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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 DURING THE MONTHS OF)
SEPTEMBER, OCTOBER AND NOVEMBER,)
2010, IN ACCORDANCE WITH THE)
PROVISIONS OF I.C. 8-1-2-42 AND FOR)
APPROVAL OF RATEMAKING)
TREATMENT FOR COST OF WIND)
POWER PURCHASES PURSUANT TO)
CAUSE NO. 43485.)

CAUSE NO. 38703 FAC 88

APPROVED: AUG 25 2010

BY THE COMMISSION:

James D. Atterholt, Commissioner
Angela Rapp Weber, Administrative Law Judge

On June 14, 2010, Indianapolis Power & Light Company (“IPL” or “Applicant”) filed its 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 2010, for electric service and for approval of ratemaking treatment for the cost of wind power purchases. Also on June 14, 2010, Applicant filed its direct testimony and exhibits. On June 21, 2010, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which the Commission hereby was grants. On July 19, 2010, the Indiana Office of the Utility Consumer Counselor (“OUCC”) filed its report and direct testimony in this Cause.

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 July 29, 2010, at 2:00 p.m., EDT, in Room 224, 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. Also admitted into evidence without objection was IPL’s Response to Commission a Docket Entry dated July 22, 2010. 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 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 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, 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, 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").** In this proceeding, IPL witness Dewayne Boyer stated that as directed in the Commission's June 30, 2009 Phase II Order in Cause No. 43426 ("Phase II Order"), IPL, along with Duke Energy Indiana, Northern Indiana Public Service Company and Vectren Energy Delivery of Indiana ("ASM Joint Petitioners") met 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. He stated that IPL and the OUCC met on January 27, 2010 to discuss IPL's experience with the ASM. Discussion topics included general observations about the impact of the economic downturn in 2009 on customer usage and energy prices, which created difficulty in identifying specific benefits or costs related to ASM. In addition, IPL shared its operational initiatives related to participation in the ASM and the IPL-specific market results of that participation.

Mr. Boyer generally described IPL's experience with the ASM. He stated that the Midwest Independent System Operator ("Midwest ISO") 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 the Midwest ISO with minimal issues. Mr. Boyer also testified that Day Ahead and Real Time market clearing prices for Regulation, Spinning and Supplemental Reserves appear to be at reasonable levels consistent with market conditions.

OUCC witness Michael Eckert stated that IPL's proposed ratemaking treatment for the ASM charge follows the treatment ordered in the Phase II Order.

5. **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, 2012, with automatic two year renewals. Purchases made in the course of the Midwest ISO'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 \$88,717 of purchased power costs over the applicable Purchased Power Daily Benchmarks during February, March and April 2010. 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 February, March and April 2010 and the reasons for the purchases at-risk after consideration of the Midwest ISO economic dispatch. Mr. Boyer testified that utilizing the methodology approved in the Purchased Power Benchmark Order, no purchased power is non-recoverable during the applicable accounting period. Therefore, IPL is seeking to recover \$88,717 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for February, March and April 2010.

Mr. Eckert stated that Applicant followed the guidelines and procedures that were established in the Purchased Power Benchmark Order. In addition, the OUCC also agreed that all of the purchased power costs that exceeded the Benchmark are recoverable and recommended that Applicant be allowed to recover its purchased power over the Benchmark.

6. Contestable Revenue Sufficiency Guarantee ("RSG") Charges. Mr. 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 ("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, 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 "RSG Daily Benchmarks"). Any Revenue Sufficiency Guarantee First Pass Distribution amounts in excess of the RSG Daily Benchmarks are termed "Contestable RSG." Mr. Boyer stated that the RSG Daily Benchmark calculation for February, March and April 2010 have been done in conformity with the 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 \$5,534.29 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 RSG Order, Mr. Forestal stated that IPL deferred \$3,597.63 of Contestable Real-Time RSG Charges in February 2010; \$977.59 of Contestable Real-Time RSG Charges in March 2010; and \$959.07 of Contestable Real-Time RSG Charges in April 2010.

OUCC witness 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 proposed deferral is approved.

7. **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 April 30, 2010 with the Commission's August 23, 1995 Order in Cause No. 39938, Applicant's Exhibit No. 2 calculates the (d)(2) test and shows 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.

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 \$30,050,000 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 \$193,050,000 for purposes of this proceeding. IPL's actual return for the twelve-month period ending April 30, 2010 was \$169,837,000. Therefore, during the twelve-month period ending April 30, 2010, IPL did not earn a return in excess of the stipulated return for this proceeding.

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 three (3) calendar month are reasonable after taking into consideration the actual fuel costs experienced and the estimated fuel costs for the three (3) calendar months for which actual fuel costs are available. According to Applicant's Exhibit 1, Schedule 5, Page 4, IPL's weighted average deviation between forecast and actual fuel cost was 3.48%.

Mr. Boyer stated that purchases from the Hoosier Wind Park are included in this FAC, in actual and projected fuel costs. He noted pursuant to the approval received in Cause No. 43485, Applicant began receiving power from Hoosier Wind Park on November 1, 2009. The Applicant's response to the Docket Entry dated July 22, 2010 provided support for specific monthly deviations.

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

10. **Reconciliation and Resulting Fuel Cost Factor for Electric Service.** IPL's total estimated cost of fuel for September, October and November 2010 is \$80,440,675, and its total estimated sales are 3,229,787 MWh. IPL's estimated cost of fuel is \$0.024906 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for February, March and April 2010. Reconciliation of actual fuel costs and revenues results in a total variance of \$(1,325,347). Dividing this amount by the total estimated jurisdictional sales of 3,229,787 MWh results in a variance factor of \$(0.000410) per kWh. Combining the variance factor with the estimated per kWh cost of fuel, subtracting the base cost of fuel and adjusting for

the Indiana Utility Receipts Tax, results in a proposed fuel factor of \$0.012227 per kWh for the September, October and November 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 September 2010 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 \$1.47 or 1.90% on a customer's 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. This Order shall be effective on and after the date of its approval.

HARDY, ATTERHOLT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: AUG 25 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