

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN )  
POWER COMPANY (I&M) FOR (1) APPROVAL )  
OF A TRANSMISSION, DISTRIBUTION, AND )  
STORAGE SYSTEM IMPROVEMENT CHARGE )  
(TDSIC) RATE SCHEDULE; (2) APPROVAL OF )  
I&M'S PROPOSED COST ALLOCATIONS; (3) )  
APPROVAL OF THE TIMELY RECOVERY OF )  
TDSIC COSTS THROUGH I&M'S PROPOSED )  
TDSIC RATE SCHEDULE; AND (4) AUTHORITY )  
TO DEFER APPROVED TDSIC COSTS, )  
PURSUANT TO IND. CODE CH. 8-1-39. )

CAUSE NO. 44543

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S  
PROPOSED ORDER

Comes now, the Indiana Office of Consumer Counselor, by counsel, hereby submits its  
Proposed Order to the Commission for its approval.

Respectfully submitted,



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Randall C. Helmen, Atty. No. 8275-49  
Chief Deputy Consumer Counselor

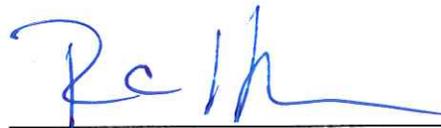
**CERTIFICATE OF SERVICE**

This is to certify that a copy of the *OUCC's Proposed Order* has been served upon the following parties of record in the captioned proceeding by electronic service on March 17, 2015

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INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA )  
MICHIGAN POWER COMPANY (I&M) )  
FOR (1) APPROVAL OF A )  
TRANSMISSION, DISTRIBUTION, AND )  
STORAGE SYSTEM IMPROVEMENT ) CAUSE NO. 44543  
CHARGE (TDSIC) RATE SCHEDULE; (2) )  
APPROVAL OF I&M'S PROPOSED ) APPROVED:  
COST ALLOCATIONS; (3) APPROVAL )  
OF THE TIMELY RECOVERY OF TDSIC )  
COSTS THROUGH I&M'S PROPOSED )  
TDSIC RATE SCHEDULE; AND (4) )  
AUTHORITY TO DEFER APPROVED )  
TDSIC COSTS, PURSUANT TO IND. )  
CODE CH. 8-1-39. )

ORDER OF THE COMMISSION

**Presiding Officers:**

David E. Ziegner, Commissioner

David E. Veleta, Administrative Law Judge

On October 14, 2014, Indiana Michigan Power Company ("Petitioner", "I&M" or "Company") filed its Verified Petition together with its verified direct testimony and exhibits. On October 16, 2014, Petitioner filed its workpapers.

Petitions to intervene were filed on November 10, 2014, by Citizens Action Coalition of Indiana, Inc. ("CAC"), and February 6, 2015, by an ad hoc group of industrial customers ("I&M Industrial Group" or "IG"). Each petition to intervene was granted by the Presiding Officers.

On January 12, 2015, the OUCC filed its direct testimony and exhibits. On January 30, 2015, I&M filed its rebuttal testimony and exhibits and its request for Administrative Notice.

The Commission convened the evidentiary hearing in this Cause at 9:30 a.m. on February 11, 2015, in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana, at which time all evidence was heard and Petitioner's Request for Administrative Notice was granted. I&M, the OUCC, CAC and IG appeared at and participated in the hearing. No members of the general public attended the hearing.

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

**1. Notice and Jurisdiction.** Notice of the hearing in this cause was given and published by the Commission as required by law. Petitioner is a "public utility" under Ind. Code §§ 8-1-2-1 and 8-1-39-4. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction over a

public utility's petition establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. Under Ind. Code ch. 8-1-39, the Commission also has jurisdiction over the deferral of the remaining capital expenditures and TDSIC costs and subsequent recovery through rates. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding in the manner and to the extent provided by Indiana law.

**2. Petitioner's Characteristics.** I&M, a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M is engaged in rendering electric service in the State of Indiana, and owns, operates, manages and controls plant and equipment within the State of Indiana that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public.

**3. Relief Requested.** In accordance with Ind. Code § 8-1-39-9(a), I&M requests Commission approval of a rate schedule (also referred to herein as the "TDSIC Rider" or "Rider") that will allow the periodic automatic adjustment of I&M's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs including the pre-tax return on electric plant-in-service TDSIC capital investment, associated depreciation expense, property tax expense, and operation and maintenance ("O&M") expense associated with the TDSIC capital investments, as well as other TDSIC O&M expense related to I&M's 7-year TDSIC Plan ("TDSIC Costs"). I&M sought and obtained approval of its 7-Year TDSIC Plan in a concurrent proceeding docketed as Cause No. 44542.

I&M is also requesting approval of: (1) I&M's methodology for calculating the allowable pre-tax return; (2) I&M's methodology for calculating the TDSIC Rider revenue requirement; (3) annual timing interval for filing for TDSIC Rider rates; and (4) I&M's methodology for determining the average aggregate increase in its total retail revenue attributable to the TDSIC Rider for the purpose of demonstrating that the TDSIC will not result in an average aggregate increase of more than 2% in a twelve-month period.

In accordance with Ind. Code § 8-1-39-9(b), I&M seeks approval to defer twenty percent (20%) of approved capital expenditures and TDSIC Costs, including economic development, to be recovered in I&M's next general rate case. I&M also requests approval to record ongoing carrying charges on the deferred balance based on I&M's pre-tax weighted cost of capital until the costs are included for recovery in I&M's basic<sup>1</sup> rates in its next general rate case. To effectuate the rate adjustment mechanism, I&M also seeks accounting authority to defer 100% of the approved TDSIC Costs incurred prior to the implementation of TDSIC Rider rates (also referred to as factors).

Ind. Code § 8-1-39-9(a)(1) requires I&M to use the customer class revenue allocation factor based on firm load approved in I&M's most recent retail base rate case order (Cause No.

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<sup>1</sup> The terms "basic rates" and "base" rates are used interchangeably herein.

44075). I&M requests approval of its distribution and transmission customer class revenue allocation factors and their use in calculating the TDSIC Rider factors. I&M also requests approval of its rate design methodology to recover TDSIC Costs through a demand charge for demand metered customers, through a monthly charge for non-demand metered customers and through an energy charge for lighting and irrigation service customers.

I&M is not seeking approval of a TDSIC Rider factor in this proceeding. Rather, I&M is seeking approval of the proposed TDSIC Rider and related matters, including the methodology for determining the Rider revenue requirement. In subsequent proceedings, I&M will seek approval of Rider factors based upon the cost of eligible transmission, distribution, and storage system improvements included in its Commission-approved TDSIC Plan.

#### **4. I&M's Evidence.**

**A. Accounting and Ratemaking Relief.** Andrew J. Williamson, I&M Director of Regulatory Services, provided a copy of I&M's TDSIC Plan and explained I&M's requested accounting authority and ratemaking treatment associated with development of the TDSIC Rider rates. He discussed how TDSIC Costs are defined; explained the Company's proposal to include 80% of all TDSIC Costs in TDSIC Rider Rates and to defer 20% of all TDSIC Costs as a regulatory asset plus ongoing carrying charges on the deferred balance based on I&M's pre-tax weighted cost of capital until such time as the costs are included in I&M's basic rates; and discussed I&M's request to defer 100% of costs incurred prior to implementation of TDSIC Rider factors. Williamson Direct, pp. 3-8. Mr. Williamson also explained how I&M is proposing to calculate its pre-tax return and reflect the benefit of zero cost capital, associated with federal accumulated deferred income taxes ("ADIT") when establishing the TDSIC revenue requirement. *Id.* at 8-11.

In particular, Mr. Williamson testified that including ADIT as a reduction to rate base has the same effect of reducing the Company's calculated return as including ADIT in the Weighted Average Cost of Capital ("WACC") and added that the Company's proposal is a more accurate method of applying the ADIT benefit to the TDSIC revenue requirement as it aligns the customer benefit included in TDSIC Rider rates with the ADIT realized on the TDSIC Plan itself. Mr. Williamson explained that the TDSIC Plan will not be eligible for investment tax credits and added that I&M does not propose to include customer deposits in the proposed WACC or determination of rate base. *Id.* at 11.

Mr. Williamson testified that I&M is not requesting construction work in progress ("CWIP") ratemaking treatment and is instead proposing to accrue allowance for funds used during construction ("AFUDC"). *Id.* at 12. Mr. Williamson discussed how I&M will identify the TDSIC Costs; described how the Company will determine the net TDSIC rate base for purposes of calculating I&M's pre-tax return; and explained that I&M will use the Indiana jurisdictional FERC account composite remaining life depreciation rates approved by the Commission in Cause No. 44075 (or subsequent case approving new depreciation rates). Marc D. Reitter, Managing Director of Corporate Finance for American Electric Power Service Corporation ("AEPSC"), supported the proposed capital structure and WACC computations for I&M's proposed pre-tax return and discussed the impact of the Company's Rockport Plant lease on the Company's credit adjusted capitalization.

Mr. Williamson explained that consistent with the treatment of retirements and the Commission's Order in Cause No. 44371, I&M is not reflecting retirements of assets replaced by the TDSIC Plan in the determination of I&M's pre-tax return or depreciation expense. *Id.* at 14-15. Mr. Williamson also discussed the Company's requests to recover property tax expense and O&M expense associated with its TDSIC Plan. Mr. Williamson explained the O&M expense incurred for TDSIC capital projects including the Clearance Zone Widening Program and the costs I&M incurs for the consultants I&M used to support its TDSIC Plan. *Id.* at 15-18. Mr. Williamson also explained the Company's request to amortize the period-end 80% TDSIC over/under balance. *Id.* at 19.

