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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED PETITION)
OF INDIANA MICHIGAN POWER COMPANY) CAUSE NO. 44422 CSR 1
FOR AUTHORITY TO ADJUST ITS RETAIL)
ELECTRIC RATES THROUGH ITS CAPACITY)
SETTLEMENT RIDER CONSISTENT WITH THE) APPROVED:
COMMISSION'S ORDER IN CAUSE NO. 44075.)

JUN 24 2015

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner
Jeffery A. Earl, Administrative Law Judge

On March 20, 2015, Indiana Michigan Power Company ("I&M") filed its Verified Petition for a Capacity Settlement Rider Adjustment. Also on March 20, 2015, I&M filed the testimony and exhibits of the following witnesses:

- Christopher M. Halsey, Regulatory Consultant Principal in I&M's Regulatory Services Department; and
- Daniel E. High, Regulatory Consultant Principal in Regulated Pricing and Analysis at American Electric Power Service Corporation.

On May 6, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of Michael D. Eckert, Senior Utility Analyst in the OUCC's Electric Division. On May 26, 2015, the OUCC filed corrections to Mr. Eckert's testimony and exhibits.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on June 1, 2015, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. I&M and the OUCC appeared and participated at the hearing. No members of the general public attended the hearing.

Based on the applicable law and the evidence presented, the Commission finds:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. I&M is a public utility as defined in Ind. Code § 8-1-2-1(a). In the February 13, 2013 Order in Cause No. 44075, the Commission approved an annual rate adjustment mechanism for I&M's recovery of capacity settlement payments and receipts. *Ind. Mich. Power Co.*, Cause No. 44075, 2013 Ind. PUC LEXIS 43 (IURC Feb. 13, 2013) ("44075 Order"). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes in I&M's schedules of rates and charges. Therefore, the Commission has jurisdiction over I&M and the subject matter of this Cause.

2. **I&M's Characteristics.** I&M, a wholly owned subsidiary of American Electric Power ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal office at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M renders electric utility service in the States of Indiana and Michigan. In Indiana, I&M provides retail electric service to approximately 458,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells, and Whitley.

3. **Relief Requested.** In the 44075 Order, the Commission said:

I&M's capacity payments and receipts are governed by the formulas established in the [Federal Energy Regulatory Commission ("FERC")]-approved AEP Interconnection Agreement. The evidence establishes that the test-year level of capacity settlement receipts is not representative of I&M's ongoing capacity settlements due primarily to actual changes that have occurred in the amount of capacity owned by other members of the AEP Pool. . . .

In order to address the variability in the capacity settlement payments, we adopt I&M's proposal to periodically adjust I&M's rates to match the projected credits received or payments made with actual levels pursuant to Ind. Code § 8-1-2-42(a). . . . The initial level of revenues for the capacity settlement should be set at \$38.5 million. . . . The Capacity Tracker factors shall be established annually based upon a projection of capacity payments/receipts to be tracked and will include a reconciliation of actual capacity payments/receipts for the prior year

2013 Ind. PUC LEXIS 43, at *173-74.

The current Capacity Settlement Rider ("CSR") factors were established in the Commission's July 9, 2014 Order in Cause No. 44422. *Ind. Mich. Power Co.*, Cause No. 44422, 2014 Ind. PUC LEXIS 196 (IURC July 19, 2014) ("44422 Order"). I&M is proposing new CSR factors to include the reconciliation of actual capacity settlement payments/receipts for November 2013 through February 2015 and a projection of capacity settlement payments/receipts for a forecast period of March 2015 through June 2016. I&M seeks to make the new CSR factors effective for all bills rendered for electric services beginning with I&M's July 2015 billing period (June 30, 2015) or the first full billing period following a Commission order in this Cause.

4. **I&M Direct Evidence.** Mr. Halsey described the CSR and provided an update of the AEP Pool Agreement, including the dissolution of the AEP Pool Agreement and the effect it has on the CSR. Mr. Halsey testified that as a result of the dissolution of the AEP Pool Agreement beginning on January 1, 2014, I&M will no longer receive or remit capacity payments or receipts. Therefore, I&M's capacity equalization settlement payments and revenues will be zero going forward. Mr. Halsey testified that I&M will continue to perform over/under accounting and reconcile the lack of capacity equalization revenue to the capacity settlement revenue embedded as a credit to I&M's basic rates and actual CSR revenues.

Mr. Halsey described the reconciliation of the CSR and explained that the actual revenues received under the CSR compared to the amount of capacity receipts or payments made results in an under-recovery of \$20,390,063 as of February 28, 2015. The CSR forecast is \$15,699,809. Mr. Halsey said that the projected capacity settlement receipts for the forecasted period are reasonable. The resulting CSR revenue requirement for July 2015 through June 2016 is \$36,089,872.

