ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF DUKE ENERGY INDIANA, INC. FOR APPROVAL OF A CHANGE IN ITS MIDCONTINENT INDEPENDENT SYSTEM OPERATOR MANAGEMENT COST AND REVENUE ADJUSTMENT FACTOR UNDER ITS STANDARD CONTRACT RIDER NO. 68	))))))	**CAUSE NO. 42736 RTO 40** **APPROVED:** DEC 30 2014

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On October 31, 2014, Duke Energy Indiana, Inc. ("Duke Energy Indiana" or "Petitioner") 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 Midcontinent Independent System Operator ("MISO") Management Cost And Revenue Adjustment ("Rider No. 68") to be used for Duke Energy Indiana's January, February, and March 2015 retail electric billing cycles.

Also on October 31, 2014, Petitioner filed its case-in-chief with the Commission, which consisted of the testimony and exhibits of Ms. Maria Teresa Diaz, Duke Energy Business Services LLC's Director, Rates and Regulatory Planning, Indiana Rate Department and Mr. John D. Swez, Duke Energy Carolina's Director, Generation Dispatch and Operations.

The Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief with the Commission on December 5, 2014, which consisted of the testimony and exhibit of Wes R. Blakley, a Senior Utility Analyst for the OUCC.

The Commission conducted a hearing in this Cause on December 17, 2014, at 10:00 a.m., in Room 224, 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 herein, this 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 Ind. Code § 8-1-2-1. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Petitioner's rates and charges, including tracking provisions approved by the Commission. Accordingly, the Commission has jurisdiction over Duke Energy Indiana and the subject matter of this Cause.

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 base rate case, *PSI Energy, Inc.,* Cause No. 42359, 2004 Ind. PUC LEXIS 150 (IURC 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 costs and transmission revenues related to Duke Energy Indiana's participation in 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 Petitioner) by MISO under Schedules 10 (MISO Cost Recovery Adder) and 10-FERC (Federal Energy Regulatory Commission ("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 ("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 Petitioner) 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 Petitioner) 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 Petitioner) 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 in Cause No. 42736 RTO 12 and the June 25, 2008 Order in Cause No. 42736 RTO 14, and Schedule 26-A, as authorized by the June 27, 2012 Order in Cause No. 42736 RTO 31, and Real-Time Multi-Value Project ("MVP") Distribution, as authorized by the Commission's September 24, 2014 Order in Cause No. 42736 RTO 39);

(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 Petitioner), collected by MISO under the MISO Tariff, or any successor tariff of MISO, which are allocable to Duke Energy Indiana's retail electric customers.

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.

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 bills rendered beginning with the January 2015 – Cycle 1 retail electric billing cycle.

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 January, February, and March 2015 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	$1,479,254
b) MISO Management Cost, FTR – Schedule 16	$70,098
c) MISO Management Cost Energy and Operating Reserve Markets - Schedule 17	$1,130,730
d) MISO SMD or other Govt. mandated transmission costs	$6,158,396
e) MISO Transmission Revenue	$1,418,484
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	1.02121

Ms. Diaz sponsored Petitioner's Ex. 2, Attached Ex. A-1, which included Duke Energy Indiana's proposed revised Standard Contract Rider No. 68. Page 3 of attached Ex. A-1 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. Diaz testified that Petitioner's Exhibit 2, Attached Ex. 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. The kWh amounts are based on Petitioner's actual sales to each retail rate group for the months of January, February, and March 2014.

Ms. Diaz 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 fuel cost proceedings rather than under Rider No. 68. 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, Petitioner tracks credits associated with the Contingency Reserve Deployment Failure Uplift Amount ("CRDFUA") in fuel cost recovery proceedings. The charges Petitioner 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. Ms. Diaz testified that there was no single adjustment in excess of $3 million in this filing.

