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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS )  
POWER & LIGHT COMPANY FOR )  
APPROVAL OF AN ADJUSTMENT TO ITS )  
RATES THROUGH ITS ENVIRONMENTAL )  
COMPLIANCE COST RECOVERY )  
ADJUSTMENT FOR THE BILLING MONTHS )  
OF SEPTEMBER, OCTOBER, NOVEMBER, )  
DECEMBER, 2010 AND JANUARY AND )  
FEBRUARY, 2011, PURSUANT TO THE )  
COMMISSION'S ORDERS IN CAUSE NOS. )  
42170, 42700 AND 43403. )

CAUSE NO. 42170 ECR 15

APPROVED: AUG 25 2010

**BY THE COMMISSION:**  
**David E. Ziegner, Commissioner**  
**Aaron A. Schmoll, Senior Administrative Law Judge**

On June 21, 2010, Indianapolis Power & Light Company ("IPL" or "Petitioner") filed its petition for approval of its environmental compliance cost recovery adjustment ("ECCRA") pursuant to the Commission's Orders in Cause No. 42170, issued November 14, 2002 and Cause No. 42700, issued November 30, 2004. Also, on June 21, 2010, Petitioner filed the direct testimony and exhibits of David Kehres, Thomas W. Moore, Greg Daeger, Craig Forestal, Dwayne Burke and James Cutshaw. The Office of Utility Consumer Counselor ("OUCC") filed the testimony of Wes R. Blakley and Cynthia M. Armstrong in this Cause on August 4, 2010. Petitioner filed the rebuttal testimony of Mr. Burke and Mr. Cutshaw on August 9, 2010.

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 11, 2010, at 9:45 a.m., in Room 222, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing Petitioner and the OUCC appeared by counsel and offered their prefiled testimony and exhibits, which were admitted into evidence without objection. IPL's Response to the Commission's August 9, 2010 Docket Entry was also admitted into evidence without objection. No other party or members of the general public appeared.

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 this Commission as provided in the Public Service Commission Act, as amended, IC 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 One Monument Circle, 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. Proposed Rider Adjustment.** The Commission's November 14, 2002 Order in Cause No. 42170 granted IPL a Certificate of Public Convenience and Necessity ("CPCN") for Petitioner's projects to comply with new environmental regulations restricting the emission of nitrogen oxides ("NOx") from Petitioner's generation units ("November 14 Order"). The November 14 Order also approved use of the ECCRA and procedures for implementing the ECCRA, including standardized forms for purposes of submission of information. On February 28, 2007 in Cause No. 42170-ECR-8, the Commission approved modifications to Petitioner's CPCN to include the installation of a sodium bisulfite ("SBS") injection system for the Selective Catalytic Reduction ("SCR") projects for Petersburg Units 2 and 3 to mitigate sulfur trioxides ("SO<sub>3</sub>") emissions and for recovery of the cost of the SBS injection system.

The Commission's November 30, 2004 Order in Cause No. 42700 approved modifications to the CPCN to construct a Flue Gas Desulfurization ("FGD") system at Harding Street Unit 7 and FGD Enhancements on Petersburg Unit 3 (the "November 30 Order"). On August 31, 2005 in Cause No. 42170-ECR-5, on August 16, 2006 in Cause No. 42170-ECR-7 and on February 28, 2007 in Cause No. 42170-ECR-8, the Commission approved modifications to IPL's CPCN regarding IPL's cost estimates of the CCT projects. On September 13, 2007 in Cause No. 42170-ECR-9, the Commission found that the catalyst replacement and refurbishment expenditures incident to the operation of IPL's Selective Catalyst Reduction equipment are an ongoing cost appropriate for recovery in IPL's ECR semi-annual proceedings.

The projects approved pursuant to the Commission's November 14 and November 30 Orders and our subsequent orders in various ECR proceedings, concern the first step of IPL's Multi-Pollutant Plan. The Commission's April 2, 2008 Order in Cause No. 43403 approved a modification to the CPCN to construct FGD Enhancements on Petersburg Unit 4 and to install mercury monitors ("April 2 Order") to allow IPL to reliably and economically achieve compliance with the Environmental Protection Agency's ("EPA") air emission regulations. Steps 1 and 2 are collectively referred to as the "Multi-Pollutant Plan". On February 24, 2010 in Cause No. 42170 ECR 14, the Commission approved modifications to IPL's CPCN regarding IPL's cost estimates of the Multi-Pollutant Plan projects. In this Cause, Petitioner seeks Commission approval of an ECCRA to earn a return on construction costs incurred as of May 31, 2010, and to timely recover depreciation and Operation and Maintenance ("O&M") expenses.

