&M's decision to transition from AMR meters to AMI meters or the reasonableness of I&M's four-year deployment plan, as presented in this Cause, in any future proceeding. Petitioner's Ex. 15 at 25.

As further discussed below, these witnesses also explained that I&M agreed to notify its customers about its ability to remotely disconnect those with AMI meters. Public's Ex. 15 at 12; Petitioner's Ex. 15 at 30.

I. Rate Base.

1. Prepaid Pension and OPEB Assets.[18] The testimony in support of the Settlement Agreement discussed the provisions regarding rate base. For purposes of reaching overall settlement in this case, Messrs. Eckert and Williamson stated that the Settling Parties agreed that I&M's rate base will include the $80.7 million (Total Company), $58.1 million (Indiana Jurisdictional) prepaid pension asset. Public's Ex. 15 at 12; Petitioner's Ex. 15 at 25-26. Mr. Eckert said the Commission has approved inclusion of a prepaid pension asset in I&M's rate base in I&M's three prior rate cases, Cause Nos. 44075, 44967, and 45235. Public's Ex. 15 at 12. The witnesses added that the Settlement reflects that I&M's proposed $96,252,892 (Total Company), $69,324,472 (Indiana Jurisdictional), OPEB prepayment will not be included in its rate base. Public's Ex. 15 at 13; Petitioner's Ex. 15 at 26.

2. Agreed Rate Base Reductions.[19] Mr. Williamson testified that for the purpose of calculating the revenue requirement used to set base rates, I&M agreed to reduce its proposed rate base by $26.4 million as follows: (1) Remove $3,783,088 EV Fast Charging costs; (2) Remove $568,770 Flex Pay Program costs; (3) Remove $2,023,141 unamortized COVID-19 deferred bad debt expense; and (4) Remove $20 million of forecasted Distribution plant investment. Petitioner's Ex. 15 at 26. He said the Settlement Agreement clarifies that nothing in this agreement precludes I&M from seeking to include the removed items in its cost of service in a future case. *Id.* at 26. He stated that in I&M's view this clarification recognizes the need for ongoing distribution system investment while at the same time allowing I&M to reduce the impact new base rates will have on customers. *Id.* at 27. He said the agreement also allows the Company the opportunity to revisit the EV Fast Charging and the Flex Pay Program proposals and pursue them as necessary in future proceedings. *Id.* Mr. Williamson presented a summary of I&M's rate base. *Id.* at 27; Figure AJW-3.

J. Depreciation Rates.[20] I&M's petition seeks approval of revised depreciation rates. The revised depreciations rates were presented by Mr. Cash. Petitioner's Ex. 19 (Cash direct testimony (revised)). In describing how his depreciation study compared to the study presented in Cause No. 45235, Mr. Cash explained that in this depreciation study, all of the Company's investment in Rockport Unit and certain leasehold improvements made at Rockport

[18] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.7.
[19] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.8.
[20] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.9.a.

Unit 2 are presented together as the Rockport Plant and depreciation rates were calculated for each utility account used by the Rockport Plant. *Id.* at 14-15. He explained the depreciation rates approved in Cause No. 45235 established depreciation rates for the investment in Rockport Unit 2 through 2028 for the Unit 2 SCR, through 2025 for the Unit 2 DSI, and through 2022 for the other investment at Unit 2 and added that the proposed depreciation rates in this case depreciate the remaining net book value of all Rockport Plant investment through December 31, 2022 through 2028. *Id.* at 15. He said this allows for all of the remaining investment of the Rockport Plant in this case to be recovered over the plant's remaining life, or through 2028. He stated that the Company has not proposed depreciation rates specific to the Rockport Unit 2 leasehold improvements owned by the Company and explained how depreciation expense will be calculated for the Rockport Unit 2 leasehold improvements while Rockport Unit 2 remains in service. *Id.* at 20-21. More specifically, Mr. Cash stated that the proposed depreciation rates in this case were calculated to recover the remaining investment and net salvage of both Unit 1 and Unit 2 using the gross plant balance and remaining life of Unit 1. *Id.* at 21. He said therefore, the depreciation rates approved by the Commission will only be applied to the Unit 1 gross plant investment in order to determine I&M's depreciation expense for the Rockport Plant as a whole, including Unit 2. *Id.* He explained that once the Commission approves new depreciation rates in this case and while Unit 2 remains in-service, I&M will apply a depreciation rate of 0% to Rockport Unit 2 for accounting purposes. *Id.* He stated that for accumulated depreciation purposes, while Rockport Unit 2 remains in service, a portion of the depreciation expense on the Rockport Plant will continue to be applied to Rockport Unit 2. *Id.* He explained that by applying the proposed rates only to Unit 1 I&M will calculate annual depreciation expense associated with the remaining investment and net salvage associated with both Unit 1 and Unit 2. If I&M were to apply a depreciation rate to Unit 2 other than 0% it would overstate I&M's annual depreciation accrual, exceed the annual depreciation expense included in I&M's proposed rates in this proceeding and negatively impact I&M's net operating income. *Id.* He explained that this approach was taken to reflect the expiration of the Rockport Unit 2 lease in December 2022, which is also the end of the Company's forecasted test year in this case. *Id.*

Mr. Williamson stated that under the Settlement Agreement depreciation expense would be reduced by $10 million. Petitioner's Ex. 15 at 27. He explained that to implement this, the Company reduced depreciation expense through a combination of expense reductions related to the rate base reductions associated with utility plant investments and revised distribution plant depreciation rates. *Id.* He said the OUCC's pre-filed testimony included several proposals to adjust I&M's distribution plant depreciation rates. *Id.* He explained that the revised distribution plant depreciation rates include acceptance of OUCC depreciation rate proposals for certain distribution FERC plant accounts[21] (but not the methodology), and a compromise of proposals made by the OUCC and the Company for certain distribution FERC plant accounts. He presented the revised depreciation rates in Attachment AJW-2-S. Mr. Williamson also testified that under the Settlement Agreement any matters not addressed by the Settlement Agreement will be adopted as proposed by I&M. *Id.* at 39.

K. Other Agreed Operating Expense Reductions.[22] Mr. Williamson and Mr. Eckert explained that the Settling Parties agreed to the following additional operating expense reductions: $2.0 million in nuclear decommissioning expense; $293,773 deferred COVID-19 bad

[21] FERC plant accounts 365, 366, and 367.
[22] Settling Parties' Joint Ex. 1 (Settlement Agreement) Section I.A.9.b-d.

debt expense; and $4.0 million decrease in other O&M expense from I&M's test year forecast. Petitioner's Ex. 15 at 27-28; Public's Ex. 15 at 13. Mr. Williamson added that the Settling Parties agree that I&M may seek an adjustment to the funding level of the Nuclear Decommissioning Trust based on future analysis of the adequacy of the Nuclear Decommissioning Trust funds to pay for decommissioning. Petitioner's Ex. 15 at 28. He added that the Settlement Agreement accepts OUCC witness Blakley's proposal to reduce the incremental bad debt expense amortization by $293,773 and explained that while the Company disagreed with the basis for the OUCC's proposed adjustment, in the context of the overall settlement, the Company accepted this proposal as part of the goal of mitigating the impact of this case on customer rates. *Id.* Mr. Williamson said the Settlement Agreement recognizes that other aspects of the Company's test year O&M forecast were challenged and explained that while the Company stands behind its forecasting process, in the spirit of compromise the Company agreed to a reduction in forecasted O&M in the amount of $4 million. *Id.* Mr. Williamson also clarified that that nothing in the Settlement agreement precludes I&M from seeking recovery of these type of expenses in a future case. *Id.* at 28-29.

L. Other Matters.[23] Mr. Williamson also explained the Settlement Agreement addresses issues raised by the OUCC and intervenors regarding the OUCC Report in the FAC, Vegetation Management Reporting, Notice of Disconnection of Service, Solar Power Rider, Flex Pay Program, EV Fast Charging, Low Income Customers, and Indiana Ratepayer Trust. Petitioner's Ex. 15 at 29-34. These provisions are further discussed below.

M. Cost of Service and Rate Design.[24] Finally, the testimony in support of the Settlement Agreement discussed the revenue allocation/rate design provisions of the Settlement Agreement.

1. Revenue Allocation.[25] The witnesses explained that the Settling Parties spent time negotiating a fair and reasonable revenue class allocation to allocate the costs of service among all rate classes. Public's Ex. 15 at 13-14; Intervenor IG Ex. 5 at 3-4; Petitioner's Ex. 15 at 34-35. They each noted that as stated in Settlement Agreement Section I.B.1, the agreed allocation is without reference to any specific cost allocation methodology and was determined strictly for settlement purposes. Public's Ex. 15 at 13; Intervenor IG Ex. 5 at 2; Petitioner's Ex. 15 at 35. For example, Mr. Dauphinais stated that the Settlement includes an agreed revenue allocation that is without reference to, and does not request the Commission to make findings with respect to, any specific allocation methodology. Intervenor IG Ex. 5 at 2. He said given the difference of opinions among the parties on the proper method of cost allocation, he believes this is an important term that reflects the Settling Parties' overall efforts to put aside their specific differences to arrive at a result that is within the range of outcomes presented in evidence and which results in a fair allocation of the overall revenue requirement among the various rate classes. Intervenor IG Ex. 5 at 2. They each explained that they participated in settlement meetings during which the agreed allocation was discussed, and each witness concluded it is a fair compromise. Intervenor IG Ex. 5 at 3; Petitioner's Ex. 15 at 35; Public's Ex. 15 at 13-14.

As mentioned above, Petitioner's Ex. 15, Attachment AJW-3-S (Public), which updates Attachments JLF-2 and JLF-3 to reflect the Settlement Agreement, provided supporting details

[23] Settling Parties' Joint Ex. 1 (Settlement Agreement) Section I.A.10.
[24] Settling Parties' Joint Ex. 1 (Settlement Agreement) Section I.B.
[25] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.2.

including the customer class revenue allocation factors, and detailed base rate, rider and total bill increase by class. The confidential version of this attachment is identified as Attachment AJW-3-S-(C) (confidential). Petitioner's Ex. 15 at 35.

Mr. Dauphinais also testified that the Settling Parties agreed that with respect to the new charge in the PRA rider associated with the collection of costs related to Rockport Unit 2, that the revenue requirement will continue to be allocated on the same energy and demand basis as is used to allocate other rider revenue requirements. Intervenor IG Ex. 5 at 3. He said this means, effectively, that demand-related costs will still be allocated on a demand basis, and energy-related costs will still be allocated on an energy basis and added that this conforms to basic cost of service principles. *Id.*

Mr. Eckert added that since the OUCC represents all customer classes, the OUCC views the task of revenue allocation as one of ensuring that any cost increases are fairly distributed across rate classes. Public's Ex. 15 at 14. He said that because this Settlement results in overall rate decreases, the OUCC focused on ensuring that the benefits of that overall reduction were fairly distributed. *Id.*

2. Residential Rate Design.[26] The witnesses explained that the Settlement Agreement does not increase I&M's current Tariff RS monthly charge. Public's Ex. 15 at 14; Petitioner's Ex. 15 at 34-35. Mr. Eckert said the OUCC's longstanding position is that a residential customer charge should not reflect more than the direct cost of connecting a customer to the distribution system from the standpoint of economic efficiency and regulatory policy, and comments that the OUCC consistently receive from utility customers support this position. Public's Ex. 15 at 14. Mr. Eckert stated that in its direct case, I&M proposed a 33% or $5.00 increase in the residential fixed charge (from $15.00 to $20.00). *Id.* Mr. Williamson added that while the Company has firmly held positions regarding the application of cost of service and cost recovery principles to residential rate design the Company also recognizes the passion around this issue reflected in the testimony offered by the residential consumer advocates. Petitioner's Ex. 15 at 34-35. He said the divergence of views made this issue challenging to resolve. *Id.* at 35. Mr. Eckert said the monthly customer charge was the subject of deliberate negotiations and that through compromise, the Settling Parties agreed to maintain the monthly customer charge of $15.00 for Rate RS and agreed to increase the fixed Rate RS-TOD and Rate RS-TOD2 monthly charge to $17 per month. Public's Ex. 15 at 14. Finally, Mr. Eckert testified that the customer deposit is now limited to no more than $50 for customers identified as LIHEAP participants or LIHEAP-eligible. *Id.* at 15.

