

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANAPOLIS POWER)
& LIGHT COMPANY FOR APPROVAL OF A)
FUEL COST CHARGE FOR ELECTRIC)
SERVICE DURING THE MONTHS OF)
SEPTEMBER, OCTOBER, AND NOVEMBER)
2014, IN ACCORDANCE WITH THE)
PROVISIONS OF I.C. 8-1-2-42 AND)
CONTINUED USE OF RATEMAKING)
TREATMENT FOR COSTS OF WIND)
POWER PURCHASES PURSUANT TO)
CAUSE NOS. 43485 AND 43740.)

CAUSE NO. 38703 FAC 104

APPROVED: AUG 27 2014

ORDER OF THE COMMISSION

Presiding Officer:
Lorraine L. Seyfried, Chief Administrative Law Judge

On June 16, 2014, Indianapolis Power & Light Company (“IPL” or “Applicant”) filed its Verified Application with the Indiana Utility Regulatory Commission (“Commission”) for approval of a fuel cost adjustment to be applicable during the billing cycles of September, October and November 2014 and for continued use of ratemaking treatment for cost of wind power purchases. Also on June 16, 2014, Applicant filed its direct testimony and exhibits. On June 25, 2014, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was granted by a Docket Entry dated July 7, 2014. On July 21, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and direct testimony in this Cause.

An evidentiary hearing in this Cause was held on August 14, 2014, at 1:00 p.m. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Applicant and the OUCC appeared and participated by counsel. No members of the public appeared.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant’s fuel cost charge and the ratemaking treatment of its wind power purchase costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. **Applicant’s Characteristics.** IPL is an electric generating utility and a corporation organized and existing under the laws of the State of Indiana, having its principal

office in Indianapolis, Indiana. IPL is engaged in rendering electric public utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public.

3. Source of Fuel. IPL 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. According to IPL witness Nicholas M. Grimmer, approximately 99% of IPL's internally generated kilowatt-hours on an annual basis are generated by coal-fired capacity. IPL currently has long-term contracts with six coal producers. The remainder of IPL's coal requirement is met through spot purchases. Mr. Grimmer explained that IPL uses spot purchases of coal to: (1) provide the differential requirement between IPL's long-term contracts and its projected burn for the year; (2) test the quality and reliability of a producer to see if IPL may want to utilize the company as a long-term supplier; and (3) take advantage of one-off low price market opportunities when IPL's projected inventory levels allow. Mr. Grimmer testified that all of IPL's long-term coal contracts contain language that allows IPL some variability in the quantity of coal that IPL can take under that particular contract, and IPL has been using this variability to effectively manage its inventories. Mr. Grimmer testified IPL's inventories are currently within target ranges and the contract variability should allow IPL to stay within these target ranges absent some extreme fluctuation in unit dispatch or availability. Mr. Grimmer also testified that natural gas is purchased on a daily basis and that natural gas transportation services are provided under long-term agreements. Based upon the evidence presented, as discussed here and further below, the Commission finds that IPL is endeavoring to acquire fuel and generate or purchase power so as to provide electricity at the lowest fuel cost reasonably possible.

4. Ancillary Services Market ("ASM") and Demand Response Resource Uplift. IPL witness Dennis Dininger testified that, consistent with the Commission's Order in Cause No. 38703 FAC 97 ("FAC97 Order"), IPL has included Demand Response Resource Uplift charges from the Midcontinent Independent System Operator, Inc. ("MISO") into its cost of fuel in this proceeding. According to Mr. Dininger, Day Ahead and Real Time market clearing prices for Regulation, Spinning, and Supplemental Reserves appear to be at reasonable levels consistent with market conditions.

OUCG witness Michael D. Eckert stated IPL's proposed ratemaking treatment for the ASM Charge types follows the treatment ordered in the Commission's June 30, 2009 Phase II Order in Cause No. 43426 ("Phase II Order").

In the Commission's Order in Cause No. 38703 FAC 85 ("FAC85 Order"), the Commission found that IPL is authorized to include credits or charges for Contingency Reserve Deployment Failure Charge Uplift Amounts for purposes of review in the FAC proceedings. Mr. Dininger explained that as a result of the FAC85 Order, IPL included the credits and charges for Contingency Reserve Deployment Failure Charge Uplift Amounts into its cost of fuel in this proceeding. Based upon the evidence, the Commission finds that IPL's treatment of the ASM charge types, Demand Response Resource Uplift charges and Contingency Reserve Deployment Failure Charge Uplift amounts are consistent with the Commission's Phase II, FAC85 and FAC97 Orders and should be approved.

