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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 OCTOBER 2014 ) THROUGH MARCH 2015 AND FOR APPROVAL OF ) RATEMAKING TREATMENT FOR COST OF WIND ) POWER PURCHASES PURSUANT TO CAUSE NOS. ) 43328, 43750 AND 44034 AND 44362 )	CAUSE NO. 38702 FAC 73  APPROVED: SEP 24 2014
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ORDER OF THE COMMISSION

**Presiding Officer:**  
**Aaron A. Schmoll, Senior Administrative Law Judge**

On July 30, 2014, 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 2014 through March 2015 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 August 11, 2014, Steel Dynamics, Inc. (“SDI”) filed its Petition to Intervene, and on August 15, 2014, the I&M-Industrial Group (“Industrial Group”) filed its Petition to Intervene, both of which were granted. On August 19, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Gregory T. Guerrettaz and Michael D. Eckert.

The Commission conducted a hearing in this Cause on September 17, 2014, at 10:00 a.m. in Room 222 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. 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. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant’s fuel cost charge. 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 October 2014 through March 2015 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. He also noted that the forecasted months included in this filing reflected Post April 7, 1983 spent nuclear fuel costs of zero as a result of the Department of Energy's notice that the Spent Nuclear Disposal Fee will be 0.0 mill per kWh of electricity generated and sold effective May 16, 2014. 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 May 31, 2014 in the amount of \$840,088,000, as reflected on Exhibit 1-F, Schedule 1, Column 9, Line 30, are in excess of the corresponding amount determined in Applicant's last base rate order (Cause No. 44075) of \$798,862,000, by an amount of \$41,226,000. 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 David L. Hille explained that the Order in Cause No. 44182 directed I&M to adjust its authorized net electric operating income in subsequent fuel adjustment clause proceedings for the allowed increased return associated with the Cook Nuclear Lifecycle Management project. Pursuant to the Order in Cause No. 44075, plus an additional \$699,000 in accordance with the Order in Cause No. 44182, I&M is authorized to earn electric operating income of \$167,897,000. According to Exhibit 1-F, Schedule 1, for the twelve months ended May 31, 2014, I&M earned an actual jurisdictional net operating income of \$157,440,000.<sup>1</sup> Therefore, we find that during the test period for FAC 73, 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

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<sup>1</sup> Mr. Hille explained that the this amount reflects an adjustment to decrease I&M's after-tax net electric operating income by \$21.8 million to reflect Off-System Sales margins in accordance with the Order in Cause No. 44075.

the months of the reconciliation period of December 2013 through May 2014 was an under-estimation of 0.63%. I&M projected its fuel costs for the billing months of October 2014 through March 2015. 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 2013 through May 2014. 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 October 2014 through March 2015 should be accepted.

**7. Wind Power Purchases.** Applicant's witness Matthew A. Horeled testified in support of I&M's request for approval of ratemaking treatment for costs related to I&M's wind power purchases. Mr. Horeled testified that I&M's wind power purchases include the Fowler Ridge phase one and phase two wind farms, the Wildcat I wind farm, and Headwaters 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 Agreement and identified the wind power MWhs and costs on separate line items. OUCC's Exhibit No. 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, the January 6, 2010 Order in Cause No. 43750, the September 21, 2011 Order in Cause No. 44034, and the November 25, 2013 Order in Cause No. 44362. 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.

**8. Fuel Cost Adjustment Charge.** 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 \$8,732,544, 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 October 2014 through March 2015 is \$195,750,313 and its total estimated sales are 11,400,146 MWhs. I&M's estimated cost of fuel, as indicated on Exhibit 1-B, Schedule 1, line 22, is therefore 17.171 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 (2.458) 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. 44075 and the evidence presented in this proceeding, we find Applicant is authorized to apply a fuel cost adjustment charge of (2.458) mills per kWh to Applicant's Indiana retail tariffs for the billing months of October 2014 through March 2015. The typical residential customer using 1,000 kWh per month will experience a decrease of \$0.67 or 0.64% of his or her electric bill compared to the factor approved in Cause No. 38702-FAC 72 (excluding taxes).

**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 November 26, 2014. 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 October 2014 through March 2015 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, 43750, 44034, and 44362 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.

**MAYS-MEDLEY, WEBER, AND ZIEGNER CONCUR; STEPHAN ABSENT:**  
**APPROVED:**

SEP 24 2014

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



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