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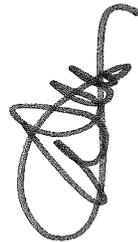
STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANAPOLIS POWER )  
& LIGHT COMPANY FOR APPROVAL OF )  
A FUEL COST CHARGE FOR ELECTRIC )  
SERVICE DURING THE MONTHS OF )  
MARCH, APRIL AND MAY, 2010, IN )  
ACCORDANCE WITH THE PROVISIONS )  
OF I.C. 8-1-2-42. )

CAUSE NO. 38703 FAC 86

APPROVED: FEB 19 2010



**BY THE COMMISSION:**

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

On December 14, 2009, Indianapolis Power & Light Company (“IPL” or “Applicant”) filed its application for approval of a fuel cost adjustment for electric service to be applicable during the billing cycles of March, April and May 2010. Also, on December 14, 2009, Applicant filed its direct testimony and exhibits. On December 21, 2009, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which petition was granted. On January 19, 2010, the Office of the Utility Consumer Counselor (“OUCC”) filed its report and direct testimony in this Cause.

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 February 4, 2010, at 9:30 a.m., EST, in the National City Center, Room 222, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant, the OUCC and IIG appeared by counsel. Applicant and the OUCC offered their respective prefiled testimony and exhibits which were admitted into evidence without objection. No member of the general public appeared and sought to participate.

Based upon the applicable law and the evidence of record, the Commission now finds:

**1. Commission Jurisdiction and Notice.** Proper notice of the hearing in this Cause was given as required by law. IPL owns and operates an electric utility and is subject to the jurisdiction of the Commission as provided in the Public Service Commission Act, as amended, I.C. 8-1-2, *et seq.* 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 at 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, plants 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 I.C. 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. Generally, 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. (Applicant's Exhibit B).

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. Changes in Charge Types as a Result of the Start of the Ancillary Services Market ("ASM").** IPL witness, Dewayne Boyer testified that in the Commission's FAC 85 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. As a result of the FAC 85 Order, IPL included the credits and charges for Contingency Reserve Deployment Failure Charge Uplift Amounts into its cost of fuel in this proceeding.

Mr. Boyer stated that as directed in the Commission's June 30, 2009 Phase II Order in Cause No. 43426 ("Phase II Order"), IPL, along with Duke Energy Indiana, Northern Indiana Public Service Company and Vectren Energy Delivery of Indiana ("ASM Joint Petitioners") held a discussion on July 21, 2009 with the OUCC and IIG to discuss information to be exchanged, procedures for future exchange under appropriate confidentiality protection and the reporting of ASM information in FAC proceedings. He stated that IPL and the OUCC are currently in discussions to determine a date and agenda for a company-specific meeting in January.

Mr. Boyer generally described IPL's experience with the ASM. He stated that the Midwest ISO launched its ASM on January 6, 2009 and to his knowledge ASM has generally functioned without any major issue. He stated that IPL's generators have been following real time signals as directed by the Midwest ISO with minimal issues and that Day Ahead and Real Time market clearing prices for Regulation, Spinning and Supplemental Reserves appear to be at reasonable levels consistent with market conditions. Mr. Boyer stated that between January 6, 2009 and October 31, 2009, the average ASM prices per megawatt hour were as follows:

<b>Month</b>	<b>Regulation</b>	<b>Spinning</b>	<b>Supplemental</b>
January, 2009	\$0.1758	\$0.1155	\$0.0042
February, 2009	\$0.1070	\$0.0738	\$0.0040
March, 2009	\$0.1115	\$0.0430	\$0.0042
April, 2009	\$0.1048	\$0.0544	\$0.0045
May, 2009	\$0.0956	\$0.0444	\$0.0047
June, 2009	\$0.0822	\$0.0529	\$0.0041
July, 2009	\$0.0792	\$0.0401	\$0.0044
August, 2009	\$0.0725	\$0.0365	\$0.0044
September, 2009	\$0.0691	\$0.0365	\$0.0065
October, 2009	\$0.0971	\$0.0791	\$0.0085

Mr. Boyer stated that the information for July, 2009 was modified slightly from that presented in its FAC 85 proceeding to reflect correction of a calculation error involving the megawatt hours divisor.

OUCC witness Michael Eckert stated that IPL's proposed ratemaking treatment for the new ASM Charge types follows the treatment ordered in the Phase II Order.

**5. Purchased Power Costs Above Monthly Standard.** Mr. Boyer testified that in the Commission's April 23, 2008 Order in Cause No. 43414 ("Purchased Power Benchmark Order"), the Commission approved a "benchmark" triggering mechanism for the judgment of the reasonableness of purchased power costs. Each day, a Benchmark is established based upon a generic Gas Turbine ("GT"), using a generic GT heat rate of 12,500 btu/kWh, using 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, 2010, unless further extended. Purchases made in the course of 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. Boyer sponsored Applicant's Exhibit C-1 showing the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Boyer stated that IPL incurred a total of \$361,658 of purchased power costs over the applicable Purchased Power Daily Benchmarks during August, September and October 2009. He stated that IPL makes power purchases when economical or due to unit unavailability. Mr. Boyer stated that consistent with the Commission's Purchased Power Benchmark 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, Mr. Boyer prepared Applicant's Exhibit C-2, which summarizes the purchased power volumes, costs, the total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for August, September and October 2009 and the reasons for the purchases at-risk after consideration of Midwest ISO economic dispatch. Mr. Boyer testified that utilizing the methodology approved in the Purchased Power Benchmark Order, no purchased power is non-recoverable during the applicable accounting period. Therefore, IPL is seeking to recover \$361,658 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for August, September and October 2009.

