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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANAPOLIS POWER &)	
LIGHT COMPANY FOR APPROVAL OF A FUEL)	
COST CHARGE FOR ELECTRIC SERVICE)	CAUSE NO. 38703 FAC 85
DURING THE MONTHS OF DECEMBER 2009 AND)	
JANUARY AND FEBRUARY 2010, IN)	APPROVED: NOV 12 2009
ACCORDANCE WITH THE PROVISIONS OF I.C.)	
8-1-2-42.)	

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BY THE COMMISSION:
Lorraine L. Seyfried, Administrative Law Judge

On September 14, 2009, Indianapolis Power & Light Company (“IPL” or “Applicant”) filed its application for approval of a fuel cost adjustment for electric service to be applicable during the billing cycles of December 2009 and January and February 2010. Also, on September 14, 2009, Applicant filed its direct testimony and exhibits. On September 18, 2009, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which petition was granted. On October 19, 2009, the Indiana Office of the Utility Consumer Counselor (“OUCC”) filed its report and direct testimony in this Cause. On October 30, 2009, IPL filed its response the Presiding Officer’s October 28, 2009 docket entry.

Pursuant to public notice duly given and published as required by law, proof of which was incorporated into the record by reference and placed in the Commission’s official file, a public hearing in this Cause was held on November 4, 2009, at 9:30 a.m., in the National City Center, Suite 220, 101 W. Washington Street, Indianapolis, Indiana. At the hearing Applicant, the OUCC and IIG appeared by counsel. Applicant and the OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection. IPL’s response to the October 28, 2009 docket entry was also admitted into evidence without objection. No members of the general public appeared.

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

1. Commission Jurisdiction and Notice. Proper notice of the hearing in this Cause was given as required by law. IPL owns and operates an electric utility and is subject to the jurisdiction of this Commission as provided in the Indiana Public Service Commission Act, as amended, I.C. 8-1-2, *et seq.* Thus, the Commission has jurisdiction over IPL and the subject matter of this Cause.

2. Applicant’s Characteristics. IPL is an electric generating utility and is a corporation organized and existing under the laws of the State of Indiana, having its principal office at 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, plants 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 I.C. 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. Generally, 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 requirements is met through spot purchases. (Applicant's Exhibit B).

Based upon the evidence presented, 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. **Operating Expenses.** I.C. 8-1-2-42(d)(2) requires the Commission to find that increases in a utility's fuel costs have not been offset by decreases in other expenses. Comparing the twelve-month period ending July 31, 2009 with the Commission's August 23, 1995 Order in Cause No. 39938, Applicant's Exhibit No. 2 calculates the (d)(2) test, showing that total jurisdictional operating expenses excluding fuel costs have increased and therefore, the Commission should find that the "operating expense" test of I.C. 8-1-2-42(d)(2) is satisfied.

5. **Changes in Charge Types as a Result of the Start of the Ancillary Services Market ("ASM").** In this proceeding, IPL witness Dewayne Boyer stated that in the Commission's June 30, 2009 Phase II Order in Cause No. 43426 ("Phase II Order") the Commission found that the charge types listed below should be included in the cost of fuel for purposes of review in the FAC proceedings, and that in compliance with the Phase II Order, IPL is including the previously deferred amounts in its cost of fuel in this proceeding:

- Day Ahead Regulation Amount
- Day Ahead Spinning Reserve Amount
- Day Ahead Supplemental Reserve Amount
- Contingency Reserve Deployment Failure Charge Amount
- Real Time Excessive Deficient Energy Deployment Charge Amount
- Real Time Regulation Amount
- Regulation Cost Distribution Amount
- Real Time Spinning Reserve Amount
- Spinning Reserve Cost Distribution Amount
- Real Time Supplemental Reserve Amount
- Supplemental Reserve Cost Distribution Amount
- Excessive Energy Amount
- Non-Excessive Energy Amount
- Net Regulation Adjustment Amount

Mr. Boyer stated that as directed in the Commission's Phase II Order, IPL, along with Duke Energy Indiana, Northern Indiana Public Service Company and Vectren Energy Delivery of Indiana ("ASM Joint Petitioners") held a discussion on July 21, 2009 with the OUCC and IIG

to discuss information to be exchanged, procedures for future exchange under appropriate confidentiality protection and the reporting of ASM information in FAC proceedings.

