

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF DUKE ENERGY)
INDIANA, LLC FOR: (1) APPROVAL OF AN)
ADJUSTMENT TO ITS ELECTRIC SERVICE)
RATES THROUGH ITS TRANSMISSION,)
DISTRIBUTION AND STORAGE SYSTEM)
IMPROVEMENT CHARGE ("TDSIC") RATE) CAUSE NO. 44720 TDSIC 2
SCHEDULE, STANDARD CONTRACT RIDER)
NO. 65; (2) AUTHORITY TO DEFER 20% OF THE)
APPROVED CAPITAL EXPENDITURES AND) APPROVED: OCT 17 2017
TDSIC COSTS FOR RECOVERY IN)
PETITIONER'S NEXT GENERAL RATE CASE;)
AND (3) APPROVAL OF PETITIONER'S)
UPDATES TO ITS 7-YEAR ELECTRIC PLAN,)
PURSUANT TO IND. CODE § 8-1-39-9.)

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Carol Sparks Drake, Administrative Law Judge

On April 25, 2017, Duke Energy Indiana, LLC ("DEI" or "Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") requesting: (1) approval of an adjustment to its Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Rate Schedule via Standard Contract Rider No. 65 ("TDSIC Rider") to effectuate the timely recovery of 80% of capital expenditures and TDSIC costs associated with in-service eligible transmission, distribution, and storage system improvements; (2) authority to defer, as a regulatory asset, the remaining 20% of eligible and approved capital expenditures and TDSIC costs, with carrying costs, for recovery in Petitioner's next general rate case; (3) approval of updates to DEI's seven-year plan for eligible transmission, distribution, and storage system improvements ("TDSIC Plan"), pursuant to Ind. Code 8-1-39-9; (4) approval to defer and recover 80% of eligible and approved capital expenditures and TDSIC costs in connection with the TDSIC Plan through the TDSIC Rider and to defer 20% of eligible and approved capital expenditures and TDSIC costs associated with the TDSIC Plan for recovery in Petitioner's next general rate case, pursuant to Ind. Code § 8-1-39-9; and (5) approval to adjust Petitioner's authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

On April 25, 2017, Petitioner prefiled the direct testimony and exhibits of the following employees of Duke Energy Business Services LLC, Petitioner's service company affiliate:

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

On May 22, 2017, pursuant to notice and as provided in 170 IAC 1-1.1-15, a prehearing conference was held in this Cause after which the Commission issued a Prehearing Conference Order on May 31, 2017, establishing a procedural schedule consistent with the schedule Petitioner and the Indiana Office of Utility Consumer Counselor (“OUCC”) requested. This agreed schedule incorporated filing and hearing dates beyond the statutory time periods which would otherwise have been applicable under Ind. Code § 8-1-39-12 (a) and (b); therefore, Petitioner and the OUCC agreed these time limitations were waived.

On June 27, 2017, the OUCC prefiled the direct testimony and exhibits of Stacie R. Gruca, Assistant Director of the OUCC’s Electric Division, and Anthony A. Alvarez, Utility Analyst for the OUCC’s Resource Planning and Communications Division. Corrected testimony for Ms. Gruca was filed on July 14, 2017, and corrected redacted testimony was filed for Mr. Alvarez that same date. No rebuttal testimony was filed.

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

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

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published as required by law. DEI is a public utility as that term is defined in Ind. Code §§ 8-1-2-1(a) and 8-1-39-4. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction over a public utility’s petition to approve rate schedules establishing a TDSIC that will allow for the periodic adjustment of the public utility’s basic rates and charges to provide for timely recovery of 80% of approved capital expenditures and TDSIC costs. The Commission, therefore, has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner’s Characteristics. DEI is a public utility and an Indiana corporation with its principal office located in Plainfield, Indiana. Petitioner is engaged in the business of rendering retail electric utility service and owns, operates, manages, and controls, among other things, plant and equipment within Indiana used for the production, transmission, delivery, and furnishing of such service. DEI provides electric service to more than 817,000 customers in 69 Indiana counties. Petitioner also sells electric energy for resale to municipal utilities, Wabash Valley Power Association, Inc. (“Wabash Valley”), Indiana Municipal Power Agency (“IMPA”), Hoosier Energy Rural Electric Cooperative, Inc. (“Hoosier Energy”), and other electric utilities.

