

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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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 APRIL 2011 THROUGH )  
SEPTEMBER 2011 PURSUANT TO THE )  
ONGOING REVIEW PROCESS APPROVED )  
BY THE COMMISSION'S ORDER IN )  
CAUSE NO. 43636. )

CAUSE NO. 43636 ECR 3

APPROVED: MAR 30 2011

**BY THE COMMISSION:**

**David E. Ziegner, Commissioner**

**Angela Rapp Weber, Administrative Law Judge**

On February 3, 2011, Indiana Michigan Power Company ("Petitioner," "Company," or "I&M") filed a Verified Petition for an adjustment of its rates through its Clean Coal Technology Rider ("CCTR") with the Indiana Utility Regulatory Commission ("Commission") to be effective with the first full billing cycle of April 2011 pursuant to the Commission's Order in Cause No. 43636. I&M filed its direct testimony and exhibits on February 3, 2011. On March 9, 2011 the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony, and on March 15, 2011, 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 in this Cause was held on March 16, 2011 at 10:00 a.m. in Room 224 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 the OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection.

The Commission, based upon the applicable law and the evidence presented, now finds as follows:

**1. Notice and Jurisdiction.** Proper notice of the public hearing in this Cause was published as provided by law. Petitioner is a public utility within the meaning of the term provided in Indiana Code § 8-1-2-1(a) of the Public Service Commission Act, as amended, and an "eligible business" as defined in Indiana 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. The AEP Interconnection Agreement is a Federal Energy Regulatory Commission approved agreement that defines the sharing of costs and benefits associated with certain AEP East Zone affiliates’ respective generating plants. 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 Indiana Code ch. 8-1-8.7 and for the use of qualified pollution control property (“QPCP”) pursuant to Indiana Code § 8-1-2-6.6. The June 30 Order also found that Petitioner is entitled to use the ratemaking treatment for costs provided in Indiana Code § 8-1-2-6.8 and 170 IAC 4-6-9 through -23 and ongoing review of the construction projects (the “Projects”) pursuant to Indiana 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 Indiana Code ch. 8-1-8.8. The June 30 Order also approved Petitioner’s proposed CCTR and the procedures for ongoing review and implementation of the CCTR.

**4. Relief Requested.** 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 December 31, 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 July 1, 2010 through December 31, 2010 and to reflect in billing factors the April 1, 2011 through September 30, 2011 forecast of costs.

**5. Evidence Presented.**

**A. I&M’s Case-in-Chief.** I&M witness Scott Krawec stated that the June 30 Order (1) approved two Project: one to reduce nitrogen oxides (“NO<sub>x</sub>”) 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. Mr. Krawec stated in this filing I&M is updating the actual capital investments for the time period of July 1, 2010 through December 31, 2010 and reconciling the revenues received with allowed costs for the time period of July 1, 2010 through December 31, 2010. In this proceeding I&M is requesting that the Commission add the amount of I&M’s expenditures for QPCP incurred from July 1, 2010 through December 31, 2010 to the value of the property upon which the Company is authorized to earn a return. Mr. Krawec stated that for the period July 1, 2010 through December 31, 2010, I&M has under-

recovered \$2,666,765 for the CCTR. Mr. Krawec sponsored exhibits showing the (1) CCTR jurisdictional return calculation for the actual period, July 1, 2010 through December 31, 2010; (2) Rockport activated carbon injection (“ACI”) July 1, 2010 through December 31, 2010 investment balances and post in-service return; (3) Tanners Creek selective non-catalytic reduction (“SNCR”) July 1, 2010 through December 31, 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; (6) calculation of CCTR jurisdictional regulatory asset and related amortization for the Rockport ACI; (7) calculation of CCTR jurisdictional regulatory asset and related amortization for the Tanners Creek SNCR; and (8) CCTR jurisdictional monthly Operation and Maintenance (“O&M”) expenses and consumables for the reconciliation of the actual period.

Mr. Krawec also presented I&M’s applicable weighted-average cost of capital and showed the calculation of I&M’s carrying cost factor. He stated I&M is requesting that the Commission authorize an increase in the CCTR factors resulting in semi-annual CCTR revenues of \$1,847,387.

Mr. Krawec testified I&M’s filing in this matter uses a cumulative over-recovery balance instead of a prior six-month reconciliation period amount as used in prior ECR filings. Per Mr. Krawec, a prior six-month reconciliation amount is an input into the amount of the revenue requirement for the revised factor, and it does not consider the amount of past over-recoveries from I&M’s prior CCTR filings that were not fully returned to customers. He stated these amounts end up being a part of the over-recovery balance as of December 31, 2010 and need to be included as a reduction to the forecasted revenue requirement. Mr. Krawec explained that I&M, after consultation with the OUCC, used the cumulative over-recovery balance for this ECR filing on *Exhibit SMK-4*. He said this approach should result in more stability to customer rates. Further, use of the methodology adopted in I&M’s prior ECR filings would likely result in I&M being in a significantly over-recovered position in the next ECR filing.

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. He also sponsored *Exhibit SMK-6*, which sets forth the class revenue requirement and the reconciliation of any past period revenue recovery used to calculate the new proposed per kWh billing factors. According to Mr. Krawec, 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.

Mr. Krawec stated I&M seeks to make the CCTR factors reflected in *Exhibit SMK-6* effective with the first full billing cycle for the billing month of April 2011 or the first full billing month following the issuance of a Commission Order in this proceeding. He explained that such adjustment factor, upon becoming effective, shall remain in effect for approximately six months or until replaced by a different adjustment factor that is approved in a subsequent filing. Mr. Krawec testified that I&M is requesting an increase in the CCTR factor. The increase will result in semi-annual CCTR revenues of \$1,847,387. In addition, Mr. Krawec testified that approval of I&M’s revised CCTR factors will cause the monthly bill of a typical residential customer to

increase by \$0.22 or 0.3% for a residential customer using 1,000 kWh per month.

Lastly, Mr. Krawec explained the standard audit packet developed by I&M to be provided to the OUCC as part of its semi-annual CCTR filings. Per Mr. Krawec, I&M will provide a copy of the audit package to the Commission.

I&M witness Daniel V. Lee provided an update regarding the progress of the Projects. Mr. Lee stated the ACI project at the Rockport Plant was placed into service on September 28, 2009. He explained that through December 31, 2010, the total capital expenditure incurred for this project was \$23,408,291, half of which is I&M's responsibility. He said a total of \$42,494 was incurred since the last update filing in Cause No. 43636 ECR 2, approximately half of which is I&M's responsibility. Mr. Lee testified that the SNCR systems on Tanners Creek Units 1, 2, and 3 were all placed in service on December 11, 2009. He stated as of December 31, 2010, the total capital expenditure incurred for the SNCR project was \$14,152,069. A total of \$46,464 was incurred since the last filing update in Cause No. 43636 ECR 2. He explained I&M incurred the current capital costs of \$46,464 mainly to make contract payments for work performed, as well as to complete a "punch list" of miscellaneous items associated with the closing of the project. Mr. Lee testified that the capital costs incurred for the SNCR systems were less than the amount forecasted in Cause No. 43636 ECR 2.

Per Mr. Lee, there is no anticipated capital investment for the SNCR system at the Tanners Creek Plant or the ACI project at the Rockport Plant for the forecast period. The capital investment to complete and place the SNCR and ACI projects in service has been incurred. Potential future capital expenses would be those required to address normal wear and tear of the equipment during its operational life.

Mr. Lee proposed to change the amount of fixed O&M for the Tanners Creek SNCR system. He stated the fixed O&M forecast has been reduced from \$2,300 to \$0. He explained it is still necessary to monitor the SNCR system to ensure that it is in an operable condition. Mr. Lee said this downward adjustment is proposed because I&M's spending to date has not been consistent with the amount that was originally forecasted. He said that while it is expected that the fixed O&M costs associated with this system will increase in the future, the requested amount is consistent with the projected operation of the SNCR system over the six-month forecast period in this proceeding.

Mr. Lee testified about I&M's forecasted urea use. Mr. Lee stated it is not economically advantageous to operate the SNCR system to reduce NO<sub>x</sub> emissions from the Tanners Creek Plant and therefore I&M is not requesting any dollars for urea expense. Mr. Lee further explained that while there is no indication 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.

Mr. Lee testified in support of an increased amount of fixed O&M for the Rockport ACI system. He explained that the O&M required to operate and to maintain the ACI system has increased from \$27,400 to \$69,450 for the six-month forecast period. \$34,725 of this amount is I&M's responsibility.

Mr. Lee provided the amount of activated carbon that will be used during the six-month forecast period. Per Mr. Lee, 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, I&M utilized the generation forecast used in Cause No. 38702 FAC 66 and the carbon injection rate to calculate a total of \$5.0 million in activated carbon. I&M's share of this cost is \$2.5 million.

Mr. Lee recommended the recovery of the full amount of the cost of the activated carbon that is projected to be consumed during the forecast period. Mr. Lee testified the forecasted activated carbon consumption is appropriate because during the current review period, the ACI system was not able to run at full capacity until a Title V permit modification was received from the Indiana Department of Environmental Management to comply with environmental regulations regarding particulate emissions. This permit was received on July 29, 2010 after I&M demonstrated that operation of the ACI system did not increase the particulate emissions at the Rockport Plant. After the permit was received, an average of approximately \$323,000 per month (I&M share only) in activated carbon was consumed at the Rockport Plant during the period of August 2010 to December 2010. According to Mr. Lee, this average expense more accurately reflects the cost of the activated carbon to be consumed during the forecast period. Additionally, experience developed from operating the system will provide the opportunity to optimize and maximize sorbent usage. He stated, therefore, I&M requested that the forecasted amount of \$2.5 million (I&M share) should be reflected in the adjustment.

***B. OUCC's Case-in-Chief.*** OUCC witness Wes R. Blakley testified I&M is requesting construction work in progress ratemaking treatment for its QPCP projects at its Tanners Creek and Rockport generating stations, including a return on investment and recovery of depreciation and O&M expense. He stated I&M is also proposing to calculate its prior period variances using a cumulative variance calculation (i.e., the average of the prior differences in variances would be the current variance to be applied to the current forecast). According to Mr. Blakley, the way I&M has calculated the variance does not adequately remove the prior over-recovery calculated in ECR 1 that was billed in the period July 1, 2010 through December 31, 2010.

Per Mr. Blakley, the prior over-recovery must be removed from the calculation of the revenue requirement in ECR 3 or it will continue to create over-recoveries. He stated *Exhibit WRB-1* demonstrates the correct way to account for the over-recovery from ECR 1 by deducting it from the calculated under-recovery on ECR 3. This creates a \$227,007 under-recovery variance, which is then added to I&M's forecasted revenue requirement of \$3,261,040. This produces a total revenue requirement to be recovered from retail customers of \$3,488,047. Mr. Blakley recommended that I&M recalculate its variance in the manner set forth in *Exhibit WRB-1* in this Cause on a going forward basis. He stated that although this does increase the revenue requirement in ECR 3, it will eliminate the continued over- or under-collections of the prior periods that would distort revenue requirement calculations in the future. Lastly, Mr. Blakley stated that with the exception of the calculation of the prior period variance, there is nothing which would indicate that I&M's calculation of estimated ECR adjustment factors for the relevant period is unreasonable.

**C. I&M's Rebuttal Testimony.** On rebuttal, Mr. Krawec stated he agrees with Mr. Blakley's recommendation that I&M use a different method for calculating its variance in this and future CCTR filings. According to Mr. Krawec, Mr. Blakley's recommended method is consistent with the reconciliation method currently used by other Indiana utilities in similar proceedings. Mr. Krawec supported Petitioner's *Revised Exhibit SMK-4* to reflect the updated net revenue requirement. Mr. Krawec testified that the net forecasted revenue requirement consisting of the revenue requirement from April 1, 2011 through September 30, 2011 is \$3,261,040 and the net under-recovery variance of \$227,007 results in \$3,448,047 to be recovered over the forecast period. In addition, Mr. Krawec sponsored *Revised Exhibit SMK-5* setting forth the allocation of the Indiana revenue requirement by class, *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, *Revised Exhibit SMK-7* containing revised tariff sheets reflecting the revised rider factors in clean and redline versions, and *Revised Exhibit SMK-8* showing the percentage changes at various "typical" usage levels for I&M's major tariff schedules. Mr. Krawec stated that approval of I&M's revised CCTR factors will cause the monthly bill of a typical residential customer using 1,000 kWh per month to increase by \$0.50.

**6. Commission Findings.**

**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 rate making treatment for its QPCP construction costs. Pursuant to Section 12(1), Mr. Lee sponsored *Exhibit DVL-1*, which sets forth the construction costs as of December 31, 2010 for which Petitioner seeks ratemaking treatment in this Cause. This CCTR adjustment includes recovery of costs approved in the Commission's June 30 Order.

**B. Rate of Return on Approved QPCP Construction Costs.** Mr. Krawec sponsored *Exhibit SMK-3*, which reflects the calculation of Petitioner's Gross Revenue Conversion Factors utilizing a weighted cost of capital rate of 7.18%.

**C. Recovery of Depreciation, Capital Maintenance, O&M Expenses, and Taxes.** The Commission's June 30 Order provides for the timely recovery of depreciation, capital maintenance, O&M expenses, and taxes. Mr. Krawec sponsored *Exhibit SMK-2*, which provides the CCTR jurisdictional return calculation for the actual period of July 1, 2010 through December 31, 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 (Pages 4 and 5); the calculation of the jurisdictional regulatory asset and related amortization on the CCTR projects (Pages 6 and 7); and the CCTR jurisdictional monthly O&M expenses and consumables for the reconciliation of the actual period (Page 8).

**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. Mr. Krawec sponsored *Revised Exhibit SMK-4*, which provides the forecasted revenue requirement from April 1, 2011 through September 30, 2011 of \$3,261,040, increased by the cumulative variance of \$227,007. Mr. Krawec stated the resulting net forecast revenue requirement for April 1, 2011

through September 30, 2011 is \$3,448,047.

***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 Indiana Code § 8-1-2-42(d)(2) and Indiana Code § 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 Indiana Code § 8-1-2-42(d)(2) and Indiana 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 CCTR adjustment.

***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), Mr. Krawec sponsored *Revised Exhibit SMK-5*, which demonstrates the allocation of the QPCP construction cost revenue requirement among I&M's customer classes. Petitioner's allocation factors are from Petitioner's most recent electric rate case in Cause No. 43306, which the Commission approved on March 4, 2009.

***G. Amount of Rider Adjustments.*** Mr. Krawec sponsored *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	0.0600
SGS and SGS-TOD	0.0549
MGS and MGS-TOD	0.0518
LGS and LGS-TOD	0.0493
IP, CS-IRP and CS-IRP2	0.0482
MS	0.0554
WSS	0.0418
IS	0.0184
EHS	0.0721
EHG	0.0926
OL	0.0382
SLS, ECLS, SLC, SLCM and FW-SL	0.0365

***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 4-6-1 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 *Revised Exhibit SMK-6* should be approved and become effective for all bills rendered for electric services beginning with the first full billing cycle for the billing month of April 2011 or the first full billing month following the issuance of this Order.

***I. Confidentiality.*** On February 3, 2011, I&M filed a motion for a protective order regarding portions of the prefiled testimony and exhibits that contained information that

Petitioner had designated as confidential, proprietary, competitively-sensitive, and/or trade secret information (“Confidential Information”). By Docket Entry dated March 8, 2011, the Presiding Officers made a preliminary finding of confidentiality and determined that the Confidential Information should be exempt from public disclosure and the unredacted version of the evidence was submitted and admitted into evidence under seal. The Commission affirms the ruling of the Presiding Officers and finds the Confidential Information should continue to be treated by the Commission as confidential and not subject to public disclosure.

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

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

2. Petitioner’s proposed Clean Coal Technology Rider adjustment as set out in this Order shall be and hereby is approved.

3. Pursuant to 170 IAC 4-6-21, Petitioner shall add the approved return on its QPCP to its net operating income authorized by the Commission for the purposes of Indiana Code §§ 8-1-2-42(d)(2) and 8-1-2-42(d)(3) in all subsequent Fuel Adjustment Charge proceedings. However, for purposes of computing the authorized net operating income for Indiana Code §§ 8-1-2-42(d)(2) and 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 the earnings modification authorized herein.

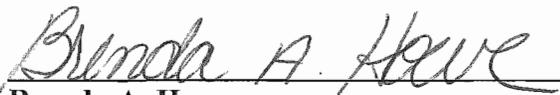
4. Petitioner shall file with the Electricity Division of the Commission an amendment to its tariff reflecting the approved Clean Coal Technology Rider adjustment in the form of *Revised Exhibit SMK-7*.

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

**ATTERHOLT, BENNETT, LANDIS AND MAYS CONCUR; 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**