

ORIGINAL

JDA  
*[Signature]*  
Kaeb

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 JUNE, ) CAUSE NO. 38703 FAC 95  
 JULY AND AUGUST 2012, IN ACCORDANCE )  
 WITH THE PROVISIONS OF I.C. 8-1-2-42 AND )  
 FOR APPROVAL OF RATEMAKING ) APPROVED: MAY 17 2012  
 TREATMENT FOR COST OF WIND POWER )  
 PURCHASES PURSUANT TO CAUSE NOS. )  
 43485 AND 43740. )

ORDER OF THE COMMISSION

**Presiding Officers:**

**David E. Ziegner, Commissioner**

**Angela Rapp Weber, Administrative Law Judge**

On March 13, 2012, 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 June, July, and August 2012 for electric service and for approval of ratemaking treatment for cost of wind power purchases. Also, on March 13, 2012, Applicant filed its direct testimony and exhibits. On March 16, 2012, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was granted by a Docket Entry dated March 23, 2012. On April 17, 2012, the Office of Utility Consumer Counselor (“OUCC”) filed its report in this Cause and the direct testimony of Gregory Guerrettaz and Michael Eckert.

Pursuant to public notice 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 May 2, 2012 at 1:30 p.m. in Room 222, 101 W. Washington Street, Indianapolis, Indiana. At the hearing Applicant, the IIG, and the OUCC appeared by counsel. Applicant and the 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, Indiana Code ch. 8-1-2. 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, 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 Indiana 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. Further, IPL currently has long-term contracts with five coal producers. The remainder of IPL's coal requirements is met through spot purchases. 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.** IPL witness Mr. Dennis Dininger generally described IPL's experience thus far with the Ancillary Services Market ("ASM"). He stated 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 testified IPL's generators have been following real time signals as directed by Midwest ISO with minimal issues. 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 Mr. Eckert stated IPL's proposed ratemaking treatment for the new ASM Charge types follows the treatment ordered in the Phase II Order in Cause No. 43426. 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. In this proceeding, 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 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 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"). The Purchased Power Daily Benchmark is applicable to purchases beginning May 1, 2008 and ending April 30, 2012, with automatic two year renewals. Mr. Dininger sponsored Applicant's Exhibit C-1 showing the Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Dininger stated IPL incurred a total of \$709,368 of purchased power costs over the applicable Purchased Power Daily Benchmarks during November and December 2011 and January 2012. He said IPL makes power purchases when economical, or because of unit unavailability. Applicant's Exhibit C-2 was provided to summarize the purchased power volumes, costs, total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for November and December 2011 and January 2012, and to provide the reasons for the purchases at-risk after consideration of Midwest ISO 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 is seeking to recover \$709,368 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for November and December 2011 and January 2012. Mr. Dininger opined that the total purchased power costs incurred in November and December 2011 and January 2012 are reasonable and added that IPL is providing its jurisdictional retail customers with the lowest fuel cost reasonably possible while maintaining a reliable supply.

OUCC witness Mr. Eckert stated Applicant followed the guidelines and procedures that were established in the Purchased Power Order. According to the calculations, all of the purchased power cost that exceeded the Benchmark 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 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 gas-fired GT (the "RSG Daily Benchmarks"). 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 November and December 2011 and January 2012 have been done in conformity with the RSG Order and were shown in Applicant's Exhibit C-1.

IPL witness Mr. Craig Forestal stated that during the applicable accounting period IPL incurred a total of \$1,903.30 of Contestable Real-Time RSG Charges. He stated IPL was not seeking recovery of any Contestable Real-Time RSG Charges in this proceeding. In accordance with the RSG Order, Mr. Forestal testified that IPL deferred \$1,222.00 of Contestable Real-Time

RSG Charges in November 2011, \$471.19 of Contestable Real-Time RSG Charges in December 2012, and \$210.11 of Contestable Real-Time RSG Charges in January 2012.

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

7. **Operating Expenses.** Indiana 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 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 January 31, 2012 with the Commission's Order in Cause No. 39938 (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 Indiana Code § 8-1-2-42(d)(2).