3. Tariff IP.[27] With respect to Tariff IP, Mr. Dauphinais stated that in his direct testimony he was concerned that I&M proposed to shift demand-related costs into the first block energy charge as a result of a shift from kVA billing demand to kW billing demand units; a shift which resulted, due to the conversion factor, in a reduction of billing determinants from which to collect demand-related charges. Intervenor IG Ex. 5 at 5; Petitioner's Ex. 15 at 36. He said he had proposed that all demand-related costs be removed from the energy charges, and placed back into the demand charges. Intervenor IG Ex. 5 at 5. He explained that this is essentially what was done in arriving at the rates included in the Settlement. Intervenor IG Ex. 5 at 5. He said because each sub-class of Tariff IP had a different percentage change in 12 demand units, primarily

[26] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.1.
[27] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.3.

due to their respective power factors, the Settling Parties agreed to adjust the demand charges by an amount that roughly reflected that change. Intervenor IG Ex. 5 at 5. He added that while this could not be done perfectly for all sub-classes without producing anomalous results that would encourage inefficiencies, the result is much closer to cost-of-service rate design than I&M's initial proposal. Intervenor IG Ex. 5 at 5. Mr. Dauphinais testified that while the design does not perfectly move all demand-related costs out of the energy charges for all sub-classes, it is a fair result that reasonably balances the interests of pure cost based rates with other factors that are taken into account in cost of service ratemaking. Intervenor IG Ex. 5 at 5. He concluded, therefore, that the result is consistent with basic principles of cost of service ratemaking. Intervenor IG Ex. 5 at 5.

4. Tariff GS and Tariff LGS.[28] Mr. Williamson explained that I&M agreed not to combine Tariff LGS and Tariff GS base rates. Petitioner's Ex. 15 at 36; Settlement Agreement Section I.B.4. I&M will continue to eliminate the kVA demand charge and Power Factor Correction Capacitor adjustment in Tariff LGS. To ease the transition from full kVA billing demands, I&M agreed to implement an excess kVA charge in Tariff LGS. Petitioner's Ex. 15 at 36. He identified the agreed language for the Tariff. *Id.* Finally, Mr. Williamson said the rider rates for Tariffs LGS and GS were unified to mitigate some of I&M's concerns that led to its initial proposal to combine the two tariffs. *Id.*

5. Tariff Term and Condition No. 27.[29] Mr. Williamson testified that the Settling Parties agreed that I&M may adopt its new proposed Term and Condition No. 27 as modified in the Settlement Agreement. Petitioner's Ex. 15 at 36-37. He said although the Company did not agree that the concern raised by the Industrial Group warranted rejection of the Company's proposed provision, the Settling Parties resolved the dispute over the proposed change through the revised language. Petitioner's Ex. 15 at 37.

Mr. Dauphinais stated that he had raised a concern with the open ended nature of the charge to large customers who request a disconnection/reconnection at a transformer, switch or breaker. Intervenor IG Ex. 5 at 4. Mr. Dauphinais testified the modified language for Terms and Conditions No. 27 addressed concerns raised in his direct testimony with respect to the exposure of large customers to a potentially unknown charge without the ability to assess its reasonableness or alternatives to performing the work. Intervenor IG Ex. 5 at 4. He said the Settlement Agreement provides for a "not to exceed" figure of $1,500 to cover costs associated with such requests. *Id.* He added that for those requests which are expected to exceed that amount, I&M has agreed to provide the customer with a binding estimate detailing the work and costs prior to the date work is to commence. Intervenor IG Ex. 5 at 4. He said this addresses his concerns with respect to the exposure of large customers to a potentially unknown charge without the ability to assess its reasonableness or alternatives to performing the work. Intervenor IG Ex. 5 at 4. He stated that the binding nature of the estimate also ensures that there is some recourse for customers to the extent there is a dispute over the cost of a disconnection/reconnection. Intervenor IG Ex. 5 at 4; Petitioner's Ex. 15 at 36-37.

6. "Other Sources of Energy" Tariff Language.[30] Mr. Dauphinais also explained that he had raised concerns in his direct testimony with respect to I&M's proposal to strike language in Tariff IP related to the ability of customers with other sources of energy supply

[28] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.4.
[29] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.5.
[30] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.6.

to take standby and backup service under that rate. Intervenor IG Ex. 5 at 4. He stated that although I&M clarified the intent of its decision to strike the language in rebuttal, the Company agreed to retain that language in its tariffs for rates General Service – Tariff G.S. ("Tariff GS"), Large General Service – Tariff L.G.S. ("Tariff LGS"), IP and Water and Sewage Service – Tariff 22 W.S.S. ("Tariff WSS"). *Id.* He said this ensures there will be no future dispute about the ability of customers who self-supply power to access standby and backup service under specific rates, provided they qualify for the provision of service under those rates. *Id.* at 4; see also Petitioner's Ex. 15 at 37-38.

7. Critical Peak Pricing.[31] With respect to other rate design matters, the witnesses testified that the Agreement ensures that approval of the Critical Peak Pricing rate as part of this case does not represent approval for imposition of that rate on customers on an "opt-out" basis and that I&M must seek approval prior to any "opt-out" rate approach in the future. Public's Ex. 15 at 14-15; Petitioner's Ex. 15 at 38. Mr. Eckert said the agreement also provides that I&M will address excluding holidays from high-rate periods in its next base rate case. Public's Ex. 15 at 15. Mr. Williamson stated this provision allows I&M to work through the technical issues associated with this approach. Petitioner's Ex. 15 at 38.

N. Remaining Issues. Section I.C of the Settlement Agreement provides that any matters not addressed by this Settlement Agreement will be adopted as proposed by I&M in its direct case.

In his Settlement testimony, Mr. Eckert pointed out that the Settling Parties did not oppose I&M's proposed ratemaking treatment for the Life Cycle Management ("LCM") Rider, explaining that I&M proposed the following: (1) to retire its LCM Rider; (2) to file its next LCM reconciliation (LCM-11) in the third quarter of 2021 (September 28, 2021); (3) to make a compliance filing shortly after an order is received in this Cause; and (4) to address the final reconciliation of the LCM over/under recovery and on-going recovery of property tax expense on LCM investment made in 2022 in a subsequent ECR filing. Public's Ex. 15 at 10.[33]

O. Supporting Documentation. As explained by Mr. Williamson, the Settlement Agreement includes as attachments a revised I&M Exhibit A-1 (required rate relief summary); a breakdown of the approximately $141 million of Rockport Unit 2 costs to be removed from I&M's proposed base rates in accordance with the Settlement Agreement; and the agreed customer class allocations of the revenue requirement as agreed to in the Settlement Agreement, the impact of the Settlement Agreement on riders in Phase I and Phase II, and the Tariff IP rates agreed to by the Settling Parties. Petitioner's Ex. 15 at 3-4.

The testimony in support of the Settlement Agreement also includes Attachments AJW-1-S (updates to capital structure); AJW-2-S (depreciation rates); AJW-3-S (customer class revenue allocation factors, detailed base rate, rider and total bill increase by class; AJW-4-S (typical bill comparison); AJW-5-S (forecasted test year end net plant balance used to calculate the Phase II rates); AJW-6-S (gross revenue conversion factor); AJW-7-S (updates Exhibit A-9 (Effective Federal Income Tax Rate)); AJW-8-S (Appendix G from IRS Internal Revenue Bulletin No. 2021-1); AJW-9-S (updated tariff book Table of Contents and Terms and Conditions of Service); and

[31] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.7.
[32] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.C.; also Petitioner's Ex. 15 at 39.
[33] See Petitioner's Ex. 1 (Baker Direct), Attachment TLT-1 (Petition) and attached Ex. A for a list of the Company's original proposals.

AJW-10-S (updated tariff book – tariffs and riders sections). Petitioner's Ex. 15 at 4-5, 40. Workpapers updating the relevant cost of service and rate design were also provided to the Commission. *Id.* at 6.

P. Phase-In Rate Adjustment and Compliance Filing. Mr. Williamson also explained the rate design associated with the proposed PRA factors under the Settlement Agreement. Petitioner's Ex. 15 at 38-39. He said the Net Plant Credit was designed in a manner consistent with the Company's proposal in this filing and the methodology utilized for the calculation in prior I&M rate cases. *Id.* at 39. He said the rates for the other three components of the PRA were designed consistent with the methodology used for virtually all I&M riders, where costs were identified as either demand- or energy-related and allocated to each class on demand or energy, respectively. Petitioner's Ex. 15 at 39. For each class, demand costs were generally collected through demand charges where possible (Tariffs IP, LGS, GS, and Electric Heating General), and otherwise through energy charges. He said in all cases, energy costs were collected through energy charges. *Id.* Mr. Williamson also explained what the Company anticipated filing as a compliance filing if the Settlement Agreement is approved. Petitioner's Ex. 15 at 41.

Q. Typical Bill Comparison. Mr. Williamson presented an updated typical bill comparison. Petitioner's Ex. 15 at 40. He said that for a typical residential customer using 1,000 kWh, the Phase I rates reflect a total monthly bill decrease of $1.48 or 0.9%. He said for Phase II, the Settlement Agreement reflects an additional monthly bill decrease of $7.95 or 5.1% at the end of the test year. *Id.*; Petitioner's Ex. 15, Attachment AJW-4-S.

R. Public Interest. Mr. Williamson testified that settlement is a reasonable means of resolving a controversial proceeding in a manner that is fair and balanced to all concerned. Petitioner's Ex. 15 at 43. He said while this is true with respect to a general rate case, the complexity of a rate case proceeding can make settlement challenging to achieve. He said in this case, the Presiding Officers set forth expectations in the procedural order that prompted the parties to commence settlement discussions in earnest so that the settlement agreement and supporting testimony could be provided to the Commission in a manner that allowed the Commission sufficient opportunity to review the settlement and supporting testimony as well as allowing the Commission to manage its hearing room schedule efficiently. Petitioner's Ex. 15 at 43. He explained the Presiding Officers also made themselves available on relatively short notice for an attorneys call so that the parties could keep them informed of the status of the discussions and receive guidance as to settlement procedural matters. Mr. Williamson testified the support of the Commission as the parties worked to reach a global settlement was helpful and is appreciated. Petitioner's Ex. 15 at 43.

Mr. Williamson opined that the Settlement Agreement is in the public interest and is supported by and within the scope of the evidence presented by the Settling Parties. Petitioner's Ex. 15 at 43. He said taken as a whole, the Settlement Agreement reasonably addresses the concerns raised in this proceeding and provides a balanced, cooperative outcome of the issues in this Cause. He added the separate Muncie Settlement Agreement reasonably addresses the concerns raised by Muncie and is also the product of arm's-length negotiations. Petitioner's Ex. 15 at 43.

Mr. Eckert testified as to how the Settlement Agreement balances the interests of I&M and ratepayers. Public's Ex. 15 at 2. He stated the Settlement Agreement will provide certainty regarding critical issues, including revenue requirements, authorized return, and the allocation of

I&M's revenue requirement among its various rate classes. Public's Ex. 15 at 2. He said the Settlement Agreement is a product of intense negotiations, with each party offering compromise to challenging issues. The nature of compromise includes assessing the litigation risk that the tribunal will find the other side's case more compelling. He said that while the Settlement Agreement represents a balance of all interests, given the number of benefits provided to ratepayers as outlined in the Settlement Agreement and described below, the OUCC, as the statutory representative of all ratepayers, believes the Settlement Agreement is a fair resolution, supported by evidence and should be approved. Public's Ex. 15 at 2.

Mr. Dauphinais testified the process of negotiating the Settlement brought I&M, the OUCC, the Industrial Group and other intervenors together to reach compromise on a wide range of disputed issues in the case. Intervenor IG Ex. 5 at 2. He said this required the parties to evaluate their litigation positions and find common ground on disputed issues. While no party received the full measure of the positions they took in their respective cases-in-chief, the total package represents a balancing of the parties' competing interests in favor of an overall result that is fair and reasonable. In his view, then, the Settlement represents the culmination of the parties' efforts to come together through the process of negotiations to find a result that reflects the purpose of utility regulation — the balancing of interests between the utility and its consumers. Intervenor IG Ex. 5 at 2.