**4. Status of Petitioner's Construction of Qualified Pollution Control Property ("QPCP").** Petitioner submitted testimony regarding the status of the Clean Coal Technology ("CCT") projects. IPL Witness Kehres provided the final NOx project costs for the original projects approved in Cause No. 42170. He also stated that the SBS Injection Systems have not been completed. The completion date for the SBS Injection Systems has not been determined as

these projects have been suspended. He stated that the final costs for those projects will be reported once they are completed and placed into service.

Witness Kehres testified that there were two Multi-Pollutant Plan projects that were approved in the November 30 Order. The first was enhancement to the existing flue gas desulfurization ("FGD") system on Petersburg Unit 3. He stated that the FGD system on Petersburg Unit 3 has been completed and that the project entered service on June 24, 2006. Witness Kehres testified that the performance of the upgraded scrubber has exceeded the original design emission target of 0.4 lbs. SO<sub>2</sub>/MMBTU as the current emissions from Unit 3 are less than 0.2 lbs. SO<sub>2</sub>/MMBTU. This better than expected performance will likely result in lower future SO<sub>2</sub> compliance costs as fewer SO<sub>2</sub> emissions allowances will be consumed on Unit 3.

The second Multi-Pollutant Plan project is construction of a new FGD system for Harding Street Unit 7. Witness Kehres testified that the Harding Street Unit 7 FGD went into service on September 17, 2007, although some construction/punch list completion activities continue.

Mr. Kehres stated that IPL has also received final certification from the Indiana Department of Environmental Management ("IDEM") for the continuous Particulate Matter Continuous Emissions Monitoring System ("PM CEMS") on the Harding Street Unit 7 scrubbed stack and that the system was placed into service on June 4, 2009. He stated the PM CEMS is performing as expected and has resulted in lower reported particulate emissions and significantly fewer units derates due to measured opacity levels upstream of the FGD system. However, IPL will be required to install a redundant PM CEMS in the Unit 7 scrubbed stack to meet the IDEM requirements for a continuous monitoring system. He stated that design work for the installation of the redundant PM CEMS has begun with the equipment vendor.

Mr. Kehres stated that the remaining work on Harding Street Unit 7 FGD includes the installation of a stack liner protection system on the FGD bypass stack and the installation of winterization hardware and engineering controls on the SO<sub>3</sub> removal system. He also stated that (a) since the most recent filing IPL has completed the installation of a redundant SO<sub>2</sub> monitor on the FGD inlet; (b) installation of an access opening to the FGD recycle piping header for personnel to enter for inspection and/or repair is planned for completion this fall; and (c) IPL will continue installation of platforms to improve access to various FGD equipment.

Mr. Kehres stated that a borosilicate block lining system is planned for installation on the existing steel liner of the Harding Street Unit 7 FGD bypass stack during the fall 2010 overhaul outage on Unit 7. He stated the specification for this liner installation is largely complete and will be released for procurement very soon.

Mr. Kehres provided an update on the progress on the winterization work and engineering controls that are planned for the SO<sub>3</sub> removal system (SBS System). He stated the SBS injection equipment is located in the SCR structure just downstream of the SCR reactor duct and that this area of the SCR structure is prone to severe icing during the winter months from the cooling tower plume which blows through the outdoor SCR. He stated that this icing problem has become more of a safety issue now that both SBS and SCR are operated year round. Mr. Kehres stated that the occasional icing was tolerated in the past as the SCR was out of service

during the winter months and operating personnel were not required to work as often in the icy areas of the SCR structure. He stated that IPL plans to install enclosures and/or wind walls and heating to prevent ice formation on the necessary work areas. Engineering work on the winterization project will begin during Summer of 2010.

Mr. Kehres also stated that the Breen Probe analyzer systems approved in ECR-14 have been installed and the probes will be commissioned this summer with final controls completed later this year.

Witness Burke provided an update on the Harding Street Unit 7 FGD approved in Cause No. 42700. He stated that the Harding Street Unit 7 FGD began operation on September 17, 2007 and that since commencement of operation, the scrubber is removing at least 97% of the SO<sub>2</sub> from the Unit 7 flue gas. Overall SO<sub>2</sub> emissions at Harding Street have decreased from 31,000 tons per year to 1,000 tons per year. Therefore, a significant reduction in SO<sub>2</sub> emissions has occurred at Harding Street due to the Unit 7 FGD scrubber. In addition to the SO<sub>2</sub> reductions, there have been reductions in PM/PM10/PM2.5 and ionic mercury due to the Harding Street Unit 7 FGD. IPL believes the reduction in PM2.5 will assist Marion County in the PM2.5 attainment strategy.

Mr. Burke also stated that Harding Street Unit 7 saw a dramatic increase in opacity readings associated with the FGD installation attributed to the location of the Continuous Opacity Monitoring System. In response, he stated that IPL sought and received approval from IDEM to install a PM CEMS, a more accurate reading methodology. IPL received final certification from IDEM for the PM CEMS on the Unit 7 scrubbed stand and the system was placed into service on June 4, 2009. Mr. Burke stated the PM CEMS is performing as expected and has resulted in lower reported particulate emissions and significantly fewer unit derates due to measured opacity levels upstream of the FGD system.

