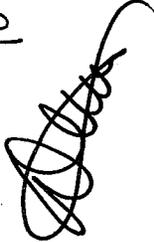


**ORIGINAL**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

  
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JPA  
JLG



IN THE MATTER OF THE APPLICATION OF )  
INDIANA MICHIGAN POWER COMPANY )  
FOR AUTHORIZATION OF A NEW FUEL )  
ADJUSTMENT CHARGE FOR ELECTRIC )  
SERVICE APPLICABLE FOR THE BILLING )  
MONTHS OF OCTOBER 2009 THROUGH )  
MARCH 2010 AND FOR APPROVAL OF )  
RATEMAKING TREATMENT FOR COST OF )  
WIND POWER PURCHASES PURSUANT TO )  
CAUSE NO. 43328 )

CAUSE NO. 38702 FAC 63

APPROVED: SEP 16 2009

**BY THE COMMISSION:**

**David E. Ziegner, Commissioner**  
**Lorraine L. Seyfried, Administrative Law Judge**

On July 16, 2009, Indiana Michigan Power Company (“I&M” or “Applicant”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Verified Application For a New Fuel Adjustment Charge for electric service to be applicable during the October 2009 through March 2010 billing months, pursuant to the provisions of Ind. Code § 8-1-2-42, and for approval of I&M’s ratemaking treatment of wind power purchase costs. I&M filed its direct testimony and exhibits of Charles F. West, Mickey Bellville, Raymond A. Hrubby, William A. Allen, David L. Hille, and Kent D. Curry on July 16, 2009.

On July 23, 2009, Steel Dynamics, Inc.-Flat Roll Steel Division (“SDF”), an industrial customer located in the electric service territory of I&M filed its Petition to Intervene. On July 24, 2009, the I&M-Industrial Group (“Industrial Group”), an ad hoc group of industrial customers located in the electric service territory of I&M, filed its Petition to Intervene.<sup>1</sup> Both petitions to intervene were granted by docket entry dated August 4, 2009.

On August 5, 2009, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and the testimony of Michael D. Eckert in this Cause. By docket entry dated August 12, 2009 the Commission requested additional information from Applicant, which information was provided on August 17, 2009. On August 13, 2009, the Industrial Group filed the direct testimony of James R. Dauphinais. On August 18, 2009, Applicant filed the supplemental testimony of David L. Hille. On August 18, 2009, a Settlement Agreement between I&M and Intervenors was filed (“Agreement”). This filing represented that the OUCC had no objection to Commission approval of the Agreement. By docket entry dated August 18, 2009 the evidentiary hearing was continued to August 27, 2009. By docket entry dated August 19, 2009 the Commission issued a docket entry to I&M, to which I&M responded on August 24, 2009.

<sup>1</sup> The I&M-Industrial Group included Air Products & Chemicals, Inc., Arcelor Mittal USA, Hartford City Paper, LLC, Marathon Petroleum Company, LLC, Praxair, Inc. and The Linde Group.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause by reference and placed in the official files of the Commission, a public hearing was held on Thursday, August 27, 2009, at 9:00 A.M. in Room 224, National City Center, 101 W. Washington Street, Indianapolis, Indiana. The Applicant, OUCC, and Intervenor Industrial Group participated in the hearing. No members of the general public appeared. At the hearing, Applicant's direct testimony, exhibits and responses to the Commission's docket entries as well as the OUCC's direct testimony and exhibits were admitted into evidence. The Agreement between I&M and Intervenor was admitted into the record as Joint Exhibit 1. All parties waived cross-examination.

The Commission, based upon the applicable law and the evidence of record, now finds as follows:

1. **Notice and Jurisdiction.** Proper notice of the public hearing in this Cause was published as provided by law. I&M is a public electric generating utility within the meaning of the Public Service Commission Act, as amended. I&M is an Indiana corporation engaged in rendering electric public utility service in the State of Indiana and the Commission has jurisdiction over the parties and the subject matter of this proceeding.

