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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, JULY AND AUGUST 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 99

APPROVED: MAY 15 2013

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Loraine L. Seyfried, Chief Administrative Law Judge

On March 12, 2013, 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 June, July and August 2013, and for continued use of ratemaking treatment for cost of wind power purchases. Also on March 12, 2013, Applicant filed its direct testimony and exhibits. On March 27, 2013, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was granted by a Docket Entry dated April 9, 2013. On April 16, 2013, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and direct testimony in this Cause. On May 1, 2013, the Commission issued a Docket Entry, to which IPL responded on May 2, 2013.

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, an evidentiary hearing in this Cause was held on May 8, 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.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant’s fuel cost charge and the ratemaking treatment of its wind power purchase costs. Therefore, the Commission has jurisdiction over Applicant 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 six coal producers. The remainder of IPL's coal requirements is met through spot purchases. Mr. Grimmer explained that IPL uses spot purchases of coal to: (1) provide the differential requirement between IPL's long-term contracts and its projected burn for the year; (2) test the quality and reliability of a producer to see if IPL may want to utilize the company as a long-term supplier; and (3) take advantage of one-off low price market opportunities when IPL's projected inventory levels allow. 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 using this variability to effectively manage its inventories. Mr. Grimmer testified IPL's inventories are currently within target ranges and the contract variability should allow IPL to stay within these target ranges absent some extreme fluctuation in unit dispatch or availability. 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 this 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 ASM Charge types follows the treatment ordered in the Commission's June 30, 2009 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 its 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 \$166,408 of purchased power costs over the applicable Purchased Power Daily Benchmarks during November and December 2012 and January 2013. 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 November and December 2012 and January 2013 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 of the purchased power is recoverable during the applicable accounting period. Therefore, IPL seeks to recover \$166,408 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for November and December 2012 and January 2013. 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.

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 November and December 2012 and January 2013 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 \$10,243.61 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 \$5,456.43 of Contestable Real-Time RSG Charges in November 2012, \$2,679.73 of Contestable Real-Time RSG Charges in December 2012 and \$2,107.45 of Contestable Real-Time RSG Charges in January 2013.

OUCS 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 Commission Order 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, 2013 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 \$34,698,000 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 \$197,698,000 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, 2013 was \$166,964,000. Therefore, the Commission finds that during the twelve month period ending January 31, 2013, 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 -2.46%. IPL projected its fuel costs for the billing months of June, July and August 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 reflected the projected costs going forward. Mr. Guerrettaz stated the OUCC reviewed each input in detail and had a good 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 that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for June, July and August 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 November and December 2012 and January 2013, IPL received 15,667 MWhs, 16,840 MWhs, and 13,124 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 November and December 2012 and January 2013, IPL received 30,335 MWhs, 23,207 MWhs, and 47,895 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 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 FAC98, Mr. Dininger said the level of curtailments measured as a percentage of full production at Lakefield remained consistent. He said IPL is used manual curtailments to avoid negative LMPs at Hoosier for the months of November and December 2012 and January 2013. Mr. Dininger said Hoosier became a DIR as of March 1, 2013, which IPL expects based on its experience with Lakefield will allow Hoosier to act more quickly to avoid negative LMPs. He explained there is a dispute between IPL and EDF over curtailments at Hoosier involving the circumstances under which IPL is not obligated to pay for Transmission Curtailments. IPL has served a notice of arbitration to EDF on the issue and will provide an update in its next FAC.

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 should be able to avoid negative LMPs and reduce its costs at Hoosier by following MISO set points and dispatching down quickly. He recommended that IPL report to the Commission any updates to the Hoosier LMP situation.

Mr. Guerrettaz testified that he reviewed IPL's recorded sales of Renewable Energy Certificates ("RECs") from Lakefield in November and December 2012 and Hoosier in December 2012. He noted that \$10,829 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 Hoosier situation, specifically the arbitration process with EDF, in its next FAC filing.

Further, the Commission finds that IPL should include a schedule in future FAC filings that provides for the delineation of information consistent with its response to Question 1 of the Presiding Officers' May 1, 2013 Docket Entry.

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 2013 is \$104,523,505 and its total estimated sales are 3,769,316 MWh. IPL's estimated cost of fuel is \$0.027730 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for November and December 2012 and January 2013. As shown on Applicant's Exhibit 1, Schedule 1, reconciliation of actual fuel costs and revenues results in a total variance of \$3,612,449. Dividing this amount by the total estimated jurisdictional sales of 3,769,316 MWh results in a variance factor of \$0.000958 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 \$0.016482 per kWh for the June, July and August 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 June, July and August 2013, and beginning with the first billing cycles for the June 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 \$1.69 or 2.00% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 98 (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 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 is approved. IPL shall provide an update regarding the Hoosier LMP situation in its next FAC filing.
4. In future FAC filings, IPL shall include the schedule of information required in Finding Paragraph No. 10.
5. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:
APPROVED:

MAY 15 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**