Mr. Burke also provided an update on the Harding Street Unit 7 PM CEMS. He stated that IPL plans to install a back-up monitor in the scrubbed stack to meet the IDEM monitor availability requirements. He stated that IPL has begun design work for the installation of the redundant PM CEMS with the equipment vendor.

Mr. Kehres testified that there are two additional Multi-Pollutant Plan projects that were approved in the Commission's April 2 Order; Petersburg Unit 4 FGD Enhancements and Mercury Monitoring Systems. He stated that IPL decided to delay the Petersburg Unit 4 FGD Enhancements project and that the Petersburg Unit 4 turbine overhaul outage was rescheduled for 2011 to match the revised project completion schedule for the FGD Enhancements. He stated that engineering and procurement activities are continuing to support the revised project completion date. He stated that as of May 31, 2010, engineering on the Petersburg Unit 4 FGD Enhancements project was 89.2% complete and procurement was 47.4% complete. Construction activities began during the first quarter of 2010. Mr. Kehres stated that there has been no change in the expected costs for the Multi-Pollutant Plan projects. Mr. Kehres provided further details on the status of the Petersburg Unit 4 FGD Enhancements project in Petitioner's Exhibit DK-3.

Mr. Burke provided a summary of the current EPA NOx emission reduction requirements. He stated that CAIR required year round NOx compliance as of January 1, 2009.

He stated that this new requirement, commonly referred to as the annual ozone season, is in addition to the summer ozone season requirements (May 1 through October 31) which have been in effect since the NO<sub>x</sub> SIP call. In addition, CAIR NO<sub>x</sub> compliance is phased in through two phases. Phase I became effective on January 1, 2009 with the effective emission reduction requirements of 0.15 lb / mm BTU remaining the same as the EPA NO<sub>x</sub> SIP call. Phase II is scheduled to go into effect on January 1, 2015. He explained that IPL is projected to meet the 2010 CAIR NO<sub>x</sub> emission reduction requirements primarily through the successful operation of its NO<sub>x</sub> pollution control equipment. In addition to the control technology, IPL maintains a SCR catalyst management plan for Petersburg Unit 2, Petersburg Unit 3, and Harding Street Unit 7 which ensures low NO<sub>x</sub> emission rates are maintained on those units. He stated that IPL currently anticipates having a surplus of 6,000 annual NO<sub>x</sub> tons in 2010 while being flat for the summer ozone season, based on the current load forecast. He stated that as with any surplus of allowances, IPL will continue to evaluate the merits of banking, selling or trading seasonal and annual NO<sub>x</sub> allowances for 2010. Mr. Burke stated that to date, IPL has conducted one NO<sub>x</sub> allowance transaction in 2010.

Mr. Burke stated that the NO<sub>x</sub> allowance market has been on the downward slide since late 2008. He discussed the annual and seasonal NO<sub>x</sub> allowance market conditions. He stated that the key driver for the downward NO<sub>x</sub> allowance price pressure is that the EPA is under court order to issue a CAIR replacement rule with an anticipated release in the summer of 2010. He stated that the CAIR replacement rule will likely limit the ability to trade allowances to within a certain geographic area. Moreover, EPA has warned prospective buyers and sellers that a new allowance currency may be issued. As a result, EPA states it will continue to record NO<sub>x</sub> allowance transactions but that does not guarantee or imply that any allowances will continue to be usable for compliance after a replacement rule is finalized or that they will continue to have value in the future. He stated that in short, the NO<sub>x</sub> allowance market is at historical lows and quite inactive due to uncertainty concerning the new CAIR rule and its impact on the allowance currency and decreased emissions associated with a decrease in electrical demand. Mr. Burke stated that once the new CAIR replacement rule is finalized and the economy recovers it is anticipated the NO<sub>x</sub> allowance market will return to more historical levels and activity.

Mr. Burke also described the CAIR SO<sub>2</sub> emission reduction requirements which became effective January 1, 2010. He stated that CAIR was subject to a Court challenge at the Federal level. Mr. Burke explained that the Court determined that, notwithstanding the flaws of CAIR, remanding it without vacatur was preferable to retain the environmental benefits of the rules. He testified that as a result, Phase I of the new CAIR became effective for SO<sub>2</sub> on January 1, 2010. He explained that the Phase I emission reduction requirement equates to a 50% reduction in the current emission rate (0.6 lb/MMBtu) as allowances will be required to be submitted on a 2:1 ratio. The 50% emission reduction and the submittal of allowances on a 2:1 basis will remain in effect from 2010 through 2014 or until a new CAIR replacement rule is finalized.

