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CITIZENS ENERGY GROUP'S AUGUST 18, 2022 COMMENTS REGARDING SECTION 14.2 OF STRAWMAN MSFR RULE

Citizens Energy Group ("Citizens") joins the comments submitted by the Indiana Energy Association ("IEA") regarding the proposed MSFR rule circulated by the Commission. However, Citizens would like to explain its edits to 170 IAC 1-5-14.2(a)(3), which relates to the extensions and replacements ("E&R") revenue requirement which are attached hereto.

Municipal utility rates are established pursuant to Ind. Code § 8-1.5-3-8, which provides with respect to E&R that "reasonable and just rates and charges for services" include "rates and charges that produce sufficient revenue to provide adequate money for making extensions and replacements to the extent not provided for through depreciation." The intent of Ind. Code § 8-1.5-3-8 is to ensure that a municipal utility's revenues are sufficient to recover no less than its annual depreciation expense for purposes of making capital improvements to the system and more if the ongoing annual cost of making necessary improvements exceed depreciation expense. The core concept behind the statute is that a municipal utility should collect revenues sufficient to fund its ongoing year-after-year capital investment needs. To that end, Ind. Code § 8-1.5-3-8 provides:

> It is the intent of this section that the rates and charges produce an income sufficient to maintain the utility property in a sound physical and financial condition to render adequate and efficient service. Rates and charges too low to meet these requirements are unlawful.

The statute does not limit a utility to just recouping costs for particular projects – rather, it is intended to ensure the utility generates sufficient revenue to fund its ongoing capital needs on a continuous basis. Therefore, in many cases, the Commission has determined a historical approach is the best way to determine the ongoing level of investment necessary to maintain a municipal utility's property in sound physical and financial condition. *See e.g. Re Brown County Water Utility, Inc.*, Cause No. 45210 (approved January 2, 2020) ("the Parties agreed to base E&R on an historical average of the cash-funded E&R that Petitioner incurred during the prior three years); see also, *Citizens Gas & Coke Utility*, Cause No. 42767 at 66 (approved Oct. 19, 2006) (approving an E&R revenue requirement based on a four-year historical average of fiscal years 2001, 2002, 2003 and 2004). In other cases, a blend of historical periods and forecast[s] for the upcoming year[s] have been used.

Where a municipal utility elects to use a capital plan as part of the basis for determining its E&R revenue requirement, that plan is being used as a methodology for determining the utility's ongoing level of E&R expense – not a mechanism to recoup the cost of or earn a return on the utility's investment in any particular project as with an investor owned utility (*i.e.*, earn a return on and return of the cost of the project). Citizens understands that information regarding major projects in a municipal utility's capital plan is helpful in assessing the utility's ongoing needs. Therefore, we limited our proposed edits to the rule, as summarized below:

- We deleted the reference to "in service" date and the "impact on depreciation expense" because those provisions seem to blend investor-owned utility ratemaking concepts into the municipal utility ratemaking paradigm. A municipal utility seeking approval of a revenue requirement that includes E&R cannot simultaneously include depreciation expense in its revenue requirement and therefore, the impact of the project on depreciation expense has no bearing on the rate adjustment.

- We changed the cost estimate information required for a major project to allow a municipal utility to break down costs between construction and non-construction costs, if that level of detail is available. An estimate of material and labor costs may not be available from contractors for projects to be completed in future years of a capital plan. We also deleted the restriction on how contingency costs can be presented by a municipal utility and indirectly by its contractors.

- We eliminated the requirement for a life cycle analysis in favor of an approach that requires either a life cycle analysis or an explanation of the need for a major project. A life cycle analysis may not always be completed for all major projects included in capital plan that are recurring in nature or of obvious necessity, such as where an asset is at the end of its useful life.

Thank you for the opportunity to comment on these important draft rules. Citizens looks forward to answering any questions Commission technical staff might have regarding its proposed changes to 170 IAC 1-5-14.2(a)(3).

Respectfully submitted,

CITIZENS ENERGY GROUP

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170 IAC 1-5-14.2 Additional accounting rate schedules and work papers, municipally-owned, not-for-profit, and cooperatively-owned utilities

Authority: IC 8-1-1-3

Affected: IC 8-1-2-42.7

Sec. 14.2. (a) For an electing municipally-owned, not-for-profit, or cooperatively-owned utility the following additional accounting rate schedules:

(1) Debt service

(A) A schedule of long-term debt outstanding by series, including current maturities, for the end of the historical test period or base period and the latest date reasonably available.

(B) Schedules required by this subsection should contain all relevant information, including, but not limited to, the following:

(i) The date of issue.

(ii) The maturity date.

(iii) The dollar amount.

(iv) The coupon or dividend rate.

(v) The net proceeds, including discounts and premiums.

(vi) The annual interest or dividend paid and balance of principal.

(2) Debt service reserve for each outstanding bond based on the terms of the bonds less amount of debt service reserve already funded.

(3) If extensions and replacements are included in the revenue requirement calculation~~s, extensions and replacements~~ based upon a capital improvement plan:

(A) A complete description for each major project of the capital improvement plan shall be included in the utility's case-in-chief. A complete description of each major project shall include:

(i) a brief description or the scope of the project,

(ii) location or proposed location of the project,

(iii) ~~cost or estimated cost of materials,~~

~~(iv) cost or estimated costs of labor,~~

~~(v) non-construction costs,~~

~~(vi) total project cost or~~ estimated cost of the project cost at completion broken down between construction cost and total non-construction cost, if available;~~,~~

(~~vi~~iv) life cycle cost-benefit analysis, if available, or explanation of the necessity of the project,

(v~~iii~~) task order or project number, and

(vi~~ix~~) ~~proposed in-service~~estimated completion date~~:~~.

~~by proposed phase.~~

~~Any contingency to the estimated cost shall be applied to the total cost of construction as a uniform percentage and not be rolled into individual line item costs,~~

(B) the amount of annual capital investment to be funded by revenues and the amount to be funded by proposed debt shall also be identified by proposed phase.

~~(C) impact on depreciation expense shall also be identified by proposed phase.~~

(Indiana Utility Regulatory Commission; 170 IAC 1-5-14.2