Both Mr. Dauphinais and Mr. Gorman emphasized that the Settlement is the result of extensive effort on the part of all the parties and their representatives to reach a reasonable, final, result. Intervenor IG Ex. 5 at 6; Intervenor IG Ex. 4 at 5. It took, by way of example, a good deal of work with I&M to produce the agreed upon design of Tariff IP. That work, and the work that went into the negotiations generally, was a product of the seriousness and dedication with which the parties approached the negotiations, and their commitment to a cooperative process to reach a reasonable set of compromises on contested issues raised in this case. Messrs. Dauphinais and Gorman testified the Settling Parties were able to negotiate a series of compromises on complex issues in a collaborative fashion. They both concluded that the resolution of these compromises, reflected in the Settlement Agreement, result in just and reasonable rates for the Company and consumers, and that approval of the Settlement Agreement is in the public interest. Intervenor IG Ex. 5 at 6; Intervenor IG Ex. 4 Gorman at 5.

8. <u>Muncie Settlement Agreement</u>. Mr. Williamson summarized the concerns raised by Muncie regarding the City's effort to develop a City-owned solar generating facility to be located on the former General Motors brownfield site in southwest Muncie referred to in testimony as the "Chevy Plant". Petitioner's Ex. 15 at 42. He explained Company witness Lucas in rebuttal apologized for the confusion, clarified certain FERC requirements and committed to continue to work with the City on this project and to provide clear information on process and regulatory framework to move this project forward. Petitioner's Ex. 15 at 42, Petitioner's Ex. 6 (Lucas Rebuttal) at 16-17. Mr. Williamson included a copy of the Muncie Settlement Agreement with his settlement testimony as Attachment AJW-11-S. Mr. Williamson testified the Muncie Settlement Agreement memorializes this commitment and does so in substantial detail to assuage Muncie's concerns and to clarify the Company's role. Petitioner's Ex. 15 at 42. Mr. Williamson testified the Muncie Settlement Agreement is in the public interest as it reasonably addresses the concern raised by Muncie and is also the product of arm's-length negotiations. Petitioner's Ex. 15 at 43. Mr. Williamson explained the other parties take no position with respect to any of the issues addressed in the Muncie Settlement Agreement. Petitioner's Ex. 15 at 2. He stated this recognizes that the

Muncie Settlement Agreement has no rate impact and does not otherwise affect any issues raised or presented in the Settlement Agreement. Petitioner's Ex. 15 at 2. In their responses to the Commission's December 9, 2021, I&M and the City of Muncie further explained why the Muncie Settlement Agreement is in the public interest. Petitioner's Ex. 45 (I&M Response to Commission Docket Entry); Muncie Ex. 3 (Muncie Response to Commission Docket Entry).

In its Response comments, the City noted that it raised unique issues under the Commission's broad authority provided under IC 8-1-2-4 and 8-1-2.5-5 (see I&M Verified Petition, Para. 10), as well as 8-1-2.4 and 8-1-8.8, which have now been reasonably addressed in and through the Muncie Settlement Agreement. Muncie Ex. 3 at 2. In addition to being a signatory to the main Settlement Agreement and the customer benefits that Settlement provides, Mayor Ridenour described in his testimony that the reasoning for the City's participation in this matter was, in part, to provide additional details to the Commission so that it could better understand how communities like Muncie depend upon and need a good, supportive relationship with its electric provider. Muncie Ex. 1 (Ridenour) at 3. He further explained how I&M is an essential piece to and necessary partner in the ongoing challenge of retaining and attracting business and industry and the corresponding jobs that those businesses and industries provide. Muncie Ex. 1 at 3. The Mayor also noted that fundamental to those efforts is continuing to make the proper investments in and upgrades to electric infrastructure and actively supporting ongoing economic development initiatives. Muncie Ex. 1 at 3. Mayor Ridenour also discussed the revitalization and reuse efforts the City is pursuing for the former Chevy Plant site to help jump-start growth for Muncie as well as I&M, which would benefit all of I&M's other customers as well. Muncie Ex. 1 at 4-6. For all of these reasons, the City of Muncie stated in its Response that it believes and submits that the Muncie Settlement Agreement and the commitments and processes memorialized therein are in the public interest. Muncie Ex. 3 at 3.

9. <u>Commission Discussion and Findings</u>. Settlement is a reasonable means of resolving a controversial proceeding in a manner that is fair and balanced to all concerned. The Settlement Agreement and the Muncie Settlement Agreement (collectively, the "Settlement Agreements") represent the Settling Parties' proposed resolution of the issues in this Cause. As the Commission has previously discussed, settlements presented to the Commission are not ordinary contracts between private parties. *U.S. Gypsum, Inc. v. Ind. Gas Co*., 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id*. (quoting *Citizens Action Coal. v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coal.*, 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order, including approval of a settlement must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum,* 735 N.E.2d at 795 (citing *Citizens Action Coal. v. Public Service Co.*, 582 N.E.2d 330 (Ind. 1991)). The Commission's procedural rules require that settlement be supported by probative evidence. 170 IAC 1-1.1-17(d). Before the Commission can approve the Settlement Agreements, the Commission must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreements are reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2 and that such agreements serve the public interest.

The Commission has before it substantial evidence from which to determine the reasonableness of the terms of the Settlement Agreements, including the Settling Parties' agreement on Petitioner's rate base, methodology to be used in determining Petitioner's rate decrease, agreed allocation of the decrease, agreed rate design, agreement on ROE and capital structure, and the other terms of the Settlement Agreements, all of which we find are supported by the settlement testimony. The Settlement Agreement is further supported by the Settlement Agreement attachments and the settlement schedules and workpapers; therefore, we have substantive information from which to discern the basis for the components of the decrease in I&M's base rates and charges under the Settlement Agreement and find the evidence supports that they are reasonable.

The Settlement Agreement filed in this proceeding resolves all the issues presented. To put this in context, I&M, in its initial case-in-chief filed in July 2021, supported a revenue deficiency of $104 million, reflective of an overall 6.5% revenue increase. As shown by Settlement Agreement Attachment 1, ln. 17, the Settling Parties have agreed to a total revenue decrease of $94.705 million, which is a 5.90% revenue decrease.

OUCC witness Eckert, in supporting approval of the Settlement Agreement, testified the consumer benefits from the Settlement Agreement include: (1) continuation of the monthly residential customer charge of $15.00 from I&M's originally proposed $20.00 charge; (2) no increase to I&M's current 9.70 percent ROE (I&M proposed to increase its ROE to 10.0 percent); (3) limiting I&M's debt to equity ratio in its WACC to no higher than 50.00% equity; (4) an annual PJM NITS cost cap; (5) retention of approximately $159 million in cost free capital that I&M proposed to remove from its capital structure through its NOLC adjustment, pending receipt of a PLR from the IRS; (6) removal of I&M's proposed $69.3 million (Indiana Jurisdictional) OPEB asset from its rate base; (7) an agreed limitation on customer deposits to no more than $50 for customers identified as LIHEAP participants or LIHEAP-eligible; and (8) additional benefits negotiated by the Settling Parties. Public's Ex. 15 at 5-6. As further discussed below, the Commission agrees with Mr. Eckert that the Settlement Agreement represents a balance of all interests, is a fair resolution of this proceeding, supported by evidence and should be approved. Public's Ex. 15 at 2.

A. Revenue Requirement.

1. Return on Equity, Capital Structure, and Rate of Return.[34]

a. Return on Equity. The record reflects that this compromise 9.70% ROE is within the range of evidence presented by the Settling Parties and is the same ROE that the Commission concluded to be fair and reasonable under the totality of the circumstances in I&M's last basic rate case, Cause No. 45235. Petitioner's Ex. 15 at 8-9. The OUCC finds the agreed ROE reasonable and in the interest of ratepayers. The agreed ROE benefits ratepayers by reducing the return on rate base reflected in customers' rates as compared to the Company's proposal. The compromise ROE of 9.70% is within the range of outcomes presented by the parties. The Commission finds that as part of the overall Settlement Agreement, the agreed ROE balances the consumer parties' concerns while still preserving the financial integrity of the Company. Public's Ex. 15 at 6.

[34] Joint Ex. 1 (Settlement Agreement) at Section I.A.1.a.

b. Capital Structure. The Settling Parties agreed that for purposes of calculating the Phase-In Rate Adjustment for Phase I rates, the debt/equity ratio will be 50.54%/49.46% through close of test year. For purposes of the Phase II compliance filing, the debt/equity ratio will be adjusted to the December 31, 2022, actual ratio based on shareholder contributions of debt and equity, but will be no higher than a 50.00% equity ratio. Settlement Agreement Section I.A.1.f. Mr. Williamson testified this agreement resolves a concern raised by Mr. Gorman, who challenged the forecasted change in the ratio. Petitioner's Ex. 15 at 14-15. Mr. Eckert testified there are ratepayer benefits associated with the agreed capital structure. Public's Ex. 15 at 7. Mr. Gorman explained that the agreed modification to the capital structure is a decrease from I&M's original projection. Intervenor IG Ex. 4 at 3. The Commission finds the negotiated agreement regarding I&M's capital structure is reasonable, resolves concerns raised by the Industrial Group, and should be approved.

c. NOLC. As Mr. Williamson explained, the NOLC affects the calculation of ADFIT which is included as cost free capital in the capital structure. Petitioner's Ex. 15 at 9. The Company's understanding is that the NOLC needs to be accounted for in the ADFIT balance as a deferred tax asset ("DTA") to comply with the IRS normalization rules. Petitioner's Ex. 15 at 9. Therefore, the Company's filing included the NOLC DTA as part of the ADFIT to correct what the Company believes is an inconsistency to avoid a violation of the IRS normalization rules. Petitioner's Ex. 15 at 9. Mr. Williamson testified that this approach has the effect of reducing the amount of cost free capital included in the capital structure. Petitioner's Ex. 15 at 9. Certain consumer parties contested the Company's conclusion regarding the normalization rules. Petitioner's Ex. 15 at 10.

To resolve this issue, the Settling Parties have agreed that I&M will retain the approximately $159 million in cost free capital that the Company had proposed to be removed per I&M's proposed NOLC adjustment pending receipt of a PLR from the IRS. Petitioner's Ex. 15 at 10. Mr. Williamson stated to avoid a normalization violation if the IRS agrees with the Company's position, it is important that the contested amounts be preserved and that the Company have the ability to timely recognize the impact in rates if the PLR confirms I&M's position. Therefore, pending receipt of an IRS PLR, the Settling Parties agreed that the Commission should authorize I&M to establish a regulatory asset for the return that would be associated with the inclusion of the proposed NOLC adjustment in the calculation of ADFIT in I&M's capital structure. Settlement Agreement Section I.A.1.b.i; Petitioner's Ex. 15 at 10. The regulatory asset would also be established for the amount of any differences in I&M's requested levels of protected and unprotected EADFIT amortization (see Settlement Agreement Sections I.A.1.d and I.A.1.e) and the settled levels of amortization. Petitioner's Ex. 15 at 10. Mr. Williamson said the accrual of this regulatory asset will have an effective date equal to the effective date of the rates being implemented in this proceeding. Petitioner's Ex. 15 at 10. If the IRS PLR determines that failure to reinstate the proposed NOLC ADFIT in the calculation of I&M's capital structure constitutes a normalization violation, I&M will initiate a limited proceeding to update I&M's Tax Rider to reflect the NOLC adjustments, along with any Commission-approved offsets, in rates on an ongoing basis and to recover the regulatory asset. I&M expects that it would implement this through a Tax Rider filing. Settlement Agreement Section I.A.1.b.ii; Petitioner's Ex. 15 at 10. He stated that if the IRS PLR determines there is no normalization violation created by the failure to reinstate the NOLC ADFIT, then the Settlement Agreement provides that the regulatory asset will be written-off and will not be requested for recovery in rates. Settlement Agreement Section I.A.1.b.iii; Petitioner's Ex. 15 at 11.

