

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS)
POWER & LIGHT COMPANY FOR)
MODIFICATION OF ITS CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
TO USE CLEAN COAL TECHNOLOGY AND)
QUALIFIED POLLUTION CONTROL)
PROPERTY AND FOR APPROVAL OF AN)
ADJUSTMENT TO ITS RATES THROUGH)
ITS APPROVED ENVIRONMENTAL)
COMPLIANCE COST RECOVERY)
ADJUSTMENT COMMENCING WITH THE)
MARCH 2011 BILLING CYCLE IN)
ACCORDANCE WITH THE ONGOING)
REVIEW PROCESS)

CAUSE NO. 42170 ECR 16

INTERIM ORDER

APPROVED:

MAR 30 2011

BY THE COMMISSION:

Carolene R. Mays, Commissioner
Jeffery A. Earl, Administrative Law Judge

On December 20, 2010, Indianapolis Power & Light Company (“IPL” or “Petitioner”) filed its Verified Petition, seeking 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. IPL’s Verified Petition also seeks approval of a modification to its certificate of public convenience and necessity (“CPCN”) for the use of clean coal technology (“CCT”) and qualified pollution control property (“QPCP”). Concurrent with its Verified Petition, IPL filed the direct testimony and exhibits of David Kehres, Thomas Moore, Greg Daeger, Dwayne Burke, Craig Forestal, and James Cutshaw. On March 1 and 2, 2011, the Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Wes Blakley, Cynthia Armstrong, and Anthony Alvarez. The OUCC’s testimony agreed with IPL’s proposed ECCRA; however, the testimony challenged IPL’s request to modify its CPCN.

On March 7, 2011, IPL and the OUCC filed a Joint Motion for Modification of Procedural Schedule and Request for Interim Order on Less than All the Issues (“Motion”). The Motion indicated IPL’s desire that the ECCRA be effective beginning with the billing month of April, 2011. Because the parties desired additional time to address the OUCC’s concerns regarding the CPCN, the Motion requested that the Commission hold an Evidentiary Hearing and issue an Order on the ECCRA and set a procedural schedule, including a second Evidentiary Hearing, to address the proposed CPCN modification. The Presiding Officers granted the Motion in their March 10, 2011 Docket Entry and indicated the Commission would create a subdocket in this Cause to address the CPCN modification.

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 March 11, 2011, at 10:00 a.m., in Hearing Room 224, 101 W. Washington Street, Indianapolis, Indiana. At the hearing Petitioner and the OUCC appeared by counsel and submitted their evidence. 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, Ind. Code ch. 8-1-2. Thus, the Commission has jurisdiction over IPL and the subject matter of this Cause.

2. Petitioner'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 ("NO_x") 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 trioxide ("SO₃") 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 Desulphurization ("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 November 30, 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 CCT projects. IPL Witness Kehres provided the final NO_x 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 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 of SO₂/MMBTU as the current emissions from Unit 3 are less than 0.2 lbs of SO₂/MMBTU. This better than expected performance will likely result in lower future SO₂ compliance costs as fewer SO₂ 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 completion activities continue.

Mr. Kehres stated that the following work on Harding Street Unit 7 FGD has been completed or will be completed within the next six months: (a) installation of two access openings to the FGD recycle piping header for personnel to enter for inspection and/or repair, with a third opening to be installed during the next plant outage; (b) installation of platforms to improve access to various FGD equipment is mostly complete, with several small platforms remaining to be completed; (c) installation of the redundant Particulate Matter Continuous Emissions Monitoring System (“PM CEMS”) continues and should be completed by June 1, 2011; and (d) installation of winterization hardware and engineering controls on the SO₃ removal system. Mr. Kehres also stated that the borosilicate block lining system on the existing steel liner of the Harding Street Unit 7 FGD bypass stack was completed during the fall, 2010 overhaul outage on Unit 7.

Mr. Kehres provided an update on the progress on the winterization work and engineering controls that are planned for the SO₃ removal 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 in early 2011, with construction expected to begin in the second quarter of 2011. Mr. Kehres also stated that the Breen Probe analyzer systems approved in ECR 14 have been installed and the probes will be commissioned, including final controls, by April 1, 2011.

Witness Burke provided an additional update on the Harding Street Unit 7 FGD approved in Cause No. 42700. He stated that since commencement of operation, the scrubber is removing at least 97% of the SO₂ from the Unit 7 flue gas. Overall SO₂ emissions at Harding Street have decreased from 31,000 tons per year to 1,000 tons per year. Therefore, a significant reduction in SO₂ emissions has occurred at Harding Street due to the Unit 7 FGD scrubber. In addition to the SO₂ 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 the Indiana Department of Environmental Management (“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 by the end of summer, 2011. He stated that IPL has completed design work for the installation of the redundant PM CEMS with the equipment vendor and has ordered the equipment. Mr. Burke’s testimony estimated the equipment would arrive by the end of 2010. The total cost of the equipment is approximately \$484,000.

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 November 30, 2010, engineering on the Petersburg Unit 4 FGD Enhancements project was 92.6% complete, procurement was 59.7%, and construction was 33.6% complete. Mr. Kehres provided further details on the status of the Petersburg Unit 4 FGD Enhancements project in Petitioner’s Exhibit DK-3.

Mr. Kehres testified that, as explained in the ECR-14 proceeding, IPL delayed the Mercury Monitoring System projects due to the uncertainty surrounding the Clear Air Mercury Rule (“CAMR”), which was vacated by the courts. Mr. Kehres stated that IPL has decided not to proceed with the installation of the Mercury Monitoring Systems until there is further clarification as to what will be required relating to mercury monitoring and emissions.

Mr. Burke provided a summary of the current EPA NO_x emission reduction requirements. He stated that CAIR required year round NO_x 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_x SIP call. In addition, CAIR NO_x 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 of BTU remaining the same as the EPA NO_x SIP call. Phase II is scheduled to go into effect on January 1, 2015.

Mr. Burke explained that IPL initially projected to meet the 2010 CAIR NO_x emission reduction requirements primarily through the successful operation of its NO_x pollution control equipment. However, Mr. Burke testified that due to an increase in power generation during the ozone season, attributable to warmer than projected weather and lack of the receipt of the New Unit Set-Aside NO_x allowances from the EPA, IPL purchased 150 NO_x Ozone Season Allowances in order to comply with the CAIR NO_x Ozone Season reduction requirements.

Mr. Burke stated that IPL currently anticipates having a surplus of 6,000 annual NO_x tons in 2010. 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_x allowances for 2010. Mr. Burke stated that to date, IPL conducted two NO_x allowance transactions in 2010.

Mr. Burke stated that the NO_x allowance market has been on the downward slide since late 2008. He discussed the annual and seasonal NO_x allowance market conditions. He stated that the key driver for the downward NO_x allowance price pressure was due to the anticipation of the CAIR replacement rule, which was released on July 6, 2010 as the Clean Air Transport Rule (“CATR”). CATR 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_x 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_x allowance market is at historical lows and quite inactive due to uncertainty concerning the proposed CATR rule and its impact on the allowance currency and decreased emissions associated with a decrease in electrical demand. Mr. Burke stated that once the CATR rule is finalized and the economy recovers it is anticipated the NO_x allowance market will return to more historical levels and activity.

Mr. Burke also described the CAIR SO₂ 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 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 SO₂ 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 until 2014 or until CATR is finalized. If CATR is not finalized prior to 2015, the Phase II emission reductions, which equate to an additional 33% reduction and the submittal of allowances on a 2.86:1 basis, will take effect and remain in effect until CATR is finalized.

Mr. Burke stated that IPL has pursued a number of options to meet the new, more stringent CATR emission reduction requirements. 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 SO₂ removal efficiency of the unit to 95%. The increase to the SO₂ removal efficiency will result in an estimated additional removal of 14,000 tons per year of SO₂.

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 SO₂ 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 SO₂ allowance shortfall for 2010 and 2011 of approximately 14,000 tons of SO₂, IPL obtained 7,739 vintage 2010 SO₂ allowances in exchange for 500 vintage 2009 NO_x Annual allowances. Mr. Burke testified the projected 2010 shortfall is primarily driven by the new CAIR SO₂ emission reduction requirements. Mr. Burke stated that IPL anticipates the Petersburg Unit 4 FGD upgrade, once fully operational, will result in a future SO₂ flat position pending further EPA emission reduction requirements as anticipated by the CAIR replacement rule.

OUCW 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."

Based on the evidence, we find that the costs incurred through November 30, 2010, for the CCT projects are reasonable and appropriate. We approve the construction work through November 20, 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, CF-2 MPP, and CF-2 MPP2, which set forth the construction costs as of November 30, 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 Nos. 42170, 42700, and 43403. Mr. Forestal stated that

CCT projects for which IPL is seeking recovery have been under construction for at least six months.

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 Exhibits CF-1 MPP and CF-1 MPP2 reflect the calculation of Petitioner's Gross Revenue Conversion Factors as approved in Cause No. 42700 and 43403 utilizing an allowed rate of return of 7.70% and calculating an allowed rate of return of 7.54%, respectively, and a gross rate for borrowed funds of 3.65% and 2.80%, respectively.

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 Exhibits CF-2 NOX and 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, 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 Exhibits CF-2 NOX and CF-2 MPP contain capital maintenance items that were approved in ECR 14 and an incremental \$2,388,000 of capital maintenance items added during the period ending November 30, 2010, including AFUDC. 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_x (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 Exhibits CF-2 NOX and CF-2 MPP reflect 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.

IPL Witness Moore provided a review of the studies IPL initiated to investigate possible modifications to its SCR systems. Mr. Moore testified the studies have shown the need for reliable analytical equipment regardless of the number of sample collection points. He stated the current analytical devices are being replaced with equipment considered to be more reliable and accurate. This new equipment is intended to be compatible with the multi-port sampling program, if such is installed at a later date. IPL anticipates replacing eight separate analytical systems in this program: four on the Petersburg Unit 2 SCR and four on the Petersburg Unit 3 SCR. Mr. Moore testified IPL is also studying ammonia and sulfur trioxide concentration monitors to determine the technical and commercial viability of the devices and to justify their inclusion in the SCR control systems at a later date. IPL intends to defer the implementation of this technology until it has evolved to a higher level.

Mr. Moore stated now that the SCR Systems have accumulated approximately 31,000 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. Mr. Moore testified that during the past outage for the Petersburg Unit 2 SCR, control valves on the ammonia injection grid were found to be inoperable for control purposes. Mr. Moore believes it is reasonable to expect that similar conditions will be found on the Petersburg Unit 3 SCR. Therefore, IPL plans to install new valves on the Unit 3 SCR during its outage this spring. Mr. Moore stated 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 said that equipment repair and replacement in kind occur as required to maintain the safe, efficient operation of the SCR systems.

Mr. Daeger explained the capital maintenance projects completed and/or begun in the past 6 month period. He stated that the computer hardware associated with the Harding Street Station Unit 6 and Eagle Valley Unit 6 Neural Networks was replaced. The equipment replacement was necessary to support the installation of new software and to sustain reliable Neural Network service and low NO_x emission rates. In addition, Mr. Daeger testified the Harding Street Station Unit 7 FGD 7-1 and 7-2 Booster Fan Inlet Expansion joints have degraded and require replacement, the Harding Street Station Unit 7 ABS tolerant Air Preheater Baskets have failed and must be replaced, the Harding Street Station Unit 7 SCR Damper Drives

must be replaced, and the Harding Street Station Unit 7 SCR Outlet Duct Expansion joint has degraded and requires replacement.

Mr. Daeger also identified the capital maintenance projects planned for the next 6 month period. He stated that (1) the Harding Street Station Unit 7 FGD Slurry Line Valve has failed, which prohibits operation of the Filter Feed Pump 7-1; the Harding Street Station Unit 7 FGD Limestone Conveyor Covers, which do not provide adequate protection from the weather and allow material to slide off the conveyor belt, will be replaced with covers providing 100% protection from the weather.

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. During the second half of 2010, IPL conducted an investigation to determine the extent of any additional damage. Several areas of concern were identified and a remedial plan was 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 Exhibits CF-1 NO_x, CF-1 MPP, and CF-1 MPP2 provide this information. Petitioner's Exhibits CF-2 NO_x, CF-2 MPP, and CF-2 MPP2 provide details of the construction costs that have been incurred through November 30, 2010. Witness Forestal stated that the CCT projects for which IPL is seeking recovery had been under construction for at least six months at a cost of \$551.8 million, inclusive of AFUDC and net of retirements through November 30, 2010. Petitioner's Exhibits CF-2 NO_x, CF-2 MPP, and CF-2 MPP2 indicate that the total ECR 16 revenue requirement associated with a return on QPCP construction costs as of November 30, 2010 is \$22.981 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 March through August, 2011. The amount of depreciation expense that is included in this filing is \$14.9 million, and the amount of O&M included in this filing is \$9.5 million. Petitioner's Exhibit JC-2 demonstrates that the jurisdictional revenue requirement applicable to ECR 16 (before accounting for reconciliation) is \$47.578 million.

IPL reconciled estimated expenses and revenues to actual for the ECR 14 period of March through August, 2010 resulting in a total variance of (\$1,790,136). Therefore, IPL's net jurisdictional revenue requirement applicable to ECR 16 is \$45.788 million.

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 Ind. Code § 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 Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3), the jurisdictional portion of the increased return shall be phased-in

over the appropriate period of time that 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:

- \$0.006574 per KWH for Rate RS, CW (with associated Rate RS service)
- \$0.010313 per KWH for Rates SS, SH, OES, UW, CW (with associated Rate SS service)
- \$0.005497 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 shall be approved and become effective for all bills rendered for electric services beginning with the first billing cycles for the April 2011 billing month, pending the outcome of Cause No. 42170 ECR 16 S1.

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

1. The CCT Projects construction work and construction costs incurred as of November 30, 2010, are approved on an interim basis pending the outcome of Cause No. 42170 ECR 16 S1.
2. Petitioner's proposed rate adjustments in its ECCRA as set out in Paragraph 5 of this Order are approved on an interim basis.
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 Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3) in all subsequent Fuel Adjustment Charge proceedings. However, for purposes of computing the authorized net operating income for Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 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.

5. A subdocket shall be created in this Cause under Cause No. 42170 ECR 16 S1 to address IPL's request for modification of its CPCN.

6. IPL shall file any rebuttal testimony related to the proposed CPCN modification on or before March 31, 2011 under Cause No. 42170 ECR 16 S1.

7. An Evidentiary Hearing in Cause No. 42170 ECR 16 S1 will be held at 10:30 a.m. on April 12, 2011, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana.

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

**ATTERHOLT, LANDIS AND MAYS CONCUR; BENNETT NOT PARTICIPATING;
ZIEGNER ABSENT:**

APPROVED: MAR 30 2011

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


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