2. **Applicant's Request.** In its Verified Application, Applicant seeks Commission approval to implement its proposed fuel adjustment charge during the billing months of October 2009 through March 2010 pursuant to Ind. Code § 8-1-2-42 and I&M's ratemaking treatment of wind power purchase costs. I&M also requests authority to implement a coal hedging program as a result of changing fundamentals in the coal market. I&M represents that approval of a coal hedging program would provide I&M with an additional tool that would not only help to provide a secure supply of coal at the lowest reasonable cost, but also assist in reducing the impact of potential coal price spikes to customers. I&M's application continues the semi-annual filing process in place since 1999. Applicant also requests the Commission to find that the applicable provisions of Ind. Code § 8-1-2-42 are satisfied.

3. **Report on FAC 62-S1 Subdocket.** In Cause No. 38702 FAC 62, a subdocket was established to provide a forum for certain issues to be addressed if necessary. In FAC 62, the parties agreed to engage in informal resolution of the issues deferred to Cause No. 38702 FAC 62 S1. We directed the parties to report to the Commission on the status of these efforts in Cause No. 38702 FAC 63. At the hearing, the parties informed the Commission that on June 5, 2009 representatives of the OUCC, Intervenor and the Commission met with representatives of I&M to discuss the issues deferred to the FAC 62 subdocket.

4. **Stipulation and Settlement Agreement.** At the hearing, the parties also informed the Commission that they had reached an Agreement as to certain matters pending in the FAC 62 subdocket and the current proceeding. That Agreement was admitted into the record as Joint Exhibit 1, which included a Second Revised Exhibit 1-B. A copy of the Agreement is attached hereto and incorporated by reference. Although the parties did not file any testimony specifically addressing the terms agreed upon in the Agreement, the parties indicated at the hearing that the prefiled testimony of I&M and the OUCC was supportive of the Agreement.

As we have stated previously, settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission “may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition*, 664 N.E.2d at 406. Furthermore, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission’s own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Agreement is reasonable, just, and consistent with the purpose of Ind. Code § 8-1-2, and that such Agreement serves the public interest.

Because the parties did not provide any specific testimony explaining why they believed the resolution of the issues as set forth in the Agreement is reasonable, the Commission is left to determine whether the evidence filed with the Commission prior to the Agreement supports approval of the Agreement. Based on the evidence presented as discussed herein and further below, we find the Agreement, except with regard to the coal fuel procurement issues, to be reasonable, consistent with our Order in Cause No. 38702 FAC 62 and in the public interest.

We find the modification to the FAC to recover half of the under-recovery in this FAC and the other half in FAC 64 to be reasonable and supported by I&M’s testimony. While no evidence was provided concerning the voltage differentiation issue raised by SDI, the parties’ agreement to defer this issue to the pending subdocket is reasonable as it will enable the Commission to address the issue, to the extent necessary, at a later time. The OUCC did not oppose I&M’s request to implement a coal hedging program but reserved its right to review and comment on the specifics of the program when actually implemented. The OUCC also recommended that I&M should meet with the OUCC and interested stakeholders to explain its coal hedging strategy prior to implementation. The Agreement reflects that I&M agrees to the requested meeting and will present any hedging program for Commission approval in a future FAC proceeding. Since I&M has withdrawn its request for authority to implement a coal hedging program at this time, the parties’ agreement to discuss I&M’s coal hedging strategy prior to Commission approval is reasonable and supported by the OUCC’s testimony.

With respect to the parties’ agreement concerning I&M’s coal procurement practices, this issue was first raised in FAC 62 and was deferred to the subdocket proceeding in Cause No. 38702 FAC 62 S1 for resolution in that proceeding. While the Commission understands from the Agreement that the parties have resolved those issues, no evidence was presented from which we can make a determination that those issues should be dismissed from the subdocket proceeding. Furthermore, as the issues raised in FAC 62 have been deferred to the subdocket, any dismissal of those issues should be addressed in that subdocket proceeding. As the evidence presented raises no issues to be considered by the Commission with respect to I&M’s coal procurement practices in this FAC proceeding, the Commission need not approve the parties’ agreement that FAC 63 not be

subject to refund based upon further Commission determination on the issue.

Finally, with regard to future citation of the Agreement, we find that our limited approval herein should be construed in a manner consistent with our finding in *Petition of Richmond Power & Light*, Cause No. 40434, approved March 19, 1997.