The Commission agrees with Mr. Gorman that this is a fair resolution as it provides customers the immediate benefit of a higher amount of cost-free capital in the Company's capital structure. Intervenor IG Ex. 4 at 4. If the IRS finds a normalization violation would occur, the Settlement also acknowledges the Settling Parties' right to challenge the continued benefit of I&M remaining in the AEP Tax Sharing Agreement on a going forward basis. Intervenor IG Ex. 4 at 4; also Petitioner's Ex. 15 at 11.

I&M's evidence states the Company discovered what I&M and its outside advisors believe is a normalization inconsistency in preparing this case. Under the Internal Revenue Code ("IRC") safe harbor rules, this case is the "Next Available Opportunity" to correct any normalization issue in order to avoid a potential normalization penalty. Petitioner's Ex. 15 at 9. The OUCC, IG, and the Joint Municipals do not agree that a normalization issue exists. Public's Ex. 2 at 6; IG Ex. 1 at 37; Joint Municipal Ex. 2 at 4. The record further shows, and the Commission finds, the proposed resolution in the Settlement Agreement recognizes that the IRS PLR process exists to allow the IRS to rule on matters regarding its own tax rules. The Commission further finds that the Settlement Agreement provides a reasonable path forward to maintain an unadjusted amount of zero cost capital pending potential clarification from the IRS regarding its normalization rules.

Accordingly, the Commission finds that Section I.A.1 of the Settlement Agreement sets out a reasonable path forward to resolve the dispute regarding the treatment of the Company's NOLC. Petitioner's Ex. 15 at 9. Therefore, the Commission approves the agreed-upon treatment of the NOLC and grants I&M all necessary accounting authority to implement this provision.

d. Private Letter Ruling. As discussed by Mr. Williamson and Mr. Eckert, the Settling Parties negotiated a process that will allow the Settling Parties to have an opportunity to review the PLR request before it is submitted to the IRS and to be notified of any IRS requests for further information. Settlement Agreement Section I.A.1.c; Petitioner's Ex. 15 at 11; Public's Ex. 15 at 8-9. More specifically, the Settlement Agreement provides that the Settling Parties agree that the IRS rules regarding normalization PLR requests contained in Appendix G of Internal Revenue Bulletin 2021-01, provide regulatory commissions and other interested parties certain participation rights in the PLR process. Petitioner's Ex. 15 at 11. By agreeing to the terms of this Settlement, the Settling Parties do not intend to limit the rights of the IURC, other interested parties or other noncompany Settling Parties from participating, to the extent allowed under the IRS rules. Petitioner's Ex. 15 at 11-12.

The record reflects that AEP has already initiated the PLR process for affiliates in other states. Petitioner's Ex. 15 at 12. To the extent an AEP affiliate receives a PLR from the IRS on this issue before I&M, I&M has agreed to provide a copy of the affiliate PLR subject to a non-disclosure agreement within ten (10) business days. Petitioner's Ex. 15 at 12. I&M will also provide a confidential draft of the I&M PLR to the noncompany Settling Parties and will confer on a neutral description of the facts and Settling Parties' positions in the PLR request to objectively frame the issue while adhering to IRS guidelines and requirements contained in Revenue Procedure 2021-01 before the PLR request is submitted to the IRS for resolution. Petitioner's Ex. 15 at 12. Under the Settlement Agreement, the noncompany Settling Parties shall provide feedback to I&M on the draft PLR no later than five (5) business days after receiving the PLR draft. Petitioner's Ex. 15 at 12. I&M will also convene a virtual meeting to discuss the feedback on the sixth business day following transmittal to the other Settling Parties. Petitioner's Ex. 15 at 12.

This negotiated process recognizes that as the signatory to the PLR, I&M shall make the final determination of the contents of the PLR and will also make good faith efforts to incorporate timely, reasonable feedback from the noncompany Settling Parties. Petitioner's Ex. 15 at 12. Under the Settlement Agreement, the Settling Parties retain their rights to communicate with the IRS regarding the PLR as set forth in Internal Revenue Bulletin 2021-01 at page 103. Petitioner's Ex. 15 at 12; Attachment AJW-8-S (page 103). Should the IRS request additional information related to the PLR request, the Settlement Agreement provides that the Company shall provide the noncompany Settling Parties with timely, meaningful notice of the IRS request for additional information before a response is due, and provide a copy of the Company's response once it has been made. Petitioner's Ex. 15 at 12. The Settlement Agreement also provides that the Company will file notice of the results of the ruling with the Commission and notify the Settling Parties within ten (10) business days of receipt of the PLR. Settlement Agreement Section I.A.1.c.iv.

The Settlement Agreement also provides that no Settling Party shall be deemed to have waived any position in a subsequent case as to whether I&M may recover the costs it incurs associated with the PLR Request. Petitioner's Ex. 15 at 13. Finally, for purposes of permitting the Commission to make the necessary findings consistent with the terms of this Settlement Agreement, I&M will waive confidential treatment of (1) the fact of its request for a PLR and (2) the overall results of the PLR. Petitioner's Ex. 15 at 13; Settlement Agreement Section I.A.1.c.vi.

The record shows and the Commission finds that the Settlement Agreement provides consumers and the Company a means to obtain a final resolution from the IRS on the issue, and limits the financial risk to the Company if the IRS ultimately determines an adjustment to the treatment of ADFIT is necessary to avoid a normalization violation. Accordingly, the Commission finds the negotiated process by which I&M will seek a PLR from the IRS is reasonable and should be approved. I&M is directed to file notice in this docket of the results of the ruling and notify the Settling Parties within ten (10) business days of receipt of the PLR.

e. Tax Rider. Mr. Williamson testified that the Commission's order in the Company's last rate case authorized I&M to implement the Tax Rider to address the ongoing rate impacts of TCJA. Mr. Williamson said I&M had also proposed to use the Tax Rider to address future changes in corporate federal income tax rates, which was opposed by certain consumer parties. Petitioner's Ex. 15 at 13. He explained that this additional purpose for the Tax Rider is not included in the Settlement Agreement, stating that the Settlement Agreement provides that the Tax Rider will serve only two purposes: (1) to credit customer rates for the remaining benefits associated with unprotected EADFIT as defined in this Settlement Agreement; and (2) to implement ratemaking adjustments associated with an IRS PLR that requires I&M to make its proposed NOLC adjustment. Settlement Agreement Section I.A.1.d; Petitioner's Ex. 15 at 13-14.

More specifically, as explained by Mr. Williamson, simultaneous with the implementation of new base rates, I&M will implement a Tax Rider to credit customer rates for the remaining benefits associated with unprotected EADFIT. Petitioner's Ex. 15 at 14. The Settling Parties have also agreed to increase the amount of monthly amortization. Petitioner's Ex. 15 at 14. This agreement will advance the benefit of this amortization to customers and as a result the amortization credit in the Tax Rider is expected to expire before the end of the test year. Petitioner's Ex. 15 at 14.

The Settlement Agreement further provides that for purposes of setting rates in this proceeding for the Tax Rider, I&M agrees not to adjust the remaining balance of unprotected

EADFIT for any NOLC impact. I&M agrees to a $14,623,272 (Indiana Jurisdictional) EADFIT credit as proposed by Joint Municipals witness Cannady and a seven (7) month amortization period. Settlement Agreement Section I.A.1.d; Petitioner's Ex. 15 at 14. The total monthly EADFIT amortization to be credited to customers will be grossed up for taxes at a rate of 1.3580 and will include a carrying charge on the unamortized balance based on the pre-tax WACC approved in this proceeding. The Settling Parties agree that I&M will reconcile the Tax Rider to reflect its actual unprotected EADFIT amortization and the monthly remaining balance. Settlement Agreement Section I.A.1.d; Petitioner's Ex. 15 at 14.

The record reflects the Settling Parties' agreement as to the scope of the Tax Rider and implementation thereof is reasonable and consistent with the 45235 Order.

f. Net Operating Income. The Settling Parties agreed that the authorized base rate net operating income will be $296,733,906, which is calculated as follows:

Income Requirement	$ 296,288,136
Remove Transmission Owner Costs, Revenues	$ 605,355
Gross Revenue Conversion Factor	1.3580
After Tax	$ 445,770
Total Base Rate Net Operating Income	$ 296,733,906

Petitioner's Ex. 15 at 15-16, Figure AJW-2. The Commission finds the agreed net operating income is reasonable and should be approved.

2. Rockport Unit 2 Costs.[35] Subsequent to the filing of the Company's case-in-chief, I&M and the other parties in Cause No. 45546 entered into a settlement agreement regarding the treatment of the Rockport Unit 2 costs after the end of the lease, which agreement was approved by the Commission on December 8, 2021. Consistent with the Cause No. 45546 Settlement Agreement, the Settling Parties in this proceeding agreed to the removal of lease costs and all other costs and expenses associated with Rockport Unit 2 from rates.

As discussed by Mr. Williamson, the Settlement Agreement sets forth a process to achieve this efficiently. Petitioner's Ex. 15 at 16-17. The Settlement Agreement also addresses the removal of Rockport Unit 2 costs from rates via the relevant tracking mechanisms. Petitioner's Ex. 15 at 17. As Mr. Gorman explained, essentially, the Settling Parties agreed that almost all costs related to Rockport Unit 2 will be removed from base rates immediately upon implementation of new base rates associated with approval of this Settlement and instead recovered either through the riders by which they are already recovered, or through a special charge included in the PRA rider. Intervenor IG Ex. 4 at 4-5. The direct costs of owning and operating Rockport Unit 2 will no longer be the responsibility of I&M's retail customers after the end of its lease on December 7, 2022, per the terms of a previously filed and then-pending settlement agreement in Cause No. 45546. Public's Ex. 15 at 7. Unit 2 will be used to fulfill a small share of I&M's capacity needs through May 2024, but compensation for that service will be paid based upon PJM capacity market prices. Public's Ex. 15 at 7.

[35] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.2.

a. Phase I Base Rates. I&M agreed to remove from its proposed base rates the revenue requirement of approximately $141 million of Rockport Unit 2 costs, as identified in Settlement Agreement Attachment 2, at the time new base rates are implemented (Phase I). Settlement Agreement Section I.A.2.a; Petitioner's Ex. 15 at 16.

b. Phase-In Rate Adjustment. Upon implementation of new Phase I base rates, I&M will simultaneously implement a temporary charge through its PRA (*i.e.*, the "PRA Rockport Unit 2 Charge"), by which I&M will continue to recover the costs and expenses associated with Rockport Unit 2 that will not be tracked in other riders. Petitioner's Ex. 15 at 17. More specifically, when I&M implements new base rates (Phase I) it will simultaneously implement the PRA, which will be computed based on two credits and one charge. Petitioner's Ex. 15 at 17. The charge is to continue recovering Rockport 2-related costs through the end of the lease, or December 7, 2022. The PRA will be adjusted during the test year to remove the PRA Excluded Capacity Credit and PRA Rockport Unit 2 Charge according to the terms of the Settlement Agreement.

Per Section I.A.2 of the Settlement Agreement, the PRA Rockport Unit 2 Charge will include the following:

i. A return on a fixed $15,143,223 (Indiana Jurisdictional) level of fuel and consumables inventory through December 7, 2022 at I&M's Phase I WACC grossed up for taxes.

ii. I&M will recover the prorated share of a fixed $1,035,878 (Indiana Jurisdictional) annual level of fuel handling and disposal expenses through December 7, 2022.

iii. I&M will recover its Rockport Unit 2 lease expense incurred through the end of calendar year 2022, based on the prorated share of I&M's annual $48,924,630 (Indiana Jurisdictional) lease expense. Since the PRA Rockport Unit 2 Charge will end on December 8, 2022, I&M's Rockport Unit 2 lease expense will be grossed up to recognize the full lease expense in 2022 for purposes of setting the PRA Rockport Unit 2 Charge.

iv. I&M will recover the prorated share of a fixed $13,240,324 (Indiana Jurisdictional) annual level of other O&M expense ($12,177,941) and property tax expense ($1,062,383) through December 7, 2022.

v. Revenue requirement for implementing the PRA Rockport Unit 2 Charge will be allocated and retail rates designed based on agreement of the Settling Parties.