Consistent with Ind. Code § 8-1-39-9(e), Mr. Williamson testified that I&M seeks to file a TDSIC Rider petition annually and plans to provide the OUCC with the TDSIC Rider accounting schedules prior to the initial proceeding. *Id.* at 19-20. Mr. Williamson testified that the requested rate making treatment will continue until the Company's 7-year TDSIC Plan is complete, TDSIC Rider rates are fully reconciled and all related TDSIC Costs are included in the Company's basic rates and charges. *Id.* at 19-20.

Mr. Williamson testified that currently the only assets included in I&M's TDSIC Plan are those recorded to distribution FERC accounts. He added that the settlement in Cause No. 43774 PJM 4 provides recovery of I&M's transmission investment through December 31, 2017. He said I&M may seek approval to include eligible transmission investment in its TDSIC Plan beginning in 2018, when the settlement in Cause No. 43774 PJM 4 expires. *Id.* at 20.

Mr. Williamson testified that in accordance with Ind. Code § 8-1-39-13(b), I&M will add the approved return relating to the TDSIC capital projects to its authorized Net Operating Income for purposes of the Fuel Adjustment Clause ("FAC") (d)(3) test. He added that for purposes of the Ind. Code § 8-1-2-42(d)(3) earnings test, I&M will specifically identify and allocate the TDSIC expenses to the Indiana jurisdiction. He noted that as currently filed, all TDSIC projects are Indiana distribution projects and therefore 100% jurisdictional to Indiana. Therefore, to determine the correct jurisdictional Net Operating Income, 100% of these TDSIC expenses must be allocated to Indiana in the earnings test. *Id.* at 21.

Mr. Williamson explained that I&M will provide progress reports associated with the TDSIC Plan to date, along with the following year detailed TDSIC Plan used to establish that period's TDSIC Rider factor. He said these annual proceedings will also include the period to-date true-up of actual TDSIC revenues to actual TDSIC Costs. *Id.* at 21.

Mr. Williamson also noted that the Company's petition has been filed more than nine months since I&M's last base rate case. *Id.* at 22.

Finally, Mr. Williamson also estimated the TDSIC revenue requirement over the 7-year TDSIC Plan. *Id.*

**B. Allocation Factors.** Matthew W. Nollenberger, Manager of Regulated Pricing and Analysis explained that consistent with Ind. Code § 8-1-39-9(a)(1) I&M is requesting approval to use its customer class revenue allocation based on firm load that was approved as Exhibit DMR-4, Compliance Pro-forma Revenues, in accordance with the Order in

Cause No. 44075, which is the Company's most recent retail base rate case. He discussed the distribution-specific TDSIC Costs and revenue allocation. He testified that I&M's proposal is consistent with cost causation principles because I&M's proposed distribution allocation factor for TDSIC Costs removes revenues associated with all transmission and sub-transmission tariff classes because these classes do not use the distribution system. Nollenberger Direct, p. 3. Mr. Nollenberger also discussed the proposed transmission allocation factor (*Id.* at 3-4) and explained that as currently filed, I&M does not propose a revenue credit associated with serving the SDI special contract because the TDSIC Plan concerns only distribution assets. Since SDI is served at the transmission voltage-level, a revenue credit is not applicable to TDSIC at this time. *Id.* at 7.

**C. Rate Design.** Mr. Nollenberger explained that once the TDSIC costs are allocated to the customer classes as discussed above, the Company proposes to collect these fixed costs through demand charges. He testified that since not all customers have demand metering, a demand charge cannot be used for all classes. He stated that the Company's proposed rate design will recover TDSIC costs through a demand charge for demand metered customers, through a monthly charge for non-demand metered customers and through an energy charge for lighting and irrigation customers. Attachment MWN-3 provided an illustrative TDSIC rate design for a distribution-only proposal, while Attachment MWN-4, the Company's proposed tariff sheet, provided a complete listing of the proposed TDSIC charge-types, by customer class. Nollenberger Direct, p. 4.

**D. Ind. Code § 8-1-39-14(a).** Mr. Williamson (p. 23) and Matthew W. Nollenberger (pp. 5-6), explained that I&M's TDSIC does not result in an average aggregate increase in I&M's total retail revenues of more than 2% in a 12-month period. Mr. Nollenberger added that I&M will update its calculation with each TDSIC Rider filing.

## **5. OUC Evidence.**

**A. Accounting and Ratemaking.** Tyler E. Bolinger, Director of the OUC Electric Division, introduced the OUC's other witnesses, reviewed I&M's proposal, discussed the types of revenue requirements sought through TDSIC mechanisms and provided an overview of the OUC's concerns with I&M's proposed TDSIC ratemaking methodology. Pub. Ex. No. 1, pp. 2-10. Mr. Bolinger discussed I&M's current rate adjustment mechanisms and briefly explained how the cost of electricity has changed for I&M's residential customers since base rates were established in Cause No. 44075. *Id.* at 9-10. Mr. Bolinger concluded that I&M's TDSIC proposal is unbalanced and overreaching and should not be approved without incorporating all the improvements recommended by the OUC witnesses. *Id.* at 17.

**1. Cost Free Capital and Return on Equity ("ROE").** Mr. Bolinger (pp. 11-13) and Wes R. Blakley, Senior Utility Analyst in the OUC's Electric Division (pp. 2-3, 4-5), both testified that I&M proposes to omit several hundred million dollars of cost free capital that is normally included in the capital structure for ratemaking purposes in Indiana. Mssrs. Bolinger and Blakley further testified that I&M's proposed methodology is not consistent with the methodology used by the Commission to establish I&M's base rates and charges in Cause No. 44075 specifically, or Indiana ratemaking in general. Mr. Bolinger stated that the largest source of cost free capital is ADIT. He said I&M proposes to specifically identify ADIT

associated with TDSIC projects and deduct these amounts from the “TDSIC rate base” because I&M claims this method will appropriately flow benefits from ADIT to ratepayers. Mr. Bolinger and Mr. Blakley testified that the Commission rejected a similar proposal in the NIPSCO electric TDSIC case, Cause No. 44371. Pub. Ex. 1, p. 12; Pub. Ex. 3, p. 5. Mr. Blakley explained how the capital structure has been calculated in I&M’s environmental tracker proceedings and testified that I&M’s proposal to omit cost free capital from the capital structure is equivalent to awarding a much higher authorized ROE, which would be against the public interest. Pub. Ex. 3, pp. 2-5.

Mr. Bolinger discussed the I&M TDSIC impact on business risk. He noted (p. 14) the approved settlement agreement in Cause No. 43774-PJM-4. Mr. Blakley (p. 2) explained that the OUCC does not object to I&M’s proposal to use the cost rate for equity that was approved by the Commission in Cause No. 43774 PJM-4, and to use the cost rate for debt at the most current quarter-end. Pub. Ex. 1, Bolinger Direct, p. 14.

The OUCC recommended the Commission reject I&M’s request to remove zero cost capital from its capital structure when calculating its WACC. The OUCC proposed the Commission order I&M to use all capital sources, including deferred income taxes, customer deposits, and investment tax credits, in its capital structure when calculating its WACC. The OUCC stated that this rate should be used to determine the return component of the revenue requirement. Public Ex. No. 3, pp. 9-10.

**2. TDSIC Depreciation Expense.** Michael D. Eckert, Senior Utility Analyst in the OUCC Electric Division, testified that I&M’s proposed methodology for calculating its depreciation expense in this tracker does not properly account for the change in depreciation expense that is caused by normal retirements and replacements. He argued that I&M should implement the depreciation recovery methodology it currently uses in its life-cycle management (“LCM”) tracker, Cause No. 44182, to calculate its depreciation expense in this Cause and said this is the same depreciation expense methodology approved for use by the Commission in Vectren’s gas TDSIC cases, Cause Nos. 44429 and 44430. Pub. Ex. 2, pp. 2-16.

**3. Return on Investment.** Mr. Bolinger advocated that Petitioner should not continue earning a return on replaced or retired assets while at the same time earning a return on the new assets. He testified that no reason has been advanced as to why it is reasonable to count the increases to rate base every 6 months while waiting up to seven years to account for decreases (or off-sets).

**4. Incremental Associated O&M Expense.** Mr. Blakley (pp. 6-7) reviewed I&M’s request to include O&M expense associated with its TDSIC replacement projects in the TDSIC Rider. He believes that associated O&M costs could be appropriate to recover in a TDSIC replacement tracker if the term “incremental” is used to describe costs that are over and above the associated O&M expenses that are already included in base rates. He said the TDSIC Rider should treat associated O&M expense the same way that fuel costs are treated in FAC proceedings. *Id.* at 8. He testified if I&M were allowed to track associated O&M expenses in addition to the associated O&M expenses already embedded in base rates this would result in double recovery of associated O&M expenses. *Id.* 8-10. The OUCC recommended the Commission order I&M to adjust any associated O&M expense to be tracked through its TDSIC

to be net of any associated O&M base amount included in I&M's base rates. Pub. Ex. No. 3, p. 10.

**B. Allocation Factors.** Eric M. Hand, Utility Analyst in the OUCC Electric Division recommended the Commission reject I&M's proposed distribution allocators because they modify the factors approved in I&M's last retail base rate order. Public's Ex. No. 4, p. 4. He also testified that since there are no transmission project costs to recover via TDSIC until 2018 at the earliest, there is no urgent or compelling benefit to approving TDSIC Transmission allocators at this time. *Id.* at 5. He discussed the impact of the SDI contract and other interruptible customers and I&M's proposal to exclude all interruptible customers from all TDSIC allocations. He explained that this could create a situation where an interruptible customer would not be allocated any portion of a TDSIC project constructed for that customer's benefit. Mr. Hand stated that because there are no transmission projects in the current plan, this issue should be deferred for discussion along with determining appropriate Transmission projects. *Id.* at 5-6.

