STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF DUKE ENERGY INDIANA, INC. FOR APPROVAL OF A CHANGE IN ITS MIDWEST INDEPENDENT SYSTEM OPERATOR MANAGEMENT COST AND REVENUE ADJUSTMENT FACTOR UNDER ITS STANDARD CONTRACT RIDER NO. 68 FOR APPROVAL OF AN ALTERNATIVE REGULATORY PLAN, TO THE EXTENT REQUIRED, TO PERMIT THE EXCLUSION OF CERTAIN REVENUES RELATED TO DUKE ENERGY INDIANA'S TRANSMISSION PROJECTS FROM THE EARNINGS TEST IN FUEL ADJUSTMENT PROCEEDINGS	)	CAUSE NO. 42736 RTO 30 APPROVED: JUN 27 2012

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On April 30, 2012, Duke Energy Indiana, Inc. ("Duke Energy Indiana," "Petitioner" or "Company") filed its Verified Application requesting that the Indiana Utility Regulatory Commission ("Commission") approve a change in the adjustment factor under Duke Energy Indiana's Standard Contract Rider No. 68 entitled Midwest Independent System Operator Management Cost And Revenue Adjustment ("Rider No. 68") to be used for Duke Energy Indiana's July, August and September 2012 retail electric billing cycles, and approve, to the extent required, an alternative regulatory plan to permit the exclusion of certain revenues related to Duke Energy Indiana's Multi-Value transmission projects from the earnings test in fuel adjustment proceedings.

Also on April 30, 2012, Petitioner filed its case-in-chief with the Commission, which consisted of the testimony and exhibits of Ms. Maria T. Birnbaum, Duke Energy Business Services LLC's Director, Rate Services, Indiana Rate Department, Mr. John D. Swez, Duke Energy Business Services LLC's Director, Bulk Power Marketing and Trading, and Mr. Edward F. Kirschner, Duke Energy Business Services LLC's Director, Transmission Planning. The Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief with the Commission on June 7, 2012, which consisted of the testimony and exhibits of Wes R. Blakely, a Senior Utility Analyst for the OUCC.

Pursuant to proper notice of hearing, published as required by law, proof of which was incorporated into the record by reference, a public Evidentiary Hearing was held in this Cause on June 13, 2012 at 10:00 a.m., in Room 222, 101 West Washington Street, Indianapolis, Indiana. Duke Energy Indiana and the OUCC appeared and participated at the hearing. All evidence and exhibits were admitted into the record without objection. No members of the general public appeared or participated at the Hearing.

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

1. **Notice and Jurisdiction.** Due, legal and timely notice of the Evidentiary Hearing in this Cause was given as required by law. Duke Energy Indiana is a public utility within the meaning of Indiana Code § 8-1-2-1, as amended, and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission has jurisdiction over Duke Energy Indiana and the subject matter of this Cause. Duke Energy Indiana is also an energy utility within the meaning of Indiana Code ch. 8-1-2.5, to the extent necessary.

2. **Duke Energy Indiana's Characteristics.** Duke Energy Indiana is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office in the Town of Plainfield, Indiana, and is a second tier wholly-owned subsidiary of Duke Energy Corporation. Duke Energy Indiana is engaged in rendering retail electric utility service in the State of Indiana and owns, operates, manages and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of such service to the public.

3. **Background and Relief Requested in this Cause.** In its most recent rate case, *PSI Energy, Inc.,* 2004 Ind. PUC LEXIS 150, Cause No. 42359 (*Ind. Util. Reg. Comm'n*, May 18, 2004), Duke Energy Indiana proposed, among other matters, Rider No. 68 to track for recovery from, or credit to, its retail electric customers certain Company costs and transmission revenues related to Duke Energy Indiana's participation in the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO").