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

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

4. Relief Requested in this Cause. Petitioner requested approval of updates to the TDSIC Plan for “eligible transmission, distribution, and storage system improvements” and its second cost recovery pursuant to Ind. Code § 8-1-39-9 using the rate adjustment mechanism the Commission approved in the 44720 Order. In accordance with Ind. Code § 8-1-39-9(a), Petitioner seeks an Order: (a) approving an adjustment to its TDSIC Rate Schedule to effectuate the timely recovery of 80% of approved capital expenditures and TDSIC costs to be effective for bills rendered after a final order in this Cause until replaced by subsequently approved factors; (b) approving the capital expenditures and TDSIC costs incurred for in-service TDSIC projects through December 31, 2016, and the forecasted TDSIC costs upon which the proposed factors are based; (c) approving updates to the TDSIC Plan filed concurrent with DEI’s Petition, pursuant to Ind. Code § 8-1-39-9; (d) authorizing the interim deferral and recovery of 80% of eligible and approved capital expenditures and TDSIC costs in connection with Petitioner’s TDSIC Plan through the TDSIC Rider and the deferral of 20% of eligible and approved capital expenditures, with carrying costs, and TDSIC costs, in connection with the TDSIC Plan, for recovery in

Petitioner's next general rate case; and (e) adjustment of Petitioner's authorized return for purposes of Ind. Code § 8-1-2-42(d)(3) to reflect the incremental earnings that will result from this TDSIC Rider filing upon Commission approval.

5. DEI's Case-In-Chief.

A. Mr. Fowler. Mr. Fowler testified that the projects being implemented under the TDSIC Plan have been approved by the Commission and meet the eligibility requirements in Ind. Code § 8-1-39-2. He testified that in this filing, DEI is submitting an update to its costs and a request for rate recovery for projects placed into service through December 31, 2016. Mr. Fowler testified that as of year-end 2016, for all TDSIC projects in-service, capital costs were approximately 4% lower than the estimate, including use of contingency and under-run.

Mr. Fowler explained that this Cause and future spring filings are for rate recovery and updates upon projects placed in-service during the prior calendar year, while Petitioner's fall TDSIC filing will be for plan updates with no request for rate recovery. Mr. Fowler noted the OUCC agreed with this filing schedule, and it enables DEI to appropriately allocate resources for these filings and fits well with Petitioner's budgeting process.

Mr. Fowler explained the management and oversight structure for DEI's TDSIC program. He testified that for 2016, the TDSIC Plan was executed within scope, schedule, and budget, with some movement of projects between years. According to Mr. Fowler, DEI is on-track to complete the full seven-year TDSIC Plan. Mr. Fowler noted that 2017 and remaining TDSIC Plan years represent significant increases to Petitioner's year over year project scope, but he testified Petitioner remains confident in its ability to deliver on its commitment and TDSIC Plan.

Mr. Fowler provided the in-service costs for TDSIC projects completed during 2016 in Petitioner's Exhibit 1-B, with more detailed cost information shown in Petitioner's Confidential Exhibits 1-C and 1-D. He testified that Petitioner did not exceed the capital investment cap set forth in the TDSIC Settlement for these projects. He stated that while the overall scope and intent of the TDSIC Plan has not changed, as expected, some individual work orders within projects were advanced or delayed based on typical conditions such as customer requests, outage delays, weather, or difficult access; however, no significant work scope was uncompleted.

Mr. Fowler testified that at 2016 year-end, the total spent on in-service investments was \$80.5 million compared to the 2016 Settlement Cap of \$91.8 million, which is \$11.3 million less than approved. Even though the overall portfolio of distribution system circuit improvement projects was under Petitioner's estimates for 2016, some individual projects had larger variances, as shown in Petitioner's Confidential Exhibit 1-C. Mr. Fowler testified that the distribution system circuit improvement project types with larger variances include: 1) Limited Access Road Crossing Upgrade; 2) Live Front Transformer Replacement, and 3) Capacitor Automation. He explained what drove the cost overage for each of these. He also testified that the approved contingency for 2016 was applied to the variances for these project types to bring each project to within the acceptable tolerance for Association for Advancement of Cost Engineering ("AACE") Class 2 of 20 percent or less.

Mr. Fowler also provided an update regarding the following four projects which at mid-year had larger variances in Petitioner's TDSIC 1 filing: 1) Ground Line Treatment; 2) Limited Access Road Crossing Upgrade; 3) Circuit Sectionalization, and 4) Surface Mounted Equipment Inspection. He testified that three of these projects ended 2016 within AACE Class 2 variance tolerance, with the Limited Access Road Crossing project ending with a larger variance. Mr. Fowler explained that the nature of these improvements varies based on as-found conditions and variables associated with each roadway. When the TDSIC Plan was updated, Petitioner did not yet know the as-found conditions associated with the remaining work orders. According to Mr. Fowler, at the end of 2016, the total variance for this category was less than \$30,000 after application of contingency.