Mr. Eckert stated that Applicant followed the guidelines and procedures that were established in the Purchased Power Benchmark Order. In addition, the OUCC also calculated that all of the purchased power cost that exceeded the benchmark is recoverable and recommended that Applicant be allowed to recover its purchased power over the benchmark.

**6. Contestable Revenue Sufficiency Guarantee ("RSG") Charges.** Mr. Boyer testified that IPL's recovery of RSG charges proposed in this proceeding is consistent with the Commission's June 3, 2009 Order in Cause No. 43664 ("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, using 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 “43664 RSG Daily Benchmarks”). Any Revenue Sufficiency Guarantee First Pass Distribution amounts in excess of the 43664 RSG Daily Benchmarks are termed “Contestable RSG.” Mr. Boyer stated that the 43664 RSG Daily Benchmarks calculation for August, September and October 2009 have been done in conformity with the 43664 RSG Order and were shown in Applicant’s Exhibit C-1.

Mr. Forestal stated that during the applicable accounting period IPL incurred a total of \$10,379.77 of Contestable Real-Time RSG Charges. He stated that IPL was not seeking recovery of any Contestable RSG in this proceeding. In accordance with the 43664 RSG Order, Mr. Forestal stated that IPL deferred \$4,909.92 of Contestable Real-Time RSG Charges in August 2009; \$2,442.40 of Contestable Real-Time RSG Charges in September 2009; and \$3,027.45 of Contestable Real-Time RSG Charges in October 2009.

OUCG witness Mr. Eckert recommended that Applicant be allowed to defer its Contestable RSG charges. Based on the evidence and given that no party objected to the deferral of its Contestable RSG charges, the Commission finds that its deferral is approved.

7. **Operating Expenses.** I.C. 8-1-2-42(d)(2) requires the Commission to find that increases in a utility’s fuel costs have not been offset by decreases in other expenses. Comparing the twelve-month period ending October 31, 2009 with the Commission’s August 23, 1995 Order in Cause No. 39938, Applicant’s Exhibit No. 2 calculates the (d)(2) test, showing that total jurisdictional operating expenses excluding fuel costs have increased and therefore, the Commission should find that the “operating expense” test of I.C. 8-1-2-42(d)(2) is satisfied.

8. **Return Earned.** For the purpose of applying the return test from I.C. 8-1-2-42(d)(3), 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 \$30,852,000 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 \$193,852,000 for purposes of this proceeding. IPL’s actual return for the twelve-month period ended October 31, 2009, was \$179,864,000. Therefore, during the twelve month period ending October 31, 2009, IPL did not earn a return in excess of the stipulated return for this proceeding.

9. **Estimating Techniques.** IPL’s weighted average deviation between forecast and actual fuel cost was 2.59%. In our Order in FAC 85, the Commission encouraged IPL to propose adjustments to long-standing practice when situations arise in which a more precise forecast is likely to have the effect of reducing future volatility as such forecasts are reconciled with annual results. IPL witnesses Mr. Dininger and Mr. Forestal stated that IPL has now revised its method of projecting fuel costs to reflect the average cost of the fuel inventory rather than the latest price of fuel. The schedules in this filing reflect this new methodology.

IPL witness Mr. Boyer stated that purchases from the Hoosier Wind Park were included in this FAC, in projected fuel costs. He noted pursuant to the approval received in Cause No. 43485, the Company began receiving power from Hoosier Wind Park on November 1, 2009.

Based upon the evidence presented, we find that Applicant's estimating techniques are reasonably accurate and that its estimate of fuel costs for March, April and May 2010, should be accepted.

**10. Reconciliation and Resulting Fuel Cost Factor for Electric Service.** IPL's total estimated cost of fuel for March, April and May 2010 is \$74,613,862, and its total estimated sales are 3,239,624 MWh. IPL's estimated cost of fuel is \$0.023032 per kWh. The evidence of record indicated that IPL reconciled the actual fuel costs and revenues for August, September and October 2009. Reconciliation of actual fuel costs and revenues results in a total variance of \$(1,065,695). Dividing this amount by the total estimated jurisdictional sales of 3,239,624 MWh results in a variance factor of \$(0.000329) 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 \$0.010406 per kWh for the March, April and May 2010, billing cycles.

Pursuant to I.C. 8-1-2-42(a), we find that this factor should be approved and become effective for all bills rendered for electric services beginning with the first billing cycles for the March 2010 billing month in Regular Billing District 41 and Special Billing District 01. As a result of the fuel cost factor approved herein, the average residential customer using 1,000 kWh per month will experience an increase of \$3.12 or 4.23% on his or her electric bill.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. The fuel cost factor set forth at Finding Paragraph No. 10 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 herein, a separate amendment to its rate schedules with clear reference therein reflecting that such factor is applicable to the rate schedules reflected on the amendment, as shown in Applicant's Exhibit 1-A.
3. This Order shall be effective on and after the date of its approval.

**HARDY, ATTERHOLT, GOLC AND ZIEGNER CONCUR; LANDIS ABSENT:**

**APPROVED: FEB 19 2010**

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

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