**C. Rate Design.** Mr. Bolinger explained (pp. 14-15) that under I&M's proposed rate design, small residential customers with low energy usage would pay the same amount of TDSIC charges as all other residential customers and high usage customers, with numerous electric appliances, will pay the same amount as low usage customers. Mr. Bolinger contended this is a sharp deviation from past, well established practices in tracker proceedings for residential electric customers. He testified that it is equitable for large residential customers to pay somewhat more than the small residential users. *Id.* at 15. He noted that I&M did not put forth any evidence supporting its contention that its proposal would improve efficiency. Mr. Bolinger explained that in fact, the opposite could occur when loading more costs into fixed per customer charges, and less into variable per kWh charges, may promote additional energy usage as opposed to conservation. *Id.* at 15-16. Mr. Bolinger also noted that I&M did not put forth evidence that each residential customer causes the same amount of TDSIC costs and that I&M has provided no compelling evidence to support its proposed fixed charge rate design. He said the OUCC recommends that the Commission deny I&M's proposal as it pertains to both the residential class and small business customers who do not have demand meters. He testified that the normal practice of collecting the residential portion of tracker revenue requirements through usage based charges should be maintained and added that the reconciliation process will ensure accurate recoveries for I&M over time. *Id.*

Mr. Hand opposed I&M's proposal to recover TDSIC Costs via a monthly fixed charge per customer because: 1) Per customer fixed charges are not traditionally changed outside of a rate case; 2) Higher fixed charges may reduce customer incentives to save energy because the marginal cost for additional usage is decreased and the variable portion of customer bills is the only opportunity for potential savings from customer energy conservation actions, including reduced usage; 3) I&M's proposal sends the wrong price signal to customers. customers' energy usage, demand and load consistency impact operational costs, reliability, efficiency and design of a utility's entire electric system and increasing fixed charges sends no actionable economic signals to customers and potentially encourages negative behaviors; 4) I&M's proposal reduces potential energy savings and extends the payback period for self-generation and/or energy efficiency investment; 5) High fixed customer charges for electric service impede the market competitiveness of other potential energy sources (such as natural gas, solar, wind) by reducing the potential savings available to customers; and 6) Low income and fixed income customers can

be more negatively impacted by high fixed charges. Mr. Hand recommended the Commission deny I&M's request to recover TDSIC Costs through a monthly fixed charge per customer for residential customers and other customers with non-demand meters. *Id.* at 6.

## **6. I&M Rebuttal.**

**A. Ratemaking and Accounting.** Paul Chodak III, I&M President and Chief Operating Officer, and Mr. Williamson responded to the OUCC testimony regarding the Company's proposed ratemaking and accounting treatment. Mr. Chodak explained that the OUCC's criticism of trackers as part of the ratemaking process is misplaced and mistaken. He said trackers do not, in and of themselves, create costs and are not the reason customer bills have increased. He testified that costs are incurred to meet customers' needs and explained that whether those costs are recovered through basic rates or through trackers is irrelevant because the costs must be recovered somehow if I&M is to continue to be able to meet customers' needs. Mr. Chodak stated that trackers are simply a ratemaking tool and not the source of increased costs. He explained that trackers, in fact, help reduce costs of long-term capital projects by allowing the timely recovery of costs and lowering the cost of capital. He added that trackers subject I&M's costs and investments to more regulatory scrutiny, including review by the OUCC, and ensure that customer rates only recover the costs actually incurred to serve.

Mr. Chodak explained that customer impact, customer value and customer benefit are at the top of the list when I&M makes decisions that may result in an increase to customer rates. He said I&M balances these considerations with the need to provide safe, reliable and economic utility service. He explained that I&M operates competitively not just because it faces real competition, but also because the Company seeks to provide its service at a reasonable price. Mr. Chodak noted that I&M's rates are among the lowest of investor owned utilities in Indiana and I&M is committed to implementing the TDSIC Plan with the best short-term and long-term interests of I&M's customers in mind.

**1. TDSIC Depreciation Expense.** Mr. Williamson (pp. 6-7) reviewed the OUCC recommendation and explained why I&M's recommendation to follow the approach approved by the Commission in the NIPSCO TDSIC proceeding is reasonable. Mr. Williamson explained (pp. 8-10) that he disagreed with Mr. Eckert's statements that ratepayers compensate the utility for depreciation because customers pay for electric service. He also disagreed with Mr. Bolinger's contention that I&M proposes to count some things but not count others. Mr. Williamson explained that the rates customers pay are developed based on financial data, including depreciation expense based on a point in time and added that Mr. Eckert's statement would be more akin to a formula rate design where customer rates are determined according to actual period cost of service. *Id.* Mr. Williamson explained that I&M does not currently track 100% of its depreciation expense, nor does I&M track 100% of its distribution system operating costs, and I&M does not track its full cost of service. *Id.* at 9-15. He added that I&M's basic rates were developed to include a "return of" investment, however, that "return of" was based on I&M's investment as of March 31, 2011, including certain adjustments through December 31, 2011. *Id.* at 10. He said I&M's current basic rates do not include increases or decreases associated with I&M's investment in its distribution system since that point in time. *Id.* at 10-11. Mr. Williamson stated that since March 31, 2011 I&M has invested in its distribution system at nearly five times the rate of depreciation. *Id.* at 11. Mr. Williamson explained that even

though these investments are used and useful in the provision of service to I&M's customers, they are not reflected in I&M's rates. He added that basic rates reflect all aspects of I&M's utility operations, all of which fluctuate up and down over time. He said the rate adjustment mechanisms do not track all of these fluctuations. *Id.* at 11-12.

Mr. Williamson disagreed with Mr. Eckert's position regarding the tracking of depreciation expense and his use of the FAC as an example. *Id.* at 12. Mr. Williamson testified that the FAC tracks 100% of fuel expense. He said, I&M in this proceeding is not requesting the Commission approve 100% tracking of I&M's depreciation expense or 100% of the depreciation expense associated with I&M's distribution system. He said I&M's request is limited to the TDSIC Plan costs, 80% of which will be included in the TDSIC Rider rates. He added that I&M will continue to invest in its distribution system outside of the TDSIC Projects and Programs, and will not be recovering that investment or associated O&M in the TDSIC Rider. *Id.* at 12.

Mr. Williamson (p. 12) explained that neither Mr. Eckert's nor Mr. Bolinger's testimony addressed the accuracy of I&M's proposed TDSIC Rider with regard to ratemaking recognition of the TDSIC Plan costs. He explained that there is no over-charging or under-charging of the TDSIC revenue requirement under I&M's TDSIC Rider proposal because, as Mr. Bolinger concedes (p. 15), any variance is captured in the reconciliation process. Mr. Williamson testified that while the TDSIC Rider process helps I&M's financial stability it does not assure that I&M will earn its overall authorized return. He added that the tests in I&M's FAC proceedings show that the basic rates established in Cause No. 44075 are not recovering the authorized revenue requirement and I&M's earnings are significantly below its authorized return. *Id.* at 13.

Mr. Williamson explained that the LCM project costs are addressed through a different statute and that when the LCM Rider was initially filed, there had been little to no regulatory lag in nuclear capital investment since I&M's last basic rate case test year end. *Id.* at 14. He added that the time between the TDSIC filing and the last rate case is significantly greater and creates a gap between the depreciation expense reflected in basic rates and the depreciation expense currently being incurred, which warrants consideration of a different approach. He recommended the Commission reject the OUCC recommendation and approve I&M's requested ratemaking treatment for depreciation expense recognizing it is an acceptable method of ratemaking, complies with the law as established by the TDSIC Statute and is also consistent with other TDSIC ratemaking treatment afforded by the Commission for NIPSCO in Cause No. 44371.

**2. Cost Free Capital and ROE.** Mr. Williamson (p. 15) explained that Mr. Blakley's presentation of I&M's requested treatment of ADIT is not accurate and refuted Mr. Bolinger's contention that I&M did not justify its proposal. Mr. Williamson explained that I&M recognizes the importance of reflecting the zero cost benefit of ADIT in customer rates. He testified that I&M's request has the effect of utilizing the ADIT realized as a result of the projects within the TDSIC Plan and reduces rate base by that same amount which directly reduces the revenue requirement by way of reducing the calculated WACC return.

Mr. Williamson (pp. 15-17) explained that the benefit customers receive from having ADIT included in the WACC is not related to or dependent on the dollar amount Mr. Blakley references. Mr. Williamson explained that the only factor that is truly important is the percentage which ADIT represents as compared to I&M's total capital structure, which determines the

amount of rate base that will be funded by zero cost capital. He stated that as of June 30, 2014 the percentage was approximately 21%. Mr. Williamson explained that customers would receive the same benefit of including ADIT in the WACC if I&M's ADIT balance was \$1.00 and I&M's overall capital structure was \$5.00 or if I&M's ADIT balance was \$10 billion and I&M's overall capital structure was \$50 billion. He stated that Mr. Blakley and Mr. Bolinger fail to recognize this point, and more importantly, both also fail to take into account the benefit I&M's customers receive if ADIT is included as a reduction to rate base rather than a component of I&M's WACC. *Id.*

Mr. Williamson (p. 17) explained that I&M's proposed ratemaking treatment for ADIT could provide more benefit than the OUCC's proposal and pointed out that Mr. Blakley provided an incomplete picture because his testimony and Exhibit WRB-1 focused only on the WACC side of the equation, did not capture both parts of I&M's proposal and thus ignored the fact that ADIT will reduce rate base and provide a similar, potentially larger, reduction to the calculated return as a result.

Mr. Williamson explained (p. 18) that I&M's requested ratemaking treatment of ADIT is different than NIPSCO's proposal in Cause Nos. 44371. He said NIPSCO did not propose to reduce TDSIC rate base for the ADIT realized on TDSIC investments.