Under Rider No. 68, Duke Energy Indiana tracks for recovery from, or credit to, Duke Energy Indiana's retail electric customers, the following on a quarterly reconciled basis:

(i) MISO management costs billed to Duke Energy Indiana (or a designee of the Company) by MISO under Schedules 10 (ISO Cost Recovery Adder) and 10-FERC (FERC Annual Charges Recovery), or a successor provision of either, of the MISO Open Access Transmission and Energy Markets Tariff (now known as Open Access Transmission and Energy and Operating Reserve Markets Tariff and hereinafter "MISO Tariff"), or any successor tariff of MISO, which are allocable to Duke Energy Indiana's retail electric customers;

(ii) MISO management costs billed to Duke Energy Indiana (or a designee of the Company) by MISO under Schedule 16 (Financial Transmission Rights ("FTR") Administrative Service Cost Recovery Adder), or a successor provision, of the MISO Tariff, or any successor tariff of MISO, which are allocable to Duke Energy Indiana's retail electric customers;

(iii) MISO management costs billed to Duke Energy Indiana (or a designee of the Company) by MISO under Schedule 17 (Energy and Operating Reserve Markets Market Support Administrative Service Cost Recovery Adder), or a successor provision, of the MISO Tariff, or any successor tariff of MISO, which are allocable to Duke Energy Indiana's retail electric customers;

(iv) costs billed to Duke Energy Indiana (or a designee of the Company) by MISO under the MISO Tariff, or any successor tariff of MISO, for standard market design ("SMD") which are allocable to Duke Energy Indiana's retail electric customers (including charges under Schedule 26, as authorized by the December 19, 2007 Order and June 25, 2008 Order);

(v) other government mandated transmission costs Duke Energy Indiana is required to pay on behalf of its retail electric customers; and

(vi) certain MISO transmission revenues assigned to Duke Energy Indiana (or a designee of the Company), collected by MISO under the MISO Tariff, or any successor tariff of MISO, and which are allocable to Duke Energy Indiana's retail electric customers.

(Petitioner's Exhibit A, pp. 10-11.)

The Commission's June 30, 2009 Order in Cause No. 43426 ("Ancillary Services Market (ASM) Final Order"), authorized Petitioner to recover through retail electric rates the jurisdictional costs incurred by Duke Energy Indiana in connection with its participation in the MISO ASM. The ASM Final Order authorized rate treatment for various ASM credits and charges (or modified charge types) pursuant to either Duke Energy Indiana's fuel adjustment proceedings or Rider No. 68 proceedings. This authorization is in addition to recovery of MISO costs previously authorized by the Commission. As a result of the ASM Final Order, Duke Energy Indiana is required to include Day Ahead Revenue Sufficiency Guarantee ("RSG") Distribution Amounts and Real Time RSG First Pass Distribution Amounts in future fuel cost recovery proceedings rather than under Rider No. 68. (Petitioner's Exhibit A, pp. 8-9.)

Proposed Rider No. 68 adjustment factors are presented to the Commission on a quarterly basis. The current proposed Rider No. 68 adjustment factors would apply to Duke Energy Indiana's July, August and September 2012 retail electric billing cycles. (Petitioner's Exhibit A, p. 2.)

Duke Energy Indiana filed its Verified Application in this Cause seeking approval to recover Schedule 26-A charges related to Multi-Value Projects allocated by MISO to Duke Energy Indiana for projects of other transmission owners. In addition, the Verified Application seeks approval of an alternative regulatory plan, to the extent required, to permit the Company to exclude revenues it receives related to Company-owned Multi-Value Projects from the earnings test in the Company's fuel adjustment proceedings.

4. <u>Testimony Presented Regarding Proposed Rider No. 68 Adjustment Factors</u>. Duke Energy Indiana presented information relative to adjustments for Duke Energy Indiana's July, August and September 2012 Retail Electric Billing Cycles:

Duke Energy Indiana's Proposed Rider No. 68
Adjustment Factor Formula Inputs

Charge Category	Amount
a) MISO Management Cost Adder – Schedules 10 & 10-FERC	$1,567,585
b) MISO Management Cost, FTR – Schedule 16	$93,909
c) MISO Management Cost Energy and Operating Reserve Markets - Schedule 17	$1,395,580
d) MISO SMD or other Govt. mandated transmission costs	$3,676,829
e) MISO Transmission Revenue	$1,476,746
f) Individual retail rate group's allocated share of retail peak demand	Petitioner's Exhibit A-1, page 3 of 4 (Rate group specific)
g) Individual retail rate group's kWh sales	Petitioner's Exhibit A-2 (Rate group specific)
h) Revenue Conversion Factor	1.02143

Ms. Birnbaum sponsored Petitioner's Exhibit A-1, which is Duke Energy Indiana's proposed Rider No. 68. Page 3 of this exhibit shows the Percent Share of Retail Peak developed for cost of service purposes in Cause No. 42359 based on the twelve-month period ended September 30, 2002, which is used to allocate cost to each retail group.

Ms. Birnbaum testified that Petitioner's Exhibit A-2 shows the individual retail rate group's billing cycle kilowatt-hour ("kWh") amount used to develop the respective proposed Rider No. 68 adjustment factors for Duke Energy Indiana's July, August and September 2012 retail electric billing cycles. The kWh amounts are based on the Company's actual sales to each retail rate group for the months of July, August and September 2011. (Petitioner's Exhibit A, pp. 14-15.)

Ms. Birnbaum testified that as a result of the ASM Final Order, charges for Day Ahead RSG Distribution Amounts and Real Time RSG First Pass Distribution Amounts are to be recovered in future fuel cost proceedings rather than under Rider No. 68. The Company implemented the reclassification of these charge types beginning with the March 2009 delivery period, the first period that is in common to both Rider No. 68 and the fuel cost recovery proceeding subsequent to receipt of the Final ASM Order. Specifically, amounts for the aforementioned charge types were not included in this Rider No. 68 proceeding. Also, as a result of the ASM Final Order, the Company tracks credits associated with the Contingency Reserve Deployment Failure Uplift Amount ("CRDFUA"), in fuel costs recovery proceedings. ASM charges the Company seeks to recover in this proceeding are the Real Time Revenue Neutrality Uplift Amount, exclusive of credits associated with the CRDFUA, the Day Ahead Market Administration Amount, and the Real Time Market Administration Amount. (Petitioner's Exhibit A, pp. 8-10). Ms. Birnbaum testified that there was no single adjustment in excess of $3 million in this filing. (Petitioner's Exhibit A, p. 16.)

Ms. Birnbaum testified that Petitioner's Exhibit A-3 shows the actual booked costs and transmission revenues covered by Rider No. 68 for the months of December 2011, and January and February 2012. Ms. Birnbaum explained that Petitioner's Exhibit A-3 also compares the actual net amount of the "a", "b", "c", "d", and "e" factors of the Rider No. 68 formula for the quarter (i.e., a charge amount of $5,257,157) to the quarterly level built into Duke Energy Indiana's base retail electric rates (i.e., a credit amount of $1,337,000) as calculated on page 1 of Petitioner's Exhibit A-1. Ms. Birnbaum further explained that the difference in these amounts (i.e., a charge amount of $6,594,197) is then increased by the applicable revenue conversion factor (i.e., 1.02143) and allocated to the respective retail rate groups by the percentage allocators shown on page 3 of Petitioner's Exhibit A-1. Ms. Birnbaum concluded that the result is a total retail current charge amount of $6,735,470 to be collected from Duke Energy Indiana's retail electric customers through the Rider No. 68 adjustment factors for its July, August and September 2012 billing cycles. (Petitioner's Exhibit A, pp. 17-18.)

