

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 OCTOBER 2010 THROUGH )  
MARCH 2011 AND FOR APPROVAL OF )  
RATEMAKING TREATMENT FOR COST OF )  
WIND POWER PURCHASES PURSUANT TO )  
CAUSE NOS. 43328 AND 43750 )

CAUSE NO. 38702 FAC 65

APPROVED: SEP 22 2010

**BY THE COMMISSION:**

**David E. Ziegner, Commissioner**

**Loraine L. Seyfried, Administrative Law Judge**

On July 23, 2010, 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 2010 through March 2011 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 on July 23, 2010.

On July 27, 2010, 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> This petition to intervene was granted by docket entry dated August 9, 2010.

On August 12, 2010, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Gregory T. Guerrettaz and Michael D. Eckert in this cause. By docket entries dated September 3 and 9, 2010, the Commission requested additional information, which information was provided by I&M on September 8 and 9, 2010.

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 September 10, 2010, at 10:00 A.M. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. The 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.

<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.

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, I&M seeks Commission approval to implement its proposed fuel adjustment charge during the billing months of October 2010 through March 2011 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 FAC62, a subdocket was established to provide a forum for certain issues to be addressed if necessary. Cause No. 38702 FAC62 S1 remains pending before the Commission.

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 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 FAC62 S1, 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.

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 May 31, 2010 in the amount of \$784,599,000, 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 \$50,074,000. Applicant's filing demonstrates that I&M is in compliance with the expense test and we so find.

6. **Return Earned.** As explained in the testimony of I&M Witness Krawec, 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. Applicant's Exhibit 6 at p. 4. Pursuant to the Order in Cause No. 43306, plus an additional \$481,000 in accordance with the Order in Cause No. 43636, I&M is authorized to earn electric operating income of \$152,948,000. According to Applicant's Exhibit 1-F, for the twelve months ended May 31, 2010, I&M earned an actual net operating income of \$154,013,000. Therefore, during the twelve month period ending May 31, 2010, I&M earned 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 the same period. A refund is only appropriate if the sum of the differentials during the "relevant period" is greater than zero. As shown on Applicant's 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.

7. **Estimating Techniques.** I&M's weighted average fuel cost estimating error during the months of the reconciliation period of December 2009 through May 2010 was an over estimation of 8.31%. The evidence presented indicated that the forecasted market assumptions for coal costs were a major contributor to the estimation variances.

I&M projected its fuel costs for the billing months of October 2010 through March 2011. 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 2009 through May 2010.

Therefore, based on the evidence, and subject to further review of the matters remaining pending in Cause No. 38702-FAC62-S1, we find that Applicant's estimating techniques are reasonably accurate.

8. **Wind Purchase Power Agreements.** I&M Witness Riley testified in support of I&M's request for approval of ratemaking treatment for costs related to I&M's wind power purchases.

OUCG Witness Eckert testified that I&M forecasted the total cost of wind power that it will be incurring in the future by using the cost per megawatt ("MW") from the wind purchase power agreement ("PPA"), and has identified the Wind Power MWs and costs on separate line items.<sup>2</sup> Public's Exhibit No. 2 at p. 3. OUCG Witness Guerrettz testified that while reviewing the wind purchases, he noted invoices for 3TIER Environmental Forecasting Group. He indicated that he understood this group was supplying Applicant with forecasts for wind in the area of the wind farm for purposes of allowing Applicant to forecast its purchases of power. He stated the OUCG was not recommending disallowance of these costs at this time due to their relative immateriality, but would be investigating whether these costs are appropriate for recovery in the FAC proceeding.

I&M, in response to a September 9, 2010 docket entry, indicated that it considers the forecasting costs to be incurred in direct connection with the wind PPA because, as a capacity resource in PJM, the wind farms are obligated to submit a day ahead hourly energy offer to the PJM energy market. Therefore, I&M believes the forecasting costs are appropriately included for recovery through the FAC proceeding.

The Commission's November 28, 2007 Order in Cause No. 43328 and the January 6, 2010 Order in Cause No. 43750 authorized I&M to "recover the costs incurred under the Wind PPA." *Id.* at 20 and 15, respectively. While we recognize that I&M may have incurred the wind forecasting costs in relation to the wind PPA, such costs are not a direct cost incurred "under" or pursuant to the

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<sup>2</sup> The Commission notes that although Mr. Eckert's testimony refers to "megawatt," the correct term is "megawatt hour."

terms of the wind PPA.<sup>3</sup> Nor does I&M's tariff include such forecasting costs as a cost of "fuel" authorized for recovery in an FAC proceeding. See, I&M's September 9, 2010 response to docket entry. Consequently, based on the evidence presented, I&M is not authorized to include such forecasting costs as a cost recoverable through the FAC proceeding.

As noted by OUCC Witness Guerrettz, the wind forecasting costs are relatively minimal. I&M's response to the September 3, 2010 docket entry presents the costs as \$2,547 per month. Accordingly, for purposes of administrative efficiency and because of the lack of material change to the factor approved herein, Applicant shall make the necessary adjustment to reflect the findings herein in its next FAC filing.

With respect to the wind purchases, we find Applicant's purchases as reflected in Applicant's Exhibit 1-C are consistent with the Commission's Order in Cause No. 38702 FAC63 and the inclusion of these costs, with the exception of the wind forecasting costs discussed above, conforms to the Commission's Orders in Cause Nos. 43328 and 43750. Accordingly, the Commission finds that the wind power purchase costs, exclusive of the wind forecasting costs, 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 over-recovered in the amount of \$4,565,348 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 2010 through March 2011 is \$212,182,772 and its total estimated sales are 11,618,466 MWh. I&M's estimated cost of fuel, as indicated on Applicant's Exhibit 1-B, Schedule 1, line 27, is therefore 18.263 mills per kWh. The evidence of record indicates that I&M reconciled the actual fuel costs and revenues for the reconciliation period of December 2009 through May 2010. Reconciliation of actual fuel costs and revenues results in an over-collected total variance of \$4,565,348. 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 5.984 mills per kWh for the billing months of October 2010 through March 2011.

The OUCC generally recommended I&M's proposed fuel adjustment charge be approved and be made interim subject to refund pending review of evidence related to the Cook Plant Unit 1 outage.

In accordance with the basing point approved by the Commission in Cause No. 43306, we find Applicant should be authorized to apply a fuel cost adjustment of 5.984 mills per kWh to Applicant's Indiana retail tariffs for the billing months of October 2010 through March 2011.

Therefore, we find that the fuel adjustment charge for the billing months of October 2010

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<sup>3</sup> We note that although the Settlement Agreement approved in Cause No. 43328 provided that "the prudence of the Wind PPA and associated costs shall not be subject to any future review," the only costs authorized for recovery through the FAC proceeding were the "purchased power costs incurred under the FRWF [Fowler Ridge Wind Farm] Wind PPA...." Settlement Agreement, Paragraph I.C.

through March 2011 is 5.984 mills per kWh on an interim basis, subject to refund pending a decision on the matters pending in Cause No. 38702 FAC62 S1. For a residential customer using 1,000 kWh the proposed factor will result in an increase of 2.73% of his or her electric bill compared to the amount billed under I&M's current rates.

**10. 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 24, 2010. 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 October 2010 through March 2011 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 Orders in Cause Nos. 43328 and 43750 shall be and hereby is approved as modified in Finding No. 8 above. I&M shall include the resulting necessary adjustments in its next FAC filing.

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.

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

**APPROVED: SEP 22 2010**

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



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