Mr. High supported the proposed CSR factors, including among other things, jurisdictional allocations, rate design, and the average residential bill impact. The CSR consists of three components—\$20,390,063 in actual capacity settlement under-recovery as of February 28, 2015, a \$9,170,705 forecasted capacity settlement over-recovery for the period of March through June 2015, and a \$24,870,514 projection of capacity settlement payments/receipts compared to capacity settlement revenue embedded in I&M's basic rates—which result in a total CSR of \$36,089,872. The proposed CSR factors were calculated by allocating the demand-related component to each tariff class and using the forecast period of July 2015 through June 2016 to calculate the corresponding energy or demand rate. Based on these calculations, a residential customer using 1,000 kWh of electricity per month would see a monthly rate decrease of \$1.18.

5. OUCC's Evidence. Mr. Eckert discussed I&M's requested relief, the 44075 Order, and the dissolution of the AEP System Pool impact on I&M's CSR factors. Mr. Eckert also discussed the supporting information I&M provided to the OUCC, the calculation of the updated CSR factors, and provided a bill analysis. He said that I&M provided the OUCC additional support for its calculations in response to data requests. He created his own bill impact analysis showing the impact on residential customers using 500, 1,000, 1,500, and 2,000 kWhs per month. Mr. Eckert recommended approval of I&M's CSR adjustment and reconciliation.

6. Commission Discussion and Findings. I&M's capacity settlement payments and receipts are governed by the formulas established in the FERC-approved AEP Interconnection Agreement. 44075 Order, 2013 Ind. PUC LEXIS 43, at *173. In the 44075 Order, the Commission found that the test-year level of capacity settlement receipts (\$60.7 million) is not representative of I&M's ongoing capacity settlements due to changes that have occurred in the amount of capacity owned by other members of the AEP Pool. *Id.* To address the variability in the capacity settlement payments, the Commission established the annual CSR to adjust I&M's rates to match the projected credits received or payments made with actual levels under Ind. Code § 8-1-2-42(a).

The initial CSR factors established for I&M in the 44422 Order reflected the elimination of AEP's Power Pool as of January 1, 2014. The dissolution of the Power Pool Agreement eliminated any capacity credits that I&M would have received from other members of the pool. The reconciliation mechanism approved in I&M's last rate case, Cause No. 44075, allows for I&M to recover any under-recovered capacity payments from retail ratepayers up to the amount of credit embedded in retail rates. Because there are no more capacity payments or receipts, the entire amount of the credit (\$24,870,514 annually) embedded into rates from the last rate case will be recovered by I&M going forward until its next rate case.

The recovery sought in this case comprises three periods of time: (1) the reconciliation period (up to February 2015), which includes a \$20.39 million under-collection of capacity

settlement revenues; (2) the forecasted over-recovery period (March through June 2015), which includes \$9,170,705 that I&M recovered above the amount embedded in rates; and (3) the zero revenue period (July 2015 through June 2016), which includes a \$24,870,514 projection of capacity settlement payments/receipts compared to capacity settlement revenue embedded in I&M's basic rates.

Based on the evidence presented, the Commission finds that the CSR factors are accurate and reasonable. As shown in Pet. Ex. 2, Attachment DEH-1, the CSR revenue requirement of \$36,089,872 consists of a projection of capacity equalization settlement payments/receipts of \$24,870,514 less capacity settlement forecast over recovery of \$9,170,705, plus actual capacity settlement under recovery of \$20,390,063. As shown on Pet. Ex. 2, Attachment DEH-3, this is a decrease of \$11,811,592 from current CSR levels. Therefore, we authorize I&M to apply its requested CSR factors to its Indiana retail tariffs. Pet. Ex. 2, Attachment DEH-4 shows the CSR factors for each customer class as follows:

Tariff Class	¢/kWh	\$/kVA or \$/kW
RS, RS-TOD, RS-TOD2 and RS-OPES	0.3519	--
GS, GS-TOD, GS-LM-TOD and GS-TOD2	0.2878	--
LGS and LGS-TOD	--	1.006
LGS-LM-TOD	0.2567	--
IP and CS-IRP2	--	1.035
MS	0.2768	--
WSS	0.2114	--
IS	0.2533	--
EHG	0.3240	--
OL	0.1210	--
SLS, ECLS, SLC, SLCM and FW-SL	0.1106	--

Based on current rates, as shown on Pet. Ex. 2, Attachment DEH-5, the bill of a typical residential customer using 1,000 kWh per month will decrease by approximately \$1.18 or 1.1%.

Because the AEP Power Pool has been dissolved, I&M will no longer receive any capacity settlement revenues. The factors approved in this case have reconciled all past capacity settlement revenues and payments to the amount imbedded in rates. As a result, future tracker proceedings will simply recover the \$24.9 million projected CSR revenues embedded in I&M's rates from customers, and the factor approved in the next tracker is unlikely to significantly change until I&M's next rate case. Therefore, we request that I&M and the OUCC work together prior to the filing of CSR 2 to discuss whether future annual CSR filings are necessary and to consider proposing an alternative solution that might be more administratively efficient.

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

1. Indiana Michigan Power Company is authorized to implement its requested Capacity Settlement Rider factors.

2. Indiana Michigan Power Company shall place into effect the Capacity Settlement Rider factors approved in this Order applicable upon filing with the Electricity Division of this Commission, Second Revised Tariff Sheet No. 36, as shown in Pet. Ex. 2, Attachment DEH-4.

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

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

APPROVED:

JUN 24 2015

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



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