Ms. Birnbaum indicated that Petitioner's Exhibit A-4 shows the calculation of the proposed Rider No. 68 adjustment factors by retail rate group, including the December 2011, and January and February 2012 reconciliation total over-collection of $349,391, as developed on Petitioner's Exhibit A-5. Therefore, the total amount to be recovered through the Rider No. 68 adjustment factors for the July, August and September 2012 billing cycles is $6,386,079. Ms. Birnbaum testified that Petitioner's Exhibit A-6 compares the bill of a typical residential customer using 1,000 kWhs per month based upon the proposed Rider No. 68 adjustment factor to the bill of a typical residential customer using 1,000 kWhs per month based upon the approved factor from the most recent quarter. Ms. Birnbaum stated that under the proposed Rider No. 68 adjustment a typical residential customer will experience a decrease of $0.50 on his or her base electric bill when compared to the previous quarter's base bill (excluding the effect of various "tracking mechanisms" as noted on Petitioner's Exhibit A-6). (Petitioner's Exhibit A, pp. 18-20.)

Ms. Birnbaum testified that Petitioner's Exhibit A-7 provides information relating to Company-owned Renewable Energy Credit Bank ("RECB") projects and provides an estimate of Schedule 26 costs to be allocated to the Company. Ms. Birnbaum testified that the Company is seeking recovery in this proceeding for two RECB projects now in service: the first phase of a baseline reliability transmission line project spanning approximately 4 miles (MISO Project 852) completed by the Company in 2009; and the second being the Edwardsport 345 kV substation and line project (MISO Project 1263) completed in 2010. Ms. Birnbaum stated that the annual revenue requirement submitted to MISO for these projects totaled $1,203,471, for which the Company began receiving revenue on this requirement June 1, 2011. Ms. Birnbaum stated that the Company has retained this revenue, pursuant to the June 25, 2008 Order, and Rider No. 68 costs were not offset by the revenue from this project. She also testified that the Company excluded the revenues and expenses related to this project from the FAC earnings test. (Petitioner's Exhibit A, pp. 6-8, 20.)

Ms. Birnbaum testified that the same allocation methods used in Cause Nos. 42736 RTO 3 and 42736 RTO 5 have been used in this filing to distribute the same types of costs between Duke Energy Indiana and Duke Energy Ohio, Inc. (Petitioner's Exhibit A, p. 29).

Mr. Swez provided an overview of MISO's energy markets and the Company's participation in those markets. Mr. Swez also testified as to the types of energy markets costs billed by MISO to the Company pursuant to the MISO Tariff. Mr. Swez testified that in his opinion the Company's incurrence of the enumerated administrative charges and other MISO Tariff charges and credits included in this filing with the Commission is reasonable.

Mr. Kirschner provided background information regarding the basis for the charges relating to Schedule 26-A, "Multi-Value Project Usage Rate." Mr. Kirschner described that Schedule 26-A charges are charges assessed by MISO for projects designated by MISO as "Multi-Value Projects" or "MVPs." He testified that MVPs are projects that enable the reliable and economic delivery of energy in support of documented energy policy mandates and address multiple issues affecting multiple transmission zones. He described that the Schedule 26-A charge is a MISO system-wide energy-based charge applied to transactions which is used to recover the MVP annual requirement and is similar to the postage stamp rate concept. (Petitioner's Exhibit C, pp.2-3).

Mr. Kirschner testified that MVP projects are a subset of the projects determined through the development and implementation of MISO's Transmission Expansion Plan ("MTEP"), which is regularly updated for expanding and upgrading the transmission system. He testified that Attachment FF, Transmission Expansion Planning Protocol, of the MISO Tariff describes the purpose and scope of the MTEP, different types of MTEP projects including MVPs, and the framework for sharing of costs of approved MTEP projects including MVPs. He testified that Attachment MM, Multi-Value Project Charge, of the MISO Tariff sets forth the method for calculating and collecting MVP charges. (Exhibit C, pp. 3-4).

Mr. Kirschner summarized the specific criteria used to determine if a project is a MVP project. Mr. Kirschner testified that the process for review of proposed MVPs is deliberate and thorough and allows the Company and MISO customers the opportunity for input throughout the review and approval process. He described that MVPs must ultimately be approved by MISO's Board of Directors and that other transmission owners and customers have an incentive to closely review these projects. (Exhibit C, pp. 4-5).

