
Citizens Energy Group's March 3, 2022 Comments Regarding IURC's Strawman MSFR Rule

Citizens Energy Group (“Citizens”) joins in the comments submitted by the Indiana Energy Association (“IEA”) regarding the strawman MSFR rule circulated by the Commission on January 12, 2022. Citizens has included its proposed edits to the draft strawman MSFR rule as part of the proposed edits being submitted by IEA. Citizens would like to explain its edits to one area of the proposed strawman rule – 170 IAC 1-5-14.2(a)(3) – which relates to support provided for the extensions and replacements revenue requirement. Specifically, Citizens wants to explain why it is important that 170 IAC 1-5-14.2(a)(3) not be written in a way that would suggest the extensions and replacements revenue requirement must or should be based on a “capital improvement plan” that identifies particular projects to be completed in the upcoming years.

In addition to a forward look, municipal utilities may base their extensions and replacements revenue requirement on normalized historical data as opposed to a capital improvement plan. The Commission has approved extensions and replacements revenue requirement amounts derived using a historical approach. For example, in Citizens Gas’s last three rate cases it has used historical average spend amounts to determine the utility’s extensions and replacements revenue requirement. See Cause No. 42767 (approving the use of a 4-year historical average for the extensions and replacements revenue requirement and holding, “[t]raditional ratemaking principles call for normalizing these expenditures.”) (October 19, 2006 Order in 42767 at 66.); see also, Cause Nos. 43463 and 43975 (approving the use of a 3-year historical average for the extensions and replacements revenue requirement).

The objective of a municipal utility rate case is to determine a revenue requirement representative of the utility’s ongoing level of expense. A historical average may not always be the optimal way to determine the necessary ongoing level of cost. However, in many cases municipal utility spending levels are consistent from year-to-year and the historical approach is the best way to determine the utility’s ongoing level of cost - which, as noted above, the Commission has found to be the case with Citizens Gas in its prior three rate cases. Accordingly, Citizens has added the following phrase to the proposed rule: “nor do the foregoing requirements preclude a municipally-owned, not-for-profit, or cooperatively-owned utility from basing their extensions and replacements revenue requirement on historical test period data adjusted for fixed, known, and measurable changes and appropriate normalizations and annualizations.”

The rule also should be clear that project-specific information (like, location or project number) does not need to be provided for categories of ongoing projects which are repetitive in nature and necessary on an ongoing basis. For instance, CWA and Citizens

Water annually must replace decades-old mains based on field assessments relating to likelihood of failure. Categories of such ongoing cost have been a component of CWA's and Citizens Water's respective extensions and replacements revenue requirements since the acquisition of the systems. Citizens Thermal has based its revenue requirement on forecasted amounts for three categories: (i) production plant; (ii) distribution plant; and (iii) general plant. Due to the age of the system, these areas of the system require a similar ongoing level of expenditure from year-to-year even though the particular components being replaced/rehabilitated might vary. In its last rate case, the Commission approved an agreed upon revenue requirement for extensions and replacements based on a three-year average of projected costs in these categories.

In short, multiple methodologies have been relied upon by the Commission to develop an extensions and replacements revenue requirement indicative of the ongoing level of expenditure needed to maintain the system, not just a "capital improvement plan." To ensure the rule is not interpreted as precluding methodologies that have been used and approved in the past, Citizens added the phrase: "the requirements set forth above do not apply to categories of similar projects that are repetitive in nature even though they might collectively exceed one percent (1%) of the electing utility's plant in service."

As to the information to be provided for major projects, Citizens has proposed minor edits to match the information CWA agreed to provide in a Settlement Agreement in Cause No. 45151 with respect to certain capital projects. These edits are designed to match the support approved by the Commission in Cause No. 45151 and avoid confusion in future CWA and Citizens Water rate cases.

Thank you for the opportunity to comment on these important draft rules and thank you for holding technical conferences on these 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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