

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 MARCH, APRIL,)
AND MAY 2015, 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 106

APPROVED: FEB 25 2015

ORDER OF THE COMMISSION

**Presiding Officer:
Loraine L. Seyfried, Chief Administrative Law Judge**

On December 15, 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 March through May 2015, and for continued use of ratemaking treatment for the cost of wind power purchases. Also on December 15, 2014, Applicant filed its direct testimony and exhibits. On January 5, 2015, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was granted by a Docket Entry dated January 16, 2015. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and direct testimony on January 20, 2015.

An evidentiary hearing in this Cause was held on February 18, 2015, at 1:30 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing Applicant, the IIG, and the OUCC appeared and participated by counsel. No members of the public appeared.

Based upon applicable law and the evidence of record, the Commission 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 five coal producers. The remainder of IPL's coal requirement is met through spot purchases. Mr. Grimmer stated that IPL uses a formal competitive bidding process to award its coal contracts. He said that for some spot purchases when a formal competitive bid process might not be feasible, an informal survey of local coal providers is performed to assure that the agreed-upon price is at or below IPL's next best alternative.

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 explained that IPL strives to keep a 25-50 day supply of coal in inventory across its coal-fired generation fleet and that, through working closely with IPL's coal suppliers and transportation vendors, IPL has managed to keep inventories within the target levels. He said IPL manages its coal inventory levels in a number of ways. He said all of IPL's long-term coal contracts contain some variability in the quantity of coal that IPL can take under that particular contract. However, transportation disruptions due to weather, road or track repairs, train delays or truck shortages provide on-going challenges. He said IPL has addressed these challenges through extending delivery hours at times to maximize truck deliveries and worked with railroads to shorten turnaround times to cycle trains more frequently. 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. **Midcontinent Independent System Operator, Inc. ("MISO") Market Related Activity.** 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 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 Ancillary Services Market ("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.

In the Commission's Order in Cause No. 38703 FAC 105 ("FAC105 Order"), the Commission found that IPL is authorized to defer Real-Time Multi-Value Project ("RT MVP") Distribution charges alongside Schedule 26A charges. Mr. Dininger testified that as a result of the FAC105 Order, IPL has deferred the charges for RT MVP Distribution alongside Schedule 26A charges.

Based upon the evidence, the Commission finds that IPL's treatment of the ASM charge types, Demand Response Resource Uplift charges, Contingency Reserve Deployment Failure Charge Uplift amounts and RT MVP Distribution charges are consistent with the Commission's Phase II, FAC85, FAC97 and FAC105 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 Attachment DD-1 to Applicant's Exhibit 3 showing the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Dininger stated IPL incurred a total of \$41,420 of purchased power costs over the applicable Purchased Power Daily Benchmarks during August through October 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 Attachment DD-2 to Applicant's Exhibit 3, which summarizes the purchased power volumes, costs, total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for August through October 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, all of the purchased power is recoverable during the applicable accounting period. Therefore, IPL seeks to recover \$41,420 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for August through October 2014.

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 is recoverable and that Applicant should be allowed to recover the entire \$41,420.

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 ("RSG") Charges. Mr. Dininger testified that IPL's recovery of Contestable Real-Time RSG ("RT-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 RT RSG Charges." Mr. Dininger stated the RSG Daily Benchmark calculations for the period of August through October 2014 have been done in conformity with the RSG Order as shown in Attachment DD-1 to Applicant's Exhibit 3.

IPL witness Craig Forestal stated that during the applicable accounting period IPL incurred a total of \$3,888.27 of Contestable RT RSG Charges. He stated IPL was not seeking recovery of any Contestable RT RSG Charges in this proceeding. In accordance with the RSG Order, Mr. Forestal testified that IPL deferred \$699.20 of Contestable RT RSG Charges in August 2014, \$2,500.62 of Contestable RT RSG Charges in September 2014, and \$688.45 of Contestable RT RSG Charges in October 2014.

OUCG witness Mr. Eckert recommended that Applicant be allowed to defer its Contestable RT RSG Charges. Based on the evidence presented and given that no party objected to the deferral of its Contestable RT 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. Attachment CAF-2 to Applicant's Exhibit 1 calculates the (d)(2) test (comparing the twelve-month period ending October 31, 2014 with the Commission's August 24, 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 \$36,840,000 to its authorized operating income representing the return on its Qualified Pollution Control Property. Thus, as reflected in Attachment CAF-3 to Applicant's Exhibit 1, IPL has an authorized return of \$199,840,000 for purposes of this proceeding. Attachment CAF-2 to Applicant's Exhibit 1 calculates the (d)(3) test, which shows that IPL's actual return for the twelve-month period ended October 31, 2014 was \$156,682,000. Therefore, the Commission finds that during the twelve month

period ending October 31, 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. Ind. 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, Attachment CAF-1, Schedule 5, page 4 of 4, IPL's weighted average deviation between forecast and actual fuel cost was 3.72%. IPL projected its fuel costs for the billing months of March through May 2015 after taking into consideration its estimated and actual fuel cost for the reconciliation period.