Mr. Burke stated that IPL is pursuing a number of options to meet the new, more stringent CAIR emission reduction requirements which featured a 50% SO<sub>2</sub> reduction effective January 1, 2010. First, IPL upgraded the emission reduction capability of Petersburg Unit 3 FGD. Second, IPL commenced operation of a new FGD on the Harding Street Unit 7 in October 2007 as approved in Cause No. 42700. Third, IPL is planning to upgrade the removal performance of the Petersburg Unit 4 FGD in the fall of 2011 as approved in Cause No. 43403.

He explained that the purpose of the Petersburg Unit 4 FGD upgrade is to increase the SO<sub>2</sub> removal efficiency of the unit to 95%. The increase to the SO<sub>2</sub> removal efficiency will result in an estimated additional removal of 14,000 tons per year of SO<sub>2</sub>.

Mr. Burke stated that with the successful upgrade of the Petersburg Unit 3 and Unit 4 FGDs, Harding Street Unit 7 FGD installations along with the operation of Petersburg Unit 1 and Unit 2 FGDs, IPL is expected to materially meet the SO<sub>2</sub> emission reduction requirements. He stated that as IPL has done in the past, IPL will supplement its compliance with the purchase of allowances, if needed. He stated that due to IPL's current projected SO<sub>2</sub> allowance shortfall for 2010 and 2011 of approximately 14,000 tons of SO<sub>2</sub>, IPL recently purchased 3,600 tons of SO<sub>2</sub> allowances. He stated that IPL also received 7,739 SO<sub>2</sub> allowances in an allowance swap to help address its projected 2010 shortfall which is primarily driven by the new CAIR SO<sub>2</sub> emission reduction requirements and is also attributed to Petersburg Unit 1 auxiliary issues which led to a 5,000 ton increase in SO<sub>2</sub> emissions in combination with an increase in Eagle Valley unit operations. Mr. Burke stated that IPL anticipates the Petersburg Unit 4 FGD upgrade, once fully operational, will result in a future SO<sub>2</sub> flat position pending further EPA emission reduction requirements as anticipated by the CAIR replacement rule.

Mr. Burke stated that EPA is "moving aggressively" to address interstate transport of NO<sub>x</sub> and SO<sub>2</sub> according to Assistant Administrator McCarthy. EPA recently indicated it plans to issue a new proposed CAIR replacement rule by July 2010 with a final rule approved in 2011. The issuance of the EPA rule will preclude the need for Congressional action. Mr. Burke explained that it is widely reported that EPA will not only seek tighter emission control limitations but will also propose tighter trading regimes, such as regional or intrastate trading. As a result of the anticipated CAIR replacement rule, the Petersburg Unit 4 scrubber upgrade will be needed to ensure IPL meets the emission reduction requirements without having to rely on a limited trading market.

Mr. Burke provided an update on the Petersburg Unit 4 FGD approved in Cause No. 43404. He stated that the upgrade is moving forward and is needed to help IPL meet its SO<sub>2</sub> obligations under the CAIR and CAIR replacement rule. He stated that in addition, on June 2, 2010, EPA released its final rule strengthening the primarily, welfare based, National Ambient Air Quality Standards ("NAAQS") for SO<sub>2</sub> (the "Final Rule") that revokes the existing 24-hour and annual standards and establishes a new 1-hour standard at a level of 75 parts per billion, based on the 3-year average of the annual 99<sup>th</sup> percentile of 1-hour daily maximum concentrations. He stated it is possible a scrubber upgrade could be needed to help counties meet their potential nonattainment status which will result from this new standard.

OUCC Witness Wes R. Blakley described the ratemaking treatment requested by Petitioner in this Cause. He testified that nothing came to his attention that "would indicate that Petitioner's calculation of estimated ECR adjustment factors for the relevant period is unreasonable."

OUCC Witness Cynthia M. Armstrong testified regarding Petitioner's emission allowance transaction during the reconciliation period in this Cause, as described in IPL Witness Burke's direct testimony. Although Ms. Armstrong made some general observations about revenue sharing agreements and the potential that allowance swaps with affiliates might not be in

the best interest of the utility or the ratepayers, she had no such concerns with the transaction presented here. Ms. Armstrong testified that the OUCC does not oppose the allowance transaction and recommends approval of the proposed factors in this proceeding. At the hearing, the OUCC clarified that it is not challenging the reasonableness of IPL's rates. Ms. Armstrong also testified that she did not find any issues with the calculation of the SO<sub>2</sub> allowance credit for allowances consumed by wholesale electricity sales from Harding Street Unit 7 and Petersburg Unit 3.

