

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN)
POWER COMPANY ("I&M"), AN INDIANA)
CORPORATION, FOR APPROVAL OF AN)
ADJUSTMENT TO ITS RATES THROUGH ITS)
CLEAN COAL TECHNOLOGY RIDER FOR THE)
BILLING MONTHS OF OCTOBER 2010)
THROUGH MARCH 2011 PURSUANT TO THE)
ONGOING REVIEW PROCESS APPROVED BY)
THE COMMISSION'S ORDER IN CAUSE NO.)
43636.)

CAUSE NO. 43636 ECR 2

APPROVED: SEP 29 2010

BY THE COMMISSION:

James D. Atterholt, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On August 2, 2010, Indiana Michigan Power Company ("Petitioner", "Company" or "I&M") filed a Petition for an adjustment of its rates through its Clean Coal Technology Rider ("CCTR") with the Indiana Utility Regulatory Commission ("Commission") for the billing months of October 2010 through March 2011 pursuant to the Commission's Order in Cause No. 43636. I&M filed its direct testimony and exhibits on August 2, 2010. On September 15, 2010 the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony and on September 20, 2010, I&M filed its rebuttal testimony and exhibits.

Pursuant to notice given and published as provided by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held at 9:30 a.m. on September 23, 2010 in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC participated in the hearing. No members of the general public appeared. At the hearing, Petitioner and OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection. Also admitted into evidence without objection were I&M's responses to the Commission's September 20, 2010 Docket Entry.

The Commission, based upon the applicable law, the evidence herein, and being duly advised, now finds as follows:

1. Notice and Jurisdiction. Proper notice of the public hearing in this Cause was given as provided by law. Petitioner is a public utility within the meaning of the term in Ind. Code § 8-1-2-1(a) of the Public Service Commission Act, as amended, and an "eligible business" as defined in Ind. Code § 8-1-8.8-6. Petitioner 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 I&M and the subject matter of this Cause.

2. Petitioner's Organization and Business. I&M, a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"), is a corporation organized and existing under the

laws of the State of Indiana, with its principal offices at One Summit Square, Fort Wayne, Indiana. I&M is a member of the East Zone of the AEP System, which is operated on an integrated basis pursuant to the AEP Interconnection Agreement, a Federal Energy Regulatory Commission (“FERC”) approved agreement that defines the sharing of costs and benefits associated with certain AEP East Zone affiliates’ respective generating plants (“AEP Pool Agreement”).

I&M is engaged in, among other things, rendering electric service in the States of Indiana and Michigan. I&M owns, operates, manages and controls plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public.

3. Background. In the Commission’s June 30, 2009 Order in Cause No. 43636 (“June 30 Order”), the Commission granted a certificate of public convenience and necessity (“CPCN”) to I&M for the use of clean coal technology (“CCT”) pursuant to Ind. Code § 8-1-8.7 and for the use of qualified pollution control property (“QPCP”) pursuant to Ind. Code § 8-1-2-6.6. The June 30 Order also found that Petitioner is entitled to use the ratemaking treatment for the construction costs provided in Ind. Code § 8-1-2-6.8 and 170 I.A.C. 4-6-9 through 23 and ongoing review of the construction projects (the “Projects”) pursuant to Ind. Code § 8-1-8.7-7. In addition, the June 30 Order granted the request for the timely recovery of costs incurred during construction and operation of the CCT projects pursuant to Ind. Code § 8-1-8.8.

4. Petitioner’s Request. In its Verified Petition, Petitioner seeks Commission approval to earn a return on the Projects in accordance with the June 30 Order. Petitioner also seeks an adjustment that will provide a return on the value of the QPCP as of June 30, 2010. Petitioner seeks to reconcile its carrying costs during construction and post in-service costs of the Projects under which I&M is allowed to adjust its rates to earn a return on construction costs incurred in connection with the installation of the CCT through the CCTR for the period January 1, 2010 through June 30, 2010 and to reflect in billings factors the October 1, 2010 through March 31, 2011 forecast costs.