Mr. Williamson (p. 19) acknowledged that the OUCC did not object to the Company's proposal to adhere to the Settlement Agreement approved in Cause No. 43774 PJM 4 for purposes of determining the ROE that will be used in the TDSIC Rider during the period January 1, 2015 through December 31, 2017 and discussed how the ROE would be determined beginning January 1, 2018.

Mr. Williamson recommended the Commission approve I&M's requested treatment of ADIT and ROE.

**3. Incremental Associated O&M Expense.** Mr. Williamson (pp. 20-21) explained that I&M's request for O&M is limited to the new O&M expense associated with the new TDSIC capital investments, as provided for in the TDSIC Statute. He added that the TDSIC O&M expense will be incurred as a direct result of an approved TDSIC project and is not currently reflected in I&M's rates. He explained that Mr. Blakley's description is inaccurate and ignores the fact that I&M's TDSIC Plan contains new and distinct projects. Mr. Williamson testified that I&M will not "double recover" its O&M expense as the OUCC claims and that the OUCC's recommendation ignores the TDSIC Statute that contemplates the recovery of O&M. Mr. Williamson testified that I&M is only requesting to recover the TDSIC associated O&M when incurred, not on an ongoing basis thereafter. *Id.* at 21. Mr. Williamson testified that the OUCC recommendation, if adopted, would deny I&M the opportunity to recover TDSIC Plan costs properly reflected in TDSIC rates based on a mistaken view that the costs in question are the same as other O&M costs.

**B. Allocation Factors.** Mr. Williamson (p. 6) and Mr. Nollenberger (p. 12) testified that because this proceeding was convened to develop the TDSIC Rider, it is the most opportune time to identify the transmission allocation factor. Mr. Williamson explained that the current 210-day procedural schedule utilized in this initial TDSIC Rider filing allows all parties

sufficient time to address all ratemaking concerns and finalize the ratemaking that would be utilized for all future TDSIC Rider filings. He added that this would allow the ongoing TDSIC Rider filings to be more manageable on their mandatory 90-day procedural schedule. He concluded it is appropriate for the Commission to determine the appropriate transmission and distribution allocation factors in this proceeding to ensure ongoing TDSIC Rider filings are not complicated by these matters.

Mr. Nollenberger (pp. 11-12) explained that contrary to Mr. Hand's testimony, I&M's proposed distribution allocators do not modify those approved in I&M's most recent retail base rate case. Mr. Nollenberger testified that I&M's proposed distribution allocators are the same factors approved in Cause No. 44075 and demonstrated this in Attachments MWN-2R and 3R.

Mr. Nollenberger (p. 13) disagreed with Mr. Hand that a decision to exempt interruptible customers from any TDSIC Costs should be deferred in this proceeding because Ind. Code § 8-1-39-9 directs public utilities to allocate TDSIC costs based on firm load. He explained that under this provision of the statute, the interruptible portions of load from I&M's special contract customer and its Tariff C.S.-IRP2 customers should not receive an allocation of TDSIC Costs because the interruptible portion constitutes a non-firm load. He also disagreed with Mr. Hand that there is no reason to defer a decision to exempt special contract customers that are non-firm or take service from I&M at a transmission voltage level, for example SDI. Mr. Nollenberger explained that other than the costs of metering, which are not included in I&M's TDSIC, it is not appropriate to allocate distribution costs to any transmission voltage level customers because such customers do not cause the distribution costs to be incurred to provide service. However, Mr. Nollenberger agreed with Mr. Hand that a decision to exempt SDI from any transmission TDSIC Costs could be deferred and considered based on the circumstances present at such future point in time where transmission project costs may be added to the TDSIC Rider. He said I&M will evaluate the appropriateness of including a revenue credit associated with any special contract customer, should the Commission approve transmission investment in a future TDSIC Plan update. *Id.* at 14.

**C. Rate Design.** Mr. Chodak, Mr. Williamson and Mr. Nollenberger responded to the OUCC's opposition to the Company's proposal to recover the TDSIC Plan fixed costs through a monthly fixed charge rate design. These witnesses explained: 1) the difference between cost allocation and rate design; 2) that I&M's TDSIC Plan represents an investment in I&M's fixed costs; and 3) recovery of I&M's fixed costs through monthly fixed charges provides customers an appropriate rate mechanism that reflects the nature of I&M's fixed cost investment.

Mr. Nollenberger (pp. 4-5) clarified I&M's proposal. Mr. Williamson (p. 3) disagreed with Mr. Hand's position that these matters are more appropriately discussed during a general rate case. Mr. Nollenberger (pp. 5-6) and Mr. Williamson (p. 3) explained that I&M is not requesting to change or alter in any way the rate design associated with the cost of service that established I&M's current basic rates or any existing rider rates. As a result there is no more appropriate venue to discuss the topic of rate design associated with the TDSIC Plan.

Mr. Williamson also disagreed that I&M's proposed TDSIC Rider rate design will send the wrong price signals to customers. He said the OUCC's argument seems to be that the higher

the volumetric charge the “more appropriate” the price signal as customers will be “incentivized” to be more energy conscious. He explained that this position has no correlation to cost causation and fails to recognize that the TDSIC Plan costs are fixed costs which do not vary based on consumption. Mr. Williamson testified that price signals should be based on attributes associated with the underlying cost. Mr. Williamson (p. 4) and Mr. Nollenberger (pp. 7-8) showed that I&M’s request will result in a relatively small monthly charge to customers and pointed out that this discussion of whether I&M’s request results in a high fixed charge should not ignore that making this a volumetric charge would not allow customers to avoid the cost of the TDSIC Plan. He clarified that the debate is about the most appropriate way to recover the TDSIC revenue requirement approved by the Commission. Mr. Williamson added that beyond year 7 the net TDSIC investment will decline and utilizing a fixed charge will ensure all customers’ TDSIC charge declines. *Id.* at 4.

Mr. Chodak (p. 5) and Mr. Williamson (p. 5) also disagreed with Mr. Hand’s contention that low income and fixed income customers can be more negatively impacted by high fixed charges. They explained that the opposite can be true due to several factors largely outside this subset of customers’ control, such as less efficient homes and appliances, greater amount of time spent in the home and greater number of people in a home; each of which can contribute to increased use. Mr. Williamson stated that fixed income customers also do not necessarily equate to low usage for various reasons. More importantly, he said fixed income customers could benefit from having a steadier monthly bill which would be easier for them to budget for.

Mr. Nollenberger (pp. 7-11) disagreed that the Company’s proposal would impede the market competitiveness of other potential energy sources; explained that the Company’s proposal is consistent with the Commission’s August 27, 2014 Order in Cause No. 44429, which addressed Vectren’s 7-year TDSIC Plan and associated rate adjustment mechanism; and identified examples of rate adjustment mechanisms in other states with rate designs that recover or recovered costs from residential electric customers through fixed monthly charges.

I&M recommended the Commission approve I&M’s requested rate design method for TDSIC Rider rates.

## **7. Commission Discussion and Findings.**

### **A. Request To Establish TDSIC. Ind. Code § 8-1-39-9(a) states:**

Subject to subsection (c), a public utility that provides electric or gas utility service may file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility’s basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. 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 public utility’s seven (7) year plan for eligible transmission, distribution, and storage system improvements; and

(3) identify projected effects of the plan described in subdivision (2) on retail rates and charges.

Ind. Code § 8-1-39-9(b) provides that a public utility that recovers capital expenditures and TDSIC costs under subsection (a) shall defer the remaining twenty percent (20%) of approved capital expenditures and TDSIC costs, including depreciation, AFUDC, and post in service carrying costs, and shall recover those capital expenditures and TDSIC costs as part of the next general rate case that the public utility files with the Commission.

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.” The Commission issued its orders in Cause No. 44075 changing Petitioner's basic rates and charges on February 13 and March 14, 2013. I&M's Petition initiating this Cause was filed on October 14, 2014. We find that this Cause was filed more than nine months after I&M's last general rate case in accordance with Ind. Code § 8-1-39-9(c) and turn to the other elements of this statutory provision.

1. **Revenue allocation factor.** In the February 13, 2013 Order in Cause No. 44075, p. 115, the Commission found that the results of I&M's jurisdictional separation and retail cost of service studies should be accepted and utilized to allocate operating revenues among customer classes and to design I&M's retail electric rates. The Commission established one revenue requirement for the Company's entire retail operation and it was allocated among all the customer classes in accordance with this finding.

Ind. Code § 8-1-39-9(a)(1) requires TDSIC requests to “use the customer class revenue allocation factor based on firm load approved in the public utility's most recent retail base rate case order.” I&M witness Mr. Nollenberger's direct and rebuttal testimony and Attachments MWN-1, MWN-2R and 3R, I&M identified the firm load approved in Cause No. 44075. I&M also identified the customer class revenue allocation factor based on the firm load distribution revenue requirement approved in Cause No. 44075 and proposes to use this factor in the TDSIC Rider. However, when identifying the distribution customer class revenue allocation, I&M separated the revenues associated with all transmission and sub-transmission tariff classes from the overall firm load revenue requirement approved in Cause No. 44075. This is a modification to the factors approved in I&M's last retail base rate case order.

OUCG witness Hand (Direct at 4) contended that I&M's proposed distribution allocators modify the factors approved in I&M's last retail base rate case order in violation of Indiana law. He noted the OUCG raised similar concerns in Cause No. 44371 and subsequently appealed the Commission's decision in that case.

Ind. Code § 8-1-39-9(a)(1) does not provide any avenue for modification of a utility's customer class revenue allocation factor based on firm load that was approved in its most recent base rate case. To allow for such a modification would contravene the plain language of the statute. The customer class revenue allocation factor based on firm load was approved in Cause No. 44075 without exclusion, waiver, exception or other “adjustments” of distribution costs. As a creature of statute, the Commission can exercise only such power as the legislature delegates to

it. *City of Crown Point v. Henderlong Lumber Company*, 137 Ind. App. 662, 206 N.E.2d 890 (1965). The Commission's power of authority is derived solely from statute. *Citizens Gas & Coke Utility v. Sloan*, 136 Ind. App. 297, 196 N.E.2d 290 (1964).