5. Purchased Power Costs Above Benchmark. In its April 23, 2008 Order in Cause No. 43414 (“Purchased Power Order”), the Commission approved a “Benchmark” triggering mechanism for the judgment of the reasonableness of purchased power costs. Mr. Dininger explained that each day, a Benchmark is established based upon a generic Gas Turbine (“GT”), using a generic GT heat rate of 12,500 btu/kWh and the day ahead natural gas prices for the NYMEX Henry Hub, plus \$0.60/mmBtu gas transport charge for a generic gas-fired GT (the “Purchased Power Daily Benchmark” or “Benchmark”). Mr. Dininger explained that the Purchased Power Daily Benchmark is applicable to purchases beginning May 1, 2008 and ending April 30, 2016, with automatic two-year renewals. He stated that purchases made in the course of the MISO’s economic dispatch regime to meet jurisdictional retail load are a cost of fuel and are recoverable in the utility’s FAC up to the actual cost or the Purchased Power Daily Benchmark, whichever is lower. Mr. Dininger sponsored Applicant’s Exhibit C-1 showing the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Dininger stated IPL incurred a total of \$471,477 of purchased power costs over the applicable Purchased Power Daily Benchmarks during February, March and April 2014. He said IPL makes power purchases when economical, or because of unit unavailability. Mr. Dininger testified that consistent with the Commission’s Purchased Power Order, IPL has an opportunity to request recovery and justify the reasonableness of purchased power costs above the applicable Purchased Power Daily Benchmark. IPL provided Applicant’s Exhibit C-2, which summarizes the purchased power volumes, costs, total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for February, March, and April 2014 and the reasons for the purchases at-risk after consideration of MISO economic dispatch. Mr. Dininger testified that utilizing the methodology approved in the Purchased Power Order, \$1,275 of the purchased power is non-recoverable during the applicable accounting period. Therefore, IPL seeks to recover \$470,202 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for February, March and April 2014.

Mr. Dininger stated that IPL has not recovered any additional damages from the contractor related to the Petersburg Unit 2 outage. He opined that the purchased power costs are reasonable and added that IPL is providing its jurisdictional retail customers with the lowest fuel cost reasonably possible while maintaining a reliable supply.

OUC witness Mr. Eckert explained that the purchased power over the benchmark treatment is controlled by the Purchased Power Order, and that Applicant followed the guidelines and procedures established in the Purchased Power Order. He stated that according to his calculations, all of the purchased power cost that exceeded the Benchmark except for \$1,275 is recoverable and that Applicant should be allowed to recover the remaining \$470,202.

Based upon the evidence, the Commission finds that IPL’s request for recovery of its purchased power over the Benchmark is consistent with the Commission’s Purchased Power Order and should be approved.

6. Contestable Revenue Sufficiency Guarantee Charges. Mr. Dininger testified that IPL’s recovery of Contestable Revenue Sufficiency Guarantee (“RSG”) charges proposed in this proceeding is consistent with the Commission’s June 3, 2009 Order in Cause No. 43664 (“RSG Order”), in which the Commission approved a “Benchmark” calculation to be used to

determine the RSG Benchmark. Each day, a Benchmark is established based upon a generic GT, using a generic GT heat rate of 12,500 btu/kWh and the day ahead natural gas prices for the NYMEX Henry Hub, plus \$0.60/mmBtu gas transport charge for a generic GT (the “RSG Daily Benchmark”). Mr. Dininger explained any RSG First Pass Distribution amounts in excess of the RSG Daily Benchmarks are termed “Contestable RSG.” Mr. Dininger stated the RSG Daily Benchmark calculations for the period of February, March, and April 2014 have been done in conformity with the RSG Order as shown in Applicant’s Exhibit C-1.