IPL Witnesses Burke and Cutshaw offered rebuttal testimony and exhibits addressing the concerns raised in Ms. Armstrong's testimony and further demonstrated the NOx allowance transaction and proposed factors are reasonable. These witnesses provided additional explanation during the hearing. They testified that the decision to sell the NOx allowances was made prior to and independent of the decision that it was necessary to purchase SO<sub>2</sub> allowances. They also testified that while the two transactions were implemented as a swap with an affiliate, the swap was done at the fair market price just as if a non-affiliate had been involved and had the additional benefit of eliminating broker fees. Finally, Mr. Cutshaw's testimony explained that the fact that the transaction was a swap instead of an actual sale of IPL NOx allowances did not change the accounting for the transaction, which was done in accordance with Generally Accepted Accounting Principles ("GAAP") and the FERC Uniform System of Accounts and in accordance with the settlement agreement in Cause No. 42170.

Based on the evidence, we find that the costs incurred through May 31, 2010 for the CCT projects are reasonable and appropriate. We approve the construction work through May 31, 2010, and the reflection of such costs in the ECCRA.

**5. Compliance with Applicable Requirements.**

**A. Amount of QPCP Construction Costs.** 170 IAC 4-6-12 ("Section 12") requires Petitioner to make certain submissions as part of its prefiled written testimony and exhibits in support of its request for ratemaking treatment for its QPCP construction costs. Pursuant to Section 12(a), Witness Forestal sponsored Petitioner's Exhibits CF-2 NOx and CF-2 MPP, which set forth the construction costs as of May 31, 2010 for which Petitioner seeks ratemaking treatment in this Cause. This ECCRA includes recovery of costs approved in this Commission's prior orders in Cause No. 42170 and Cause No. 42700. Mr. Forestal stated that the projects approved in the April 2 Order must be under construction for at least six months prior to inclusion in the ECCRA and that projects approved in the Commission's April 2 Order would be included in a later ECCRA once this condition has been met. Mr. Forestal stated that in accordance with the settlement agreement which was approved in Cause No. 42170, the NOx Allowance Expense on Exhibit CF-2 NOx has been reduced by 80% of the net proceeds from IPL's sale of NOx allowances that occurred during the current filing period.

**B. Rate of Return on Approved QPCP Construction Costs.** Petitioner's Exhibit CF-1 NOx reflects the calculation of Petitioner's Gross Revenue Conversion Factors as approved in Cause No. 42170 utilizing an allowed rate of return of 8.00% and a gross rate for borrowed funds of 3.27%. Petitioner's Exhibit CF-1 MPP reflects the calculation of Petitioner's Gross Revenue Conversion Factors as approved in Cause No. 42700 utilizing an allowed rate of return of 7.70% and a gross rate for borrowed funds of 3.65%.

**C. Recovery of Depreciation, Capital Maintenance and Operation and Maintenance (O&M) Expenses.** Our November 14, November 30 and April 2 Orders, provide for the timely recovery of depreciation and O&M expenses. Petitioner's Exhibit CF-2 NO<sub>x</sub> and Petitioner's Exhibit CF-2 MPP included prospective depreciation and O&M expenses. Witness Forestal testified that the estimated O&M expenses were for ammonia and urea costs that will be consumed for the operation of the SCRs and SNCRs, limestone, chemicals and labor costs (including benefits) for the operation of the FGDs, as well as for maintenance of the equipment.

Mr. Forestal stated Petitioner's Exhibit CF-2 contains items that were approved in ECR 14 and that IPL is also requesting recovery of an incremental \$37,000 of capital maintenance items added during the period ending May 31, 2010, including AFUDC, as discussed by IPL Witness Daeger. Mr. Forestal provided additional support for IPL's treatment of capital maintenance items as substantial additions. He explained that IPL uses the term capital maintenance to refer to items installed in its pollution control equipment which replace equipment that (i) was capitalized and is included in IPL's utility plant balance, (ii) was included in the original CPCN granted for pollution control equipment, (iii) has since failed or been damaged, (iv) was determined to be a unit of property when it was originally installed and (v) is not considered a substantial betterment compared to the original equipment being replaced. He stated that replacement of items that were originally capitalized but not considered to be units of property are expensed as maintenance and that IPL uses the term "unit of property" to be synonymous with the term "retirement unit." Mr. Forestal stated that IPL consistently capitalizes items which replace failed or damaged equipment which was designated to be a unit of property regardless of whether or not the original equipment was included in the CPCN and eligible for timely recovery. He stated that this practice is required by the Uniform System of Accounts ("USOA") (CFR Part 101, Section 10) and Federal Energy Regulatory Commission Order No. 598 issued on February 5, 1998. Mr. Forestal stated that IPL's financial practices and procedures are established to ensure proper compliance with the USOA's treatment of asset acquisition, depreciation, transfer and disposition.