Mr. Fowler testified that as defined by AACE, contingency is an amount added to an estimate to allow for items, conditions, or events for which the state, occurrence, or effect is uncertain and that experience shows will likely result, in aggregate, in additional costs. Mr. Fowler explained that Petitioner is using contingency to manage estimate uncertainty and risk that may result in a cost increase. Similar to the approved TDSIC 1 filing, contingency and under-run was applied to projects with increases greater than 20% to bring all TDSIC projects to within 20% as required for AACE Class 2 estimating standards.

Mr. Fowler testified that DEI's methodology and approach to variances, contingency, and yearly caps remains consistent with the TDSIC Settlement. Given the cumulative caps by year under the TDSIC Settlement, unutilized project variances between actual annual costs and the caps will be carried forward to subsequent years and used to offset future negative project variances or additional projects will be pulled from the alternate list. Based on 2016 actual in-service costs, \$11.3 million of unused cap will be carried over to future years. Mr. Fowler testified this represents the difference between the approved 2016 settlement cap of \$91.8 million and the 2016 in-service investment of \$80.5 million. To afford DEI's customers the benefit of the TDSIC Plan, Petitioner's 2017 workplan projects an in-service investment of \$225 million which is the difference between the cumulative cap of \$305.5 million and the \$80.5 million put in-service in 2016.

Mr. Fowler testified there have not been significant changes to the estimated project operation and maintenance ("O&M") expenses submitted in TDSIC 1. These are project O&M expenses that are directly related to the TDSIC capital projects. He also testified that Petitioner provided a comprehensive list of the projects in its TDSIC Plan and their respective variances as part of its workpapers. Mr. Fowler noted that Updated TDSIC Plan was approved by the Commission in reviewing the TDSIC 1 filing, and DEI's next full TDSIC Plan update will be included in its TDSIC 3 filing.

B. Mr. Broadhurst. Mr. Broadhurst testified that, generally, the Transmission Line, Transmission Substation, and Distribution Substation portions of the TDSIC Plan, which are the portions of the TDSIC Plan for which he has management oversight responsibility, are being executed within the scope and schedule identified in Cause No. 44720 and as updated in TDSIC 1. Although there are some variances in the cost estimates for individual projects, he testified actual costs continue to trend closely with DEI's overall estimate for the transmission line and substation costs identified in Cause No. 44720 and as updated in TDSIC 1.

Mr. Broadhurst testified that as of the end of 2016, DEI had placed 21 planned Transmission Line, Transmission Substation, and Distribution Substation projects in-service at a cost of \$33,800,997 which is 13% less than the \$38,723,488 anticipated, prior to the application of contingency. He testified that some of these projects were placed in-service near the end of 2016, and DEI plans to seek recovery of charges received after December 31, 2016, in its TDSIC 4 cost recovery filing scheduled for spring 2018. Mr. Broadhurst testified that due to outage constraints and a delayed component delivery, five projects did not go into service as planned by year-end 2016. These projects have been integrated into DEI's 2017 outage schedule with plans to place them in-service before the end of 2017. They are projected to be filed as in-service projects in the TDSIC 4 recovery request. Mr. Broadhurst also testified that during 2016 a small portion of one line rebuild was incorporated from the alternate list into Petitioner's 2017 plan.

Mr. Broadhurst provided the in-service costs for the Transmission Line, Transmission Substation, and Distribution Substation projects placed into service by December 31, 2016, in Petitioner's Exhibit 2-A and Confidential Exhibit 2-B. He testified no contingency or under-run was required for the 2016 in-service transmission line or TDSIC substation projects to bring their variances within 20%. Mr. Broadhurst testified that for 2016 in-service TDSIC substation and transmission line projects, the overall O&M variance under-run was 40%, 18% in indirects, and 20% for allowance for funds used during construction. He testified the TDSIC Plan remains on target with the caps in the TDSIC Settlement and that as DEI moves further into the TDSIC Plan, customers should experience improved reliability when aged and deteriorating equipment is replaced. He noted that many of the projects include automated functionality that will shorten outage times and increase overall continuity of service. Mr. Broadhurst testified that the projects and programs in the TDSIC Plan are reasonable, necessary, and justified by providing increased reliability and modernization benefits to Petitioner's customers.