IPL witness Craig Forestal stated that during the applicable accounting period IPL incurred a total of \$99,379.21 of Contestable RSG Charges. He stated IPL was not seeking recovery of any Contestable RSG Charges in this proceeding. In accordance with the RSG Order, Mr. Forestal testified that IPL deferred \$39,796.79 of Contestable RSG Charges in February 2014, \$59,145.87 of Contestable RSG Charges in March 2014 and \$436.55 of Contestable RSG Charges in April 2014.

OUC witness Mr. Eckert recommended that Applicant be allowed to defer its Contestable RSG Charges. Based on the evidence presented and given that no party objected to the deferral of its Contestable RSG Charges, the Commission finds that IPL’s deferral should be approved.

7. **Operating Expenses.** Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that the utility’s actual increases in fuel cost through the latest month for which actual fuel costs are available since the last Commission Order approving basic rates and charges of the utility have not been offset by actual decreases in other operating expenses. Applicant’s Exhibit 2 calculates the (d)(2) test (comparing the twelve-month period ending April 30, 2014 with the Commission’s August 23, 1995 Order in Cause No. 39938), and shows that total jurisdictional operating expenses excluding fuel costs have increased. Therefore, the Commission finds that IPL’s actual increases in fuel cost have not been offset by actual decreases in other operating expenses in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(2).

8. **Return Earned.** Ind. Code § 8-1-2-42(d)(3) requires the Commission to find that the fuel adjustment charge applied for will not result in the electric utility earning a return in excess of the return authorized by the Commission in the last proceeding in which the basic rates and charges of the utility were approved. In Cause No. 39938, the Commission established an authorized return of \$163,000,000 for Step 2 of a two-step increase in IPL’s basic rates and charges. In accordance with 170 IAC 4-6-21 and the Commission’s Order in Cause No. 42170, IPL added \$32,936,000 to its authorized operating income representing the return on its Qualified Pollution Control Property. Thus, as reflected in Applicant’s Exhibit 3, IPL has an authorized return of \$195,936,000 for purposes of this proceeding. Applicant’s Exhibit 2 calculates the (d)(3) test, which shows that IPL’s actual return for the twelve-month period ended April 30, 2014 was \$152,357,000. Therefore, the Commission finds that during the twelve month period ending April 30, 2014, IPL did not earn a return in excess of its authorized return in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(3).

9. **Estimating Techniques.** Indiana Code § 8-1-2-42(d)(4) requires the Commission to find that a utility’s estimate of its prospective average fuel costs for each month of the estimated three calendar months is reasonable after taking into consideration the actual fuel costs

experienced and the estimated fuel costs for the three calendar months for which actual fuel costs are available. According to Applicant's Exhibit 1, Schedule 5, page 4 of 4, IPL's weighted average deviation between forecast and actual fuel cost was -3.19%. IPL projected its fuel costs for the billing months of September, October and November 2014 after taking into consideration its estimated and actual fuel cost for the reconciliation period.

OUCC witness Mr. Guerrettaz testified that IPL has reflected the projected costs going forward. Mr. Guerrettaz stated the OUCC reviewed each input in detail and had a good discussion with IPL personnel regarding the estimates. He said that the OUCC's detailed review of the forecast model includes the incorporation of solar power megawatts and the cost associated with that purchased power.

Based upon the evidence, we find that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for September, October and November 2014 should be accepted.

10. Wind Power Purchase Agreements. Mr. Dininger testified that purchases from the Hoosier Wind Park ("Hoosier") and Lakefield Wind Park ("Lakefield") are included in IPL's actual and projected fuel costs. He noted that pursuant to the approval received in Cause No. 43485, Applicant began receiving power from Hoosier on November 1, 2009. Mr. Dininger stated that for the months of February, March and April 2014, IPL received 7,444 MWhs, 6,510 MWhs, and 9,248 MWhs, respectively. Mr. Dininger also testified that pursuant to the approval received in Cause No. 43740, IPL began receiving power from Lakefield on October 4, 2011. For the months of February, March and April 2014, IPL received 39,520 MWhs, 26,067 MWhs, and 35,917 MWhs, respectively. In addition, pursuant to the Order in Cause No. 43740, IPL is reflecting credits to jurisdictional fuel costs for off-system sales profits made possible because of the energy received from the Lakefield purchased power agreement ("PPA").

