

ORIGINAL

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 2013) THROUGH SEPTEMBER 2013 AND FOR) APPROVAL OF RATEMAKING TREATMENT FOR) COST OF WIND POWER PURCHASES PURSUANT) TO CAUSE NOS. 43328, 43750 AND 44034)	CAUSE NO. 38702 FAC 70 APPROVED: MAR 27 2013
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ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On January 29, 2013, 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 2013 through September 2013 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 February 6, 2013, 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 15, 2013.¹ On February 18, 2013, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Gregory T. Guerrettaz and Michael D. Eckert in this Cause.

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 14, 2013, at 11:00 a.m. Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Applicant, 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.

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

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.

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 the 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 2013 through September 2013 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. **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 that 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.

4. **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, 2012 in the amount of \$837,445,000, 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 \$ 102,920,000. 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.

5. **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 \$966,000 in accordance with the Order in Cause No. 43636, I&M is authorized to earn electric operating income of \$153,433,000. According to Applicant's Exhibit 1-F, Schedule 1, for the twelve months ended November 30, 2012, I&M earned an actual jurisdictional net operating income of \$108,638,000. Therefore, we find that during the test period for FAC 70, 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).

6. **Estimating Techniques.** I&M's weighted average fuel cost estimating error during the months of the reconciliation period of June 2012 through November 2012 was an under estimation of 2.11%. I&M projected its fuel costs for the billing months of April 2013 through September 2013. 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 2012 through November 2012. No party presented any evidence to the contrary. Therefore, based on the evidence, we find that Applicant's estimating techniques are reasonable and its estimate of fuel costs for April 2013 through September 2013 should be accepted.

While no party objected to I&M's projected fuel costs, OUCC Witness Greg Guerrettaz testified that I&M's forecast period projects an increase in costs associated with the Cook Coal terminal and its River Barge Operations. He further testified that the increases were related to new 2013 barging rates and increased costs at the Cook Coal terminal due to the 2012 Summer drought conditions. Mr. Guerrettaz and OUCC Witness Mike Eckert recommended that I&M's FAC rate be approved, subject to refund, to permit additional investigation of these forecasted price increases by having Commission approval to seek additional information over the next semi-annual period to further audit and review the rates to be effective for the reconciliation occurring in 2013.

After considering the issue, we agree with the OUCC that I&M should answer OUCC questions and provide additional information to the OUCC regarding the projected rates associated with River Barge Operations and Cook Coal terminal. However, the subject to refund request is not necessary for this proceeding as any proposal of the OUCC following their further audit and review for the reconciliation of 2013 can be addressed in the FAC proceeding that includes the 2013 reconciliation months.

7. **Wind Power Purchases.** Applicant's witness Brian D. Hamborg testified in support of I&M's request for approval of ratemaking treatment for costs related to I&M's wind power purchases. Mr. Hamborg testified that I&M currently is receiving energy from the Fowler Ridge phase one and phase two wind farms and the Wildcat I wind farm. OUCC witness Michael D. Eckert testified that I&M has forecasted 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 identified the wind power MWhs and costs on separate line items. OUCC's Exhibit No. 2 at page 3. These wind purchases are shown consistent with the Commission's Order in Cause No. 38702-FAC63, and inclusion of these costs conforms to the Commission's November 28, 2007 Order in Cause No. 43328, the January 6, 2010 Order in Cause No. 43750, and the September 21, 2011 Order in Cause No. 44034. Accordingly, the record supports, and the Commission so finds, that the wind power purchase costs reflected in I&M filings are reasonable and approves the ratemaking treatment of such costs.

8. **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 over-recovered in the amount of \$43,063, 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 2013 through September 2013 is \$216,203,088 and its total estimated sales are 11,657,599 MWhs. I&M's estimated cost of fuel, as indicated on Applicant's Exhibit 1-B, Schedule 1, line 26, is therefore 18.546 mills per kWh. Combining the variance factor with the estimated per kWh cost of fuel, subtracting the base cost of fuel in Cause No. 44075 and adjusting for Indiana Utility Receipts Tax, results in a proposed total fuel factor of 0.083 mills per kWh. Mr. Eckert testified that the OUCC recommended I&M's proposed fuel adjustment charge be approved, subject to refund. As discussed

previously, we decline to impose a subject to refund provision related to the OUCC's concerns on projected fuel costs.

In accordance with the basing point approved by the Commission in Cause No. 44075 and the evidence presented in this proceeding, we find Applicant is authorized to apply a fuel cost adjustment of 0.083 mills per kWh to Applicant's Indiana retail tariffs for the billing months of April 2013 through September 2013. The typical residential customer using 1,000 kWh per month will experience an increase of \$1.73 or 1.9% of his or her electric bill compared to the factor approved in Cause No. 38702 FAC 69 (excluding various tracking mechanism and sales tax).

9. 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 April 29, 2013. Applicant has agreed to cooperate and provide reasonable support in the OUCC's fulfillment of this requirement.

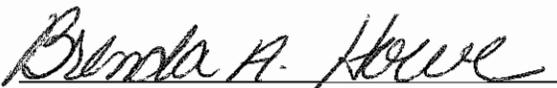
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. In accordance with Ind. Code § 8-1-2-42, the fuel cost adjustment charge set forth in Finding No. 8 above for the billing months of April 2013 through September 2013 shall be and hereby is approved.
2. Consistent with our Finding No. 6, I&M shall answer questions from the OUCC and provide additional information to the OUCC regarding the projected rates associated with River Barge Operations and Cook Coal terminal.
3. I&M's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause Nos. 43328, 43750 and 44034 shall be and hereby is approved.
4. 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.
5. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: MAR 27 2013

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


Brenda A. Howe
Secretary to the Commission