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

Ms. Douglas testified that the following costs were included in developing the TDSIC factors: 80% of the retail jurisdictional costs of (1) Petitioner's capital investment in TDSIC Plan projects that were in-service as of December 31, 2016 (the "Cutoff Date"), which will be recovered via depreciation; (2) 12 months of return on the net book value (original investment less accumulated depreciation) of the included in-service projects; (3) the depreciation accrued for the in-service projects from July 2016 through the Cutoff Date; (4) O&M expenses, including fringe benefits and payroll taxes, incurred through the Cutoff Date for the in-service TDSIC Plan projects, less amounts already included in the development of TDSIC 1 rates; (5) the forecasted depreciation, O&M, and property tax expenses for July 2017 through June 2018 (12 months)

related to the projects included in the Updated TDSIC Plan that are forecasted to be in-service by December 31, 2018; and (6) post-in-service carrying costs accrued for the in-service projects from July 2016 through the Cutoff Date. In addition, an amount was included in rate development for 12 months of amortization of amounts incurred for plan development costs, to be amortized over three years. Ms. Douglas testified that the forecasted depreciation, O&M, and property tax expense will be trued-up to actual expenses in a future TDSIC Rider filing. She testified that costs related to wholesale customers and joint owners were removed from the costs for rate development. Ms. Douglas also explained that beginning with this filing, Petitioner plans to make TDSIC Rider rate filings annually each spring covering in-service projects through December 31st of the prior calendar year, with the resulting rates to be billed to customers over a 12-month period.

Ms. Douglas provided tariff sheets reflecting the proposed TDSIC factors to be billed upon Commission approval. She also provided schedules supporting the proposed TDSIC factors. Ms. Douglas testified that the total capital investment for in-service TDSIC projects as of the Cutoff Date was \$80,522,060, which is below the annual 2016 capital cost cap of \$91.8 million; therefore, no adjustments are needed to the investment amount to be included in the TDSIC Rider.

Ms. Douglas testified that Petitioner's proposed revenue requirements do not exceed the two percent statutory revenue cap, so no additional revenue requirement reductions or cost deferrals are required. She explained the revenue conversion factors used to develop the revenue requirements for this filing and testified that, pursuant to the TDSIC Settlement, Petitioner will continue to collect revenues through the TDSIC Rider for the jurisdictional costs associated with the approved TDSIC projects until the costs of the TDSIC improvements that are in-service by the cut-off date for a future retail base rate case are included in base rates. Amounts deferred related to the TDSIC improvements will also be included in base rates at the time of this future base rate case. Ms. Douglas testified that if years remain in the Updated TDSIC Plan (or a new TDSIC plan) after the future retail base rate case order, the TDSIC Rider will be adjusted to use the new return on equity and allocation factors approved in the subsequent retail base rate case and to include the costs related to approved TDSIC improvements in base rates.

Ms. Douglas testified that upon approval of the proposed factors, the monthly bill of a typical residential customer using 1,000 kilowatt hours ("kWhs") per month will increase by \$0.55 or approximately 0.45% from their current total bill. For total retail, the average increase in revenue requirements is 0.40%, relative to revenue for the 12 months ended December 31, 2016.

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

6. OUCC's Evidence. Ms. Gruca testified that she verified Petitioner's calculation of the total TDSIC costs incurred in connection with Petitioner's TDSIC Plan to be recovered in TDSIC 2 matches the amount DEI proposes to recover. Her calculation yielded a total charge of approximately \$34,659,749 (or approximately \$18,339,446 for residential customers), which results in an increase of approximately \$0.55 in the monthly bill of a residential customer using 1,000 kWh per month. Per Ms. Gruca, this includes Petitioner's revenue requirements for

transmission infrastructure improvement projects totaling \$9,358,622 and \$25,301,127 for distribution infrastructure improvement projects.

Ms. Gruca testified that when including other current DEI tracker costs with Petitioner's base rates and charges and proposed TDSIC costs, a typical DEI residential customer using 1,000 kWh per month will experience a bill of approximately \$122.35, which equates to an average cost per kWh of 12.24 cents. According to Ms. Gruca, tracker costs, excluding the fuel cost adjustment, make up approximately \$49.03 or 27.81% of the total costs included on a typical DEI residential customer's bill.

