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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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 APRIL 2012 THROUGH SEPTEMBER 2012 AND FOR APPROVAL OF RATEMAKING TREATMENT FOR COST OF WIND POWER PURCHASES PURSUANT TO CAUSE NOS. 43328 AND 43750	)	**CAUSE NO. 38702 FAC 68** **APPROVED:** MAR 21 2012

ORDER OF THE COMMISSION

Presiding Officers:
Larry S. Landis, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On January 26, 2012, 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 April 2012 through September 2012 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. On the same day, I&M filed its direct testimony and exhibits.

On January 30, 2012, Steel Dynamics, Inc. ("SDI") filed its Petition to Intervene, which petition was subsequently granted by Docket Entry dated February 10, 2012. On February 3, 2012, 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, which petition was subsequently granted by Docket Entry dated February 14, 2012.[1] On February 15, 2012, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Gregory T. Guerrettaz and Michael D. Eckert.

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 March 15, 2012, at 10:30 a.m. EDT in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Applicant, the OUCC, and Industrial Group participated in the hearing. No members of the general public appeared. At the hearing, Applicant's direct testimony and exhibits as well as the OUCC's direct testimony and exhibits were admitted into evidence. All parties waived cross-examination.

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1 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.

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 an Indiana corporation engaged in rendering electric public utility service in the State of Indiana and is a public utility within the meaning of the Public Service Commission Act, as amended. Therefore, the Commission has jurisdiction over Applicant 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 April 2012 through September 2012 pursuant to Ind. Code § 8-1-2-42 and I&M's ratemaking treatment of wind power purchase costs. I&M's application continues the semi-annual filing process in place since 1999. Applicant also requests the Commission find that the applicable provisions of Ind. Code § 8-1-2-42 are satisfied.

3. **FAC62 S1 Subdocket.** In Cause No. 38702 FAC 62, a subdocket was established to provide a forum for certain issues to be addressed if necessary. On February 23, 2011, the Commission issued its Order in that subdocket approving a settlement agreement which, among other things, provides for a credit of $13.5 million to Indiana jurisdictional customers through the FAC factor. A portion of the credit was included in the reconciliation months of June through September 2011.

4. **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 witness Charles F. West summarized I&M's long-term coal supply agreements and described I&M's coal purchasing strategy. Applicant's witness Mickey L. Bellville described the major nuclear fuel contracts and actions taken to minimize I&M's nuclear fuel costs. Applicant's evidence represents that it has made every reasonable effort to obtain available fuel or power as economically as possible. No party presented any evidence to the contrary. Based on the evidence presented, as indicated here and further below, the Commission finds Applicant is endeavoring to acquire fuel for its internal generation or purchase power so as to provide electricity at the lowest fuel cost reasonably possible.

5. **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 November 30, 2011, in the amount of $834,394,000, 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 $99,869,000. Applicant's filing demonstrates that I&M is in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(2) and we so find.

6. **Return Earned.** I&M's witness Scott M. Krawec explained that the Order in Cause No. 43636 directed I&M to adjust its authorized net electric operating income in subsequent fuel adjustment clause proceedings for the allowed increased return. Pursuant to the Order in Cause No.

43306, plus an additional $1,100,000 in accordance with the Order in Cause No. 43636, I&M is authorized to earn Indiana jurisdictional electric operating income of $153,567,000. According to Applicant's Exhibit 1-F, Schedule 1, for the twelve months ended November 30, 2011, I&M earned an actual jurisdictional net operating income of $122,677,000. Therefore, we find that during the test period for this FAC, I&M has not earned a return in excess of its authorized return and is in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(3).

7. **Estimating Techniques.** I&M's weighted average fuel cost estimating error during the months of the reconciliation period of June 2011 through November 2011 was an under estimation of 7.30%. The evidence presented indicated I&M's actual coal costs during the reconciliation period were higher than projected due primarily to unusual events with coal delivery. I&M projected its fuel costs for the billing months of April 2012 through September 2012. 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 June 2011 through November 2011. No party presented any evidence to the contrary. Therefore, based on the evidence, we find Applicant's estimating techniques are reasonable and its estimate of fuel costs for April 2012 through September 2012 should be accepted.

8. **Wind Power Purchases.** Applicant's witness Richard A. Riley testified in support of I&M's request for approval of ratemaking treatment for costs related to I&M's wind power purchases. Mr. Riley testified that I&M currently is receiving energy from the Fowler Ridge phase one and phase two wind farms. The OUCC's witness, Michael D. Eckert, testified that I&M has forecast the costs of wind power that it will be incurring in the future by using the cost per MWh from the Wind Power Purchase Agreements and has identified the wind power MWhs and costs on separate line items. OUCC's Ex. 2 at 3. These wind purchases are shown consistent with the Commission's Order in Cause No. 38702 FAC 63 and inclusion of these costs conforms to the Commission's November 28, 2007 Order in Cause No. 43328 and the January 6, 2010 Order in Cause No. 43750. Accordingly, the record supports, and the Commission so finds, that the wind power purchase costs reflected in I&M's filings are reasonable and approves the ratemaking treatment of such costs.

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 $11,623,311 based upon projected fuel costs for those months previously approved by the Commission.

Applicant's total estimated cost of fuel for the billing months of April 2012 through September 2012 is $191,234,070 and its total estimated sales are 11,803,086 MWhs. I&M's estimated cost of fuel, as indicated on Applicant's Exhibit 1-B, Schedule 1, line 26, is therefore 16.202 mills per kWh. The evidence of record indicates that I&M reconciled the actual fuel costs and revenues for the reconciliation period of June 2011 through November 2011. Reconciliation of actual fuel costs and revenues results in an under-collected total variance of $11,623,311. Combining the variance factor with the estimated per kWh cost of fuel, subtracting the base cost of fuel and adjusting for Indiana Utility Receipts Tax, results in a proposed total fuel factor of 5.998 mills per kWh. The OUCC's witness, Mr. Eckert, testified the OUCC recommended I&M's

proposed fuel adjustment charge be approved.

In accordance with the basing point approved by the Commission in Cause No. 43306 and the evidence presented in this proceeding, we find Applicant is authorized to apply a fuel cost adjustment of 5.998 mills per kWh to Applicant's Indiana retail tariffs for the billing months of April 2012 through September 2012. The typical residential customer using 1,000 kWh per month will experience an increase of $0.84 or 1.1% of his or her base electric bill compared to the factor approved in Cause No. 38702 FAC 67 (excluding various tracking mechanisms and sales tax).

10. Required Reporting. I&M's FAC filing continues to utilize the semi-annual filing practice and such practice 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 May 15, 2012. Applicant has agreed to cooperate and provide reasonable support in the OUCC's fulfillment of this requirement.

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 April 2012 through September 2012 shall be and hereby is approved.

2. I&M's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause Nos. 43328 and 43750 shall be and hereby is approved.

3. 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.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:
APPROVED: MAR 21 2012

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

Brenda A. Howe

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Secretary to the Commission