

STATE OF INDIANA


INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER COMPANY,)
 AN INDIANA CORPORATION, FOR AUTHORITY TO)
 INCREASE ITS RATES AND CHARGES FOR ELECTRIC)
 UTILITY SERVICE THROUGH A PHASE IN RATE)
 ADJUSTMENT; AND FOR APPROVAL OF RELATED)
 RELIEF INCLUDING: (1) REVISED DEPRECIATION) CAUSE NO. 45235
 RATES; (2) ACCOUNTING RELIEF; (3) INCLUSION IN)
 RATE BASE OF QUALIFIED POLLUTION CONTROL)
 PROPERTY AND CLEAN ENERGY PROJECT; (4))
 ENHANCEMENTS TO THE DRY SORBENT INJECTION)
 SYSTEM; (5) ADVANCED METERING)
 INFRASTRUCTURE; (6) RATE ADJUSTMENT)
 MECHANISM PROPOSALS; AND (7) NEW SCHEDULES)
 OF RATES, RULES AND REGULATIONS)

SUBMISSION OF CROSS-ANSWERING TESTIMONY OF CAC AND INCAA

Citizens Action Coalition and Indiana Community Action Association respectfully submit the Cross-Answering Testimony of Jonathan Wallach (CAC-INCAA Exhibit 3) in the above referenced Cause to the Indiana Utility Regulatory Commission (“Commission”).

Respectfully submitted,


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CERTIFICATE OF SERVICE

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STATE OF INDIANA
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA MICHIGAN POWER COMPANY,)
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OF RATES, RULES AND REGULATIONS)
)

CROSS-ANSWERING TESTIMONY OF
JONATHAN WALLACH
ON BEHALF OF
CITIZENS ACTION COALITION OF INDIANA, INC.
AND
INDIANA COMMUNITY ACTION ASSOCIATION
Resource Insight, Inc.
SEPTEMBER 17, 2019

1 **I. Introduction**

2 **Q: Please state your name, occupation, and business address.**

3 A: My name is Jonathan F. Wallach. I am Vice President of Resource Insight, Inc.,
4 5 Water Street, Arlington, Massachusetts.

5 **Q: Are you the same Jonathan F. Wallach who filed direct testimony in this**
6 **proceeding?**

7 A: Yes.

8 **Q: On whose behalf are you testifying?**

9 A: I am testifying on behalf of the Citizens Action Coalition of Indiana, Inc.
10 (“CAC”), and Indiana Community Action Association (“INCAA”).

11 **Q: What is the purpose of your cross-answering testimony?**

12 A: My cross-answering testimony responds to direct testimony by William Steven
13 Seelye, on behalf of the City of South Bend (“South Bend”) and Nicholas
14 Phillips, Jr., on behalf of the Indiana Michigan Industrial Group (“IMIG”).
15 Specifically, I respond to these witnesses’ recommendations that I&M rely on
16 minimum-system methods to classify distribution costs in the Company’s cost
17 of service study.

18 **Q: Do you have any general comments regarding these two witnesses’ direct**
19 **testimony?**

20 A: Yes. It is no surprise that IMIG’s witness advocates for changes to the
21 Company’s cost of service study and for an allocation of test-year revenue
22 requirements which would benefit large industrial customers and disadvantage
23 residential customers. However, it is startling to see South Bend’s witness
24 recommending that residential revenues be increased by an even greater

1 amount than that proposed by either IMIG or the Company. And it is
2 particularly troubling that the Buttigieg administration supports increasing
3 residential revenues solely for the purposes of maximizing the revenue
4 decrease for the streetlighting class. I fail to see how the public interest is
5 served by reducing the cost to light South Bend's streets when it comes at the
6 expense of the city's residents by increasing the cost to light their own homes.

7 **II. Classification of Distribution Costs**

8 **Q: How are distribution costs classified in the Company's cost of service**
9 **study?**

10 A: As it has since Cause No. 44075, I&M classifies distribution costs using what
11 is commonly referred to as the "Basic Customer" classification method.¹
12 Under the Basic Customer method, the costs incurred for meters, service drops,
13 and customer services ("distribution-connection costs") are classified as
14 customer-related and all other distribution costs ("distribution-grid costs") are
15 classified as demand-related.