Ms. Gruca testified that Petitioner provided a separate schedule showing the 20% deferred TDSIC costs DEI anticipates recovering in its next base rate case. As of TDSIC 2, this amount is \$18,374,677. She testified Petitioner's proposed TDSIC tracking factor calculations appear to comport with the ratemaking and accounting treatment the Commission authorized in the 44720 Order as a result of the TDSIC Settlement.

Mr. Alvarez testified that using comparative and variance analyses, he reviewed Petitioner's TDSIC projects in-service as of December 31, 2016, to ascertain whether DEI completed the projects in a cost efficient manner that delivers the maximum value to Petitioner's customers. He explained that DEI divided its TDSIC Plan into two major functional categories, those being Distribution System Improvements and Transmission System Improvements. He reviewed the supporting documentation for the TDSIC projects in-service in both of these categories and their respective sub-categories.

Mr. Alvarez testified that the comparative analysis showed: (a) the in-service total actual capital costs of DEI's TDSIC projects did not exceed the TDSIC Settlement capital costs cap; (b) the total capital costs came in below the approved capital costs (for the same projects) in TDSIC 1; (c) DEI placed in-service approximately \$57,627,151 of its TDSIC project capital costs during the July 1, 2016, through December 31, 2016, period that TDSIC 2 covers; and (d) the TDSIC projects Petitioner placed in-service for 2016 were all within the TDSIC Plan the Commission approved in TDSIC 1.

Mr. Alvarez testified the variance analysis showed Petitioner's 2016 actual capital costs of the in-service projects were lower than the capital costs approved in TDSIC 1 by \$2,755,354 or 3.31%. He testified that although the 2016 distribution project portfolio came in above budget with a negative variance of -\$2,216,165 or -4.67%, the transmission project portfolio was below budget by \$4,971,519 or +13.87%. Mr. Alvarez testified that he currently does not have concerns regarding the TDSIC projects in-service with larger negative variances driving the overall negative distribution variance.

Mr. Alvarez reviewed each of the five distribution circuit projects that was over budget and explained what the variance was attributable to. He identified six distribution projects with larger positive variances that mitigated the effect of the negative variances. Mr. Alvarez also testified that DEI's overall actual capital costs for completion of seven transmission line projects was below the Commission-approved capital costs for 2016, but he noted the supporting documentation

indicates invoices are still outstanding for three of these projects. Per Mr. Alvarez, Petitioner will seek recovery of these charges in its TDSIC 4 tracker filing.

In concluding his testimony, Mr. Alvarez recommended the Commission accept the projects Petitioner placed in-service for inclusion in Petitioner's TDSIC 2 tracker.

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

8. **Commission Discussion and Findings Regarding TDSIC 2.** DEI submitted its Verified Petition and supporting testimony and exhibits to demonstrate compliance with the requirements of Ind. Code § 8-1-39-9 and the 44720 Order.

A. **Past and Future Rate Case Timing and TDSIC Timing.** Ind. Code § 8-1-39-9(c) states that "[e]xcept as provided in section 15 of this chapter, a public utility may not file a petition under subsection (a) within nine (9) months after the date on which the commission issues an order changing the public utility's basic rates and charges with respect to the same type of utility service." DEI's most recent retail electric base rate order changing basic rates and charges was issued in 2004 in Cause No. 42359. DEI filed its petition in this Cause on April 25, 2017. The Commission, therefore, finds that DEI's petition in this Cause was filed more than nine months after Petitioner's last general rate case in accordance with Ind. Code § 8-1-39-9(c).

Ind. Code § 8-1-39-9(e) states that "[a] public utility may file a petition under this section not more than one (1) time every six (6) months." DEI filed its petition in this Cause consistent with the terms of the TDSIC Settlement approved in the 44720 Order and not within six months of its TDSIC 1 filing. Mr. Fowler testified that Petitioner plans to make its TDSIC 3 filing in fall 2017 with a full TDSIC Plan update. This is consistent with the TDSIC filing timeline approved in TDSIC 1. The Commission finds Petitioner's TDSIC 2 filing is consistent with Ind. Code § 8-1-39-9(e) and reasonable.

B. Petitioner's Updated TDSIC Plan. The Commission approved Petitioner's Updated TDSIC Plan in TDSIC 1 on March 22, 2017. As described in the testimony and exhibits of Mr. Fowler and Mr. Broadhurst, Petitioner provided a progress update in this Cause on that plan. This testimony confirmed that Petitioner is executing the Updated TDSIC Plan as approved, and the overall scope and intent of the TDSIC Plan has not changed. Mr. Alvarez concurred. The Commission finds Petitioner is executing its TDSIC Plan pursuant to the TDSIC Settlement approved in the 44720 Order and the Updated TDSIC Plan approved in TDSIC 1.