5. **Source of Fuel.** Applicant must comply with the statutory requirements of Ind. Code § 8-1-2-42(d)(1) by making every reasonable effort to acquire fuel and generate or purchase power or both so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible. Applicant's evidence represents that it has made every reasonable effort to obtain available fuel or power as economically as possible. Based on the evidence presented and subject to further review of the matters pending in Cause No. 38702 FAC 62 S1, the Commission finds that Applicant is endeavoring to acquire fuel and generate or purchase power so as to provide electricity at the lowest fuel cost reasonably possible.

6. **Operating Expenses.** Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that increases in a utility's fuel cost have not been offset by decreases in other expenses. Applicant's non-fuel operating expenses for the twelve month period ended May 31, 2009 in the amount of \$775,076,000, as reflected on Applicant's Exhibit 1-F, Schedule 1, Column 11, Line 30, are in excess of the corresponding amount determined in Applicant's last base rate order (Cause No. 43306) of \$734,525,000, by an amount of \$40,551,000. Applicant's filing demonstrates that I&M is in compliance with the expense test and we so find.

7. **Return Earned.** As explained by I&M Witness Curry, the Order in Cause No. 43306 directed I&M to phase-in its authorized net electric operating income based on the effective days of I&M's rates in Cause Nos. 39314 and 43306. Applicant's Exhibit 8, p. 5. Pursuant to the Order in Cause No. 43306, I&M is authorized to earn electric operating income of \$158,050,000. According to Applicant's Exhibit 1-F, for the twelve months ended May 31, 2009, I&M earned an actual net operating income of \$170,195,000. Therefore, during the twelve month period ending May 31, 2009, I&M earned a return in excess of the stipulated return for this proceeding. Accordingly, pursuant to Ind. Code § 8-1-2-42.3, the Commission must determine the amount, if any, of the return to be refunded through the variance in this Cause by comparing I&M's actual return earned during the relevant period, to I&M's authorized return during that same period. A refund is only appropriate if the sum of the differentials during the "relevant period" is greater than zero. As shown on Exhibit 1-F, Schedule 4, the sum of differentials for the relevant period is less than zero. Therefore, we find that no refund is required at this time.

By way of explanation, I&M Witness Curry testified that during the twelve month period ended May 31, 2009, a forced outage at the Donald C. Cook Nuclear Plant, Unit 1 ("I&M's Cook Plant Unit 1") occurred as discussed by Witness Hruby. Applicant's Exhibit 8, p. 5. Witness Curry also explained that as a result of this outage I&M is incurring and will continue to incur expenses related to the outage. *Id.* I&M maintained property damage and accidental outage insurance policies with Nuclear Electric Insurance Limited ("NEIL") for such incidents. *Id.* I&M has received property and accidental policy payments during the twelve months ended May 31, 2009. *Id.* As explained by Witness Curry, the accidental outage policy payments are time based and not directly related to any specific expense. *Id.* The total outage related expenses are not expected to be known until well after

the outage has concluded. *Id.* Therefore, the policy payments at a given point in time may exceed the currently known outage related expenses, which he indicated is the current situation. *Id.* Mr. Curry explained that as a result, I&M per books net electric operating income exceeds the authorized net electric operating income for the twelve months ended May 31, 2009. In accordance with the Order in Cause No. 38702 FAC 62, I&M will file a report with the Commission providing a final accounting of the funds received and funds spent from the insurance policies and a report detailing the costs covered by the vendor warranties and guarantees following the conclusion of the outage.

**8. Estimating Techniques.** I&M's weighted average fuel cost estimating error during the months of the reconciliation period of December 2008 through May 2009 was an under-estimation of 6.0%. The evidence presented indicated that the Donald C. Cook Nuclear Plant Unit 1 outage and volatility in coal costs due to market conditions contributed to some of the larger monthly estimation variances. Applicant's Exhibit 2, p. 3 and Exhibit 6, p.5.

I&M projected its fuel costs for the billing months of October 2009 through March 2010. I&M's filing represents that the estimates of I&M's prospective average fuel costs for the projected period are reasonable after taking into consideration the difference between I&M's projected and actual fuel cost for the reconciliation period of December 2008 through May 2009.

Therefore, based on the evidence, and subject to further review of the matters pending in Cause No. 38702 FAC 62 S1, we find that Applicant's estimating techniques are reasonably accurate.

