

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)
SEPTEMBER, OCTOBER AND NOVEMBER)
2012, 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 96

APPROVED: AUG 29 2012

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

David E. Veleta, Administrative Law Judge

On June 12, 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 September, October and November 2012, for electric service and for approval of ratemaking treatment for cost of wind power purchases. Also on June 12, 2012, Applicant filed its direct testimony and exhibits. On June 18, 2012, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was granted by a Docket Entry dated July 5, 2012. On July 17, 2012, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report in this Cause and the direct testimony of Gregory Guerrettaz and Michael Eckert. On August 15, 2012, IPL filed its response to the Commission’s August 10, 2012 Docket Entry requesting information. On August 16, 2012, the OUCC submitted its response to the Commission’s August 15, 2012 Docket Entry requesting information.

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 August 16, 2012, at 10:30 a.m. in Room 222 of the PNC Center, 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.

OUCC 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, IPL witness 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”). Mr. Dininger explained that the Purchased Power Daily Benchmark is applicable to purchases beginning May 1, 2008 and ending April 30, 2014, with automatic two year renewals.¹ He stated 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. Dininger sponsored Applicant’s Exhibit C-1 showing the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Dininger stated IPL incurred a total of \$830,659 of purchased power costs over the applicable Purchased Power Daily Benchmarks during February, March and April 2012. 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 of and justify the reasonableness of purchased power costs above the applicable Purchased Power Daily Benchmark. To aid the Commission in its obligations, Applicant’s Exhibit C-2 was provided which summarizes the purchased power volumes, costs, total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for February, March and April 2012, and 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 \$830,659 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for February, March and April 2012. Mr. Dininger opined that the total purchased power costs incurred in February, March and April 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.

OUC 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 Revenue Sufficiency Guarantee 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 February,

¹ The Settlement Agreement approved in Cause No. 43414 renewed by virtue of its terms (see Settlement Agreement Term V) for purchases made during the period of April 30, 2012 through April 30, 2014.

March and April 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 \$1,557.12 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 \$100.08 of Contestable Real-Time RSG Charges in February 2012, \$236.49 of Contestable Real-Time RSG Charges in March 2012 and \$1,220.55 of Contestable Real-Time RSG Charges in April 2012.

OUCG 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 April 30, 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 \$33,248,000 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 \$196,248,000 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 April 30, 2012 was \$154,626,000. Therefore, the Commission finds that during the twelve month period ending April 30, 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 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, Schedule 5, page 4 of 4, IPL's weighted average deviation between forecast and actual fuel cost was -3.85%. IPL projected its fuel costs for the billing months of September, October and November 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 September, October and November 2012 should be accepted.

10. Wind Power Purchase Agreements. Mr. Dininger testified that purchases from the Hoosier Wind Park 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 Wind Park on November 1, 2009. Mr. Dininger stated that for the months of February, March and April 2012 IPL received 21,455 MWhs, 18,966 MWhs, and 16,200 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 February, March and April 2012, IPL received 41,408 MWhs, 44,066 MWhs, and 53,223 MWhs, respectively. In addition, pursuant to the Commission's Order in 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.

Mr. Dininger said the negative real-time Locational Marginal Prices ("LMPs") at Lakefield occurred less during the period February 2012 through April 2012 than was experienced in FAC 95. To mitigate the impact on the FAC, IPL manually curtailed the Lakefield wind park when the real-time market price dropped below zero. He said that Lakefield began operation as a Dispatchable Intermittent Resource in the Midwest ISO market, which allowed it to react quicker to avoid negative LMPs at the Lakefield node. He stated IPL met with the OUCC on March 8, 2012 to update the OUCC on the status of the low or negative LMPs at Lakefield and the additional actions that IPL is taking, which include but are not limited to: offering the units in the Day Ahead ("DA") market, bi-weekly calls with enXco and exploring the advance of existing Midwest ISO Multi-Value Project transmission system upgrade projects.

Mr. Dininger testified that the frequency of negative real-time LMPs at Hoosier Wind Park have increased significantly during the period of February 2012 through April 2012 compared to what was experienced in FAC 95. He indicated that IPL manually curtailed the Hoosier Wind Park when the real-time market price was believed to drop below zero; however, the 5-minute LMPs are so volatile that a few negative 5-minute prices can cause the entire hour to average below zero. Mr. Dininger added that in mid-March IPL began offering the Hoosier Wind Park into the DA market to capture more positive prices and curtail the park in real-time to the DA award when prices were believed to drop below zero. He further added that this effort mitigated some of the impact due to negative real-time LMPs; however, the negative real-time LMPs continued. Furthermore, at the end of April, IPL began curtailing the Hoosier Wind Park in the real-time to the DA award, essentially removing the park from the real-time market (reducing the park's exposure to real-time LMPs).

Mr. Eckert testified the OUCC reviewed 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 purchased power

agreement (“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 recovers this cost through the FAC, and explained that the Commission’s Order in Cause No. 43740 allows IPL to recover the costs incurred under the PPA within its FAC proceedings. Mr. Eckert stated that as a Dispatchable Intermittent Resource, IPL is able to avoid negative LMPs at the Lakefield node due to quicker reaction time. He recommended that IPL report to the Commission any updates 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 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 and Hoosier Wind Park situations 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 September, October and November 2012 is \$94,087,959 and its total estimated sales are 3,262,374 MWh. IPL’s estimated cost of fuel is \$0.028840 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for February, March and April 2012. Reconciliation of actual fuel costs and revenues results in a total variance of \$4,197,339. Dividing this amount by the total estimated jurisdictional sales of 3,262,374 MWh results in a variance factor of \$0.001287 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 \$0.017945 per kWh for the September, October and November 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 September, October and November 2012, and beginning with the first billing cycles for the September 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 an increase of \$0.57 or 0.68% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 95 (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 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 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.

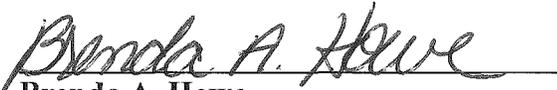
3. IPL's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause No. 43485 and Cause No. 43740 shall be and hereby is approved. IPL shall provide an update regarding the Lakefield Wind Park and Hoosier Wind Park LMP situations in its next FAC filing.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: AUG 29 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**