C. Capital Expenditures and TDSIC Costs. Petitioner's total capital investment for its TDSIC projects placed into service through December 31, 2016, was \$80,522,060, of which the retail portion was \$79,020,433. This amount was below the 2016 capital cost cap of \$91.8 million agreed to in the TDSIC Settlement and approved in the 44720 Order. DEI's witnesses explained why the project variances were reasonable and justified as required by statute. Mr. Alvarez testified that his review on behalf of the OUCC identified no concerns, at this time, with Petitioner's spending for transmission or distribution projects. Based upon the evidence presented, the Commission finds \$63,216,347, which equates to 80% of the approved capital expenditures, is the DEI investment eligible for TDSIC recovery.

D. TDSIC Factors. In Petitioner's Exhibit 3-A, DEI provided the TDSIC factors by rate code based on the calculated revenue requirements. Petitioner's Exhibit 3-B shows these factors were designed to collect \$34,659,749 from retail customers over the next 12-months. Ms. Gruca testified that the proposed TDSIC factor calculations appear to comport with the ratemaking and accounting treatment the Commission authorized in the 44720 Order as a result of the TDSIC Settlement.

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

E. Deferred Costs. DEI asked to defer and recover 80% of the post-in-service carrying costs, depreciation, and taxes associated with the approved TDSIC projects through the TDSIC adjustment factor. DEI also asked to defer and recover the remaining 20% of the capital expenditures, in the amount of \$15,804,086, associated with the approved TDSIC projects, with carrying costs, until Petitioner's next base rate case. The Commission finds these costs are reasonable and DEI's proposed accounting and ratemaking for the costs should be approved. Consistent with the Commission's Order in TDSIC 1, Petitioner shall continue including in its TDSIC filings a separate schedule providing the calculation of total 20% deferred costs DEI intends to recover in its next base rate case as a result of each TDSIC tracker filing, as well as a running total of 20% deferred costs DEI intends to recover in this rate case.

F. Adjustment of Return Earned. As provided for in Ind. Code § 8-1-39-13(b), DEI requests the Commission increase the authorized net operating income initially approved in Cause No. 42359, and modified by subsequent Commission orders, to include the earnings associated with the TDSIC projects for purposes of the Ind. Code § 8-1-2-42(d)(3) earnings test. Based on the Commission's review of the TDSIC statute and the evidence in this Cause, the Commission finds DEI's requested adjustment of its return to reflect the incremental earnings of the TDSIC Rider is reasonable and should be approved.

G. Effect on Petitioner's Customers. Petitioner's Exhibit 3-C shows the impact of the proposed TDSIC factors on the monthly bill of a residential customer using 1,000 kWhs. Upon approval, this monthly bill will increase by \$0.55 or approximately 0.45% from the current total bill. Ms. Gruca testified she verified these calculations. For total retail, the average increase in revenue requirements is 0.40% relative to revenue for the 12-months ended December 31, 2016.

10. Confidential Information. On April 25, 2017, Petitioner filed a motion for protection of confidential and proprietary information along with supporting affidavits demonstrating a need for confidential treatment for: (i) information related to DEI's prospective transmission and distribution projects, specific to the identity of transmission and distribution system assets, such as substations, circuits, or site specific location of capital projects; (ii) sensitive and detailed cost information for prospective transmission and distribution projects; and (iii) information related to the risk profile analysis and cost review results for DEI's distribution and transmission projects. On May 11, 2017, the Presiding Officers preliminarily determined certain information should be subject to confidential procedures. The Commission finds such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. Petitioner's proposed adjustment to its TDSIC Rate Schedule via the TDSIC Rider (Standard Contract Rider No. 65) to be applicable for bills beginning with the first billing cycle following approval of this Order is approved, and Petitioner is authorized to recover 80% of the eligible and approved capital expenditures and TDSIC costs in the amount of \$63,216,347 incurred in connection with DEI's eligible transmission, distribution, and storage system improvements.

2. Petitioner is authorized to defer, as a regulatory asset, \$15,804,086, representing 20% of eligible and approved capital expenditures and TDSIC costs and record ongoing carrying charges based on the current overall weighted cost of capital on all deferred TDSIC costs until such costs are included for recovery in Petitioner's next general rate case.

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

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

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

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

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

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

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

APPROVED: OCT 17 2017

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



Mary M. Becerra
Secretary of the Commission