5. Evidence.

A. I&M’s Case-in-Chief. I&M Witness Scott Krawec stated that the June 30 Order: (1) approved two Projects; one to reduce nitrogen oxides (“NO_x”) emissions and another to reduce mercury emissions from I&M’s generating facilities and the associated accounting and ratemaking relief; (2) approved the Projects as QPCP and for the issuance of a CPCN to use CCT; (3) granted I&M a CPCN for the Projects; (4) approved the Projects’ construction work and construction costs incurred as of December 31, 2008; and (5) approved I&M’s request for ongoing review of the Projects through semi-annual filings. Krawec Direct at 5. Mr. Krawec stated in this filing I&M is updating the actual capital investments for the time period of January 1, 2010 through June 30, 2010 and reconciling the revenues received with allowed costs for the time period of January 1, 2010 through June 30, 2010. *Id.* at 5. He stated that in this proceeding, I&M is requesting that the Commission add the amount of I&M’s expenditures for QPCP incurred from January 1, 2010 through June 30, 2010 to the value of the property upon which the Company is authorized to earn a return. *Id.* at 5. Mr. Krawec stated that for the period January 1, 2010 through June 30, 2010, I&M has over-recovered \$ 2,062,500 for the CCTR. See Exhibit SMK-1. *Id.* at 5. He provided exhibits showing the (1) CCTR jurisdictional return calculation for the actual period, January 1, 2010 through June 30, 2010; (2) Rockport activated carbon injection (“ACI”) 2010

investment balances and post in-service return; (3) Tanners Creek selective non-catalytic reduction (“SNCR”) 2010 investment balances and post in-service return; (4) calculation of CCTR jurisdictional post in-service depreciation for the Rockport ACI; (5) calculation of CCTR jurisdictional post in service depreciation for the Tanners Creek SNCR and (6) CCTR jurisdictional monthly O&M expenses and consumables for the reconciliation of the actual period. See Exhibit SMK-2. *Id.* at 6.

Mr. Krawec also presented I&M’s applicable weighted-average cost of capital and showed the calculation of I&M’s carrying cost factor. *Id.* at 6. See Exhibit SMK-3. He stated that I&M is requesting a decrease in the CCTR factors resulting in semi-annual CCTR revenues of \$268,533. See Exhibit SMK-4. *Id.* at 6.

Mr. Krawec also sponsored Exhibit SMK-5, setting forth the allocation of the Indiana revenue requirement by class in accordance with the allocation parameters established by the Commission in Cause No. 43306, and Exhibit SMK-6 setting forth the class revenue requirement and the reconciliation of any past period revenue recovery used to calculate the new proposed per kWh billing factors. He stated the revenue requirement for each customer class will be divided by the sales levels for each customer class also used for tariff rider calculations in Cause No. 43306 as estimates of kWh sales levels for the six month period during which the factors will be in effect. *Id.* at 7.

Mr. Krawec stated that I&M seeks to make the CCTR factors reflected in Exhibit SMK-6 effective for all bills rendered for electric services beginning with the first billing cycles for the October 2010 billing month, remaining in effect for approximately six months or until replaced by different adjustment factors approved in a subsequent filing. *Id.* at 8. He stated that approval of I&M’s revised CCTR factors will cause the monthly bill of a typical residential customer to decrease by \$0.09 or 0.1% for a residential customer using 1,000 kWh per month, effective no later than the first billing cycle of October 2010. See Exhibit SMK-8. *Id.* at 8.

I&M Witness Mark A. Peifer provided an update regarding the progress of the Projects. Mr. Peifer stated the SNCR systems on Tanners Creek Units 1, 2 and 3 were all placed in-service on December 11, 2009. *Id.* at 4. He stated through June 30, 2010, the total capital expenditure incurred for the SNCR project was \$14,105,605. See Exhibit MAP-1. A total of \$697,775 was incurred since the last filing update in Cause No. 43636 ECR 1. *Id.* at 4. Mr. Peifer explained that although there were no forecasted capital costs for the SNCR included in I&M’s filing in Cause No. 43636 ECR 1, I&M incurred costs to the Tanners Creek SNCR in 2010 mainly to make contract payments for work performed, as well as to complete a “punch list” of items that needed to be remedied before the plant could accept the SNCR system for normal operations. *Id.* at 5-6.

Mr. Peifer detailed future capital costs that are expected to be incurred by the SNCR project at Tanners Creek. *Id.* at 7. Per Mr. Peifer, there are two more payments, totaling approximately \$300,000, that need to be made to close out contracts associated with work already performed for the Tanners Creek SNCR. According to Mr. Peifer, aside from these payments there are no significant capital costs anticipated to be incurred by the SNCR project. *Id.* at 7.

Mr. Peifer proposed to change the amount of fixed O&M for the Tanners Creek SNCR system. He stated that an O&M amount of \$250,000 (\$125,000 over a 6-month period) has been requested and approved in previous ECR filings. *Id.* at 7. This original amount of fixed O&M was

based on O&M estimates for similar SNCR systems installed elsewhere on AEP's fleet of generating plants. Per Mr. Peifer, I&M is requesting to recover \$2,300 in fixed O&M over the 6-month forecast period from October 2010 through March 2011. Mr. Peifer supports this downward adjustment by explaining that I&M's spending to date has not been consistent with the amount that was originally forecasted and should therefore be adjusted to more accurately reflect historical spending. *Id.* at 8.

Mr. Peifer testified about I&M's forecasted urea use. Mr. Peifer stated that it is not economically advantageous to operate the SNCR systems to reduce NO_x emissions from the Tanners Creek Plant and therefore I&M is not requesting any dollars for urea expense. Mr. Peifer further explained that while there is no indication that it will become advantageous to operate the SNCR system during the six-month forecast period, I&M will maintain the system in an operable condition so that the system can be brought into service in a reasonable amount of time if it is determined that operating the system is in the best interest of I&M's customers. See Exhibit MAP-2 and MAP-3. *Id.* at 8.

He stated the ACI project at the Rockport Plant was placed into service on September 28, 2009. He stated through June 30, 2010, the total capital expenditure incurred for the ACI project was \$23,365,797, with an additional \$50,750 to be spent prior to completion of the project. See Exhibit MAP-1. Peifer Direct at 3-4. Mr. Peifer testified that I&M incurred prudent and necessary capital costs in the amount of \$156,179 for the Rockport ACI project from January 1, 2010 through June 30, 2010. *Id.* at 9-10. Mr. Peifer supported the Rockport ACI capital cost forecast of \$50,750. *Id.* at 10. Mr. Peifer explained these costs were necessary to completely close out the capital portion of the Rockport ACI project. See Exhibit MAP-1. *Id.* at 10-11.

Mr. Peifer supported a reduced amount of fixed O&M in the amount of \$27,400 for the Rockport ACI for the six-month forecast period. I&M's 50% share of this cost is \$13,700. I&M recommends this downward adjustment in fixed O&M at this time because the amount of O&M necessary for the ACI system is below the amount previously requested. See Exhibit MAP-2 and MAP-3. *Id.* at 13-14.

Mr. Peifer provided the amount of activated carbon that will be used during the six-month forecast period. Per Mr. Peifer, the amount of activated carbon that will be injected, assuming that the ACI system is available 100% of the time, is proportional to the forecasted unit generation at the Rockport Plant. In order to estimate the amount of activated carbon that could be consumed during the forecast period the generation forecast used in IURC Cause No. 38702-FAC 65 and the carbon injection rate was used to calculate a total of \$5.0 million in activated carbon. *Id.* at 14. I&M's share of this cost is \$2.5 million. See Exhibit MAP-2. However, I&M is not recommending recovery of the full amount of activated carbon that may be consumed during the forecast period. As explained by Mr. Peifer, I&M is constantly working to improve the availability of the ACI system, but the system is not yet reliable enough to assume that it will be operating 100% of the time that the generating units are forecasted to run. Therefore, Mr. Peifer recommended that a total activated carbon cost of \$2.0 million over the six month forecast period be recovered. *Id.* at 15. Mr. Peifer calculated this value by looking at the historical activated carbon usage at the Rockport Plant. In February and March 2010, the most recent months for which Rockport data is available that were not impacted by the unit 2 forced outage, an average of approximately \$165,000 per month (I&M share only) in activated carbon was consumed at the Rockport Plant. Per Mr. Peifer, this equates to a total Rockport forecasted amount of activated carbon of \$2.0 million for the six-

month forecast period, with I&M's share of the cost being \$1.0 million. See Exhibit MAP-3. *Id.* at 15.

B. OUCC's Case-in-Chief. OUCC Witness Wes R. Blakley testified that after the OUCC had discussions with I&M, I&M's revised filing requests recovery of \$2,311,415 as incremental revenue requirement. Blakley Direct at 2-3. Per Mr. Blakley, this request includes return on jurisdictional CWIP investment, depreciation expense, O&M expense, amortization of regulatory asset and recovery of consumables. When netted with prior period over-recovery of \$1,640,660, the result is \$670,755 to be recovered over the forecast period. OUCC Witness Blakley stated that there is nothing that would indicate that I&M's calculation of estimated ECR adjustment factors for the relevant period is unreasonable. Mr. Blakley stated that the OUCC and I&M are continuing to work collaboratively to reach an agreement on the appropriate schedules and attachments to be used in future ECR filings. *Id.* at 3.

C. I&M's Rebuttal Testimony. I&M witness Krawec's rebuttal testimony modified Petitioner's exhibits as a result of discussions with the OUCC regarding I&M's calculated allowed return on investment pertaining to the reconciliation period January 1, 2010 through June 30, 2010. Per I&M witness Krawec, this affected the amortization of the deferred regulatory assets in the forecast period, October 1, 2010 through March 31, 2011. The inclusion of these revisions results in a revised prior period over-recovery of \$1,640,660. See Revised Exhibit SMK-1. Krawec Rebuttal at 2.

Mr. Krawec stated that the revised forecasted revenue requirement reflects the decreased amortization expense in the forecast period as a result of a decrease in the deferred return regulatory asset. The inclusion of this adjustment results in a reduced forecasted revenue requirement of \$2,311,415. See Revised Exhibit SMK-4. Per Mr. Krawec, the net of the revised forecasted revenue requirement of \$2,311,415 and the revised prior period over recovery of \$1,640,660 results in \$670,755 to be recovered over the forecast period. See Revised Exhibit SMK-4. *Id.* at 3.

Mr. Krawec sponsored Revised Exhibit SMK-5 setting forth the allocation of the Indiana revenue requirement by class, and Revised Exhibit SMK-6 setting forth the class revenue requirement and the reconciliation of any past period revenue recovery used to calculate the new proposed rider factors to be implemented. *Id.* at 3.

Mr. Krawec's rebuttal testimony supported I&M's request to make the CCTR factors reflected in Revised Exhibit SMK-7 effective for customers' bills for electric services beginning with the first billing cycle of October 2010 billing month. Mr. Krawec stated that approval of I&M's revised CCTR factors will cause the monthly bill of a typical residential customer to decrease by \$0.03 for a residential customer using 1,000 kWh per month. See Revised Exhibit SMK-8. *Id.* at 3.

Last, Mr. Krawec's rebuttal testimony indicated that I&M has reached an agreement on the revised exhibits. He stated that I&M has made supplemental workpapers available to the OUCC for their review and will continue to do so in future ECR filings. *Id.* at 4. He added that upon request the workpapers would also be provided to the Commission subject to the protection of any confidential information included therein.

6. Commission Discussion and Findings.

A. Amount of QPCP Construction Costs. 170 I.A.C. 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 rate making treatment for its QPCP construction costs. Pursuant to Section 12(a), Company witness Peifer sponsored Petitioner’s Exhibit MAP-1, which set forth the construction costs as of June 30, 2010 for which Petitioner seeks ratemaking treatment in this Cause. This CCTR Adjustment includes recovery of costs approved in this Commission’s June 30 Order.

B. Rate of Return on Approved QPCP Construction Costs. Company witness Krawec sponsored Petitioner’s Exhibit SMK-3 which reflects the calculation of Petitioner’s Gross Revenue Conversion Factors utilizing a weighted cost of capital rate of 7.21%

C. Recovery of Depreciation, Capital Maintenance, Operation and Maintenance (O&M) Expenses and Taxes. Our June 30 Order provides for the timely recovery of depreciation, capital maintenance, O&M expenses and taxes. Company witness Krawec sponsored Petitioner’s Revised Exhibit SMK-2, which provided the CCTR jurisdictional return calculation for the actual period January 1, 2010 through June 30, 2010 (Page 1); the investment balances and post in-service return on the CCT Projects (Pages 2 and 3); the calculation of CCTR jurisdictional post in-service depreciation (Page 4 and 5); and the CCTR jurisdictional monthly O&M expenses and consumables for the reconciliation of the actual period (Page 6).

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. Company witness Krawec sponsored Petitioner’s Revised Exhibit SMK-4, which provides the revenue requirement from October 1, 2010 through March 31, 2011 of \$2,311,415 reduced by the prior period over-recovery of \$1,640,660 that occurred during January 1, 2010 through June 30, 2010. Mr. Krawec stated the resulting net forecasted revenue requirement for October 2010 through March 2011 is \$670,755.

E. Net Operating Income for Fuel Adjustment Clause. Pursuant to 170 I.A.C. 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 I.C. § 8-1-2-42(d)(2) and I.C. § 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 I.C. § 8-1-2-42(d)(2) and I.C. § 8-1-2-42(d)(3), the jurisdictional portion of the 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 CCTR Adjustment.

F. Allocation of Jurisdictional Revenue Requirement. 170 I.A.C. 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), Witness Krawec sponsored Petitioner’s Revised Exhibit SMK-5, which 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. 43306), approved March 4, 2009.

G. Amount of Rider Adjustments. Witness Krawec sponsored Petitioner’s Revised Exhibit SMK-6, which set forth the proposed CCTR Adjustment factors for each customer

class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.0103
SGS and SGS-TOD	0.0105
MGS and MGS-TOD	0.0107
LGS and LGS-TOD	0.0101
IP, CS-IRP and CS-IRP2	0.0089
MS	0.0091
WSS	0.0075
IS	0.0309
EHS	0.0083
EHG	0.0104
OL	0.0037
SLS, ECLS, SLC, SLCM and FW-SL	0.0039

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 I.A.C. 4-6-1 and the June 30 Order. The Commission further finds that the proposed Rider Adjustment factors are properly calculated. Therefore, the Commission finds that the Rider Adjustment factors contained in Petitioner’s Revised Exhibit SMK-6 should be approved and become effective for all bills rendered for electric services beginning with the first billing cycles for the October 2010 billing month.

We note that while Petitioner presented the OUCC with revised exhibits prior to the OUCC’s filing date, the revised exhibits were not filed with the Commission until after the OUCC prefiled its evidence. While the procedural schedule in this Cause was upset to some extent by the unavailability of the intended OUCC witness, it would benefit the Commission if the evidence to which a witness is responding has already been prefiled with the Commission. Upon becoming aware that a party will file supplemental testimony, the preferred practice would be to seek leave to file supplemental testimony that could then be addressed by the responding party.

Finally, Mr. Krawec indicated that workpapers would be filed with the Commission on its request. To the extent that I&M provides workpapers to the OUCC, it should also file the same with the Commission, and seek confidential treatment of such workpapers, if appropriate.

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

1. The Projects’ construction work and construction costs incurred as of June 30, 2010 are hereby approved.
2. Petitioner’s proposed Clean Coal Technology Rider Adjustment as set out in this Order is hereby approved.
3. Pursuant to 170 I.A.C. 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 (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 (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 the earnings modification resulting from the Commission's approval of the Settlement Agreement and the CCTR.

4. Petitioner shall file with the Electricity Division of the Commission an amendment to its tariff reflecting the approved Clean Coal Technology Rider Adjustment in the form of Revised Exhibit SMK-7.

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

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

SEP 29 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