

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)
DECEMBER, 2010 AND JANUARY AND)
FEBRUARY, 2011, 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 89

APPROVED: NOV 30 2010

BY THE COMMISSION:

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

On September 13, 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 December 2010 and January and February 2011 for electric service and for approval of ratemaking treatment for cost of wind power purchases. Also on September 13, 2010, Applicant filed its direct testimony and exhibits. On September 22, 2010, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which the Presiding Officers granted pursuant to a Docket Entry dated October 6, 2010. On October 18, 2010, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report in this Cause and the Direct Testimony of Gregory Guerrettaz and Michael Eckert. By Docket Entry dated November 10, 2010, the Commission issued a question to the OUCC, to which the OUCC timely responded on November 15, 2010.

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 18, 2010 at 1:30 p.m. in Room 222, 101 W. Washington Street, Indianapolis, Indiana. At the hearing Applicant, the OUCC and IIG appeared by counsel. Applicant and OUCC offered their respective prefiled testimony and exhibits, which were 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 as follows:

1. **Notice and Jurisdiction.** Proper notice of the public hearing in this Cause was published 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, Ind. Code § 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 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. 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. Petitioner'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"). IPL witness Mr. Sadtler stated that as directed in the Commission's June 30, 2009 Phase II Order in Cause No. 43426 ("Phase II Order"), IPL held a discussion on September 9, 2010 with the OUCC to discuss IPL's experience with the ASM. He explained that the discussion topics included general observations about the impact of the economic downturn on customer usage, the increase in the wind generation capacity in the Midwest Independent System Operator ("Midwest ISO") footprint, the relatively low and stable wholesale natural gas market, and their impact on the electric energy prices, which make it difficult to identify specific benefits or costs related to ASM. He added that IPL shared its operational initiatives related to participation in the ASM, and the IPL-specific market results of that participation.

Mr. Sadtler generally described IPL's experience thus far with the ASM. He stated the Midwest ISO launched its ASM on January 6, 2009 and, to his knowledge, ASM has generally functioned without any major issue. He stated IPL's generators have been following real time signals as directed by Midwest ISO with minimal issues. Also, 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 Mr. Eckert stated that IPL's proposed ratemaking treatment for the new ASM Charge types follows the treatment ordered in the Phase II Order.

In the Commission's 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. In this proceeding, Mr. Sadtler 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 new and modified ASM Charge types, including Contingency Reserve Deployment Failure Charge Uplift Amounts, is consistent with the Commission's Phase II and FAC85 Orders and should be approved.

5. Purchased Power Costs Above Monthly Standard. 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. Mr. Sadtler 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, 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”). Mr. Sadtler explained that the Purchased Power Daily Benchmark is applicable to purchases beginning May 1, 2008 and ending April 30, 2012, with automatic two-year renewals. He explained that 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. Sadtler sponsored Applicant’s Exhibit C-1, which shows the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Sadtler stated that IPL incurred a total of \$351,210 of purchased power costs over the applicable Purchased Power Daily Benchmarks during May, June and July 2010. He stated that IPL makes power purchases when economical or due to unit unavailability. Mr. Sadtler 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. Sadtler 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 2010 and the reasons for the purchases at-risk after consideration of Midwest ISO economic dispatch. Mr. Sadtler testified that utilizing the methodology approved in the Purchased Power Benchmark Order, \$446 of purchased power is non-recoverable during the applicable accounting period. Therefore, IPL is seeking to recover \$350,764 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for May, June and July 2010. Mr. Sadtler opined that the total purchased power costs incurred in May, June and July 2010 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 stated Applicant followed the guidelines and procedures that were established in the Purchased Power Benchmark Order. The OUC also calculated that all of the purchased power cost which exceeded the Benchmark, except \$446, is recoverable. He recommended that Applicant be allowed to recover its requested purchased power over the Benchmark.

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 Benchmark Order and should be approved.