We find Mr. Hand's recommendation to be supported by the plain language of the statute. I&M's proposal to modify the customer class revenue allocation factor based on firm load developed in the most recent base rate case by separating the revenues associated with all transmission and sub-transmission tariff classes from the overall firm load revenue requirement approved in Cause No. 44075 is unlawful and hereby denied.

Unlike its proposed distribution allocation factor, I&M's transmission allocation factor includes all transmission and sub-transmission tariff classes. Mr. Chodak testified that "transmission investments made by I&M itself will not be included in I&M's TDSIC rider and will be billed to wholesale customers served by those assets, including I&M, under the AEP OATT." (Direct at 13). Mr. Nollenberger stated in his direct testimony, "I&M may seek approval to include eligible transmission investment in its TDSIC Plan beginning in 2018, when the settlement in 43774 PJM 4 expires." (Direct at 4). Mr. Hand explained that, "Since there are no transmission project costs to recover via TDSIC until 2018 at the earliest, there is no urgent or compelling benefit to approving TDSIC Transmission Allocators at this time." (Direct at 5).

Mr. Hand also made note of I&M's contention that SDI, its single special contract and largest customer, should be exempt from any TDSIC cost allocations because SDI has interruptible electric service and thus, SDI is not "firm load." (Direct at 6). Mr. Hand noted that this treatment would theoretically apply to any interruptible customer. However, because there are no transmission projects in the current plan, Mr. Hand recommended that this controversial issue should be deferred for discussion along with determining appropriate Transmission Allocators.

On rebuttal, Company witness Mr. Nollenberger disagreed with Mr. Hand that a decision to exempt interruptible customers from any TDSIC costs should be deferred because Ind. Code § 8-1-39-9 directs public utilities to allocate TDSIC costs based on firm load. (Rebuttal at 13). Mr. Nollenberger stated: "Under this provision of the statute, the interruptible *portions* of load from I&M's special contract customer and its Tariff C.S. – IRP2 customers should not receive an allocation of TDSIC costs because the interruptible *portion* constitutes a non-firm load." *Id.* (emphasis added) However, Mr. Nollenberger ultimately agreed with Mr. Hand that "a decision to exempt SDI from any transmission TDSIC costs could be deferred and considered based on circumstances at such future point in time where transmission project costs may be added to the TDSIC Plan and associated TDSIC Rider." *Id.* at 13 – 14.

We note that Ind. Code § 8-1-39-9 does not contain the word "portion." The plain language of the statute does not provide us with any means to determine that interruptible portions of a special contract customer's load could be considered "non-firm" and thus, exempted in some part from TDSIC transmission costs. Further, no analysis or support has been presented by the Company to define what "portion" could mean in the context of exempting interruptible customers from TDSIC transmission costs, if we were authorized by law to do so. We have been provided with no evidence in the record to make a determination as to how

interruptible customers should be treated for purposes of allocating TDSIC transmission costs other than the language set forth in Ind. Code § 8-1-39-9.

While the Company agrees with the OUCC that the decision to determine whether SDI should be exempted from TDSIC transmission costs could wait, I&M continues to argue that its transmission allocators should be approved in this Cause. We find that the issue of how interruptible customers should be treated for purposes of TDSIC transmission cost allocation is too interwoven with I&M's proposed transmission cost allocators to make a determination on one issue in this Cause and defer decision on the other. I&M is not seeking to recover transmission costs through the TDSIC Rider at this time. We find that making a determination as to whether I&M's proposed transmission allocators are appropriate would be premature and unnecessary at this time. As such, we decline to approve I&M's proposed transmission allocators and defer such a decision until the Company seeks to include transmission investment in its TDSIC Plan. We also accept OUCC's recommendation to defer a decision on whether any transmission TDSIC costs should be allocated to Petitioner's one special contract customer, SDI.

**2. I&M's TDSIC Plan.** I&M's Petition included a copy of the Company's proposed TDSIC Plan submitted for approval concurrent with the instant proceeding. Our Order in Cause No. 44542 approved a modified version of I&M's TDSIC Plan. Therefore, we find I&M has satisfied the requirement set forth in Ind. Code § 8-1-39-9(a)(2). As noted in our Order in Cause No. 44542, I&M is required to update its TDSIC Plan when it files its TDSIC Rider filings in accordance with Ind. Code § 8-1-39-9(a).

**3. Projected Effect of TDSIC Plan on Retail Rates and Charges.** I&M Witness Williamson (Direct at 4, 22-23; Attachment ALW-1) provided the total estimated revenue requirement for each year based on the proposed 7-Year TDSIC Plan and Mr. Nollenberger (Direct at 6) determined that the annual rate impact of I&M's TDSIC Plan demonstrating it approximates an increase of 1% per year. Based on our review of the evidence, we find that I&M correctly calculated and demonstrated the projected effects of the TDSIC Plan on retail rates and charges is expected to be below the 2% cap as required by Ind. Code § 8-1-39-9(a)(3).

**4. Determination of Pretax Return under Ind. Code §§ 8-1-39-3 and 8-1-39-13.** In this proceeding, I&M proposed ratemaking and accounting treatment for the TDSIC Rider for recovery of 80% of its eligible TDSIC costs. The OUCC opposed some of I&M's proposals. I&M proposed that its allowable pre-tax return be calculated using the most current quarter-end cost of debt and the applicable ROE (complying with the Settlement Agreement in Cause No. 43774-PJM-4), applied to the most current quarter-end debt and equity balances. The cost of equity will be grossed up for applicable federal and state taxes, as permitted by Ind. Code § 8-1-39-3. (Williamson Direct at 8).

Mr. Bolinger (Direct at 14) agreed that I&M's proposal is consistent with the settlement agreement approved in Cause No. 43774 PJM 4 and Mr. Blakley (Direct at 2) stated that OUCC does not object to the use of the cost rate for equity that was approved by the Commission in Cause No. 43774 PJM-4, and to use the cost rate for debt at the most current quarter end.

In pertinent part, the Commission-approved PJM-4 Settlement Agreement changed the ROE component of the WACC used in all of I&M's capital riders from 10.2% to 9.95%, effective January 1, 2015 through December 31, 2017. Then, beginning on January 1, 2018, the ROE component of the WACC used in I&M's capital riders will change prospectively to the authorized ROE approved in I&M's then most recent basic rate proceeding unless the Commission authorizes a different ROE to be effective on or after January 1, 2018. As discussed in Mr. Reitter's direct testimony (Direct at 3) and recognized by the OUCC witnesses, at present I&M's most recent basic rate proceeding is Cause No. 44075 wherein an ROE of 10.2% was established. Mr. Williamson testified that one of the reasons I&M entered in the settlement agreement in Cause No. 43774 PJM 4 was to reduce controversy in the Company's ongoing proceedings. We find that it is reasonable to abide by the terms of the Commission-approved PJM 4 Settlement Agreement in the TDSIC Rider proceedings.

However, there is a dispute as to how ADIT (deferred income taxes) are treated. Rather than reflect ADIT, which is cost free capital, in the capital structure (*i.e.* "WACC") based on a historical level, I&M proposed to reflect only actual ADIT directly associated with the TDSIC capital investment as a reduction to rate base. I&M stated its proposal is a more accurate method of applying the ADIT benefit to the TDSIC revenue requirement as it aligns the customer benefit included in TDSIC Rider rates with the ADIT realized on the TDSIC Plan itself.

The OUCC recommended the Commission deny I&M's request to remove zero cost capital, like ADIT, from its capital structure. This recommendation is based on a number of grounds, including our finding denying NIPSCO's similar request to remove zero-cost capital from its capital structure during its TDSIC tracker proceeding. In Cause No. 44371 we found as follows:

The regulatory capital structure for NIPSCO as an enterprise includes equity, debt and zero cost capital. *We believe NIPSCO and other Indiana utilities are better viewed as an ongoing concern that utilizes all of their capital resources in a holistic manner to finance that ongoing concern, including resources which have no cost attached.* This view and methodology is consistent with other long-standing capital investment trackers such as the ECRs. Accordingly, the Commission finds that NIPSCO shall calculate WACC in a manner consistent with its last rate case and ECR proceedings, which includes zero cost capital in the capital structure.<sup>2</sup> (emphasis added)

Our finding in Cause No. 44371 is supported by a long history of the treatment of deferred taxes as zero cost capital in a utility's capital structure, going back to a Public Service Commission order in 1961. *Public Serv. Co. of Ind., Inc.*, Cause No. 28364, 37 PUR3d 485 (PSCI 1/13/61) (the "PSI Order"). In the 1961 PSI Order, the Commission found deferred taxes "must be considered in determining the cost of money and rate of return to which the petitioner is entitled." *Id.* at 491. The Commission further described deferred taxes as "additional capital . . .

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<sup>2</sup> Cause No. 44371, Commission Final Order, page 17.

made available for expansion at no additional cost” and stated it “will not overlook this factor in surveying the cost of money evidence.” *Id.* at 492.

As I&M points out, the Commission has on occasion approved requests to account for deferred income taxes as a deduction from rate base rather than as zero-cost capital in the capital structure. I&M’s proposed order in this Cause provides a number of cases in which we have authorized a utility to treat deferred income taxes as a deduction from rate base. However, the only case referenced by I&M that is on point in this instance is Duke Energy Indiana’s Cause No. 43114 IGCC. We did permit Duke to remove deferred income taxes from its capital structure, and required Duke to reduce its IGCC rate base by the IGCC-specific deferred taxes. However, the similarity in treatment afforded to Duke and requested by I&M does not extend beyond that fact. Our findings in IGCC on the deferred tax treatment were very specific, in which we approved statutorily authorized *incentive* treatment for deferred income taxes up to the first \$1.985 billion of plant. That is, this treatment was afforded to Duke based on the achievement of specific plant performance requirements and was provided only because we concluded “[a]n increased rate of return early in the life of the project provides for the availability of the additional funds to pay debt capital costs and is supportive of credit equality.” IGCC-6 at 10. I&M has requested no such performance-based treatment here nor is there any statutory basis to provide what could only be described as an enhanced return.