**9. Fuel Cost Adjustment Charges.** Applicant's Exhibit 1-C sets forth I&M's actual incurred fuel costs for the reconciliation period. I&M's fuel costs for the reconciliation period were under-recovered in the amount of \$11,987,580.

Applicant's total estimated cost of fuel for the billing months of October 2009 through March 2010 is \$200,369,089 and its total estimated sales are 11,468,339 MWh. I&M's estimated cost of fuel, as indicated on Applicant's Revised Exhibit 1-B, Schedule 1, line 27, is \$0.017471 per kWh. In accordance with the Order in Cause No. 38702 FAC 62, Applicant's proposed factor also includes the remaining half of the variance from the reconciliation period in Cause No. 38702 FAC 62. The evidence of record indicates that I&M reconciled the actual fuel costs and revenues for the reconciliation period of December 2008 through May 2009. Reconciliation of actual fuel costs and revenues results in an under-collected total variance of \$11,987,580. Combining the variance factors with the estimated per kWh cost of fuel, subtracting the base cost of fuel and adjusting for Indiana Utility Receipts Tax, results in a calculated total fuel factor of \$0.008888 per kWh for the billing months of October 2009 through March 2010.

The OUCC recommended I&M's proposed fuel adjustment charge be approved and be made interim subject to refund pending further review of evidence related to the Cook Plant Unit 1 outage and the final outcome of root cause analysis. Public's Exhibit 2, p. 6. The Agreement reflects that the parties agree that I&M's proposed fuel adjustment charge shall be modified, and approved on an interim, subject to refund basis, pending further review of the matters pending in Cause No. 38702 FAC 62 S1. The modified fuel adjustment charge is set forth in the Second Revised Exhibit 1-B attached to the Agreement. The agreed modification of I&M's proposed fuel adjustment charge is

that half of the \$11,987,580 under-recovery from the reconciliation period will be recovered as part of the fuel adjustment charge implemented in this Cause and the remaining half will be recovered as part of the fuel adjustment charge to be implemented in Cause No. 38702 FAC 64, so that the entire \$11,987,580 variance amount will be recovered over twelve months rather than over six months. As shown by the Second Revised Exhibit 1-B, the agreed modification produces a proposed fuel adjustment charge of \$0.008107 per kWh.

When the subdocket was established, it was subject to an agreed qualification that activity in the subdocket including discovery requests as to the Cook Plant Unit 1 outage, will be held in abeyance until the Cook Plant Unit 1 outage ends. This qualification shall continue to apply. The parties also agreed that they intend to continue to work on an informal basis to resolve any concerns and to report to the Commission in I&M's Cause No. 38702 FAC 64 proceeding. In accordance with the Order in Cause No. 38702 FAC 62, the Commission finds that its staff should continue to participate in the informal discussion of the subdocket issues.

The OUCC also recommended that I&M file a report with the Commission and the OUCC providing a final accounting of the funds received and funds spent from the insurance policies and a report detailing the costs covered by the vendor warranties and guarantees. Because these reporting requirements were accepted by the Commission's Order in Cause No. 38702 FAC 62 further action is not necessary at this time.

In accordance with the basing point approved by the Commission in Cause No. 43306 and the Agreement, we find Applicant should be authorized to apply a fuel cost adjustment of \$0.008107 per kWh to Applicant's Indiana retail tariffs for the billing months of October 2009 through March 2010.

Therefore, we find that the fuel adjustment charge for the billing months of October 2009 through March 2010 is \$0.008107 per kWh on an interim basis, subject to refund pending a decision on the matters pending in Cause No. 38702 FAC 62 S1. For a residential customer using 1,000 kWh the proposed factor will result in a decrease of 0.72% of his or her electric bill compared to the amount billed under I&M's current rates.

**10. Wind Purchase Power Agreement.** I&M witness Allen testified in support of I&M's request for approval of ratemaking treatment for costs related to I&M's wind power purchase. Applicant's Exhibit 5, p.6. OUCC witness Eckert testified that I&M has forecasted the total cost of wind power that it will be incurring in the future by using the cost per MWh from the Wind Power Purchase Agreement ("Wind PPA"), and has identified the wind power MWhs and costs on separate line items, consistent with the terms of the settlement agreement and Wind PPA approved in Cause No. 43328. Public's Exhibit 2, p. 2-3.