Mr. Boyer generally described IPL’s experience thus far with the ASM. He stated that the Midwest Independent Transmission System Operator, Inc. (“MISO”) launched its ASM on January 6, 2009, and to his knowledge ASM has generally functioned without any major issue. He stated that IPL’s generators have been following real time signals as directed by MISO with minimal issues and that Day Ahead and Real Time market clearing prices (“MCP”) for Regulation, Spinning and Supplemental Reserves appear to be at reasonable levels consistent with market conditions. Mr. Boyer stated that between January 6, 2009 and July 31, 2009, the average ASM prices per megawatt hour were as follows:

Month	Regulation	Spinning	Supplemental
January, 2009	\$0.1758	\$0.1155	\$0.0042
February, 2009	\$0.1070	\$0.0738	\$0.0040
March, 2009	\$0.1115	\$0.0430	\$0.0042
April, 2009	\$0.1048	\$0.0544	\$0.0045
May, 2009	\$0.0956	\$0.0444	\$0.0047
June, 2009	\$0.0822	\$0.0529	\$0.0041
July, 2009	\$0.0765	\$0.0387	\$0.0042

Mr. Boyer stated that the fuel costs requested for recovery in this proceeding also include net credits for MISO’s Contingency Reserve Deployment Failure Charge Uplift Amount (“Uplift Amount”), which is associated with the ASM. He stated that IPL has included a total credit of approximately \$6,893 for this charge type in the current proceeding, which includes amounts for January 2009 through July 2009. This Uplift Amount is a separately identified component of the MISO’s Revenue Neutrality Uplift Amount (“RNU”). Mr. Boyer stated that the funds collected by MISO from its charges to Generators for the Contingency Reserve Deployment Failure Charge Amount, which is one of the listed charges that the Commission approved as a cost of fuel in its Phase II Order, are credited to Asset Owners via this Uplift Amount.

Mr. Boyer noted that the Phase II Order did not specifically authorize the inclusion of this Uplift Amount in the cost of fuel for FAC proceedings by detailing the Uplift Amount in the list of charges to be included as fuel in FAC proceedings, but that the Commission did order that RNU should continue to be treated for ratemaking purposes as it had been treated previously by the ASM Joint Petitioners, “and as described in their testimony in this proceeding.” He stated that in the ASM proceeding, the ASM Joint Petitioners testified that if MISO separately identified the Uplift Amount subcomponent of RNU, it should be included as an offset to fuel cost and flowed through to customers in their respective FAC proceedings.

Mr. Boyer stated that inclusion of the Uplift Amount in fuel is consistent with the previous treatment regarding a similar uplift credit for Uninstructed Deviation Revenues, for which the corresponding charge was also approved to be included as a cost of fuel. Mr. Boyer noted that it is also consistent with the Commission’s expressed desire in its Phase II Order to have “consistent cost treatment when possible” among the Joint Petitioners, since if the Uplift Amount is not included as fuel, it would be deferred by both IPL and NIPSCO, but would be included along with the other components of RNU in RTO trackers by both Duke Energy

Indiana and Vectren. He stated that including this Uplift Amount as a cost of fuel or offset to the cost of fuel in FAC proceedings will ensure customers of all ASM Joint Petitioners timely receive the benefit of the credits and in a consistent manner. Mr. Boyer stated for these reasons, IPL is requesting that the Commission authorize it to include credits or charges for Contingency Reserve Deployment Failure Charge Uplift Amounts in this and future FAC proceedings.

OUCG witness Michael D. Eckert stated that IPL's proposed ratemaking treatment of new ASM charge types follows the treatment ordered in the Phase II Order.

Based upon the evidence presented, the Commission finds that IPL's treatment of new and modified charge types is consistent with the Commission's Phase II Order and should be approved. We further find that IPL is authorized to include credits or charges for Contingency Reserve Deployment Failure Charge Uplift Amounts in this and future FAC proceedings.

6. Purchased Power Costs Above Monthly Standard. Mr. Boyer testified that in the Commission's April 23, 2008 Order in Cause No. 43414 ("Purchased Power Benchmark Order"), the Commission approved a "benchmark" triggering mechanism for the judgment of the reasonableness of purchased power costs. Each day, a Benchmark will be established based upon a generic Gas Turbine ("GT"), using a generic GT heat rate of 12,500 btu/kWh, using 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"). The Purchased Power Daily Benchmark is applicable to purchases beginning May 1, 2008 and ending April 30, 2010, unless further extended. Purchases made in the course of MISO's economic dispatch regime to meet jurisdictional retail load are a cost of fuel and are fully recoverable in the utility's FAC up to the actual cost or the Purchased Power Daily Benchmark, whichever is lower. Mr. Boyer sponsored Applicant's Exhibit C-1 showing the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Boyer stated that IPL incurred a total of \$321,265 of purchased power costs over the applicable Purchased Power Daily Benchmarks during May, June and July 2009. He stated that IPL makes power purchases when economical or due to unit unavailability. Mr. Boyer stated that consistent with the Commission's Purchased Power Benchmark Order, IPL has an opportunity to request recovery of and justify the reasonableness of purchased power costs above the applicable Purchased Power Daily Benchmark. To aid the Commission in its obligations, Mr. Boyer prepared Applicant's Exhibit C-2, which summarizes the purchased power volumes, costs, the total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for May, June and July 2009 and the reasons for the purchases at-risk after consideration of MISO economic dispatch. Mr. Boyer testified that utilizing the methodology approved in the Purchased Power Benchmark Order, \$105 of purchased power is non-recoverable during the applicable accounting period. Therefore, IPL is seeking to recover \$321,160 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for May, June and July, 2009.

OUCG witness Eckert stated that Applicant followed the guidelines and procedures that were established in the Purchased Power Benchmark Order and the OUCG also calculated that there was \$105 of purchased power that would be non-recoverable during the applicable accounting period.

7. **Contestable Revenue Sufficiency Guarantee (“RSG”) Charges.** IPL Witness Boyer testified that IPL’s recovery of RSG charges proposed in this proceeding is consistent with the Commission’s June 3, 2009 Order in Cause No. 43664 (“43664 RSG Order”) in which the Commission approved a “benchmark” calculation to be used to determine the RSG Benchmark. Each day, a Benchmark will be established based upon a generic GT, using a generic GT heat rate of 12,500 btu/kWh, using 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 “43664 RSG Daily Benchmarks”). Any Revenue Sufficiency Guarantee First Pass Distribution amounts in excess of the 43664 RSG Daily Benchmarks are termed “Contestable RSG.” Mr. Boyer stated that the 43664 RSG Daily Benchmarks calculation for May, June and July 2009 have been done in conformity with the 43664 RSG Order and were shown in Applicant’s Exhibit C-1.

Mr. Forestal stated that during the applicable accounting period IPL incurred a total of \$12,295.44 of Contestable Real-Time RSG Charges. He stated that IPL was not seeking recovery of any Contestable RSG in this proceeding. In accordance with the 43664 RSG Order, Mr. Forestal stated that IPL deferred \$2,756.51 of Contestable Real-Time RSG Charges in May 2009; \$9,276.87 of Contestable Real-Time RSG Charges in June 2009; and \$262.06 of Contestable Real-Time RSG Charges in July 2009.

OUCC witness Eckert recommended that Applicant be allowed to defer its Contestable RSG charges. Based on the evidence and given that no party objected to the deferral of its Contestable RSG charges, the Commission finds that its deferral is approved.

8. **Return Earned.** For the purpose of applying the return test from I.C. 8-1-2-42(d)(3), 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 \$31,244,000 to its authorized operating income representing the return on its Qualified Pollution Control Property. Thus, IPL has an authorized return of \$194,244,000 for purposes of this proceeding. (Applicant’s Exhibit 3) IPL’s actual return for the twelve-month period ended July 31, 2009, was \$184,202,000. Therefore, during the twelve month period ending July 31, 2009, IPL did not earn a return in excess of the stipulated return for this proceeding.

9. **Estimating Techniques.** IPL’s weighted average deviation between forecast and actual fuel cost was 11.51%. Mr. Boyer testified that the primary reason for the positive deviation of forecasted versus actual fuel cost was lower customer demand driven by mild summer weather and slower economic activity.

Mr. Boyer stated that purchases from the Hoosier Wind Park were included in this FAC, in projected fuel costs. He noted pursuant to the approval received in Cause No. 43485, IPL anticipates receiving power from Hoosier Wind Park beginning in November, 2009.

IPL witness Dennis Dininger testified that IPL’s total coal costs for 2010 will be 30% over 2009 actual costs because two of its long-term coal contracts, which represent 45% of its annual purchases, will expire at the end of 2009. The Presiding Administrative Law Judge in an

October 28, 2009 Docket Entry asked IPL to explain why it appeared from its exhibits that the entire 30% increase was reflected immediately in total coal costs upon the start of January 2010. IPL stated that it uses the projected cost of coal purchases rather than the cost of coal inventory in the calculation of Fuel Cost. IPL noted that this method has been a long-standing practice and that actual fuel costs and sales are reconciled in each quarterly FAC filing with no bias to the customer or the company. (Applicant's Exhibit 5). The Commission recognizes that a balance must be struck between the precision of a forecast and the efficiency of a forecasting effort. We encourage IPL to propose adjustments to long-standing practice when situations arise in which a more precise forecast is likely to have the effect of reducing future volatility as such forecasts are reconciled with actual results.

Based upon the evidence presented, we find that Applicant's estimating techniques are reasonably accurate and that its estimate of fuel costs for December 2009 and January and February 2010, should be accepted.

10. Reconciliation and Resulting Fuel Cost Factor for Electric Service. IPL's total estimated cost of fuel for December 2009 and January and February 2010 is \$81,744,443, and its total estimated sales are 3,820,041 MWh. IPL's estimated cost of fuel is \$0.021399 per kWh. The evidence of record indicated that IPL reconciled the actual fuel costs and revenues for May, June and July 2009. Reconciliation of actual fuel costs and revenues (including the FAC83 Net Regulation Adjustment) results in a total variance of \$(6,755,362). Dividing this amount by the total estimated jurisdictional sales of 3,820,041 MWh results in a variance factor of \$(0.001768) 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 \$0.007286 per kWh for the December 2009 and January and February 2010, billing cycles.

Pursuant to I.C. 8-1-2-42(a), we find that this factor should be approved and become effective for all bills rendered for electric services beginning with the first billing cycles for the December 2009 billing month in Regular Billing District 41 and Special Billing District 01. As a result of the fuel cost factor approved herein, the average residential customer using 1,000 kWh per month will experience an increase of \$4.74 or 6.86% on his or her electric bill.

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

1. The fuel cost factor set forth at Finding Paragraph No. 10 herein shall be and hereby is approved and authorized.
2. IPL shall file with the Electricity Division of the Commission prior to placing in effect the fuel cost factor approved herein, a separate amendment to its rate schedules with clear reference therein reflecting that such factor is applicable to the rate schedules reflected on the amendment, as shown in Applicant's Exhibit 1-A.

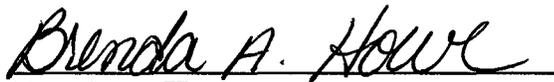
3. IPL is authorized to include credits or charges for Contingency Reserve Deployment Failure Charge Uplift Amounts as a cost of fuel in this and future FAC proceedings, as described in Finding Paragraph No. 5 of this Order.

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

HARDY, ATTERHOLT, GOLC, LANDIS, AND ZIEGNER CONCUR:

APPROVED: NOV 12 2009

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


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