Mr. Forestal stated that while FERC does not provide a definition for the term "unit of property" or "retirement unit," the Edison Electric Institute defines units of property as, "[a]n assemblage of equipment consisting of individual items usually considered as a whole for determining the accounting treatment for replacement of the equipment." He stated that based on this guidance, the items included in this filing as capital maintenance were determined to be units of property by IPL accounting personnel years ago independent of the regulatory tracker process.

Mr. Forestal explained that capital maintenance costs are recovered in the same manner as Utility Plant included in the CPCN, which is over the estimated useful life of the item and including a return. He explained that both the estimated useful life (18 years) and the return were agreed upon in the applicable Stipulation and Settlement Agreements for the NO<sub>x</sub> (Cause No. 42170) and MPP (Cause No. 42700) programs. Conversely, maintenance expenses are recovered by IPL over a six month period without a return.

Mr. Forestal stated that Petitioner's Exhibit CF-2 reflects retirements related to the capital maintenance items replaced. He stated that to reflect the recorded retirement entries, the original cost of the retired assets has been shown separately as a reduction from clean coal technology

utility plant, and accumulated depreciation was reduced. Additionally, the forecasts for depreciation have been adjusted to remove depreciation for the items replaced.

Mr. Forestal also explained that during the preparation of this filing, IPL discovered that a past retirement (roofing) had been reflected on line 2 of Petitioner's Exhibit CF-2 [NOx] as a reduction of the cost of the Full Selective Catalytic Reduction Project (SCR) for Petersburg Unit 2, and again on line 24 as a retirement from clean coal technology utility plant, in addition to the appropriate reduction to accumulated depreciation. He stated that in this filing, IPL corrected that by increasing the cost of the Full Selective Catalytic Reduction Project (SCR) for Petersburg Unit 2 (line 2) back to original cost. Mr. Forestal stated that the customer was not harmed by the prior presentation because the total clean coal technology utility plant reflected in the prior filing was understated and IPL is making this change prospectively.

IPL Witness Moore provided a review of the implementation of IPL's Selective Catalytic Reduction ("SCR") Catalyst Management Program and provided information regarding the replacement and refurbishment expenditures which will be incurred incident to operation of IPL's SCR systems at Petersburg Unit 2, Petersburg Unit 3 and Harding Street Unit 7 for which recovery will be sought in future proceedings. He also presented updated and new information regarding the continuing processes for the SCR Catalyst Management Program and SCR System modifications to be undertaken as a result of year round operation of the SCR Systems presently installed, as well as updates for the Petersburg Unit 3 FGD System and the SBS Injection System. Mr. Moore stated that previously several system modifications and additions were identified to provide safe and efficient NOx reduction throughout the year. He explained that during 2009, IPL made numerous equipment modifications and additions to the Petersburg Unit 2 and Unit 3 SCR Systems. He stated that the next scheduled outages for these Units are in the Fall of 2010 and the Spring of 2011, respectively. For this reason, activities planned for the next six month period will consist of modifications and additions external to the SCR reactors as well as those internal to the Petersburg Unit 2 reactors during the upcoming Fall outage.

Mr. Moore identified and described the equipment modifications and additions. He stated that while most of the modifications and additions identified in IPL's ECR-13 and ECR-14 proceedings were completed and placed in service, a few remain to be completed during the next six month period (installation of permanent fly ash vacuum lines for both Petersburg Unit 2 and Petersburg Unit 3, completion of the protective shelters at the SCR structures, installation of horizontal platforms and safety access to the outlet slope areas of the Petersburg Unit 2 SCR, and completion of direct walk-way access from the sixth floor of the Unit 2 to the outlet slope area of the Petersburg Unit 2 SCR.

Mr. Moore stated that there has been no substantive change for the planned in-service date for the SBS Injection System for Petersburg Units 2 and 3. He stated that although a new planned in-service date has yet to be determined, the developers of the SBS Injection System have continued to provide process modifications and enhancements for increased process efficiency and reduced capitalized and operating costs. He stated that IPL continues to work with the developers to optimize the injection locations and process parameters for the Petersburg application. He reiterated that testing has indicated the process to be beneficial for the removal of mercury when used in conjunction with an SCR and a wet limestone scrubber. He stated that since this is the equipment configuration planned for Petersburg Unit 2 and Unit 3, IPL has

suspended its planned stand alone SBS Injection System to conduct further analysis to optimize the use of this technology and to consider whether its installation should be coordinated with IPL's future mercury mitigation program.

Mr. Moore stated that now that the SCR Systems have accumulated approximately 27,000 hours of operation, it remains prudent to expect failures and plan for replacement of critical parts and equipment. The types of equipment most likely to experience these conditions are: analyzers, pumps, valves and piping and acoustic horns. The anticipated life of this equipment will vary with usage and severity of conditions experienced. Without specific definition of a schedule, capital maintenance of unitized equipment is forecast for each annual period of operation. He stated that equipment repair and replacement in kind occur as required to maintain the safe, efficient operation of the SCR systems.