I&M's forecast included costs expected to be incurred in accordance with the Order in Cause No. 43328 and pursuant to a contract with Fowler Ridge Wind Farm II, LLC ("Fowler II Contract"), pending before the Commission as Cause No. 43750. The Commission's final Order in Cause No. 43328 did not address the Fowler Ridge II Contract. I&M's FAC application seeks to include the Fowler Ridge II costs pursuant to the provisions of Ind. Code § 8-1-2-42(a). The parties agreed that the costs associated with the Fowler II Contract will be reconciled in future periods as part of the standard reconciliation done in FAC proceedings and the outcome will conform to the decision in

Cause No. 43750.

At the hearing, the parties clarified their intentions regarding I&M's agreement to show two separate line items for Fowler Ridge costs and Fowler Ridge II costs in future FAC filings. This explanation noted that the Commission has previously recognized that the pricing information for wind purchase power contracts may be competitively sensitive and has exempted such trade secret information from public disclosure. So as to avoid the need to redact future FAC applications and exhibits, the parties explained that I&M will continue to aggregate wind purchase information in its public FAC filing and will separately produce a confidential workpaper showing the disaggregated information and make the confidential workpaper available to the OUCC and any intervenors pursuant to a nondisclosure agreement agreed to by the parties, or if necessary, established by the Commission. Should the Commission request the confidential workpaper, I&M may seek protection of any confidential information from public disclosure in accordance with the Commission's regulations at 170 IAC 1-1.1-4. This procedure is intended to provide a simpler approach to the handling of the confidential information while still making it available to the parties and the Commission. Accordingly, the record supports and the Commission so finds that the wind power purchase costs reflected in I&M's filing are reasonable and approves the ratemaking treatment of such costs as provided in the parties' Agreement, recognizing that the proposed Fowler Ridge II treatment is subject to the outcome of Cause No. 43750.

11. **Required Reporting.** I&M's FAC filing continues to utilize the semi-annual filing practice and was unopposed; accordingly, the Commission has approved a fuel cost factor for a six month period. However, as required by Ind. Code § 8-1-2-42(c), the OUCC should perform a quarterly review of I&M's books and records pertaining to the cost of fuel and report to the Commission by November 25, 2009. Applicant has agreed to cooperate and provide reasonable support in the OUCC's fulfillment of this requirement.

12. **FAC Tariff Filing.** The Commission's Order in Cause No. 38702 FAC 62 directed I&M to file testimony addressing the continued efficacy of the requirement for I&M to file FAC tariffs prior to the consumption period as ordered in the Commission's May 23, 1984 Order in Cause No. 37483. The Order in Cause No. 37843 imposed a unique filing requirement on I&M as a result of a one-time event in 1983 that has not reoccurred. This tariff filing requirement shortens the period within which the Commission must issue an order in I&M's FAC proceedings and causes the Commission to have less time to consider any issues raised at an evidentiary hearing in an I&M FAC proceeding than is available in FAC proceedings involving other utilities. Consequently, the Commission has waived this filing requirement more frequently in recent I&M FAC proceedings, including Cause Nos. 38702 FAC 53, 59, 62 and 63, to allow sufficient time to review the issues presented. No party presented any evidence to support the continuation of the requirement for I&M to file its FAC tariffs prior to the consumption period. Therefore, the Commission finds that this requirement shall no longer apply.

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

1. In accordance with Ind. Code § 8-1-2-42, the fuel cost adjustment charge set forth in Finding No. 9 above for the billing months of October 2009 through March 2010 shall be and hereby

is approved and authorized on an interim basis, subject to refund as discussed herein.

2. I&M's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Order in Cause No. 43328 shall be and hereby is approved.

3. The Parties' Stipulation and Settlement Agreement entered into the record as Joint Exhibit 1 shall be and hereby is approved, except with respect to the coal fuel procurement issues identified in FAC 62 and deferred to Cause No. 38702 FAC 62 S1 as set forth above.