16 **Q: Does the Basic Customer method classify distribution costs consistently**
17 **with cost-causation principles?**

18 A: Yes. As the Commission found in Cause No. 44075, the Basic Customer
19 method reasonably reflects the fact that the Company's investments in

¹ The Company first proposed using the Basic Customer method in Cause No. 39314, but the Commission rejected the Company's proposal because it was not "sufficiently supported". *In re Indiana Michigan Power Company*, Cause No. 39314 at 173 (IURC Nov. 12, 1993). The Commission subsequently approved use of the Basic Customer classification method in the next rate case to be fully litigated. *See In re Indiana Michigan Power Company*, Cause No. 44075, (IURC Feb. 13, 2013).

1 distribution-grid costs (as recorded in FERC accounts 364 through 368) are
2 driven by demand and thus appropriately classified as demand-related:

3 The Company's classification of distribution plant accounts 364-368 is
4 consistent with the NARUC Manual and is based on principles of cost
5 causation. Accordingly, we are persuaded that distribution plant costs
6 included in accounts 364-368 are incurred based on peak demand and
7 should be classified as demand-related and allocated using the Company's
8 demand allocation factors. I&M's proposed classification and allocation
9 of distribution plant continues to be an appropriate method due to its
10 foundation in cost-causation.²

11 **Q: What do South Bend witness Seelye and IMIG witness Phillips**
12 **recommend with regard to the classification of distribution costs?**

13 A: Both witnesses recommend that I&M switch from the Basic Customer method
14 to a minimum-system approach for classifying distribution-grid costs.

15 **Q: Please describe the minimum-system classification approach.**

16 A: Minimum-system classification methods attempt to estimate the cost to install
17 the same amount of poles, conductors, conduit, and line transformers as are
18 currently on a utility's distribution system, assuming that each piece of
19 distribution equipment is sized to meet minimal or zero load. In other words,
20 minimum-system methods attempt to estimate the cost to replicate the
21 configuration of an existing distribution grid assuming that grid was built to
22 serve minimal or zero load.

23 There are two approaches for estimating the cost of this hypothetical
24 minimum distribution grid. The "minimum-size" approach attempts to
25 estimate the cost to replicate the configuration of the existing distribution
26 system using the smallest-size equipment currently used on the system.

² *In re Indiana Michigan Power Company*, Cause No. 44075 at 117 (IURC Feb. 13, 2013). Cause No. 44075 was the last rate case to be fully litigated prior to this case.

1 Alternatively, the “minimum-intercept” approach attempts to estimate the
2 cost to replicate the existing distribution grid using hypothetical equipment
3 sized to meet zero load. The minimum-intercept approach estimates the cost
4 of this hypothetical zero-load equipment by deriving a functional relationship
5 between equipment cost and equipment size based on the current system, and
6 then extrapolating that cost function to estimate the cost of equipment that
7 carries zero load (e.g., 0-kVA transformers), the smallest units legally allowed
8 (e.g., 25-foot poles), or the smallest units physically feasible (e.g., the thinnest
9 conductors that will support their own weight in overhead spans).

10 Under either approach, the cost of the hypothetical minimum distribution
11 grid (along with distribution-connection costs) would be classified as
12 customer-related, and the difference between the total cost of the distribution
13 grid and the estimated cost of the hypothetical minimum distribution grid
14 would be classified as demand-related.

15 **Q: How do you respond to Mr. Seelye’s and Mr. Phillips’s recommendation**
16 **that I&M adopt the minimum-system method for classifying distribution-**
17 **grid costs?**

18 A: As I&M has long-recognized, the minimum-system method suffers from a
19 number of conceptual and structural flaws which result in misclassifications of
20 distribution-grid costs. These misclassifications, in turn, lead to allocations of
21 distribution-grid costs which are contrary to cost-causation principles.
22 Specifically, minimum-system classifications will result in an over-allocation
23 of distribution-grid costs to the residential class. Accordingly, the Commission
24 should reject any such recommendation.

1 **Q: Has the Commission previously rejected recommendations for I&M to**
2 **adopt minimum-system methods for classifying distribution-grid costs?**

3 A: Yes. In its order in Cause No. 44075, the Commission explicitly rejected
4 recommendations by the City of Fort Wayne and by IMIG to switch to a
5 minimum-system classification of distribution-grid costs.³

6 **Q: Why do minimum-system methods produce cost classifications that are**
7 **inconsistent with cost-causation principles?**

8 A: Minimum-system methods are premised on the false notion that utilities incur
9 a “minimum” amount of distribution-grid costs to serve customers at zero load
10 and then incur additional costs to meet the total load of those customers. In
11 reality, utilities typically size their distribution systems, and incur the costs to
12 build those systems, based on an expectation regarding the total demand of all
13 customers connected to the grid. In other words, distribution-grid costs are
14 typically driven by customer load, not by the number of customers.