OUCG witness Mr. Guerrettaz testified that IPL has reflected the projected costs going forward. Mr. Guerrettaz stated the OUCG reviewed each input in detail and had a good discussion with IPL personnel regarding the estimates.

Based upon the evidence, we find that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for March through May 2015 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 August, September, and October 2014, IPL received from Hoosier 7,512 MWhs, 6,890 MWhs, and 10,844 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 August, September, and October 2014, IPL received from Lakefield 16,770 MWhs, 28,276 MWhs, and 33,441 MWhs, respectively. 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 ramp quickly, largely avoiding negative Locational Marginal Prices; however, the curtailed power is billable when certain criteria are met. Mr. Dininger said the level of curtailments measured as a percentage of full theoretical production at Lakefield for this FAC period is higher than the level experienced during the time period covered by the prior FAC and higher than the level of curtailment experienced a year ago. For Hoosier, the level of curtailment during this FAC period is lower than the level of curtailments during the prior FAC period and higher than the level of curtailment experienced a year ago.

Regarding the arbitration between IPL and Hoosier, Mr. Dininger explained that the PPA with Hoosier obligates IPL to pay Hoosier for certain curtailments and IPL disputed a portion of the curtailment invoices received from Hoosier beginning in March 2013. Mr. Dininger testified the arbitrator issued his initial decision on July 1, 2014. Subsequently, IPL and Hoosier agreed on a methodology to implement the arbitrator's decision and executed a Settlement Agreement to document this methodology. The Settlement Agreement was presented to and approved by the Commission in its FAC105 Order. He said IPL is awaiting approval of the Settlement Agreement from Hoosier's Board of Directors and Hoosier's lenders. Once these approvals are obtained, a true-

up payment to Hoosier for curtailments during the time period March 2013 through June 2014 will be made. Additionally, IPL and Hoosier will reconcile the invoices from July through October 2014 based on the methodology in the Settlement Agreement. If the Settlement Agreement is not approved by Hoosier's Board of Directors and lenders, the matter of how to implement the arbitrator's decision could go back to arbitration. Mr. Dininger explained that pursuant to the Commission's Order in Cause No. 38703 FAC 100 ("FAC100 Order"), the Wind Purchased Power amounts include the Hoosier curtailment charges that were actually paid. Because these matters are ongoing, he said IPL will provide an update in its next FAC filing.

OUCG witness Mr. Eckert stated that IPL is still waiting for one party to approve the Settlement Agreement. He said IPL is therefore still paying the monthly wind invoices (an invoice for energy received and an invoice for dispatch down power) in the same manner it was prior to the establishment of the Settlement Agreement. He recommended IPL be allowed to recover: (1) the wind invoice amounts for energy received; and (2) the portion of the wind invoice amounts for curtailed energy billed that IPL has paid. Finally, he recommended that IPL report to the Commission any updates to the Hoosier situation.

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 determinations in the FAC100 and FAC105 Orders. Based on the evidence presented in this Cause, the Commission finds that the requested costs are reasonable and approves the ratemaking treatment of the wind PPA costs described above. IPL shall include a true-up in a subsequent FAC factor to reflect the settlement payment required by the Settlement Agreement and any true-up payments related to the recalculation of the Hoosier invoices from July 2014 through October 2014. The Commission further directs IPL to provide an update regarding the Lakefield and Hoosier situations, specifically the arbitration process with Hoosier, in its next FAC filing.

11. Reconciliation and Resulting Fuel Cost Factor for Electric Service. According to Applicant's Exhibit 1, Attachment CAF-1, Schedule 1, IPL's total estimated cost of fuel for March through May 2015 is \$107,415,731 and its total estimated sales are 3,210,610 MWh. IPL's estimated cost of fuel is \$0.033456 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for August through October 2014. As shown on Applicant's Exhibit 1, Attachment CAF-1, Schedule 1, reconciliation of actual fuel costs and revenues results in a total variance of (\$4,719,305). Dividing this amount by the total estimated jurisdictional sales of 3,210,610 MWh results in a variance factor of (\$0.001470) 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 \$0.019828 per kWh for the March through May 2015 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 \$0.70 or 0.80% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 105 (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 Attachment CAF-1-A to Applicant's Exhibit 1.
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 settlement payment made per the Settlement Agreement and any true-up payment resulting from the recalculation of the Hoosier invoices from July 2014 through October 2014. IPL shall provide an update regarding the Lakefield and Hoosier situations, specifically the arbitration process with Hoosier, in its next FAC filing.
4. This Order shall be effective on and after the date of its approval.

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

APPROVED: FEB 25 2015

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


Brenda A. Howe
Secretary to the Commission