4. I&M is granted accounting authority to defer recovery of the variance as provided in Finding No. 9 above.

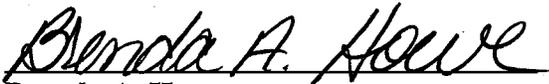
5. I&M shall file tariff sheets that reflect the findings of this Order with the Electricity Division of this Commission prior to placing into effect the fuel cost factors approved herein.

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

**HARDY, ATTERHOLT, GOLC, LANDIS AND ZIEGNER CONCUR:**

**APPROVED: SEP 16 2009**

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



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

**STIPULATION AND SETTLEMENT AGREEMENT  
CAUSE NO. 38702-FAC63**

Indiana Michigan Power Company ("I&M" or "Company"), Indiana Michigan Power Company Industrial Group ("Industrials"), and Steel Dynamics, Inc.-Flat Roll Steel Division ("SDI") (collectively the "Parties" and individually "Party") solely for purposes of compromise and settlement and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of the matters set forth below, subject to their incorporation by the Indiana Utility Regulatory Commission ("Commission") into a final, non-appealable order ("Final Order") without modification or further condition that may be unacceptable to any Party.

1. Industrial Group will not offer the direct testimony of James Dauphinais into evidence in Cause No. 38702-FAC63.
2. The Parties agree that the Commission should waive the tariff filing requirement imposed by the Order in Cause No. 37483 for Cause No. 38702-FAC63 and that I&M shall be authorized to make the fuel cost charge agreed to herein effective for all bills rendered for electric service beginning with the first billing cycle for October 2009.
3. As set forth in the Second Revised Exhibit 1-B attached to this Agreement, the Parties agree that I&M's proposed fuel adjustment charge should be modified so that half of the under-recovery from the reconciliation period will be recovered as part of the fuel adjustment charge implemented in this Cause and the remaining half will be recovered as part of the fuel adjustment charge implemented in Cause No. 38702-FAC64, so that the entire variance amount will be recovered over twelve months rather than over six months. I&M shall be granted accounting authority to defer recovery of the variance as provided herein.
4. As set forth in the Second Revised Exhibit 1-B attached to this Agreement, the Parties agree that I&M shall be authorized to apply a fuel cost charge of 8.107 mills per kWh for the billing months of October 2009 through March 2010 on an interim basis, subject to refund, pending review of the remaining matters pending in Cause No. 38702-FAC62-S1.
5. The Parties agree that the formal and informal discovery questions regarding I&M's coal fuel procurement for the time period covered by Cause No. 38702-FAC62 and FAC63 have been answered; that these issues will be dismissed from Cause No. 38702-FAC62-

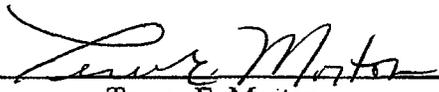
S1; and the factor approved in Cause No. 38702-FAC62 shall no longer be subject to refund for this purpose and the factor approved in Cause No. 38702-FAC63 shall not be subject to refund for this purpose.

