

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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APPLICATION OF INDIANAPOLIS POWER &)
LIGHT COMPANY FOR APPROVAL OF A FUEL)
COST CHARGE FOR ELECTRIC SERVICE)
DURING THE MONTHS OF DECEMBER 2012 AND)
JANUARY AND FEBRUARY 2013, 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 97

APPROVED: NOV 21 2012

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Loraine L. Seyfried, Chief Administrative Law Judge

On September 12, 2012, Indianapolis Power & Light Company (“IPL” or “Applicant”) filed its Verified Application with the Indiana Utility Regulatory Commission (“Commission”) for approval of a fuel cost adjustment to be applicable during the billing cycles of December 2012 and January and February 2013, and for continued use of ratemaking treatment for cost of wind power purchases. Also on September 12, 2012, Applicant filed its direct testimony and exhibits. On September 18, 2012, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was granted by a Docket Entry dated September 24, 2012. On October 17, 2012, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and direct testimony in this Cause. On October 24, 2012, a Docket Entry was issued requesting additional information, to which IPL and the OUCC responded on October 25, 2012 and October 29, 2012, respectively.

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, an evidentiary hearing in this Cause was held on November 1, 2012, at 10:30 AM in Room 224 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. IPL currently has long-term contracts with five coal producers. The remainder of IPL's coal requirements is met through spot purchases. Mr. Grimmer testified all of IPL's coal contracts contain language that allows IPL some variability in the quantity of coal that IPL can take under that particular contract, and IPL has been aggressively managing these contracts toward the contract minimum quantities. Despite taking minimum quantities, he noted that IPL's inventories have risen. He said IPL has negotiated with suppliers to reduce minimum tonnages and/or defer tons into future years to help alleviate the upward pressure on inventories. 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") and Demand Response Resource Uplift.** IPL witness Dennis Dininger testified that effective June 12, 2012, the Midwest Independent Transmission System Operator, Inc. ("MISO") introduced a new charge type, Demand Response Resource Uplift. He described generally the function of the Demand Response Resource Uplift and explained why it is a "fuel-related" MISO charge. IPL's October 25, 2012 Docket Entry response also provided the monthly average ASM cost distribution amounts for Regulation, Spinning and Supplemental Reserves paid by IPL.

OUCG witness Michael D. Eckert stated IPL's proposed ratemaking treatment for the new ASM Charge types follows the treatment ordered in the Commission's 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. 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 ASM charge types is consistent with the Commission's Phase II and FAC85 Orders and should be approved. Further, we find that IPL may treat the Demand Response Resource Uplift amount as a MISO fuel component for recovery through the FAC.

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. He stated that purchases made in the course of the 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. 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 \$5,848,074 of purchased power costs over the applicable Purchased Power Daily Benchmarks during May, June and July 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, and justify the reasonableness, of purchased power costs above the applicable Purchased Power Daily Benchmark. To aid the Commission in its review, IPL provided Applicant’s Exhibit C-2, which summarizes the purchased power volumes, costs, total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for May, June and July 2012, and the reasons for the purchases at-risk after consideration of MISO economic dispatch. Mr. Dininger testified that utilizing the methodology approved in the Purchased Power Order, all but \$17,208 of the purchased power is recoverable during the applicable accounting period. Therefore, IPL seeks to recover \$5,830,866 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for May, June and July 2012. Mr. Dininger opined that these costs are reasonable, and added that IPL is providing its jurisdictional retail customers with the lowest fuel cost reasonably possible while maintaining a reliable supply.

OUCG 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, with the exception of \$17,208 (the dollar amount found in Applicant’s Exhibit C-2, Column labeled “Non-Recoverable Balance Above Daily Benchmark”). He testified the OUCG was concerned regarding the large amount over the Benchmark and sent Applicant several data requests on the issue. Mr. Eckert stated that according to IPL the higher prices on May 7 were due to heavy congestion on a key transmission line from IPL Load to the Petersburg plant. In addition, on July 5, MISO experienced an operating reserve shortage, rapidly rising loads and a forced outage of a 558 MW unit. Mr. Eckert stated he also reviewed Applicant’s Planned Outage Schedule and supporting documentation. He testified that IPL provided explanations and supporting documentation to support the derates at Petersburg Units 1 through 4 in July 2012 that were greater than 100 MW. He said that river thermal limitations also impacted the availability of Petersburg Units 1 and 2 during the period of July 5 through July 7.

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 May, June and July 2012 have been done in conformity with the RSG Order, as shown in Applicant’s Exhibit C-1.