In its response to the Commission's Docket Entry dated August 9, 2010, IPL explained that the increase in O&M costs of \$1,664,000 from ECR 14 (\$2,093,000 - \$429,000) is primarily due to catalyst refurbishment costs for the Petersburg Selective Catalyst Reduction reactors as part of IPL's Catalyst Replacement Plan, as discussed in Witness Moore's testimony. IPL stated it projects \$1,471,000 of catalyst refurbishment costs and \$170,000 of routine maintenance projects will occur during the fall outage when personnel are able to enter into the SCR reactors, based on cost estimates derived from historical data and educated projections based on similar work performed on other equipment. IPL's response indicated that the balance of the incremental O&M expense included in Exhibit CF-2 [NOx] reflects changes in the ongoing level of O&M expense for the Petersburg Unit 2 Full SCR Project and is comparable to the incremental O&M expense for this Project shown in ECR 13 and 14.

Mr. Daeger explained the capital maintenance projects completed and/or begun in the past 6 month period. He stated that the Harding Street Unit 5 Neural Network and Plant Information Data Historian which required hardware replacement was completed and that the computer software/hardware associated with the Harding Street Unit 6 Neural Networks are being replaced. He stated that this equipment replacement is necessary to support the installation of new software and to sustain reliable Neural Network service and low NOx emission rates. He stated that Two (2) Make-up Water Pressure Control Valves are being replaced on the Harding Street Unit 7 FGD. He stated that reliable operation of these valves will prevent premature equipment fouling and higher SO<sub>2</sub> emissions. He stated the Harding Street Unit 7 FGD 7-2 Booster Fan Outlet Expansion Joint required replacement. He stated expansion joint degradation allows flue to escape the duct prior to entering the FGD.

Mr. Daeger also identified the capital maintenance projects planned for the next 6 month period. He stated that (1) the computer hardware associated with the Eagle Valley Unit 6 Neural Networks must be replaced to sustain reliable Neural Network service and low NOx emission rates; and that (2) the FGD Flow Indicating Transmitter FIT 7315 and 7-1 Filter Feed Pump Suction Valve, the 7-1 and 7-2 Booster Fan Inlet Expansion Joints, the ABS tolerant Air Preheater Baskets and the SCR Damper Drives at Harding Street Unit 7 must be replaced.

Mr. Moore stated that the enhancement project to the existing FGD System on Petersburg Unit 3 has been completed and the project entered service on June 24, 2006. A recent inspection of the stack liner, which was installed during the Unit 3 Enhancement project, revealed some

problem areas with the alloy wallpaper on upper sections of the stack liner. The alloy wallpaper had become detached from the carbon steel liner in certain areas and was repaired during a recent outage. Another investigation will be conducted during the second half of 2010 to determine the extent of any additional damage and a remedial plan will be developed for implementation during the next planned unit outage during the first half of 2011.

**D. Revenue Requirement.** Section 12(5) requires Petitioner to submit evidence regarding the derivation of its revenue requirement, including tax calculations, associated with the ratemaking treatment for the QPCP construction costs. Petitioner's Exhibit CF-1 NOx and Petitioner's Exhibit CF-1 MPP provide this information. Petitioner's Exhibit CF-2 provides details of the construction costs that have been incurred through May 31, 2010. Witness Forestal stated that the CCT projects for which IPL is seeking recovery had been under construction at least six months, including modifications to the projects that are necessary for year round operation as approved in ECR 14, at a cost of \$479.4 million, inclusive of AFUDC and net of retirements) through May 31, 2010. Petitioner's Exhibit CF-2 NOx and Petitioner's Exhibit CF-2 MPP indicate that the total ECR 14 revenue requirement associated with QPCP construction costs as of May 31, 2010 is \$20.018 Million.

Mr. Forestal explained that IPL also included projected depreciation and O&M associated with the CCT controls that are now in-service for the billing period of September 2010 through February 2011. The amount of depreciation expense that is included in this filing is \$14.4 million, and the amount of O&M included in ECR 15 is \$9.8 million. Petitioner's Exhibit JC-2 demonstrates that the jurisdictional revenue requirements applicable to ECR 15 are \$44.254 Million.

IPL reconciled estimated expenses and revenues to actual for the ECR 13 period of September 2009 through February 2010 resulting in a total variance of (\$856,528) (Petitioner's Exhibits CF-3, CF-4 and JC-4).

**E. Net Operating Income for Fuel Adjustment Clause.** Pursuant to 170 IAC 4-6-21, Petitioner shall add the approved return on its QPCP to its net operating income authorized by the Commission for the purposes of IC 8-1-2-42(d)(2) and IC 8-1-2-42(d)(3) in all subsequent Fuel Adjustment Charge proceedings. However, the Commission requires that, for purposes of computing the authorized net operating income for IC 8-1-2-42(d)(2) and IC 8-1-2-42(d)(3), the jurisdictional portion of the increase return shall be phased-in over the appropriate period of time that the Petitioner's net operating income is affected by this earnings modification resulting from the Commission's approval of this QPCP Construction Cost Rider.

**F. Allocation of Jurisdictional Revenue Requirement.** 170 IAC 4-6-15 provides that a utility's QPCP jurisdictional revenue requirement should be allocated among the utility's customer classes in accordance with the allocation parameters established in the utility's last general rate case. In accordance with Section 12(6), Petitioner's Exhibit JC-2 demonstrates the allocation of the QPCP construction cost revenue requirement among the utility's customer classes. Petitioner's allocation factors are from Petitioner's most recent electric rate case (Cause No. 39938) approved August 24, 1995.

**G. Amount of Rider Adjustment.** In Petitioner's Exhibit CF-3, the following ECCRA rate for each customer class was proposed:

- \$0.005882 per KWH for Rate RS, CW (with associated Rate RS service)
- \$0.009354 per KWH for Rates SS, SH, OES, UW, CW (with associated Rate SS service)
- \$0.005558 per KWH for Rates SL, PL, PH, HL

**H. Approval of Rider Adjustments.** The Commission finds that Petitioner has complied with the rules and procedures applicable to its request, including the requirements of 170 IAC 4-6, the November 14 Order, the November 30 Order, the April 2 Order, and our subsequent orders regarding the Rider. The Commission further finds that the proposed Rider Adjustments are properly calculated. Therefore, the Commission finds that the Rider Adjustments contained in Petitioner's Exhibit CF-3, as shown in Petitioner's Exhibit A, shall be approved and become effective for all bills rendered for electric services beginning with the first billing cycles for the September 2010 billing month.

**6. Future Flow of Cost Information.** In ECR 14, the OUCC offered three suggestions to improve the future flow of cost information between IPL, the OUCC and the Commission. In our February 24, 2010 Order in ECR 14, we stated "it is unclear to what extent the IPL responses to the OUCC recommendations are well received" and IPL was ordered to provide an update in ECR 15. Order at p. 18. Witness Cutshaw stated that on April 23, 2010, IPL met with the OUCC to further discuss the responses to the OUCC's recommendations in ECR 14. Mr. Cutshaw offered the following summary of the results of the discussion:

- A. IPL will informally communicate to the OUCC and the Commission any potential significant cost increases for a particular project if such information is known before a future filing, recognizing the limitations regarding ex-parte communication to the Commission should the information become available less than 30 days prior to an ECR filing. If such a circumstance were to exist, IPL would notify the OUCC and rely on its case-in-chief to communicate the increase to the Commission.
- B. IPL will file construction progress reports on the Petersburg Unit 4 FGD Enhancement project, similar to the Advatech reports filed for the Harding Street Unit 7 FGD, recognizing that since IPL is not using a single Engineering Procurement & Construction contractor for this project (as with the Harding Street Unit 7 FGD project), IPL will not be receiving a single consolidated monthly progress report (as from Advatech). IPL will develop a customized report with the OUCC's input, and included the initial report as Petitioner's Exhibit DK-3.
- C. IPL agrees to obtain at least two project estimates from two separate vendors for any pollution control projects that IPL wishes to receive Commission approval to construct in future CPCN filings before the Commission, recognizing that an engineering project estimate is not equivalent to detailed engineering design and

may cost more than two hundred thousand dollars, which is includable in IPL's preconstruction costs.

Based on the foregoing, we find that the parties' discussions as to the future flow of cost information are reasonable and appropriate.

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

1. The CCT Projects construction work and construction costs incurred as of May 31, 2010, shall be and hereby are approved.

2. Petitioner's proposed rate adjustments in its ECCRA as set out in this Paragraph 5 of this Order shall be and the same are hereby approved.

3. Pursuant to 170 IAC 4-6-21, Petitioner shall add the approved return on its QPCP to its net operating income authorized by the Commission for the purposes of IC 8-1-2-42(d)(2) and IC 8-1-2-42(d)(3) in all subsequent Fuel Adjustment Charge proceedings. However, for purposes of computing the authorized net operating income for IC 8-1-2-42(d)(2) and IC 8-1-2-42(d)(3), the jurisdictional portion of the increased return shall be phased-in over the appropriate period of time that the Petitioner's net operating income is affected by this earnings modification resulting from the Commission's approval of this QPCP Construction Cost Rider.

4. Prior to placing the proposed rate adjustments in effect, Petitioner shall file with the Electricity Division of the Commission an amendment to its tariff reflecting the approved QPCP Construction Cost Rider rate adjustments contained in Petitioner's Exhibit CF-3, as shown in Petitioner's Exhibit A.

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

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

**APPROVED: AUG 25 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**