Aside from the minor similarities between I&M’s request and the incentive treatment in Duke’s IGCC cause, I&M has failed to provide any case law that is supportive of its extraordinary deferred income tax request. While we have on rare occasions approved requests to deduct deferred income taxes from rate base, we have never done so in the context of a summary proceeding, as is the case here. In every other case cited by I&M (Cause Nos. 38045, 43128, 43342, 39348, and 38880), the petitioning utility has deducted from rate base *the same amount* in deferred income taxes *as would have been included* in its capital structure as zero cost capital. This is in stark contrast to what I&M proposes to do in its TDSIC tracker. I&M alleges that its proposal in this Cause warrants different treatment from what we ordered in Cause No. 44371 because NIPSCO did not propose to reduce its TDSIC rate base by the amount of accumulated deferred income taxes realized on TDSIC investments. (Williamson Rebuttal at 18). While NIPSCO amended its request in its rebuttal case offering to offset rate base with project specific ADIT, as more fully explained below, this distinction provides little protection for I&M’s ratepayers.

I&M’s capital structure as of June 30, 2014 contains \$984,089,432 in zero cost deferred income taxes. These funds, as well as any future zero cost deferred income taxes, are available to finance, at least in some part, I&M’s proposed TDSIC projects in this Cause. I&M’s proposal to omit nearly one billion dollars of cost free capital from the capital structure is inconsistent with the Commission’s past practices in dozens of rate cases and tracker proceedings and is contrary to good utility practice. Accordingly, we deny I&M’s request to omit cost free capital from its ratemaking capital structure.

**5. Ratemaking and Accounting Treatment.**

a. **Depreciation Expense.**

Ind. Code § 8-1-39-1-9(a) states:

a public utility that provides electric or gas utility service may file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs.

Ind. Code § 8-1-39-7 defines "TDSIC costs" to include depreciation expenses.

OUCG witness Mr. Eckert explained that I&M's proposed methodology to calculate depreciation expense in the TDSIC tracker is imprecise because it does not properly account for the change in depreciation expense caused by normal retirements and replacements. (Direct at 2). Mr. Eckert's analysis revealed depreciation expense will increase as a result of replacing older distribution equipment with new distribution equipment approved in I&M's 7- year plan. *Id.* To address this situation, Mr. Eckert recommended that since depreciation expense is a revenue requirement expense, any depreciation expense that is tracked should measure and track the net incremental increase or decrease. *Id.* at 6. OUCG witness Mr. Bolinger also noted that under I&M's proposal, the TDSIC mechanism would capture the gross increase in depreciation expense related to the new asset, but the decrease in depreciation expense caused by the asset retirement would not be reflected in the TDSIC mechanism. (Direct at 5). Mr. Bolinger explained that the decrease would actually occur on I&M's books, but it would not be reflected in petitioner's rates and charges until I&M files a new base rate case and the Commission issues an order, which is not required until year 7 of the plan. *Id.* He concluded that this approach is unbalanced and will result in an over-estimation of revenue requirements and excessive rate increases. *Id.*

I&M witness Mr. Williamson recommended the Commission adopt the approach accepted in NIPSCO's TDSIC request, Cause No. 44371. (Direct at 7) He testified (Direct at 8-10) that the rates customers pay are developed based on financial data, including depreciation expense based on a point in time and that I&M does not currently track 100% of its depreciation expense, nor does I&M track 100% of its distribution system operating costs, and I&M certainly does not track its full cost of service. *Id.* at 9-15.

The TDSIC statute does not prescribe a specific method for calculating depreciation expense. We have the discretion to find that the value of I&M's TDSIC project costs passed through the tracker can be adjusted to account for costs of replaced assets that customers already pay for in their basic rates. In fact, in enacting the TDSIC statute, the General Assembly included language that makes the Commission's authority as to valuing utility property in a TDSIC tracker explicit. Ind. Code § 8-1-39-16(b)(2) states that the TDSIC statute does not limit the Commission's authority for valuing utility property under Ind. Code § 8-1-2-6. It is under § 8-1-2-6 that the Commission may consider all bases of valuation presented to it in determining the fair value of public utility property that is used and useful for the public's convenience.

The purpose of depreciation is to record the decline in service capacity and/or value of the property. Depreciation, as used in accounting, is a method of distributing fixed capital costs, less net salvage, over a period of time by allocating annual amounts to expense. Each annual

amount of such depreciation expense is part of that year's total cost of providing utility service. Ratepayers compensate the utility for depreciation through rates as a revenue requirement. I&M's depreciation expense was determined by applying its Commission-approved depreciation rates to its plant investment as documented by I&M's books and records.

Depreciation rates are applied to *gross* plant balances. When an asset is retired, gross plant is reduced by the original cost of the retired asset. When the new replacement asset goes into service, gross plant is increased by the original cost of the new asset. The actual, per books change in gross plant equals the original cost of the new asset less the original cost of the retired asset. Incremental depreciation expense can be defined as the increase in depreciation expense that results when I&M replaces older distribution equipment with new distribution equipment under the TDSIC plan. Under I&M's proposal, the increase to its gross plant caused by a new TDSIC eligible asset is counted in the TDSIC tracker, but the decrease to gross plant caused by the retirement of the old asset is not counted in the calculation of incremental depreciation expense.

We have previously approved proposals in two cases to reflect retirements of old assets in the calculation of incremental depreciation expense: Cause Nos. 44429 and 44430, Vectren's gas TDSIC cases; and Cause No. 44182, I&M's own LCM tracker. In support of this methodology, in Cause Nos. 44429 and 44430, Vectren's witness Ms. M. Susan Hardwick testified, "To the extent that the new investment results in a retirement of an existing asset, depreciation expense included in revenue requirement will be reduced by the depreciation expense amount attributed to those retired assets." Cause No. 44429, Direct testimony of Petitioner's witness Ms. M. Susan Hardwick at 10, lines 10 through 15.

In I&M's most recent LCM filing, LCM-3, I&M continued to net its retirements for purposes of calculating incremental depreciation expense. Company witness Mr. Christopher Halsey testified, "I&M's Indiana jurisdictional depreciation expense is calculated by determining, by Cook Plant unit, the amount of capital investment that is placed in-service less the book value of the property being retired. This provides the incremental depreciable plant that went in-service." Cause No. 44182 LCM-3, Direct Testimony of Petitioner's witness Mr. Christopher Halsey at 11, lines 4 through 7.

Notably, while the depreciation methodology I&M opted to implement in Cause No. 44182 was not required by Ind. Code 8-1-8.8, the Company now states that it should not be required to implement the same methodology for its TDSIC tracker because Ind. Code 8-1-39 does not require such. I&M states it opted for the depreciation expense methodology in Cause No. 44182 because "there had been little to no regulatory lag in nuclear capital investment since I&M's last basic rate case test year end." Proposed Order at 21. This distinction rings hollow as I&M's LCM Project is a \$1 billion multi-year endeavor that is projected to be completed in 2018 while approval of its tracking mechanism was granted in 2013.

Just like the capital projects in Cause Nos. 44429, 44430, and 44182, nearly every asset that is placed in service by I&M and accounted for through its TDSIC tracker will replace a similar, yet older asset that will be taken out of service. I&M states in its proposed order at page 18 that cost components used to establish rates will "inevitably change from one ratemaking proceeding to the next," and that between general rate filings, "myriad revenue and expense

items can fluctuate and change.” While I&M uses this logic to support its depreciation expense methodology that does not reflect the reduction to depreciation expense caused by retirements in this Cause, this logic is better applied to I&M’s own TDSIC tracker request. While the amount of I&M’s rate base from its last general rate case has most assuredly been affected by downward changes to depreciation expense recovery and asset replacement, I&M considers these changes to be irrelevant. In sharp contrast, upward changes to I&M’s rate base as of its last general rate case caused by eligible capital expenditures are extremely relevant to I&M. It is these capital expenditures, exclusive of the reduced depreciation expense related to the asset retirements, that I&M believes must be accounted for and recovered from ratepayers every six months for the next seven years.

Approving I&M’s proposal would be inconsistent with our obligation to balance the interests of the ratepayers and shareholders. We find that, through its TDSIC mechanism, I&M shall recover the depreciation expense of new projects and only the incremental depreciation expense (new asset depreciation expense will be reduced by the retired asset depreciation expense) for the TDSIC asset replacement projects that replace I&M’s retired assets still included in rate base used to establish base rates.

b. **Return on Investment.** Similar to the question of ratemaking treatment for depreciation (“return of”), we once again address the appropriate ratemaking treatment for the pretax return component of Petitioner’s request. We have previously addressed this issue in other TDSIC dockets, e.g. NIPSCO gas and electric TDSICs Cause Nos. 44371 and 44403; and Vectren North and South gas TDSICs Cause Nos. 44429 and 44430. We take this opportunity to revisit the issue of whether a utility that is replacing assets should be entitled to earn a return on both the replacement asset as well as the replaced asset. Ind. Code § 8-1-39-2, in pertinent part, defines eligible transmission, distribution, and storage improvements as new or replacement electric or gas transmission, distribution or storage utility projects that “were not included in the public utility’s rate base in its most recent general rate case.”