IPL witness Craig Forestal stated that during the applicable accounting period IPL incurred a total of \$123,470.65 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 \$5,354.10 of Contestable Real-Time RSG Charges in May 2012, \$18,225.19 of Contestable Real-Time RSG Charges in June 2012 and \$99,891.36 of Contestable Real-Time RSG Charges in July 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 July 31, 2012 with the Commission’s August 23, 1995 Order in Cause No. 39938), 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 \$33,915,000 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 \$196,915,000 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 July 31, 2012 was \$153,840,000. Therefore, the Commission finds that during the twelve month period ending July 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 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 -10.93%. Mr. Dininger attributed the -21.69% variance of July as the primary source of the underestimation. He explained that extremely hot temperatures and drought conditions in July resulted in high power prices throughout MISO as electricity demand increased and supply of power from plants cooled by water sourced from rivers decreased. IPL projected its fuel costs for the billing months of December 2012 and January and February 2013 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.

OUCG witness Gregory T. Guerrettaz testified that IPL has done a good job reflecting the projected costs going forward. Mr. Guerrettaz stated the OUCG reviewed each input in detail and had a lengthy discussion with IPL personnel regarding the estimates. He also noted that some of the coal cost savings recently achieved by IPL have been taken into account in the projections to lower the overall costs. In addition, he stated that because of the fast changing events in the Electric Utility industry, the new charge types and various wind issues, the OUCG has set up an enhanced audit procedure that is working very well and IPL has accommodated the OUCG in this area.

Based upon the evidence, we find that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for December 2012 and January and February 2013 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 May, June and July 2012 IPL received 6,120 MWhs, 4,512 MWhs, and 9,598 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 May, June and July 2012, IPL received 46,021 MWhs, 31,504 MWhs, and 24,428 MWhs, respectively. In addition, pursuant to the Order in Cause No. 43740, IPL is reflecting credits to 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 that in March 2012, Lakefield Wind Park began operation as a Dispatchable Intermittent Resource ("DIR") in the MISO market, and reacts quickly to curtail the wind park ("dispatch down") to avoid negative Locational Marginal Prices ("LMPs") at the Lakefield node. He testified the impact of the curtailments, as compared to full production, was similar during the period of May, June and July 2012 to that experienced during the first two months of DIR operation (March and April 2012). He stated IPL met with the OUCG on March 8, 2012 to update the OUCG 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 EDF Renewable Energy and exploring the advance of existing MISO Multi-Value Project transmission system upgrades.

Mr. Dininger testified that during May and June 2012, IPL curtailed the Hoosier Wind Park in the real-time to the DA award, essentially removing the park from the real-time market. He added

this strategy significantly reduced IPL's exposure to negative LMPs; however, the amount of curtailed energy increased compared to potential full production. He further added that IPL modified the strategy in July 2012 to allow for real-time sales when the wind speeds at Hoosier Wind Park have shown a high probability of positive prices. Mr. Dininger further testified that the July strategy appears to be an improvement; although, wind production for July was low. Mr. Dininger testified that IPL will continue to optimize the opportunities at Hoosier Wind Park until it becomes a DIR in March of 2013.

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 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, which is consistent with the Commission's Order in Cause No. 43740. Mr. Eckert stated that as a DIR, IPL is able to avoid negative LMPs and reduce its costs at the Lakefield node due to quicker reaction time. He recommended that IPL report to the Commission any updates to the Lakefield LMP situation.

Mr. Guerrettaz testified that he reviewed IPL's recorded sales of Renewable Energy Certificates ("RECs") from Hoosier Wind Park in May 2012 and from Lakefield in July 2012. He noted there are costs/fees associated with these sales, such as \$8,503 in registry, issuance and broker fees for REC's pursuant to the Order in Cause No. 38703 FAC 90 and broker fees of \$9,230 related to prior period sales in February, March and April 2012 that were captured and recorded on the books and records during this FAC period.

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 December 2012 and January and February 2013 is \$110,197,664 and its total estimated sales are 3,791,565 MWh. IPL's estimated cost of fuel is \$0.029064 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for May, June and July 2012. Reconciliation of actual fuel costs and revenues results in a total variance of \$13,211,782. Dividing this amount by the total estimated jurisdictional sales of 3,791,565 MWh results in a variance factor of \$0.003485 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 \$0.020403 per kWh for the December 2012 and January and February 2013 billing cycles.

Pursuant to Indiana Code § 8-1-2-42(a), the Commission finds this factor should be approved and become effective for all bills rendered for electric services during the billing cycles

for the months of December 2012 and January and February 2013, and beginning with the first billing cycles for the December 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 \$2.45 or 2.90% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 96 (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, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: NOV 21 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**