15 This is certainly the case for I&M. According to testimony by I&M
16 witness Daniel E. High in Cause No. 44967, the Company’s distribution-grid
17 costs are driven by customer demand, not by the number of customers:

18 The minimum system approach of classifying a portion of the costs
19 included in accounts 364-368 as customer related ... does not recognize
20 the Company’s standard engineering practice of planning and sizing
21 distribution facilities to meet the peak demand of the customers served by
22 those facilities. As such, the peak demand on Company facilities, not the
23 number of customers served by the facilities, causes the Company to incur
24 distribution facility costs.⁴

³ *Id.*

⁴ *Pre-Filed Verified Rebuttal Testimony of Daniel E. High, Cause No. 44967, 8 (IURC December 6, 2017).*

1 Contrary to the reality of I&M's engineering and investment practice,
2 minimum-system methods posit an imaginary world where some portion of
3 the Company's distribution-grid costs were incurred regardless of customer
4 demand. Consequently, applying minimum-system methods to the Company's
5 distribution-grid costs would yield classifications that are inconsistent with
6 cost-causation.

7 **Q: Are there other aspects of minimum-system approaches to cost**
8 **classification that are inconsistent with cost-causation principles?**

9 A: Yes. Even if one accepts the false premise of a minimum distribution system,
10 minimum-system approaches suffer from a number of structural defects which
11 lead to classifications and allocations of distribution-grid costs that are
12 contrary to cost-causation principles.

13 For one, both the minimum-size and minimum-system approaches
14 erroneously assume that the minimum system would consist of the same
15 number of units (e.g., number of poles, feet of conductors) as the actual system.
16 In reality, load levels help determine the number of units, as well as their size.
17 Minimum-system analyses ignore the effect of loads on the number of units
18 installed, or the type of equipment installed, classifying some costs as
19 customer-related even though they are really driven by demand.

20 This problem is particularly acute for the minimum-intercept method
21 since this approach relies on an extrapolation from the current system to
22 estimate the cost of a system that serves zero load. A system designed to
23 connect customers but serve zero load would likely look very different from
24 the existing system. For example, a zero-capacity electric system would not
25 use the overlapping primary and secondary systems and line transformers that
26 a real system uses. Without the need for high voltages to carry power, poles

1 could be shorter and cross-arms would be unnecessary; with no transformers
2 or cross-arms, and lighter conductors, poles could be thinner as well. The labor
3 and equipment costs of setting those short, light poles would be much lower
4 than the costs of real utility poles of any size. It is therefore unlikely that a cost
5 estimate based on an extrapolation from the current system would reasonably
6 reflect the cost of an actual zero-load system. If so, then the minimum-intercept
7 approach would misclassify demand-related costs as customer-related and
8 thereby over-allocate distribution-grid costs to the residential class.

9 Finally, the minimum-size method fails to account for the fact that even
10 the minimum-size equipment currently installed on the system has some
11 amount of load-carrying capability.⁵ Consequently, some portion of the cost
12 for this minimum-size equipment should be classified as demand-related.
13 However, under the minimum-size method, that demand-related portion of the
14 cost of the minimum-sized equipment instead would be misclassified as
15 customer-related.

16 **Q: What do you conclude with regard to the classification of distribution-grid**
17 **costs?**

18 A: The Commission should reject the recommendations by South Bend witness
19 Seelye and IMIG witness Phillips that I&M employ minimum-system methods
20 to classify distribution-grid costs. As discussed above, minimum-system
21 methods result in classifications and allocations of distribution-grid costs
22 which are contrary to cost-causation principles.

⁵ *Pre-Filed Verified Rebuttal Testimony of David M. Roush*, Cause No. 44075, 8-9 (IURC May 25, 2012).

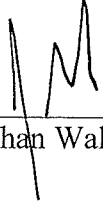
1 Instead, as in Cause No. 44075, the Commission should approve the
2 Company's continued use of the Basic Customer method for classifying
3 distribution-grid costs.

4 **Q: Does this conclude your cross-answering testimony?**

5 A: Yes.

VERIFICATION

I, Jonathan Wallach, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to be 'J Wallach', written over a horizontal line.

Jonathan Wallach

September 17, 2019

Date