6. SDI is pleased to see I&M request authority to implement a coal hedging program and agrees with the OUCC's recommendation that I&M should meet with the OUCC and interested stakeholders to explain its coal hedging strategy prior to implementation. I&M agrees to meet with the Parties within 30 days of the Commission's approval of this Agreement. Any agreement regarding the hedging strategy will be presented to the Commission in a future FAC filing. This Agreement shall not preclude any Party from presenting additional information and requesting approval of I&M's hedging strategy in Cause No. 38702-FAC64 or subsequent FAC application. No Party waives its right to request that the matter be deferred to Cause No. 38702-FAC62-S1
7. In Cause No. 38702-FAC63, SDI asked some discovery questions regarding I&M's fuel adjustment clause and the use of voltage differentiation. While I&M responded to these questions, SDI indicated that it may have additional questions. The Parties agree that SDI's voltage differentiation concern for the period covered by Cause No. 38702-FAC63 shall be deferred to the subdocket pending as Cause No. 38702-FAC62-S1 and that the factor approved in Cause No. 38702-FAC63 shall be subject to refund for this purpose.
8. Therefore, the Parties agree that the subdocket pending in Cause No. 38702-FAC62-S1 shall remain pending for purpose of SDI's voltage differentiation issue, I&M's proposed financial coal hedging program and for all other purposes for which it was opened except as to the coal procurement issue noted above. The Parties understand and agree that by accepting the factor of 8.107 mills per kWh, no Party is agreeing that I&M's application of some insurance proceeds in FAC 63 that produce that factor is the correct amount of proceeds that should have been applied, and that no Party waives its right to take any position as to the proper allocation of insurance proceeds in Cause No. 38702-FAC62-S1.
9. The Parties agree to continue to engage in informal resolution of the issues deferred to the Cause No. 38702-FAC62-S1, provided that the issues concerning Cook Plant Unit 1 outage will not be taken up until after the outage ends. The Parties agree to report to the Commission on the status of these efforts in Cause No. 38702-FAC64. At least two weeks prior to filing its application in FAC 64, I&M will confer with the Parties about its proposed treatment of insurance proceeds in that proceeding.
10. I&M's FAC factor includes the Fowler Ridge II costs pursuant to the provisions of Ind. Code § 8-1-2-42, which authorizes the recovery of purchased electricity. The Parties agree to approval of I&M's factor as proposed in Cause No. 38702-FAC63 provided that the costs associated with the Fowler Ridge II Contract will be reconciled in future periods as part of the standard reconciliation done in FAC proceedings and the outcome will conform to the decision in Cause No. 43750. In future FAC filings, I&M agrees to show two separate line items for Fowler Ridge costs and Fowler Ridge II costs.

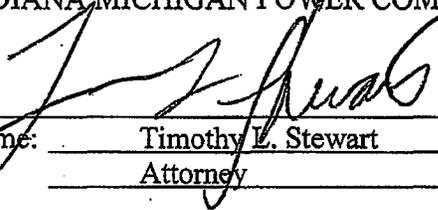
11. In accordance with the Cause No. 38702-FAC62 Order, the Parties agree to report the foregoing agreement to the Commission at the Cause No. 38702-FAC63 hearing. The Parties agree that this Agreement shall be offered into evidence as Joint Exhibit 1 and further memorialized in an agreed proposed order or other documentation.
12. The Parties stipulate to the admissibility of I&M's and OUCC's testimony and waive cross examination.

ACCEPTED and AGREED this 18<sup>th</sup> day of August, 2009.

INDIANA MICHIGAN POWER COMPANY

  
\_\_\_\_\_  
Name: Teresa E. Morton  
Its: Attorney

INDIANA MICHIGAN POWER COMPANY INDUSTRIAL GROUP

  
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Name: Timothy L. Stewart  
Its: Attorney

STEEL DYNAMICS, INC.-FLAT ROLL STEEL DIVISION

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Name: Damon E. Xenopoulos  
Its: Attorney

11. In accordance with the Cause No. 38702-FAC62 Order, the Parties agree to report the foregoing agreement to the Commission at the Cause No. 38702-FAC63 hearing. The Parties agree that this Agreement shall be offered into evidence as Joint Exhibit 1 and further memorialized in an agreed proposed order or other documentation.
12. The Parties stipulate to the admissibility of I&M's and OUCC's testimony and waive cross examination.

ACCEPTED and AGREED this 18<sup>th</sup> day of August, 2009.

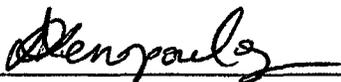
INDIANA MICHIGAN POWER COMPANY

\_\_\_\_\_  
Name: Teresa E. Morton  
Its: Attorney

INDIANA MICHIGAN POWER COMPANY INDUSTRIAL GROUP

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Name: Timothy L. Stewart  
Its: Attorney

STEEL DYNAMICS, INC.-FLAT ROLL STEEL DIVISION

  
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Name: Damon E. Xenopoulos  
Its: Attorney

Indiana Michigan Power Company  
Projected Fuel Adjustment Clause Factor - October 2009 through March 2010  
IURC Cause No. 38702-FAC63

