

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 )  
MARCH, APRIL AND MAY 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 98

APPROVED: FEB 27 2013

ORDER OF THE COMMISSION

**Presiding Officers:**

**David E. Ziegner, Commissioner**

**Loraine L. Seyfried, Chief Administrative Law Judge**

On December 18, 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 March, April and May 2013, and for continued use of ratemaking treatment for cost of wind power purchases. Also on December 18, 2012, Applicant filed its direct testimony and exhibits. On January 4, 2013, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was granted by a Docket Entry dated January 14, 2013. On January 22, 2013, IPL submitted revised schedules reflecting the removal of certain purchased power costs. On January 29, 2013, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and direct testimony in this Cause. On February 7, 2013, the Commission issued a Docket Entry, to which IPL responded on February 11, 2013.

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 February 14, 2013, at 9:30 a.m. 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 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 that all of IPL's long-term 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 when fiscally prudent. Despite taking minimum quantities, he noted that IPL's inventories had risen over the calendar year until higher than projected burns in late October and November served to reduce IPL's current inventory position. 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 should the recent upturn in coal consumption be short-lived. 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, consistent with the Commission's Order in Cause No. 38703 FAC 97 ("FAC97 Order"), IPL has included Demand Response Resource Uplift charges from the Midwest Independent Transmission System Operator, Inc. ("MISO") into its cost of fuel in the FAC proceeding. 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 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 ("Phase II Order").

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 and the Demand Response Resource Uplift charges are consistent with the Commission's Phase II, FAC85 and FAC97 Orders and should be approved.

**5. Purchased Power Costs Above Benchmark.** 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 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 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 \$400,114 of purchased power costs over the applicable Purchased Power Daily Benchmarks during August, September and October 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. 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 August, September and October 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 \$631 of the purchased power is recoverable during the applicable accounting period. Therefore, IPL seeks to recover \$399,483 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for August, September and October 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.

OUC witness Mr. Eckert stated Applicant followed the guidelines and procedures 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 \$631 (the dollar amount found in Applicant's Exhibit C-2, Column labeled "Non-Recoverable Balance Above Daily 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 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 August, September and October 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 \$4,364.77 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 \$1,942.33 of Contestable Real-Time RSG Charges in August 2012, \$1,699.53 of Contestable Real-Time RSG Charges in September 2012 and \$722.91 of Contestable Real-Time RSG Charges in October 2012.

OUCC 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 October 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 \$34,439,000 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 \$197,439,000 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 October 31, 2012 was \$158,698,000. Therefore, the Commission finds that during the twelve month period ending October 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 -4.75%. Mr. Dininger attributed the underestimate primarily due to lower than forecast unit availability in August because of a mill explosion at Harding Street Unit 7 that overlapped with a tube leak on Petersburg Unit 2 and low electricity demand and wholesale power prices from mid-August through mid-October. IPL projected its fuel costs for the billing months of March, April and May 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.

OUCC witness Gregory T. Guerrettaz testified that IPL has done a good job reflecting the projected costs going forward. Mr. Guerrettaz stated the OUCC 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. He said that during the onsite audit, the OUCC asked for the current cost of each input item affecting the cost outcome. With these updated costs, Mr. Guerrettaz was able to verify the validity of the estimates at the time of the OUCC's report.

Based upon the evidence, we find IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for March, April and May 2013 should be accepted.

**10. Wind Power Purchase Agreements.** Mr. Dininger testified that purchases from the Hoosier Wind Park ("Hoosier") 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 on November 1, 2009. Mr. Dininger stated that for the months of August, September and October 2012, IPL received 9,128 MWhs, 10,775 MWhs, and 28,243 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 August, September and October 2012, IPL received 22,647 MWhs, 20,056 MWhs, and 42,839 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 stated IPL met with the OUCC on March 8, 2012 to update the OUCC on the status of the low or negative Locational Marginal Prices ("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 market, periodic calls with EDF Renewable Energy and exploring the advance of existing MISO Multi-Value Project transmission system upgrades. He said Lakefield is a Dispatchable Intermittent Resource ("DIR") in the MISO market and Lakefield curtails ("dispatches down") quickly to avoid negative LMPs. Compared to the time period covered by FAC97, Mr. Dininger said Lakefield was curtailed more often as a percentage of full production; however, the wind was much weaker during FAC97. He said IPL is using manual curtailments to avoid negative LMPs at Hoosier. As a result, IPL experienced negative revenue on only five of the days during the three-month period of FAC98 when real-time prices were negative. Mr. Dininger said Hoosier becomes a DIR in March of 2013, which will allow the park to act more

quickly to avoid negative LMPs. As a comparison, he said the DIR operation at Lakefield was able to avoid negative revenue for all days during the quarter when real-time prices were negative.

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 Lakefield in October 2012. He noted that \$5,042 in registry, issuance and broker fees associated with these sales were captured and recorded on the books and records during this FAC period pursuant to the Commission's Order in Cause No. 38703 FAC 90.

In Cause Nos. 43485 and 43740, the Commission approved IPL's request to recover the purchased power costs incurred under the Hoosier and Lakefield PPAs 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 situations in its next FAC filing.

**11. Reconciliation and Resulting Fuel Cost Factor for Electric Service.** According to Exhibit 1, Revised Schedule 1 of Applicant's Exhibit 5, IPL's total estimated cost of fuel for March, April and May 2013 is \$95,571,976 and its total estimated sales are 3,212,903 MWh. IPL's estimated cost of fuel is \$0.029746 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for August, September and October 2012. On January 22, 2013, IPL filed revised schedules that reflected a \$1,038,583 downward adjustment to the Actual Incremental Cost of Fuel Incurred for August 2012 that IPL attributed to the removal of certain purchased power costs related to an outage at the Harding Street Unit 7. In response to a February 7, 2013 Docket Entry, IPL explained and provided the calculation for the adjustment. As shown on Exhibit 1, Revised Schedule 1 of Applicant's Exhibit 5, reconciliation of actual fuel costs and revenues results in a total variance of \$1,942,281. Dividing this amount by the total estimated jurisdictional sales of 3,212,903 MWh results in a variance factor of \$0.00605 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 \$0.018171 per kWh for the March, April and May 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 March, April and May 2013, and beginning with the first billing cycles for the March 2013 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 \$2.23 or 2.57% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 97 (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 is approved.
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 Revised Exhibit 1-A of Applicant's Exhibit 5.
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 is approved. IPL shall provide an update regarding the Lakefield and Hoosier 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:**

**FEB 27 2013**

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



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