Mr. Dininger said Lakefield and Hoosier are both Dispatchable Intermittent Resources in the MISO market and can curtail ("dispatch down") quickly to avoid negative Locational Marginal Prices. Mr. Dininger said the level of curtailments measured as a percentage of full theoretical production at Lakefield for the FAC 104 period is similar to the level experienced during the time period covered by FAC 103 and increased compared to the level of curtailment experienced a year ago. For Hoosier, the level of curtailment during the FAC 104 period increased compared to the level of curtailments during the FAC 103 period and the level of curtailment experienced a year ago in FAC 100.

Mr. Dininger also provided an update regarding the arbitration between IPL and Hoosier's owner, EDF, over curtailments. He explained that the arbitration hearing concluded on May 2, 2014. Mr. Dininger stated that based on the Commission's Order in Cause No. 38703 FAC 100 ("FAC 100 Order"), IPL has reflected the Hoosier Wind Park curtailment charges that were actually paid on Applicant's Exhibit 1, Schedule 5. Also, based on the FAC 100 Order, IPL will reconcile the charges in this FAC proceeding to any adjustments based on the outcome of the arbitration once the arbitration is decided and the adjustment calculations are complete. He said that because these matters are ongoing, IPL will provide an update in its next FAC filing.

OUC witness Mr. Eckert stated IPL is seeking full recovery of the Hoosier wind invoices for energy received. In addition, IPL is seeking recovery for the portion of the curtailed energy bill that it believes is for economic curtailment and that IPL has paid. He said at this time, IPL is not seeking recovery of the portion of the curtailed invoices that it did not pay.

In Cause Nos. 43485 and 43740, the Commission approved IPL's request to recover the purchased power costs incurred under the Hoosier and Lakefield PPAs over their respective full twenty-year terms. We find IPL's treatment of the Hoosier wind invoices is consistent with our determination in the FAC 100 Order. Based on the evidence presented in this Cause, the Commission finds that the requested costs are reasonable and approves the ratemaking treatment described above of the wind PPA costs. IPL shall include a true-up in a subsequent FAC factor to reflect the final outcome of the disputed invoices. The Commission further directs IPL to provide an update regarding the Lakefield and Hoosier situations, specifically the arbitration process with EDF, in its next FAC filing.

11. Reconciliation and Resulting Fuel Cost Factor for Electric Service. According to Applicant's Exhibit 1, Schedule 1, IPL's total estimated cost of fuel for September, October and November 2014 is \$103,680,440 and its total estimated sales are 3,184,804 MWh. IPL's estimated cost of fuel is \$0.032555 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for February, March and April 2014. As shown on Applicant's Exhibit 1, Schedule 1, reconciliation of actual fuel costs and revenues results in a total variance of \$4,577,332. Dividing this amount by the total estimated jurisdictional sales of 3,184,804 MWh results in a variance factor of \$0.001437 per kWh. 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 fuel factor of \$0.021866 per kWh for the September, October and November 2014 billing cycles.

Pursuant to Ind. Code § 8-1-2-42(a), the Commission finds the factor approved herein should become effective for all bills rendered for electric services during the first full billing month following the issuance of this Order. As a result of the fuel cost factor approved herein, the typical residential customer using 1,000 kWh per month will experience a decrease of \$0.32 or 0.36% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 103 (excluding various tracking mechanisms and sales tax).

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

1. The fuel cost factor set forth at Finding Paragraph No. 11 herein is approved.
2. IPL shall file with the Electricity Division of the Commission prior to placing in effect the fuel cost factor approved in this Order, a separate amendment to its rate schedules clearly reflecting that such factor is applicable to the rate schedules reflected on the amendment, as shown in Applicant's Exhibit 1-A.
3. IPL's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause No. 43485 and Cause No. 43740 is approved as set forth herein. IPL shall include a true-up in a subsequent FAC factor to reflect the final outcome of the

disputed Hoosier invoices. IPL shall provide an update regarding the Lakefield and Hoosier situations, specifically the arbitration process with EDF, in its next FAC filing.

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

STEPHAN, MAYS-MEDLEY, WEBER, AND ZIEGNER CONCUR:

APPROVED:

AUG 27 2014

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

A handwritten signature in cursive script that reads "Brenda A. Howe". The signature is written in black ink and is positioned above a horizontal line.

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