Line No.		October 2009	November 2009	December 2009	January 2010	February 2010	March 2010	Total	Estimated Six Month Average
<b>ENERGY SOURCES</b>									
1	Fossil Generation Excl'd PEC Unit Power Sale	573,850	729,250	1,083,750	1,180,300	1,089,750	823,650	5,480,550	913,425
2	Nuclear Generation	1,471,600	1,432,300	1,484,300	1,484,300	1,340,600	827,600	8,040,700	1,340,117
3	Hydro Generation	7,800	9,200	11,500	10,900	10,000	12,400	61,800	10,300
4	AEG	308,245	375,795	613,445	606,620	557,655	357,385	2,819,145	469,858
5	Pool - Primary & Economy Purchases	-	-	-	-	-	115,426	115,426	19,238
6	OVEC	105,786	106,689	122,165	118,879	95,385	102,716	651,620	108,603
7	Wind Purchases	29,163	29,330	52,362	53,434	39,041	42,421	245,751	40,959
8	Other System Purchases	118,898	117,817	117,489	117,521	119,513	121,866	713,104	118,851
9	Less:								
10	Pool - Primary & Economy Sales	348,775	499,109	864,536	1,027,881	915,377	20,112	3,675,790	612,632
11	Energy To Pool For System Sales	407,743	461,866	541,388	403,988	387,242	362,095	2,564,322	427,387
12	Energy Losses and Company Use	65,616	64,931	73,392	75,545	68,811	71,350	419,645	69,941
13	Sales (S)	1,793,208	1,774,475	2,005,695	2,064,540	1,880,514	1,949,907	11,468,339	1,911,390
<b>FUEL COSTS</b>									
14	Fossil Generation Excl'd PEC Unit Power Sale	13,512,300	17,507,693	25,142,062	27,310,750	25,050,550	19,959,450	128,482,805	21,413,801
15	Nuclear Generation	11,709,598	11,335,798	11,695,629	11,692,890	10,571,095	10,623,652	67,628,662	11,271,444
16	Pre 4/7/83 Spent Nuclear Fuel	-	-	-	-	-	-	-	-
17	Post 4/7/83 Spent Nuclear Fuel	1,375,925	1,339,208	1,387,776	1,387,802	1,253,498	773,907	7,518,116	1,253,019
18	AEG	6,221,250	7,667,870	12,433,820	12,352,235	11,379,445	7,359,975	57,414,595	9,569,099
19	Pool - Primary & Economy Purchases	-	-	-	-	-	2,683,159	2,683,159	447,193
20	OVEC	2,375,045	2,395,090	2,742,353	4,081,928	3,275,619	3,527,173	18,397,208	3,066,201
21	Wind Purchases	1,553,604	1,543,948	3,568,277	3,600,376	2,695,710	2,570,340	15,532,255	2,588,709
22	Other System Purchases	3,950,966	3,924,597	3,918,142	4,215,670	4,280,747	4,364,170	24,654,292	4,109,049
23	Less:								
24	Pool - Primary & Economy Sales	4,863,193	7,445,404	13,766,100	16,573,090	14,782,820	387,664	57,818,271	9,636,379
25	Energy To Pool For System Sales	9,816,357	10,901,476	12,326,103	10,723,314	10,310,852	10,045,630	64,123,732	10,687,289
26	Total Fuel Costs (F)	26,019,138	27,367,324	34,795,856	37,345,247	33,412,992	41,428,532	200,369,089	33,394,848
27	(F) Divided by (S) Mills Per KWh								17.471
28	Less Base Cost of Fuel included in Rates (Mills Per KWh)								<u>11.786</u>
29	Estimated Fuel Clause Adjustment Factor (Mills Per KWh)								5.685
30	Fuel Cost Variance Factor based upon one-half of \$11,987,580 under-recovery and 7,800,000 MWh (Mills Per KWh) **								0.768
31	Fuel Cost Variance Factor based upon one-half of \$23,864,992 under-recovery and 7,800,000 MWh (Mills Per KWh) *								<u>1.530</u>
32	Fuel Clause Adjustment Factor (Mills Per KWh)								7.983
33	Adjustment for Utilities Receipts Tax (1.4%) and Incremental Adjusted Gross Income Tax								<u>0.9847</u>
34	Line 32 Adjusted for Applicable Tax (Mills Per KWh)								<u>8.107</u>

\*In accordance with the Order in Cause No. 38702-FAC62, one-half of the under-recovery in that Cause to be included in Cause No. 38702-FAC63.

\*\*One-half of the under-recovery to be included in Cause No. 38702-FAC63, and one-half in Cause No. 38702-FAC64.