This language lends itself to two interpretations, only one of which makes sense in the context of utility ratemaking. First, it could mean that infrastructure that is already constructed, in service, used and useful and in rate base is not eligible to receive TDSIC ratemaking treatment. This seems to be a truism and does not provide any guidance to utility regulators as to what type of investment is eligible for expedited recovery. Of course items already embedded in base rates will not be the subject of a docket pertaining to new or replacement projects.

Since the statute clearly allows for the tracking of *replacement* transmission, distribution, and storage projects, we cannot deny tracking of those costs simply because they are replacing projects that are already included in rate base. But to give the above-mentioned subsection of the TDSIC statute any real meaning, it is reasonable to assume that the legislature sought to avoid providing a petitioning utility with a return on both the replaced assets already in rate base and the replacement assets receiving expedited cost recovery pursuant to this statute. If the projects pertain to new infrastructure this subsection obviously does not apply. However, if a utility replaces assets that are already in rate base, this section provides that utility with a choice: receive a return on the items already in rate base or receive a return on the replacement asset. But not both.

We find that, to give import to this subsection of the TDSIC statute, the value of the TDSIC project costs passed through the tracker can be adjusted to account for costs of replaced assets that customers already pay for in their base rates. This is consistent with our charge found in Ind. Code § 8-1-39-16(b)(2) which states that the TDSIC statute does not limit the Commission's authority for valuing utility property under Ind. Code § 8-1-2-6. That statute provides a cornerstone of utility ratemaking by mandating that the Commission consider all bases of valuation presented to it in determining the fair value of public utility property *that is used and useful* for the public's convenience.

We have reconsidered our position and now find that I&M should only be permitted to recover the incremental capital, depreciation, and O&M costs of replacement TDSIC projects because ratepayers are already paying for the replaced assets in base rates. As the OUCC points out, we recently accepted a similar argument in Cause No. 42150 ECR 21, where we ruled that NIPSCO could only earn a return on the incremental value of replacement catalyst layer above the value of the replaced catalyst layer included in rate base. In that case, NIPSCO sought to track the costs of SCR replacement catalyst layers even though it acknowledged that it was already earning a return of and on the original environmental property. The original environmental property was used and useful and in service. However, once it was replaced, it was no longer used and useful or in service.

Although neither the CWIP rules nor the various QPCP/CCT statutes provide the express authority for the Commission to offset the value of the replacement environmental property that is under construction and will ultimately be used and useful with the value of the environmental property that is being retired or replaced, explicit language to that effect is unnecessary. The Commission decision was consistent with Ind. Code § 8-1-2-6 and good ratemaking practice and policy. In the NIPSCO case we held as follows:

Similarly, because the replacement layer is necessary for the continued operation of the SCR, NIPSCO should be allowed to recover the full return of its investment in the replacement layer. However, should we grant full recovery of NIPSCO's return on its investment in the replacement layer when it already receives a return on its investment in the original layer through its base rates and charges, then until its next base rate case, NIPSCO would receive a return on investment for two catalyst layers, while only one layer is in service.

Cause No. 42150 ECR 21 at 14.

There exists other precedent for this ratemaking treatment. It can be found in Ind. Code § 8-1-1-31 *et seq.* and 170 IAC 6-1.1, which provide for the tracked recovery of new distribution system improvement charge (DSIC) for water utilities. Like the TDSIC statute, this statute specifically authorizes the Commission to approve a DSIC in order to allow a water utility to adjust its basic rates and charges to recover a pre-tax return and depreciation expense on eligible distribution system improvements. The Commission's Final Order in *Indiana American*, Cause No. 42351 DSIC-1 agreed with the OUCC which advocated reducing the amount upon which the return applies by the original cost of those assets that are no longer in service as they have been replaced by the assets eligible for the DSIC. We found that "if retirements are ignored and a

utility is allowed to earn a return on new plant through a DSIC, they will collect a return on both the new plant through its DSIC and on the retired asset through its return on the fair value rate base determination from the utility's last rate case." *Id.* at 23.

Finally, we had previously found that netting was not necessary since the petitioning utility will be required to file a base rate case within seven years of the approval of its TDSIC 7 year plan. However, since then we have observed that the utilities requested plans have involved such significant costs that allowing the utilities to, in essence, double recover these costs for 7 years results in a significant over-recovery by the utility and consequently results in rates that are unreasonable, unfair and unjust. These over-recoveries will never be trued up and ratepayers will never be made whole. For this reason we find that I&M may only track its *incremental* revenue requirements for return, depreciation expense, and property tax expense.

**6. TDSIC O&M.** In pertinent part, Ind. Code § 8-1-39-13(a) provides a "periodic automatic adjustment" of "a utility's basic rates and charges" to provide for "timely recovery" of 80% of approved "capital expenditures and TDSIC costs". As defined by the statute, "TDSIC costs" include "operation and maintenance expenses" incurred with respect to the TDSIC projects "while the improvements are under construction and post in service." Ind. Code § 8-1-39-7.

Mr. Williamson (Direct at 15-16) stated that I&M proposes to recover O&M expense that is specific to a TDSIC capital project and would not otherwise be incurred. Mr. Williamson explained that this O&M expense is only incurred at the time of completing the TDSIC capital project. For example, when I&M replaces a pole, I&M is required to remove and set aside the attached conductors, remove the existing pole, install the new pole and reattach the conductors. FERC accounting rules require that the costs associated with rearranging and changing the location of plant not retired (the conductors) be recorded as O&M expense. Therefore, costs associated with installing the new pole are recorded as construction, costs associated with removing the existing pole are recorded as cost of removal, and the costs associated with removing and reattaching the conductors are charged to O&M expense. To complete the TDSIC capital project, in the example above, I&M must incur the associated O&M expense.

Mr. Blakley testified that on page 2 of 3 of I&M's Exhibit A, I&M proposes to recover \$53,031,000 in associated O&M expense for its TDSIC projects. (Direct at 6). Mr. Blakley stated that I&M makes no effort to quantify the associated O&M expenses identified in the test year and already included in base rates other than to imply that similar costs going forward will be "naturally incremental." *Id.* He explained that it stands to reason that I&M replaced distribution equipment such as wooden poles or transformers during its test year and, therefore, there is associated O&M already embedded in its base rates. (Direct at 7). Mr. Blakley challenged I&M's proposal because it is only appropriate to recover in a TDSIC tracker "incremental" associated O&M if that associated O&M expense is over and above the costs embedded in base rates. *Id.*

Through its TDSIC, I&M will replace existing poles for which a level of maintenance expense is already included in the Company's base rates. Removing and reattaching common electric utility infrastructure like conductors is a common maintenance practice for existing wooden distribution poles. O&M expense for this type of maintenance activity is embedded in base rates.

Mr. Blakley testified that if I&M wants to track incremental “associated O&M” it should be required to put forth a reasonable estimate of associated O&M included in the rate case test year and embedded in base rates. *Id.* Mr. Blakley explained that if I&M were allowed to track associated O&M expenses in addition to the associated O&M expenses already embedded in base rates, it would, in essence, receive double recovery of associated O&M expenses. (Direct at 8). To address this concern, Mr. Blakley recommended the Commission order I&M to adjust any TDSIC associated O&M expense tracked through the TDSIC Rider to be net of any associated O&M base amount included in I&M’s base rates. (Direct at 10). Recognizing expense recovery in base rates when establishing an expense tracking mechanism is a standard ratemaking practice. Mr. Blakley references the Fuel Adjustment Clause (“FAC”) in his testimony, wherein an amount of fuel cost is included in base rates, and if fuel cost increases or decreases above or below the base amount, the increment (or decrement) is tracked. Other trackers such as the Regional Transmission Organization (“RTO”) that tracks Midcontinent ISO costs function the same way. We agree there is a level of associated O&M expenses included in I&M’s base rates available to maintain I&M’s distribution system.

In TDSIC cases, utilities are permitted to remove old transmission and distribution infrastructure, replace it with new transmission and distribution investment and seek recovery of the associated costs outside a base rate case. This replacement does not eliminate the associated O&M expense revenue requirement that is already included in base rates. These funds are already available to support the operation and maintenance of the new distribution investment. I&M’s proposal ignores the fact that tracking TDSIC costs for *new* TDSIC projects that are not included in the Company’s base rates is different from tracking TDSIC costs for *replacement* projects that are included in base rates. Because I&M has failed to establish that its proposal to recover associated O&M expense would result in recovery of only the associated O&M costs that are above the associated O&M costs embedded in its base rates, we reject I&M’s request for associated O&M expense recovery.

**7. Adjustment of Net Operating Income for Purposes of Ind. Code § 8-1-2-42(d)(3).** Pursuant to Ind. Code § 8-1-39-13(b), I&M requests authority to increase the authorized net operating income approved in the 44075 Order to include the approved return relating to the TDSIC capital projects and 100% of I&M’s TDSIC expenses for purposes of the Ind. Code § 8-1-2-42(d)(3) earnings test. Ind. Code § 8-1-39-13(b) provides that “[t]he commission shall adjust a public utility’s authorized return for purposes of IC 8-1-2-42(d)(3) ... to reflect incremental earnings from an approved TDSIC.” Based on our review of the TDSIC Statute and the evidence in this Cause, we find that I&M’s requests to increase the authorized net operating income approved in the 44075 Order to include the incremental earnings properly calculated for its TDSIC projects as modified by our Order in Cause No. 44542 for purposes of the Ind. Code § 8-1-2-42(d)(3) earnings test and include the incremental expenses associated with the TDSIC projects is reasonable, consistent with the TDSIC Statute and should be approved.

**8. TDSIC Mechanism.** We have ordered I&M to modify its methodology to calculate incremental depreciation expense as well as its pretax return. We have further denied I&M’s request to recover associated O&M expense as it has failed to establish that it will not recover only the amount of associated O&M expense that is over and above the expense level included in its base rates. I&M’s proposal to remove zero cost capital from its capital structure

has also been denied. Therefore, the Company's proposed TDSIC mechanism does not comport with the TDSIC statute and is hereby denied.