6. Contestable Revenue Sufficiency Guarantee (“RSG”) Charges. Mr. Sadtler 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”). Mr. Sadtler explained that any RSG First Pass Distribution amounts in excess of the RSG Daily Benchmarks

are termed “Contestable RSG.” Mr. Sadtler explained that the RSG Daily Benchmark calculations for the period of May, June and July 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 \$23,808.96 of Contestable Real-Time RSG Charges. He stated IPL was not seeking recovery of any Contestable RSG in this proceeding. In accordance with the RSG Order, IPL deferred \$4,436.25 of Contestable Real-Time RSG Charges in May 2010; \$5,439.23 of Contestable Real-Time RSG Charges in June 2010; and \$13,933.48 of Contestable Real-Time RSG Charges in July 2010.

OUCS 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 is approved.

7. **Operating Expenses.** Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that a utility’s actual increases in fuel cost through the latest month for which actual fuel costs are available since the last Order of the Commission 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 July 31, 2010 with the Commission’s Order in Cause No. 39938 dated August 23, 1995), 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 \$29,666,000 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 \$192,666,000 for purposes of this proceeding. Applicant’s Exhibit 3. Applicant’s Exhibit 2 calculates the (d)(3) test, which shows that IPL’s actual return for the twelve-month period ended July 31, 2010 was \$178,879,000. Therefore, the Commission finds that during the twelve-month period ending July 31, 2010, IPL did not earn a return in excess of its authorized return and was 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 three (3) calendar months 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 -6.07%. IPL projected its fuel costs for the billing months of December 2010 and January and February 2011 and showed that the estimates of

those costs are reasonable, after taking into consideration the difference between IPL's projected and actual fuel cost for the reconciliation period. Mr. Eckert explained that the OUCC issued a data request to Applicant to determine the reasons for certain Schedule 5 variances between actual costs and forecasted costs. IPL explained that the variances related to steam generation and gas combustion turbine generation were related to the higher than normal number (46%) of Cooling Degree Days for the three-month period where IPL retail customers consumed 4.7% more energy than normal. He explained that the increased steam and gas combustion turbine usage caused IPL to make fewer "Purchases Through MISO." He added that Inter-System sales through the Midwest ISO for the three-month period were impacted due to market conditions.

Based upon the evidence, we find that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for December 2010 and January and February 2011, should be accepted.

10. Wind Power Purchase Agreement. Mr. Sadtler testified that purchases from the Hoosier Wind Park 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 Wind Park on November 1, 2009. Mr. Sadtler stated that for the months of May, June and July 2010, IPL received 22,062 MWhs, 17,257 MWhs, and 13,238 MWh, respectively.

The Commission finds that such costs are reasonable and approves IPL's ratemaking treatment of the wind PPA costs.

11. Reconciliation and Resulting Fuel Cost Factor for Electric Service. IPL's total estimated cost of fuel for December 2010 and January and February 2011 is \$92,248,317, and its total estimated sales are 3,807,540 MWh. IPL's estimated cost of fuel is \$0.024228 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for May, June and July 2010. Reconciliation of actual fuel costs and revenues results in a total variance of \$6,377,802. Dividing this amount by the total estimated jurisdictional sales of 3,807,540 MWh results in a variance factor of \$0.001675 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 \$0.013656 per kWh for the December 2010 and January and February 2011 billing cycles.

Pursuant to Ind. Code § 8-1-2-42(a), we find that this factor should be approved and become effective for all bills rendered for electric services during the billing cycles for the months of December 2010 and January and February 2011, and beginning with the first billing cycles for the December 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 \$1.43 or 1.82% 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. 11 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.

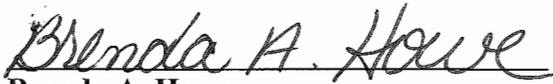
3. IPL's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Order in Cause No. 43485 shall be and hereby is approved.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: NOV 30 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**