8. **Return Earned.** Indiana 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 \$32,188,000 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 \$195,188,000 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 January 31, 2012 was \$152,985,000. Therefore, the Commission finds that during the twelve-month period ending January 31, 2012, IPL did not earn a return in excess of its authorized return in compliance with the statutory requirements of Indiana 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 three calendar month 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 -6.89%. IPL projected its fuel costs for the billing months of June, July, and August 2012 and showed that the estimates of its prospective average fuel costs for the projected period are reasonable after taking into consideration the difference between IPL's projected and actual fuel cost for the reconciliation period.

Based upon the evidence, we find that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for June, July, and August 2012 should be accepted.

**10. Wind Power Purchase Agreements.** Mr. Dininger testified that IPL receives power from Hoosier Wind Park pursuant to the Commission's Order in Cause No. 43485, and these purchases are included in IPL's actual and projected fuel costs. Mr. Dininger stated that for the months of November and December 2011 and January 2012 IPL received 29,973 MWhs, 19,516 MWhs, and 28,964 MWhs, respectively, from the Hoosier Wind Park. Mr. Dininger also testified that pursuant to the approval received in Cause No. 43740, IPL receives power from Lakefield Wind Park ("Lakefield"). For the months of November and December 2011 and January 2012, IPL received 38,405 MWhs, 42,065 MWhs, and 53,076 MWhs, respectively, from Lakefield. In addition, pursuant to Cause No. 43740, IPL is reflecting estimated credits to forecasted 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 the real-time Locational Marginal Prices ("LMPs") at Lakefield continue to be very volatile and below zero \$/MWh LMPs occurred periodically during the period November 2011 through January 2012. To mitigate the impact on the FAC, IPL curtailed Lakefield when the real-time market price dropped below zero, and offered energy from Lakefield into the day-ahead market. He said that Lakefield was reclassified as a Dispatchable Intermittent Resource in the Midwest ISO market, which is an operation that will react quicker to avoid negative LMPs at the Lakefield node.

Mr. Eckert testified the OUCC reviewed the Lakefield situation and the volatile real-time LMP issues that were occurring at Lakefield. In addition, the OUCC participated in a meeting with representatives of IPL to discuss the issue. He explained that in certain situations IPL is ordering Lakefield to curtail power because it is cheaper to do so. In those situations, IPL is buying other power for its customers' demand and paying Lakefield for power it does not take per the PPA. The cost of local power plus the curtailed power price is cheaper than the PPA price and the related negative LMPs. Mr. Eckert stated pursuant to the PPA, IPL is required to pay Lakefield for power that was curtailed that it never received. Mr. Eckert stated IPL is looking into various ways to mitigate the negative LMP situation. He recommended that IPL report to the Commission any updates and resolutions concerning the Lakefield situation.

In Cause Nos. 43485 and 43740 the Commission approved IPL's request to recover the purchased power costs incurred under the Hoosier Wind Park PPA and the Lakefield PPA over their respective full twenty-year terms. Based on the evidence presented in this Cause, the Commission finds that these costs are reasonable and approves IPL's ratemaking treatment of the wind PPA costs. The Commission further directs IPL to provide an update regarding the Lakefield situation 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 June, July, and August 2012 is \$104,617,977, and its total estimated sales are 3,792,151 MWh. IPL's estimated cost of fuel is \$0.027588 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for November and December 2011 and January 2012. Reconciliation of actual fuel costs and revenues results in a total variance of \$7,520,325. Dividing this amount by the total estimated jurisdictional sales of 3,792,151 MWh results in a variance factor of \$0.001983 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 \$0.017381 per kWh for the June, July, and August 2012, billing cycles. Applicant's Exhibit 1, Schedule 1.

Pursuant to Indiana Code § 8-1-2-42(a), the Commission finds that this factor should be approved and become effective for all bills rendered for electric services during the billing cycles for the months of June, July, and August 2012, and beginning with the first billing cycles for the June 2012 billing month in Regular Billing District 41 and Special Billing District 01. 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 \$2.46 or 2.85% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 94 (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 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 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.

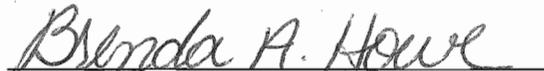
3. IPL's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause No. 43485 and Cause No. 43740 shall be and hereby is approved. IPL shall provide an update regarding the Lakefield Wind Park LMP situation in its next FAC filing.

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

**ATTERHOLT, BENNETT AND ZIEGNER CONCUR; LANDIS AND MAYS ABSENT:**

**APPROVED:      MAY 17 2012**

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

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