Ms. Diaz testified that Petitioner's Ex. 2, Attached Ex. A-3 shows the actual booked costs and transmission revenues covered by Rider No. 68 for the months of June, July, and August 2014. Ms. Diaz explained that Attached Ex. 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 $7,419,994) 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 Ex. 2, Attached Ex. A-1. Ms. Diaz further explained that the difference in these amounts (i.e., a charge amount of $8,756,994) is then increased by the applicable revenue conversion factor (i.e.,1.02121) and allocated to the respective retail rate groups by the percentage allocators shown on page 3 of Attached Ex. A-1. Ms. Diaz concluded that the result is a total retail current charge amount of $8,942,730 to be collected from Duke Energy Indiana's retail electric customers through the Rider No. 68 adjustment factors for Petitioner's bills rendered beginning with the January 2015 – Cycle 1 billing cycle.

Ms. Diaz indicated that Petitioner's Ex. 2, Attached Ex. A-4 shows the calculation of the proposed Rider No. 68 adjustment factors by retail rate group, including the June, July, and August 2014 reconciliation total over collection of $158,330, as developed on Petitioner's Exhibit A-5. Therefore, the total amount to be recovered through the Rider No. 68 adjustment factors is $8,784,400. Ms. Diaz testified that Petitioner's Ex. 2, Attached Ex. 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. Diaz stated that under the proposed Rider No. 68 adjustment a typical residential customer will experience a decrease of $0.61 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 Ex. 2, Attached Ex. A-6).

Ms. Diaz testified that Petitioner's Ex. 2, Attached Ex. A-7 provides information relating to Petitioner-owned Regional Expansion Criteria and Benefits ("RECB") projects and provides an estimate of Schedule 26 costs to be allocated to Petitioner. Ms. Diaz testified that Petitioner is seeking recovery in this proceeding for three RECB projects now in service: the first phase of a baseline reliability transmission line project spanning approximately four miles (MISO Project 852) completed by Petitioner in 2009 and the final phase spanning 17 miles in 2013; the second being the Edwardsport 345 kV substation and line project (MISO Project 1263) completed in 2010; and the third being the Dresser substation and transformer project (MISO Project 2050) completed in 2011. Ms. Diaz stated that the annual revenue requirement submitted to MISO for these projects totaled $4,439,217, for which Petitioner began receiving updated revenues on June 1, 2014. Ms. Diaz stated that Petitioner has retained this revenue, pursuant to the Commission's Order in Cause No. 42736 RTO 14, and Rider No. 68 costs were not offset by the revenue from this project. She also testified that Petitioner excluded the revenues and expenses related to this project from the FAC earnings test.

Ms. Diaz testified that the allocation of MISO costs and credits between Petitioner and Duke Energy Ohio is no longer required because MISO costs and credits are directly assigned to Petitioner after Duke Energy Ohio joined PJM on January 1, 2012.

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

Ms. Diaz and Mr. Swez also testified that, pursuant to the Commission's September 24, 2014 Order in Cause No. 42736 RTO 39, the new MISO MVP Credit Charge Type has been reported in this RTO filing and will be reported in its future RTO filings. Ms. Diaz explained that this new charge type, the Real-Time MVP Distribution charge, was implemented by MISO as a credit given to those who contributed to the cost of the MVPs.

The testimony of Mr. 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 January, February, and March 2015 retail electric billing cycles.

5. Commission Findings. Based on the evidence presented in this Cause supporting the recovery of $8,784,400, the Commission finds that Duke Energy Indiana's proposed Rider No. 68 adjustment factors for the bills rendered beginning with the January 2015 – Cycle 1 retail electric billing cycle are reasonable and shall be approved. Accordingly, Duke Energy Indiana shall include such adjustment factors in Rider No. 68 filed with the Commission in compliance with this Order.

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

1. Duke Energy Indiana's Rider No. 68 adjustment factors for the bills rendered beginning with the January 2015 – Cycle 1 retail electric billing cycle, as described herein, are approved.

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

<u>STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR; MAYS-MEDLEY ABSENT</u>:

APPROVED: DEC 30 2014

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

Brenda A. Howe

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Secretary to the Commission