Mr. Kirschner explained that Duke Energy Indiana does not have any MVPs that were evaluated by the MISO in MTEP 11. However, there is a project that was approved in MTEP11, the Greentown to Reynolds 765 kV project, which will result in the need for upgrades on Duke Energy Indiana's underlying transmission system and will be cost shared in the same manner as MVP projects. The upgrades on Duke Energy Indiana's system have an in-service date of 2018 to align with the Greentown to Reynolds 765 kV MVP project. He concluded that future MTEPs could identify a new set of MVPs and it is possible that some of these projects could be owned by Duke Energy Indiana. (Exhibit C, p.6).

The testimony of OUCC witness Wes R. Blakley confirmed Duke Energy Indiana's calculation of the amount to be recovered under the proposed Rider No. 68 adjustment factors for Duke Energy Indiana's July, August and September 2012 retail electric billing cycles. (Public's Exhibit No. 1)

5. <u>Proposed Cost Recovery of Schedule 26-A Charges</u>. Ms. Birnbaum explained the cost allocation methodology for new transmission projects referred to as MVPs, and the resulting December 16, 2010 FERC Order accepting the MVP tariff. She also explained that although the FERC MVP ruling is under appeal, its implementation has not been stayed. As such, the Company incurred and paid MISO Schedule 26-A costs effective January 2012 as billed to the Company in February 2012, and included those costs in this proceeding for recovery. (Petitioner's Exhibit A, pp. 20-22).

Ms. Birnbaum testified that the Company is seeking recovery of Schedule 26-A charges allocated by MISO to Duke Energy Indiana for projects that are sponsored (*i.e.*, constructed, financed, and funded) by other transmission-owning members of MISO. Ms. Birnbaum testified that the Company is introducing the same recovery framework and rationale as it presented in Cause Nos. 42736 RTO 12 and 14 applicable to Regional Expansion Criteria Benefits ("RECB") I and RECB II projects for the MVP class of projects. She testified that as the other transmission owners' sponsored MVP projects are a function of the operation of MISO and serve to benefit the retail customer, the Commission should grant the Company authority to recover the assessed charges. She stated that the charges are non-fuel related and the originating projects are fundamental components of standard market design. Ms. Birnbaum testified that recovery of such costs is entirely consistent with and appropriate under the May 18, 2004 Order in Cause No. 42359 and subsequent orders involving Rider No. 68. (Petitioner's Exhibit A, pp. 22-24).

Ms. Birnbaum testified that Schedule 26-A charges submitted by MISO to the Company related to the Company's own MVP projects should also be considered standard market design costs and revenues consistent with the criteria established by the Commission in its Order dated June 25, 2008, in the Company's RTO 14 case related to RECB projects. Further, Ms. Birnbaum presented the Company's proposal to address Schedule 26-A revenues associated with the Company-owned MVP projects that the Company will build. Ms. Birnbaum testified that annually, the Company would complete Attachment MM whereby a fixed charge rate is calculated by the Company in accordance with the MISO Tariff that covers the Company's annual costs associated with the projects and provides for a return on those projects. Ms. Birnbaum testified that MISO would calculate the revenue requirement amounts on the projects and bill the amounts to the Company and other transmission wwners. (Petitioner's Exhibit A, pp. 25-26).

Ms. Birnbaum testified that the Company proposes to recover the amounts billed to the Company from MISO for Company-owned, MVP approved projects from retail ratepayers under Rider No. 68. The revenues collected would be passed to MISO by the Company. MISO would then distribute to the Company the revenue requirement amounts, collected from retail, wholesale and other transmission owners, for such projects via Schedule 26-A revenues. Ms. Birnbaum testified that the Company proposes to retain the Schedule 26-A revenues received for such Company-owned MVPs and it would not pass back the retail revenues through Rider No. 68. This would allow the Company to recover the Company's annual costs for the project, including carrying charges. Ms. Birnbaum further testified that the Company proposes to keep the Company's investment in such transmission projects out of the Company's retail rate base. Ms. Birnbaum testified that the Company proposes to treat the Schedule 26-A revenues as non-jurisdictional and outside the fuel adjustment clause earnings test to allow the Company to fully recover its costs. In order to implement the proposal, Ms. Birnbaum testified that the Company will track all MVP project costs separately. (Petitioner's Exhibit A, pp. 26-27).