I&M proposes to defer twenty percent (20%) of approved capital expenditures and TDSIC costs, including economic development, to be recovered in I&M's next general rate case. I&M also proposes to record ongoing carrying charges based on I&M's pre-tax weighted cost of capital on these costs until the costs are included for recovery in I&M's basic rates in its next general rate case. I&M also seeks accounting authority to defer 100% of the TDSIC Costs associated with I&M's approved TDSIC Plan incurred prior to implementation. The TDSIC Statute is designed to provide timely recovery of the authorized TDSIC Projects. While much of that recovery is provided via the tracking mechanism established by Ind. Code § 8-1-39-9(a), the remaining provisions of Ind. Code § 8-1-39-9 address the balance of the TDSIC project capital expenditures and TDSIC costs. In pertinent part, Ind. Code § 8-1-39-9(b) provides that:

A public utility that recovers capital expenditures and TDSIC costs under subsection (a) shall defer the remaining twenty percent (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 the next general rate case that the public utility files with the commission.

We addressed above the issues raised by the OUCC regarding the capital structure and costs embedded in the revenue requirement used to establish basic rates in Cause No. 44075. We have reviewed I&M's proposal and based on the evidence presented, we find the accounting authority sought by I&M comports with Ind. Code § 8-1-39-9(b) and is otherwise necessary to allow timely recovery of TDSIC costs and proper implementation of the rate adjustment mechanism authorized in Ind. Code § 8-1-39-9(b). Therefore we find the deferred accounting treatment of I&M's TDSIC Costs and subsequent recovery through either the TDSIC Rider or a general rate case as proposed by I&M is reasonable and should be approved.

Section 9 of the TDSIC Statute provides that a utility may file rate schedules establishing a "TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs." Section 14(a) provides that the Commission may not approve a TDSIC that would result in an average aggregate increase in a public utility's total retail revenues of more than two percent (2%) in a twelve month period. Section 14(b) provides that if the utility incurs TDSIC costs under its 7 year plan that exceed the percentage increase in a TDSIC approved by the Commission, the public utility shall defer the recovery of the TDSIC costs as set forth in section 9(b) of the statute.

I&M witness Nollenberger demonstrated how Section 14(a) would apply to I&M's Plan and showed that the 2% limitation was satisfied and no Section 14(b) deferrals are expected. More specifically, Mr. Nollenberger started with the Company's total Indiana jurisdictional retail revenues for 2014. Nollenberger Direct, p. 6, Table 1, Line 4, Col. A. For the first TDSIC Rider filing, he showed:

- 1) the TDSIC revenues produced by the periodic automatic adjustment of I&M's basic rates and charges to provide for timely recovery of 80% of the approved capital expenditures and TDSIC costs. *Id.* Table 1, Line 4, Col. B, line 2; and
- 2) the Company's total Indiana jurisdictional retail revenues, *i.e.*, the average aggregate increase in I&M's total retail revenue in the 12 month period. *Id.* Table 1, Col. A. Line 4, plus Col. B line 2).

Mr. Nollenberger then compared the TDSIC revenue produced by the periodic adjustment to the Company's total retail revenues. For the first annual TDSIC filing, Mr. Nollenberger showed that the revenues produced by the periodic automatic adjustment were estimated to be 0.7% of the average aggregate increase in Company's total retail revenues. Because 0.7% is less than 2%, Section 14(a) is satisfied and no Section 14(b) deferral would be expected.

Mr. Nollenberger next looked at what is expected in the Company's second annual filing. He compared: 1) the TDSIC revenues produced by the second annual periodic adjustment of I&M's basic rates and charges to provide for timely recovery of 80% of the approved capital expenditures and TDSIC costs (*id.* Table 1, Line 2, Col. C); and 2) the average aggregate increase in the Company's total Indiana jurisdictional retail revenues (*id.* Table 1, Line 4, Col. C).

For the second annual TDSIC filing, Mr. Nollenberger showed that the revenues from the periodic adjustment of the Company's basic rates and charges would be 0.8% of the average aggregate increase in the Company's total retail revenues. Because 0.8% is less than 2%, Section 14(a) is satisfied and no Section 14(b) deferral would be expected. Mr. Nollenberger showed that the remaining years of the TDSIC Plan also fell under the 2% limitation set forth in Section 14(a) and thus no Section 14(b) deferral would be expected from I&M's TDSIC Plan.

We find Petitioner's proposal ensures the TDSIC approved as modified herein will not result in an average aggregate increase in total retail revenues of more than 2% in a twelve month period and is consistent with Ind. Code § 8-1-39-14(a).

**8. Rate Design.** We now turn to the Company's proposed fixed charge for residential customers and small commercial customers without demand meters rate design. Once the TDSIC costs are allocated to the customer classes in accordance with Ind. Code § 8-1-39-9(a)(1), the Company proposes to design rates to collect the TDSIC costs through demand charges for demand metered customers, through a monthly fixed charge for non-demand metered customers and through an energy charge for lighting and irrigation customers. The OUCC objected to the proposal to collect the TDSIC costs through a monthly fixed charge for residential and other non-demand metered customers.

We first note that I&M's proposal in this Cause appears to be in conflict with the principles the Company considered when it developed the cost of service study approved in Cause No. 44075, I&M's most recent base rate case. In that cause, I&M witness Mr. Daniel High (44075 Direct at 10 -11) testified that the following principles must be established to ensure the allocation of costs to customers is appropriate:

1. The method should match customer benefit from the use of the system with the appropriate cost responsibility for the system.
2. The method should reflect the planning and operating characteristics of the utility's system.
3. The method should recognize customer class characteristics such as energy usage, peak demand on the system, diversity characteristics, number of customers, etc.
4. The method should produce stable results on a year-to-year basis.

Customer fixed charges are not traditionally changed outside of the context of a base rate case as I&M proposes to do here. A rate case provides a more appropriate forum to review and adjust fixed charges with the benefit of a cost of service study. Further, higher fixed charges may reduce customer incentives to save energy because the marginal cost for additional usage is decreased. The variable portion of customer bills is the only opportunity for potential savings from customer energy conservation actions, including reduced usage.

I&M's proposal sends the wrong price signal to customers. Customers' energy usage, demand, and load consistency impact operational costs, reliability, efficiency, and design of a utility's electric system. Increasing fixed charges sends no economic signals over which they have control to customers and potentially encourages negative behaviors. Also, I&M's proposal reduces potential energy savings and extends the payback period for self-generation and/or energy efficient investment. High fixed customer charges for electric service impede the market competitiveness of other potential energy sources (such as natural gas, solar, wind) by reducing the potential savings available to customers.

We are also concerned that low income and fixed income customers can be more negatively impacted by high fixed charges. Mr. Hand, at page 3, lines 6 through 13 of his testimony, made note of the testimony of David E. Dismukes, Ph.D. in a State of Maine docket 2013-00168:

Fixed income households that use less than average electricity will likely be negatively impacted by the Company's proposal, and could find themselves, holding other factors constant, paying a higher share of their fixed income on electricity than if they were assessed distribution service bills more appropriately balanced between fixed charges and a pay-for-use structure.

Therefore, we decline to approve I&M's proposal to increase the fixed charge for customers without demand meters.

**9. TDSIC Timing.** Ind. Code § 8-1-3 9-9(e) states that "[a] public utility may file a petition under this section not more than one (1) time every six (6) months." As explained by Mr. Williamson, I&M proposes to file annual TDSIC Rider petitions. As part of each TDSIC proceeding, I&M will also provide a report on the progress of its TDSIC Plan, including any changes such as scheduling changes, proposed project additions or subtractions, and proposed

changes in cost estimates. We find that I&M's proposed timeline for its TDSIC filings is consistent with Ind. Code § 8-1-39-9(e), reasonable and should be approved. Therefore, I&M annual filings of its TDSIC Rider shall be docketed as Cause No. 44543 TDSIC [X].

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

1. Petitioner's specific proposal for a TDSIC mechanism, including its proposed TDSIC rate schedule and proposed calculation methodology, is hereby rejected.
2. Given our Order in Cause No. 44542 regarding I&M's TDSIC Plan, I&M may track its incremental revenue requirements for return, depreciation expense, and property tax expenses consistent with our Findings herein, including, but not limited to, those pertaining to the appropriate capital structure and allocation factors.
3. The tracking authorized under Ordering paragraph 2 above shall be limited to 80% of the incremental revenue requirements associated with the TDSIC Plan, with incremental defined as amounts above and beyond the amounts embedded in base rates.
4. Petitioner's proposed distribution allocation factors and its transmission allocation factors are denied. Petitioner is ordered to use the unmodified distribution allocation factors.
5. Petitioner is authorized to defer the remaining 20% of incremental eligible capital expenditures and TDSIC Costs to its next base rate case, with carrying charges limited to the return portion of the deferred amount and with no carrying charges on deferred depreciation or deferred property tax expenses. For purposes of deferred accounting of the 20% amount not eligible for rate treatment, the carrying charge rate shall not be grossed up for taxes.
6. Petitioner's rate design methodology to recover TDSIC Costs is denied.
7. Petitioner is authorized to adjust its authorized net operating income to reflect any approved earnings associated with the TDSIC for purposes of Ind. Code § 8-1-2-42(d)(3) pursuant to Ind. Code § 8-1-39-13(b).
8. Petitioner's annual TDSIC Rider filings shall be docketed as Cause No. 44543 TDSIC-[X].
9. This Order shall be effective on and after the date of its approval.

**STEPHAN, HUSTON, MAYS-MEDLEY, WEBER, AND ZIEGNER CONCUR:  
APPROVED:**

**I hereby certify that the above is a true**

**and correct copy of the Order as approved.**

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**Brenda A. Howe,  
Secretary to the Commission**