Petitioner's Ex. 15 at 18. Mr. Williamson testified that this approach allows for the removal of the Rockport Unit 2 costs from the revenue requirement in a reasonable and efficient manner. Petitioner's Ex. 15 at 18.

c. ECR and RAR. Section I.A.2.c of the Settlement Agreement provides that upon implementation of new Phase I base rates, I&M will simultaneously implement new ECR and RAR rates to continue recovering the Rockport Unit 2 costs and expenses currently recovered through those riders through the term of the lease. Petitioner's Ex. 15 at 19. I&M will make a filing in 2022 to revise its ECR and RAR rates to be effective with the first billing cycle in January 2023 to exclude the Rockport Unit 2 ECR and RAR costs that are no longer recoverable after the end of the lease. Petitioner's Ex. 15 at 19; Intervenor IG Ex. 4 at 5. The Settlement Agreement also clarifies the Rockport Unit 2 related cost components of the ECR and RAR factors

and how those costs will be treated in the future for ratemaking purposes. Petitioner's Ex. 15 at 20.

Thus, the Settling Parties have identified the costs that will be removed from base rates while maintaining recovery of these costs during the term of the Rockport Unit 2 lease and an efficient process for implementing that agreement. Petitioner's Ex. 15 at 20. We find the negotiated settlement reasonably resolves the contested issues regarding these Riders.

d. Fuel. Section I.A.2.d of the Settlement Agreement addresses the treatment of Rockport Unit 2 costs in I&M's FAC proceedings and sets out the base cost of fuel. Petitioner's Ex. 15 at 20. The Settling Parties agree that I&M will recover its actual Rockport Unit 2 FAC eligible fuel expenses, consistent with current FAC cases, incurred through December 7, 2022. I&M's base cost of fuel will include $28,185,922 (Total Company), $19,608,596 (Indiana Jurisdictional), in embedded Rockport Unit 2 fuel costs, which will serve as a proxy for replacement purchased power when Rockport Unit 2 is no longer used for retail energy needs. Petitioner's Ex. 15 at 20-21. This amount is incorporated into I&M's fuel basing points of 13.110 mills per kWh, which will be reconciled to actual fuel costs in I&M's FAC proceedings. Petitioner's Ex. 15 at 21. Continuing to include Rockport Unit 2 fuel expense in I&M's FAC basing point recognizes that at times I&M will have to purchase power from PJM and allows for a basing point that reasonably recognizes the amount of energy that may be needed to serve customers. Petitioner's Ex. 15 at 21.

The Commission finds the process agreed to by the Settling Parties and outlined in the Settlement Agreement provides for the removal of the Rockport Unit 2 costs from base rates in a reasonable and efficient manner. Among other things, the use of the PRA Rockport Unit 2 Charge avoids the need for the Company to prepare, and all the parties and the Commission to review and process two complete sets of tariffs and associated compliance support. It is an efficient and transparent approach for the timely removal of these costs from base rates while maintaining recovery of these costs during the term of the lease. Accordingly, the Commission finds this provision of the Settlement Agreement is reasonable.

3. Remaining Rockport Unit 2 Net Book Value at December 7, 2022.[36] As discussed below, the Commission finds that Section I.A.3 of the Settlement Agreement reasonably resolves the differing views on the recovery of the remaining Rockport Unit 2 net book value at the end of the lease by identifying the negotiated amount that is recoverable and agreeing to have such recovery occur on a levelized basis. When I&M makes its PRA compliance filing to implement final base rates (*i.e.* Phase II), I&M will adjust the PRA to reflect the removal of the remaining net book value of Rockport Unit 2 of $77,687,384 (Indiana Jurisdictional) from rate base. Petitioner's Ex. 15 at 21. At that time and going forward through December 31, 2028, I&M will be permitted to recover a total of $95,639,514 (Indiana Jurisdictional) associated with the net book value of Rockport Unit 2, on a levelized basis in I&M's ECR (or alternative rate adjustment mechanism if the ECR is discontinued in the future). Petitioner's Ex. 15 at 21; Intervenor IG Ex. 4 at 5. The final PRA compliance filing to be made in January 2023 will result in final PRA tariff rates that will be applicable until I&M implements new base rates in its next general rate case. Petitioner's Ex. 15 at 22. The Commission finds this is a reasonable means to effectuate the recovery of the remaining Rockport Unit 2 net book value at the end of the lease.

[36] Joint Ex. 1 (Settlement Agreement) at Section I.A.3.

4. Jurisdictional Reallocation.[37] The prefiled evidence reflects the dispute regarding the treatment of the excluded capacity from Cause No. 45235. The OUCC, IG, and Joint Municipals took the position that the adjustment ordered by the Commission in Cause No. 45235, or some version of that adjustment, should continue at least until the Rockport Unit 2 lease ends on December 7, 2022, at which point I&M will no longer have the "excess capacity" that supported the Commission's prior decision. Petitioner's Ex. 15 at 22, n.20 (citing Public's Ex. 6 (Boerger Direct) at 7; Intervenor IG Ex. 1 (Gorman Direct) at 51, 56; Joint Municipals Ex. 1 (Mancinelli Direct) at 18-19 (proposing adjustment consistent with prior ruling on this issue)). I&M's rebuttal contested this position and explained that the Company's need to meet its PJM capacity obligation is as of June 1, 2022, and that is the time I&M would be short the capacity necessary to meet that obligation, absent other arrangements. Petitioner's Ex. 14 (Williamson Rebuttal) at 16.

The negotiated settlement package resolves this issue by I&M agreeing to temporarily reflect in ratemaking the effect of the excluded capacity from Cause No. 45235 for the period beginning with the implementation of new base rates (Phase I) in this Cause through December 7, 2022 through the proposed PRA Excluded Capacity Credit. Settlement Agreement Section I.A.4; Petitioner's Ex. 15 at 23. As Mr. Williamson stated, I&M has agreed to implement Phase I rates and simultaneously implement a temporary PRA Excluded Capacity Credit to credit customers for excluded capacity costs consistent with the Commission's Final Order in Cause No. 45235; the credit will be eliminated from the PRA on a service rendered basis effective December 8, 2022. Petitioner's Ex. 15 at 23. The credit will be developed based on a monthly amount of $4,702,533 offset by the fixed annual level of retained capacity and Off System Sales revenues of $24,926,096, prorated to a monthly level of $2,077,175, for a net monthly credit of $2,625,358. Petitioner's Ex. 15 at 23. I&M will revise the PRA to remove the PRA Excluded Capacity Credit by submitting a compliance tariff to the Commission in the Cause No. 45576 docket. Since this change will fully eliminate this component, and the impact to the PRA is limited to the math associated with removing this component of the PRA factors, I&M asks the Commission to expeditiously approve the revision. Petitioner's Ex. 15 at 23.

IG witness Gorman testified this provision of the Settlement Agreement fairly reflects adherence to the Commission's Order in Cause No. 45235 during most of the test year, and the change that will occur in I&M's capacity position after December 7, 2022 when the Rockport Unit 2 lease expires. Intervenor IG Ex. 4 at 4.

The Commission finds the negotiated agreement regarding the treatment of the excluded capacity from Cause No. 45235 reasonably resolves this issue. The Commission further finds that I&M's proposal to submit a compliance tariff in this docket to eliminate the PRA Excluded Capacity credit from the PRA factors is acceptable.

5. PJM NITS Costs.[38] Section I.A.5 of the Settlement Agreement balances the Company's need for timely cost recovery of PJM NITS costs with the Industrial Group's interest in understanding the investments underlying the PJM rate adjustment mechanism. Petitioner's Ex. 15 at 24. The Commission finds the negotiated compromise will mitigate rate increases between general rate cases and this in turn, should help customers to better understand the going-forward cost of electricity. Petitioner's Ex. 15 at 24. Under the Settlement Agreement

[37] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section 4.
[38] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.5.

I&M will provide the same annual presentation to noncompany Settling Parties on a going-forward basis that has been previously provided to the utilities commission in the State of Michigan. This will provide additional detail regarding supplemental projects consistent with the information provided through the PJM stakeholder process. Settlement Agreement Section I.A.5; Petitioner's Ex. 15 at 24; Public's Ex. 15 at 9.

As agreed to by the Settling Parties, an annual cap will be placed on the PJM NITS costs recorded to FERC accounts 4561035 and 5650016 and recovered through the Off-System Sales/PJM ("OSS/PJM") Rider at I&M's Indiana Jurisdictional amount forecasted for 2024 plus 15%, which totals $381.3 million (Indiana Jurisdictional). These are the same FERC accounts that were reflected in the settlement agreement approved in Cause No. 44967. Petitioner's Ex. 15 at 24. If annual NITS costs recorded to FERC accounts 4561035 and 5650016 exceed $381.3 million in any year, I&M will defer to a regulatory asset the revenue requirement associated with the excess amount, including ongoing carrying costs at the pre-tax WACC, for recovery in I&M's next base rate case. Petitioner's Ex. 15 at 24; Public's Ex. 15 at 9; Intervenor IG Ex. 5 at 3. The remaining NITS costs up to the annual cap level will continue to be recovered through I&M's OSS/PJM Rider; all other costs and revenue credits will be included in the OSS/PJM Rider as proposed by I&M. Petitioner's Ex. 15 at 24.

The record reflects that PJM NITS are a significant expense borne by I&M's customers. As stated by Mr. Dauphinais, PJM NITS costs are forecasted to continue to increase. Intervenor IG Ex. 5 at 3. The Commission finds that the agreed annual cost cap provides flexibility, allowing I&M to recover costs over or under its annual forecasted amounts plus an additional 15%. The cap also limits the PJM NITS cost recovery from ratepayers through the PJM Rider during the designated period. Public's Ex. 15 at 9. This is a reasonable guardrail to contain this cost in a given period. Public's Ex. 15 at 3-4. An annual cap helps ensure that customers will face a limit on these increases in any given year. For the Company, the creation of a regulatory asset including carrying costs reduces uncertainty regarding future cost recovery of amounts in excess of the annual cap and recognizes the time value of money impact of the delayed recovery. The Commission finds the Settling Parties' agreement with respect to the treatment of PJM NITS costs is a reasonable compromise and within the range of outcomes supported by the evidence.

6. AMI.[39] The Company's case-in-chief included the used and useful AMI investment in-service through the end of the Test Year in rate base, sought approval of the AMI deployment and authority to implement an AMI Rider to track post test year investment.[40] The other parties opposed the AMI Rider.[41] In the Settlement Agreement, the Settling Parties agreed to include I&M's capital forecast period (2021-2022) AMI capital ($54.649 million) and O&M costs ($4.77 million) in base rates set in this Cause. Settlement Agreement Section I.A.6; Petitioner's Ex. 15 at 25. I&M also agreed to withdraw its request for an AMI rider. The Settlement Agreement makes clear that I&M is not prevented from seeking recovery of additional AMI investment and O&M costs in its next base rate case(s). Petitioner's Ex. 15 at 25. The noncompany Settling Parties agree not to challenge the reasonableness of I&M's decision to transition from AMR meters to AMI meters or the reasonableness of I&M's four-year deployment plan, as presented in this Cause, in any future proceeding. Settlement Agreement Section I.A.6; Petitioner's

[39] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.6.
[40] Petitioner's Ex. 2 (Seger-Lawson Direct) at 36-40; Petitioner's Ex. 7 (Isaacson Direct) at 34-41.
[41] Public's Ex. 5 (Alvarez) at 4-10; Public's Ex. 11 (Blakley) at 9-11, Jt. Municipals Ex. 2 (Cannady) at 23-26; *see also* Petitioner's Ex. 4 (Seger-Lawson Rebuttal) at 2-8.

Ex. 15 at 25. I&M also agreed to notify its customers about its ability to remotely disconnect those with AMI meters. Public's Ex. 15 at 12. The Commission finds this agreement resolves the AMI deployment question and provides a reasonable level of ratemaking support and assurance to allow the Company to proceed with its AMI program.

7. Rate Base.[42] In its case-in-chief, the Company's proposed rate base was identified on Petitioner's Ex. 43 (Financial Exhibit A), Exhibit A-6. The other parties challenged the inclusion of the prepaid pension and OPEB assets in rate base as well as certain aspects of the Company's distribution investment plan.[43] The Settlement Agreement provides for certain reductions to I&M's test year rate base. As discussed below, the Commission finds these provisions reasonably resolve the contested issues while also recognizing ongoing capital investment is necessary to maintain safe, reliable, efficient, and environmentally compliant service and are reasonable.

a. Pre-Paid Pension and OPEB Assets. The prefiled testimony outlines the dispute among the parties regarding the OPEB and Pre-Paid Pension Assets. Mr. Williamson and OUCC witness Eckert testified that in the Settlement Agreement, the Settling Parties agreed that rate base shall include the pre-paid pension asset in the amount of $80.7 million (Total Company), $58.1 million (Indiana Jurisdictional), and that the Settling Parties agreed to the removal of the $96,252,892 (Total Company), $69,324,472 (Indiana Jurisdictional), OPEB prepayment asset from rate base. Petitioner's Ex. 15 at 26; Public's Ex. 15 at 12-13.

The Commission has approved inclusion of a prepaid pension asset in I&M's rate base in I&M's three prior rate cases, Cause Nos. 44075, 44967, and 45235. The Commission finds that the Settlement Agreement compromise is a reasonable part of the overall negotiated settlement package and reasonably resolves the parties' differing opinions regarding the treatment of the Pre-Paid Pension and OPEB Assets.

b. Non-Rockport Unit 2 Miscellaneous Rate Base Adjustments. Section I.A.8 of the Settlement Agreement reflects that, for the purpose of calculating the revenue requirement used to set base rates, I&M agreed to reduce its proposed rate base by $26.4 million. Petitioner's Ex. 15 at 26. This reduction consists of: (1) $3.783 million in EV Fast Charging costs; (2) $568,770 Flex Pay Program costs; (3) $2.023 million unamortized COVID-19 deferred bad debt expense; and (4) $20 million of forecasted Distribution Plant investment. Petitioner's Ex. 15 at 26; Public's Ex. 15 at 2-3. The Settlement Agreement provides that nothing in the agreement precludes I&M from seeking to include the removed items in its cost of service in a future case. Settlement Agreement Section I.A.8; Petitioner's Ex. 15 at 26. The Commission finds the negotiated agreement regarding miscellaneous rate base adjustments reasonably resolves the concerns raised in this proceeding.

8. Depreciation Rates.[44] The Settlement Agreement provides for a $10 million reduction in depreciation expense but otherwise makes no change to the Company's proposals regarding depreciation including the proposal to determine I&M's depreciation expense for the Rockport Plant as a whole. Settlement Agreement Sections I.A.9.a and I.C; Petitioner's Ex. 15 at 27-28, 39. Proposed depreciation rates that implement the agreed $10 million expense reduction were provided in Petitioner's Ex. 15, Attachment AJW-2-S. Petitioner's Ex. 15 at 32.

[42] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.7 and 8.
[43] Public's Ex. 2 (Mark Garrett) at 52-62; Intervenor IG Ex. 2 (Gorman Direct) at 24-31.
[44] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.9.a.

The Commission further finds that the Company's proposal to determine its depreciation expense for the Rockport Plant as a whole and the implementation as proposed by Mr. Cash (Petitioner's Ex. 19 (Cash Direct (Revised) at 20-21)) are reasonable and are approved.

9. Other Operating Expense Adjustments As discussed by Mr. Williamson and Mr. Eckert, the Settling Parties also agreed to adjustments to test year expenses. Petitioner's Ex. 15 at 28; Public's Ex. 15 at 13. This agreement does not preclude I&M from seeking recovery of these type of expenses in a future case. Settlement Agreement Section I.A.9; Petitioner's Ex. 15 at 28. These adjustments reduce I&M's revenue deficiency and provide savings to customers. As discussed below, the Commission finds these terms of the Settlement Agreement are within the range of the evidence and are a reasonable resolution of the contested issues and a reasonable within the overall Settlement Agreement.

a. Nuclear Decommissioning. The parties contested whether nuclear decommissioning funding should remain at its current level as proposed by I&M or be reduced to zero as proposed by the OUCC.[46] The Settlement provides for a $2 million reduction in nuclear decommissioning expense. Settlement Agreement Section I.A.9.b; Petitioner's Ex. 15 at 28; Public's Ex. 15 at 13. The Settling Parties agree that I&M may seek an adjustment to the funding level of the Nuclear Decommissioning Trust based on future analysis of the adequacy of the Nuclear Decommissioning Trust funds to pay for decommissioning. *Id.* The Commission finds this reasonably balances the consumer party concerns that the Nuclear Decommissioning Trust Fund is already adequately funded with the Company's concern regarding the potential for a shortfall.

b. Deferred COVID-19 Bad Debt Expense. The Settling Parties accepted OUCC witness Blakley's proposal to reduce the incremental bad debt expense amortization by $293,773. Settlement Agreement Section I.A.9.c; Petitioner's Ex. 15 at 28, Public's Ex. 15 at 13. Mr. Williamson stated that while the Company disagreed with the basis for the OUCC's proposed adjustment, in the context of the overall settlement, the Company accepted this proposal as part of the goal of mitigating the impact of this case on customer rates. Petitioner's Ex. 15 at 28. Mr. Eckert stated that this provision also addressed the issue of affordability. Public's Ex. 15 at 2-3. The Commission finds this reasonably resolves the contested issue regarding test year O&M.

c. Other Test Year O&M. The Settlement Agreement provides for an additional $4 million reduction in test year O&M. Settlement Agreement Section I.A.9.d. This provision recognizes that other aspects of the Company's test year O&M forecast were challenged. While Mr. Williamson testified that the Company stands behind its forecasting process, in the spirit of compromise the Company agreed to a reduction in forecasted O&M in the amount of $4 million. Petitioner's Ex. 15 at 28; Public's Ex. 15 at 13. The Commission finds this reasonably resolves the issue regarding test year O&M and is within the scope of the evidence presented by the parties.

10. Other Provisions.[47] The Commission discusses additional provisions contained in the Settlement Agreement below.

[45] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.9.b-d.
[46] Petitioner's Ex. 21 (Hill Direct) at 4-24; OUCC Ex. 1 (Eckert) at 11-14; Petitioner's Ex. 22 (Hill Rebuttal) at 2-7.
[47] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.10.

A. OUCC Report in FAC. As discussed by Mr. Williamson and Mr. Eckert, I&M agreed to provide the OUCC with a 35-day review period in its FAC proceeding, starting with Cause No. 38702 FAC-89, which is expected to be filed by I&M late July 2022 or early August 2022. Settlement Agreement Section I.A.10.a; Petitioner's Ex. 15 at 29; Public's Ex. 15 at 10. While I&M has disputed the need for this, the OUCC has raised the issue before. *Id*. As stated by Mr. Eckert, the OUCC believes a 35-day review period is necessary to provide the OUCC adequate time to review I&M's six-month FAC filing and issue appropriate discovery to evaluate and addresses issues as needed. Public's Ex. 15 at 10.

B. Vegetation Management. I&M has agreed to include vegetation management reliability statistics in its Cause No. 44967 performance metrics report. Settlement Agreement Section I.A.10.b; Petitioner's Ex. 15 at 30; Public's Ex. 15 at 11. As discussed in the rebuttal testimony of Company witness Isaacson (p. 3), the Company already reports its annual level of vegetation management investment and SAIDI statistics from tree-related outages in this report. Petitioner's Ex. 15 at 30; Petitioner's Ex. 8 (Isaacson Rebuttal) at 3. The Settlement Agreement accepts OUCC witness Eckert's proposal that the Company add to this report System Average Interruption Frequency Index ("SAIFI") and Customer Average Interruption Duration Index ("CAIDI") statistics for tree-related outages. Petitioner's Ex. 15 at 30. The Commission finds this additional information will assist the Commission and interested stakeholders in monitoring how I&M is implementing its vegetation management program. Public's Ex. 15 at 11.

C. Notification of Disconnection of Service. As part of the Settlement Agreement, I&M agreed to notify its customers of its ability to remotely disconnect/reconnect via bill insert, text, and email. Settlement Agreement Section I.A.10.c; Petitioner's Ex. 15 at 30; Public's Ex. 15 at 12. This notice will identify a customer's rights prior to disconnection, including a description of the process I&M will use when attempting to contact its customers before a remote disconnection, information on how to contact I&M's customer service department and LIHEAP, and information on how to add an email address and/or mobile phone number to receive notifications from the utility. *Id.* The record shows the OUCC did not oppose I&M's remote disconnect/reconnect rule waiver request, subject to the OUCC's recommendation regarding customer notification. Petitioner's Ex. 4 at 35-36. The Commission finds the negotiated compromise in the Settlement Agreement reasonably balances the consumer party interest in additional notice with the need for such communications to be issued effectively and efficiently.

D. Solar Power Rider. As part of the Settlement Agreement, I&M agreed to withdraw its request to change the name of the Solar Power Rider, and to not make related tariff language modifications. Settlement Agreement Section I.A.10.d; Petitioner's Ex. 15 at 31. This provision resolves the concern raised by the Joint Municipals as to the purpose of the Company's proposal. Because this agreement is without prejudice to seek such a name change and related tariff language modifications in a future proceeding, the Commission finds the Settlement Agreement reasonably mitigates controversy in the rate case while reasonably preserving the Company's right to make the proposal again in the future.

E. Flex Pay Program. As part of the negotiated settlement package, I&M agreed to withdraw its request to implement the Flex Pay Program without prejudice to seek approval for such a program in a future proceeding. Settlement Agreement Section I.A.10.e; Petitioner's Ex. 15 at 31. Should I&M pursue a prepaid program such as this in the future, I&M agreed that its proposal will reflect that it will (i) not specifically market to customers facing disconnection for non-payment or customers concerned about the deposit amount required by

I&M; (ii) market the program as a voluntary service; and (iii) ensure customers can purchase service credits 24 hours per day, seven-days per week via phone or internet with no transaction fees. Settlement Agreement Section I.A.10.e; Petitioner's Ex. 15 at 31. I&M also agreed to meet with interested stakeholders, including CAC, prior to filing the program to receive input on the development of the program, including concerns related to the winter disconnection moratorium as defined in Ind. Code § 8-1-2-121. Petitioner's Ex. 15 at 31-32. The Commission finds this resolution reasonably allows the Company to gather additional stakeholder input that may reduce or avoid controversy in a future proceeding. As stated by Mr. Eckert, withdrawal of the Flex Pay Program and its associated costs also addresses the consumer party issue of affordability. Public's Ex. 15 at 2.

F. Electric Vehicle Fast Charging Program. As part of the Settlement Agreement, I&M agreed to withdraw its request to implement the EV Fast Charging program without prejudice to seek approval for such a program in a future proceeding. Settlement Agreement Section I.A.10.f. The Commission finds this will allow I&M to further consider stakeholder input in the design of this program and mitigates the consumer party concern regarding affordability. Petitioner's Ex. 15 at 32; Public's Ex. 15 at 2. We find this provision reasonably resolves this issue.

G. Company-funded Customer Benefits. In Section I.A.10 of the Settlement Agreement I&M agreed to make contributions, which are excluded from I&M's cost of service used to determine rates, to certain programs for the benefit of customers. Public's Ex. 15 at 11; Petitioner's Ex. 15 at 32-34. First, the Settlement Agreement provides I&M agreed to fund $175,000 per year in 2022 and 2023 to continue the Low Income Arrearage Forgiveness program currently in place as a result of the settlement agreement in Cause No. 44967 and to exclude these costs from I&M's cost of service. Settlement Agreement Section I.A.10.g; Petitioner's Ex. 15 at 32. This is responsive to CAC witness Howat's proposal (p. 15) for low-income customer assistance including an arrearage management component. Petitioner's Ex. 15 at 32-33. Second, I&M agreed to customer deposits for customers identified as LIHEAP participants or LIHEAP-eligible to no more than $50. Settlement Agreement Section I.A.10.h; Petitioner's Ex. 15 at 33-34; Public's Ex. 15 at 15. This recommendation was also made by CAC witness Howat (p. 23) based on the view that a large deposit assessment for new or restored service can be extremely burdensome for income qualified customers. Petitioner's Ex. 15 at 33. As stated by Mr. Williamson this commitment will allow I&M to gain additional insights regarding how to help customers who are challenged to pay their electricity bill. *Id.* at 33-34. Third, I&M will provide a $150,000 contribution to the community action program network of Indiana Community Action Association to facilitate low-income weatherization in I&M's service territory, including but not limited to using funds to address health and safety issues preventing weatherization, and to assist in bill payment and deposit assistance for I&M LIHEAP eligible households. Settlement Agreement Section I.A.10.i. I&M's cost of service in this Cause will not be adjusted to include the incremental costs of this contribution. Settlement Agreement Section I.A.10.i; Petitioner's Ex. 15 at 34. Finally, I&M agreed to provide a $100,000 contribution to the Indiana Utility Ratepayer Trust. Settlement Agreement Section I.A.10.j; Petitioner's Ex. 15 at 34. I&M's cost of service in this Cause will not be adjusted to include the incremental costs of this contribution. *Id.* The Commission finds the consumer programs agreed upon in the Settlement Agreement are a reasonable part of the negotiated settlement package.

11. Cost of Service and Rate Design.[48]

A. Revenue Allocation.[49] Section I.B.2 of the Settlement Agreement sets forth the Settling Parties' agreement that rates should be designed in order to allocate the revenue requirement to and among I&M's customer classes in a fair and reasonable manner. Petitioner's Ex. 15 at 35. For settlement purposes, the Settling Parties agree that Settlement Agreement Attachment 3 specifies the revenue allocation agreed to by all Settling Parties. Petitioner's Ex. 15 at 35. The Settlement Agreement provides that this revenue allocation is determined strictly for settlement purposes and is without reference to any specific cost allocation methodology. Petitioner's Ex. 15 at 35. Mr. Williamson's Settlement Attachment AJW-3-S (Public), which updates Attachments JLF-2 and JLF-3 to reflect the Settlement, provided additional supporting details including the customer class revenue allocation factors, and detailed base rate, rider and total bill increase by class.[50]

As Mr. Eckert testified, the Settling Parties spent time negotiating a fair and reasonable revenue class allocation to allocate the costs of service among all rate classes. Public's Ex. 15 at 13. The OUCC technical experts participated in the settlement meetings during which the agreed allocation was discussed, and the OUCC concluded it is a fair compromise. Public's Ex. 15 at 13-14. Mr. Dauphinais testified the Settlement includes an agreed revenue allocation that is without reference to, and does not request the Commission to make findings with respect to, any specific allocation methodology. Intervenor IG Ex. 5 at 2. He said given the difference of opinions among the Settling Parties on the proper method of cost allocation, he believed this is an important term that reflects the Settling Parties' overall efforts to put aside their specific differences to arrive at a result that is within the range of outcomes presented in evidence and which results in a fair allocation of the overall revenue requirement among the various rate classes. Intervenor IG Ex. 5 at 2-3.

The record reflects that the Settling Parties were able to negotiate and resolve their differences of opinion with respect to the method of cost allocation through the Settlement Agreement. Settlement Agreement Section I.B.2. The Commission finds the Settling Parties' agreement with respect to the revenue allocation is reasonable. We note that our approval of the agreed-upon revenue allocation is without reference to any specific cost allocation methodology.

B. Residential Rate Design.[51] Mr. Williamson testified that while the Company has firmly held positions regarding the application of cost of service and cost recovery principles to residential rate design, I&M also recognizes the passion around this issue reflected in the testimony offered by the residential consumer advocates. Petitioner's Ex. 15 at 34-35. He said the divergence of views made this issue challenging to resolve. Ultimately, the Settling Parties agreed to small changes to the rate design approved by the Commission in the Company's last basic rate case. More specifically, Mr. Williamson stated the Settling Parties agreed to keep I&M's fixed monthly charge for Residential Electric Service - Tariff R.S. ("Tariff R.S.") at $15 per month. Settlement Agreement Section I.B.1; Petitioner's Ex. 15 at 35. The Settling Parties also agreed the fixed monthly charge for Residential Time-of-Day Service (Tariff R.S.-TOD and Tariff R.S.-

[48] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.
[49] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.2.
[50] The confidential version of this attachment is identified as Attachment AJW-3-S-(C) (confidential).
[51] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.1.

TOD2) will increase to $17 per month. Settlement Agreement Section I.B.1; Petitioner's Ex. 15 at 35.

Mr. Eckert testified the OUCC's longstanding position is that a residential customer charge should not reflect more than the direct cost of connecting a customer to the distribution system from the standpoint of economic efficiency and regulatory policy, and comments that the OUCC consistently receive from utility customers support the OUCC's position. Public's Ex. 15 at 14. He noted that in its direct case, I&M proposed a 33% or $5.00 increase in the residential fixed charge (from $15.00 to $20.00). He said through compromise, the Settling Parties agreed to maintain the monthly customer charge of $15.00 for Rate RS and agreed to increase the fixed Rate RS-TOD and Rate RS-TOD2 monthly charge to $17 per month. Public's Ex. 15 at 14.

The record reflects that residential rate design issues were the subject of much testimony in this proceeding, and that the monthly customer charge was the subject of deliberate negotiations. Petitioner's Ex. 15 at 34; Public's Ex. 15 at 14. Under the Settlement Agreement, I&M's Tariff R.S. residential customer charge will remain at $15 per month and the fixed monthly customer charge for residential Time-of-Day Service will increase to $17 per month. Settlement Agreement Section I.B.1. The gradual movement in the fixed charge for residential Time-of-Day Service and the maintenance of the current fixed charge for most residential customers are within the range of the evidence and reasonably resolve these disputed issues. The Commission, therefore, finds the negotiated compromise upon the residential rate design is reasonable.

C. Commercial and Industrial Rate Design.

1. Tariff IP Design.[52] The Settling Parties agreed to a Tariff IP rate design that produces agreed upon energy and demand charges as set out in Settlement Attachment 3. Settlement Agreement Section I.B.2. To correspond with acceptance of the Company's proposed change in Tariff IP billing demands from kVA to kW, the settlement demand charges were increased to reflect the approximate average power factor (kW per kVA) for each voltage level of Tariff IP Consistent with this change, the reduced amount of residual demand-related costs were included in the first 410 kWh per kW energy block. See Petitioner's Ex. 15 at 35-36.

Mr. Dauphinais testified that he had concerns with I&M's proposed design for Tariff IP as presented in I&M's case-in-chief. Intervenor IG Ex. 5 at 5. More specifically, he said he was concerned that I&M proposed to shift demand-related costs into the first block energy charge as a result of a shift from kVA billing demand to kW billing demand units; a shift which resulted, due to the conversion factor, in a reduction of billing determinants from which to collect demand-related charges. He explained he had proposed that all demand-related costs be removed from the energy charges, and placed back into the demand charges, and that this is essentially what was done in arriving at the rates included in the Settlement. Intervenor IG Ex. 5 at 5. He said because each sub-class of Tariff IP had a different percentage change in demand units, primarily due to their respective power factors, the Settling Parties agreed to adjust the demand charges by an amount that roughly reflected that change. Intervenor IG Ex. 5 at 5. He explained that while this could not be done perfectly for all sub-classes without producing anomalous results that would encourage inefficiencies, the result is much closer to cost-of-service rate design than I&M's initial proposal. Intervenor IG Ex. 5 at 5. He added that while the design does not perfectly move all demand-related costs out of the energy charges for all sub-classes, it is a fair result that reasonably

[52] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.3.

balances the interests of pure cost-based rates with other factors that are taken into account in cost of service ratemaking. Intervenor IG Ex. 5 at 5.

The Commission finds the agreed change in rate design for Tariff IP is a reasonable alignment of the change in billing units with the change in rates and is reasonably consistent with basic principles of cost of service ratemaking.

2. Tariff GS and Tariff LGS.[53] In its case-in-chief, I&M proposed to consolidate Tariff GS and Tariff LGS into one tariff to provide flexibility to address changes in general service customer load without requiring customers to move back and forth between tariffs. Petitioner's Ex. 37 (Fischer Direct) at 21. Per the Settlement Agreement, I&M agreed not to combine Tariff GS and Tariff LGS, but will continue to eliminate the kVA demand charge and Power Factor Correction Capacitor adjustment in Tariff LGS. Settlement Agreement Section I.B.4; Petitioner's Ex. 15 at 36. To ease the transition from full kVA billing demands, I&M agreed to implement an excess kVA charge in Tariff LGS. The specific language of the Excess kVA provision is as follows:

> The monthly KVA demand shall be determined by dividing the maximum metered KW demand by the average monthly power factor. The excess KVA demand, if any shall be the amount by which the monthly KVA demand exceeds the greater of (a) 101% of the maximum metered KW demand or (b) 60 KVA. The Metered Voltage adjustment, as set forth below, shall apply to the customer's excess KVA demand.

Petitioner's Ex. 15 at 36. Finally, the rider rates for Tariffs GS and LGS were unified to mitigate some of I&M's concerns that led to its initial proposal to combine Tariff GS and Tariff LGS. Petitioner's Ex. 15 at 36.

We find the Settling Parties' negotiated compromise regarding the rate design for Tariffs GS and LGS reasonably resolves the concerns raised with respect to I&M's original proposal.

3. Tariff Term and Condition No. 27.[54] The Settling Parties agreed that I&M may adopt its proposed new provision in its Terms and Conditions as modified below:

> 27. Customer Requested Disconnection / Reconnection at Station Transformer. Whenever, at the customer's request, the Company is required to perform a disconnection and / or reconnection at a customer or Company owned station transformer, switch or breaker, the customer shall reimburse the Company for the entire cost incurred in making such connections which shall include all labor costs, transportation and equipment costs and any materials used not to exceed $1,500. In the event that such costs are expected to exceed $1,500, the Company shall provide the Customer with a binding estimate detailing the scope of work and associated costs to perform such work prior to the date on which the work is scheduled to commence.

Settlement Agreement Section I.B.5; Petitioner's Ex. 15 at 36-37. Mr. Williamson testified that although I&M did not agree that the concern raised by the Industrial Group warranted rejection of

[53] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.4.
[54] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.5.

I&M's proposed provision, the parties resolved the dispute over the proposed change through the revised language. Petitioner's Ex. 15 at 37.

Mr. Dauphinais testified this agreement addressed concerns raised in his direct testimony with respect to the exposure of large customers to a potentially unknown charge without the ability to assess its reasonableness or alternatives to performing the work. Intervenor IG Ex. 5 at 4. He said the binding nature of the estimate also ensures that there is some recourse for customers to the extent there is a dispute over the cost of a disconnection/reconnection. Intervenor IG Ex. 5 at 4.

The Commission finds the Settlement Agreement term regarding Tariff Terms and Condition No. 27 reasonably resolves the concern raised in this proceeding.

4. "Other Sources of Energy" Tariff Language.[55] In his direct testimony, Mr. Dauphinais raised concerns with respect to I&M's proposal to strike language in Tariff IP related to the ability of customers with other sources of energy supply to take standby and backup service under that rate. Intervenor IG Ex. 5 at 4. Although I&M clarified the intent of its decision to strike the language in rebuttal, the Company agreed as part of the Settlement Agreement to retain that language in Tariffs GS, LGS, IP, and WSS. Settlement Agreement Section I.B.6; Petitioner's Ex. 15 at 37; Intervenor IG Ex. 5 at 4. Mr. Dauphinais testified this ensures there will be no future dispute about the ability of customers who self-supply power to access standby and backup service under specific rates, provided they qualify for the provision of service under those rates. Intervenor IG Ex. 5 at 4.

Mr. Williamson testified a copy of the revised language is included in the Special Terms and Conditions provision of each of the identified tariffs in Attachment AJW-10-S. Petitioner's Ex. 15 at 37. He said this change clarifies the intent of the Company's language change to cease applying the above language to customers with generation but not to preclude such customers from receiving service under those Tariffs. Petitioner's Ex. 15 at 37-38.

The Commission finds this provision of the Settlement Agreement is a reasonable manner in which to address the concerns the Industrial Group raised.

5. Critical Peak Pricing.[56] Company witness Walter explained in his rebuttal testimony why I&M disagreed with the OUCC's proposal related to I&M's proposed Critical Peak Pricing program that I&M add major holidays to the exemptions. Petitioner's Ex. 18 (Walter Rebuttal) at 20-21. After discussing this issue further with the OUCC, as part of the Settlement Agreement, I&M agreed to propose in its next base rate case provisions addressing the exclusion of holidays from the days for which Critical Peak Events may be called. Settlement Agreement Section I.B.7; Petitioner's Ex. 15 at 38. This provision allows the Company to work through the technical issues associated with this approach. In addition, Settlement Agreement Section I.B.7 sets forth the Settling Parties' agreement that I&M is not receiving authorization for Tariff R.S. – Critical Peak Pricing as an "opt-out" rate in this proceeding, and that I&M must obtain Commission approval for any opt out rate provisions prior to implementation. Petitioner's Ex. 15 at 38. The Commission finds this provision reasonably clarifies the Company's proposal in response to the concern raised by OUCC witness Boerger.

[55] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.6.
[56] Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.B.7.

D. Remaining Issues. Section I.C of the Settlement Agreement clarifies that any matters not addressed by the Settlement Agreement will be adopted as proposed by I&M. Petitioner's Ex. 15 at 39. This type of provision is common in Settlement Agreements before this Commission and reasonably identifies the starting point for purposes of the ratemaking and accounting authority being granted. While it is unnecessary to review an exhaustive list, this agreement maintains the I&M Major Storm Damage Reserve, accepts the Company's proposal to wind down the LCM Rider in an efficient manner, and includes the PJM Capacity Performance Insurance expense in the cost of service.[57] This provision also accepts I&M request for authority to accelerate recovery of noncurrent SO_2 allowances.[58] The Commission finds Section I.C of the Settlement Agreement to be reasonable. In addition, the Commission grants I&M's request for authority to accelerate recovery of noncurrent SO_2 allowances as well as ongoing accounting authority to continue to implement the Major Storm Damage Reserve.

E. Muncie Settlement Agreement. The concerns raised by Muncie are specific to the city. Petitioner's Ex. 15 at 2. The Muncie Settlement Agreement has no rate impact, or impact on the other Settlement Agreement. Petitioner's Ex. 15 at 2. See also I&M Ex. 45 and City of Muncie Ex. 3 (Responses to December 9, 2021, Docket Entry). The Commission finds the negotiated settlement reasonably resolves all the issues raised by Muncie, is in the public interest, and is supported by the record evidence.

12. Conclusion. The testimony supporting the Settlement Agreements addresses why the Settlement Agreements are reasonable and in the public interest. Based upon our review of the record, particularly the Settlement Agreement terms and supporting testimony and exhibits, the Commission finds both Settlement Agreements are within the range of potential outcomes and represent a just and reasonable resolution of the issues.

Consistent with the foregoing findings and our conclusion with respect to the Settlement Agreement, the Commission finds the test year end net original cost rate base (Indiana Jurisdictional) for I&M is $5,125,560,428 and is calculated as follows:

Net Plant In-Service	$ 4,846,054,499
Fuel Stock	$ 29,521,506
Other Materials & Supplies	$ 124,206,512
Allowance Inventory	$ 17,674,176
Prepaid Pension Expense	$ 58,104,811
Regulatory Assets	$ 49,998,924
	$ 5,125,560,428

Settlement Agreement Attachment 1, ln. 1; Petitioner's Ex. 15 at 27, Figure AJW-3.

[57] Petitioner's Ex. 2 (Seger-Lawson Direct) at 25-27, 34-36; Petitioner's Ex. 3 (Seger-Lawson Adopted Direct) at 9-11; Petitioner's Ex. 13 (Williamson Direct) at 5-8.

[58] Petitioner's Ex. 2 (Seger-Lawson Direct) at 35; *see also* Public's Ex. 7 (Armstrong) at 3 and Petitioner's Ex. 4 (Seger-Lawson Rebuttal) at 24-26.

As discussed above, the Settlement Agreement provides that for purposes of calculating the Phase-In Rate Adjustment for Phase I rates, the Debt/Equity ratio for investor-supplied capital will be 50.54%/49.46%. Settlement Agreement Section I.A.1.f. After giving effect to this Settlement Agreement term, the Commission finds that I&M's Phase I ratemaking capital structure (after tax) and weighted cost of capital are as follows:

Phase I Capital Structure and Weighted Cost of Capital

Description	Total Company Capitalization $	Percent of Total	Cost Rate	Weighted Average Cost of Capital
Long-Term Debt	2,822,302,210	41.42%	4.44%	1.84%
Common Equity	2,762,126,699	40.54%	9.70%	3.93%
Customer Deposits	41,698,455	0.61%	2.00%	0.01%
Acc. Def. FIT	1,170,202,985	17.17%	0.00%	0.00%
Acc. Def. JDITC	17,469,705	0.26%	7.04%	0.02%
Total	6,813,800,053	100.00%		5.80%

Pet. Ex. 15, Attachment AJW-1-S, page 1.

For purposes of the Phase II compliance filing, the Settlement Agreement provides the Debt/Equity ratio for investor-supplied capital will be adjusted to the 12/31/22 actual ratio, but no higher than a 50.00% equity ratio. Settlement Agreement Section I.A.1.f. After giving effect to this Settlement Agreement term, the Commission finds that I&M's Phase II ratemaking capital structure (after tax) and weighted cost of capital are as follows:

Phase II Capital Structure and Weighted Cost of Capital[59]

Description	Total Company Capitalization $	Percent of Total	Cost Rate	Weighted Average Cost of Capital
Long-Term Debt	2,873,862,352	40.70%	4.44%	1.81%
Common Equity	2,873,862,352	40.70%	9.70%	3.95%
Customer Deposits	41,698,455	0.59%	2.00%	0.01%
Acc. Def. FIT	1,257,846,893	17.81%	0.00%	0.00%
Acc. Def. JDITC	13,678,705	0.19%	7.07%	0.01%
Total	7,060,948,756	100.00%		5.78%

[59] This table reflects a 50.00% equity ratio. I&M's compliance filing shall use the 12/31/22 actual ratio, but no higher than a 50.00% equity ratio. Settling Parties' Joint Ex. 1 (Settlement Agreement) at Section I.A.1.f.

Petitioner's Ex. 15 at 15, Figure AJW-1; Attachment AJW-1-S, page 2.

On the basis of the evidence presented, we find Petitioner should be authorized to adjust its base rates and charges so as to reduce its annual operating revenue by $94,704,680 (Settlement Attachment 1, line 16), resulting in Phase II total annual operating revenues of $1,510,837,325 (Pet. Ex. 15, Attachment AJW-3-S, p. 6). This revenue is reasonably estimated to afford I&M the opportunity to earn net operating income of $296,733,906 as shown in Figure AJW-2 of Mr. Williamson's settlement testimony.

We further approve the phase-in of I&M's rates as proposed by I&M and modified by the Settlement Agreement. More specifically, when I&M's new base rates are first effective, they will include I&M's Phase-in Rate Adjustment as set forth in Section I.A.2.b of the Settlement Agreement (the "Phase I" rates). The PRA Rockport Unit 2 Charge will expire on December 8, 2022 on a service-rendered basis and will not be subject to true-up or further reconciliation. In the event I&M determines that the PRA Rockport Unit 2 Charge has resulted in full recovery of the Rockport Unit 2 costs before December 8, 2022, I&M shall cease collection of the PRA Rockport Unit 2 Charge. As part of Phase I, I&M shall also implement a temporary PRA Excluded Capacity Credit to credit customers for excluded capacity costs consistent with the Commission's Final Order in Cause No. 45235; the credit shall be eliminated from the PRA on a service-rendered basis effective December 8, 2022.

We further find that I&M shall certify to this Commission its net plant at December 31, 2022 and thereafter calculate the resulting Phase II rates consistent with the Settlement Agreement. For purposes of the Phase II certification, I&M shall use the forecasted test year end net plant shown on Attachment AJW-5-S, line 8. The Phase II rates shall go into effect on the date that I&M certifies its test year end net plant, or January 1, 2023, whichever is later. The net plant for Phase II rates shall not exceed the lesser of (a) I&M's forecasted test year end net plant as modified by the Settlement Agreement or (b) I&M's certified test year end net plant. I&M shall serve all Settling Parties with its certification. The OUCC and intervenors shall have 60 days from the date of certification to state objections to I&M's certified test year end net plant. If there are objections, a hearing shall be held to determine I&M's actual test year end net plant, and rates will be trued-up (with carrying charges) retroactive to January 1, 2023, notwithstanding when Phase II rates go into effect.

The Commission further finds and concludes that the Settlement Agreements are reasonable, supported by substantial evidence, and in the public interest. Accordingly, the Settlement Agreements are approved.

13. Effect of Settlement Agreement. The Settlement Agreements are not to be used as precedent in any other proceeding or for any other purpose except to the extent necessary to implement or enforce their terms; consequently, with regard to future citation of the Settlement Agreements or of this Order, the Commission finds our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 WL 34880849 at 7-8 (IURC March 19, 1997).

14. Confidentiality. Petitioner filed motions for protection and nondisclosure of confidential and proprietary information on July 1, and October 22, 2021, both of which were supported by affidavits showing the documents to be submitted contain trade secrets within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and § 24-2-3-2. Motions for confidential treatment were also filed by the Industrial Group on October 12 and October 14, 2021, to protect portions of

Mr. Gorman's prefiled testimony and attachments, and workpapers, respectively. On October 25, 2021, the Industrial Group partially withdrew its October 12, 2021 motion for confidential treatment, explaining that I&M had subsequently determined that portions of Mr. Gorman's testimony and attachments previously marked as confidential could be made public, and thus the Industrial Group was no longer seeking confidential treatment of that information. Docket Entries were issued on July 19, and November 1, 2021, finding the information that was the subject of I&M's and the Industrial Group's motions to be preliminarily confidential, after which the information was submitted to the Commission under seal. The Commission finds all such information is confidential pursuant to Ind. Code § 5-14-3-4 and § 24-2-3-2 and is exempt from public access and disclosure by the Commission.

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

1. The Settlement Agreements, copies of which are attached to this Order, are approved in their entirety.

2. Petitioner shall be and hereby is authorized to adjust and reduce its rates and charges for electric utility service to produce a decrease in total operating revenues of approximately -5.90% in accordance with the findings herein, which rates and charges shall be designed to produce forecasted Phase II total annual operating revenues of $1,510,837,325, which are expected to produce annual net operating income of $296,733,906.

3. Petitioner shall be, and hereby is, authorized to place into effect Phase I rates and charges in accordance with the findings herein for retail electric service on and after the effective date of this Order subject to the Energy Division's review and agreement with the amounts reflected.

4. Petitioner shall file new schedules of rates and charges along with its revised tariff under this Cause consistent with the Settlement Agreement and the rates and charges approved above.

5. Petitioner shall certify its net plant at December 31, 2022 and calculate the resulting Phase II rates and charges, which shall be made effective in accordance with the findings herein, subject to being contested and trued-up consistent with Finding No. 12.

6. Petitioner is authorized to file updated factors for its rate adjustment mechanisms in accordance with this Order, and such changes shall be effective simultaneously with approval of I&M's new basic rates.

7. Petitioner is authorized to implement the Tax Rider in accordance with the Settlement Agreement.

8. I&M is granted a waiver of 170 IAC 4-1-16(f) as to the disconnection process.

9. Petitioner is granted accounting authority to implement the Settlement Agreement.

10. Petitioner shall be, and hereby is, authorized to place into effect for accrual accounting purposes revised depreciation accrual rates as provided in the Settlement Agreement.

11. I&M is directed to file in this docket all information required by the Settlement Agreement.

12. The information filed in this Cause pursuant to I&M's motions for protection and nondisclosure of confidential and proprietary information is deemed confidential under Ind. Code § 5-14-3-4, 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.

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

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR;

APPROVED:

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

_____

Dana Kosco
Secretary of the Commission

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