Ms. Birnbaum testified that the Company specifically requests approval of its proposal pertaining to both MVPs sponsored by other transmission owners and the Company in this proceeding. Ms. Birnbaum stated that this proposal is not intended to address non-MVPs owned by the Company that are approved by MISO, and nothing in the proceeding should be interpreted as preventing the Company from pursuing cost recovery or different ratemaking treatment for the Company's non-MVP projects. Ms. Birnbaum testified that the proposal is equitable because it allows the Company to recover its costs, including carrying costs, for MISO-approved MVP projects in accordance with the FERC-approved MISO Tariff and because such projects are excluded from the Company's rate base, the Company will only recover its costs, plus carrying costs, for such projects once. (Petitioner's Exhibit A, pp. 27-28).

OUCC witness Mr. Blakley recommended that the Commission approve Duke Energy Indiana's proposed treatment of Schedule 26-A costs associated with MVPs allocated to it by MISO for approved projects of others. As to the Company's own MVP projects, Mr. Blakley requested that the decision to approve recovery be deferred until Duke Energy Indiana has approved MVP projects that have a start date of construction, a completion date of construction, and a total construction cost on the project included with its request for recovery. Further, Mr. Blakley recommended that the Commission require Duke Energy Indiana to provide a detailed explanation in testimony describing any modified, new, or future MISO non-fuel charge types to be recovered through the RTO tracker proceedings, as well as illustrate costs, as a separate line item in its exhibits and/or schedules. (Public's Exhibit No. 1).

6. **Commission Discussion and Findings.** Based on the evidence presented in this Cause, the Commission finds that Duke Energy Indiana has adequately explained the proposed Rider No. 68 adjustment factors for its July, August and September 2012 retail electric billing cycles. Accordingly, we hereby approve such adjustment factors and direct Duke Energy Indiana to include such adjustment factors in the Rider No. 68 filed with this Commission in compliance with this Order. Given the Company's evidence, and the recommendation by the OUCC, we find that Schedule 26-A assessed by MISO to the Company involving transmission projects of other transmission owners constitute, within the meaning of Rider No. 68, costs billed to Duke Energy Indiana by MISO under the MISO Tariff for standard market design and that the portion of such costs allocable to Duke Energy Indiana's retail electric customers are properly included for recovery under Rider No. 68. Petitioner is authorized to recover Schedule 26-A charges related to MVPs allocated by MISO to Duke Energy Indiana for projects of other transmission owners.

Additionally, consistent with the recommendation of the OUCC and without objection by Petitioner, we defer any decision relating to the Company's proposal for revenue recovery associated with the Company's own MVP projects until Duke Energy Indiana has approved MVP projects that have a start date of construction, a completed date of construction, and a total construction cost included with its request for recovery. The Company shall in future proceedings include in testimony and schedules/exhibits the information suggested by the OUCC related to modified, new, or future MISO non-fuel charge types to be recovered through Petitioner's RTO proceedings.

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

1. Duke Energy Indiana's Rider No. 68 adjustment factors for its July, August and September 2012 retail electric billing cycles, as described herein, are approved, including charges and credits under ASM in accordance with the Commission's September 24, 2008 Order in Cause No. 42736 RTO 15 and the Commission's June 30, 2009 Order in Cause No. 43426.

2. Prior to placing in effect the Rider No. 68 adjustment factors approved herein, Duke Energy Indiana shall file with the Electricity Division of this Commission a separate amendment to its rate schedules, with clear reference therein that such Rider No. 68 adjustment factors are applicable to the rate schedules reflected on the amendment.

3. Duke Energy Indiana is authorized to recover Schedule 26-A charges, as provided in Finding 6 above, related to MVP Projects allocated by MISO to Duke Energy Indiana for projects of other transmission owners.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:

APPROVED: JUN 27 2012

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission