

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 APRIL 2012 THROUGH )
SEPTEMBER 2012 PURSUANT TO THE ONGOING )
REVIEW PROCESS APPROVED BY THE )
COMMISSION'S ORDER IN CAUSE NO. 43636. )

CAUSE NO. 43636 ECR 5

APPROVED: MAR 28 2012

ORDER OF THE COMMISSION

Presiding Officers:

James D. Atterholt, Chairman

Aaron A. Schmoll, Senior Administrative Law Judge

On February 2, 2012, 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") to be effective with the first full billing cycle of April 2012 pursuant to the Commission's Order in Cause No. 43636. On March 6, 2012 the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony. On March 7, 2012, the Commission issued a Docket Entry, to which Petitioner responded on March 12, 2012. On March 12, 2012, I&M filed supplemental 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 14, 2012 at 9:30 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 OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection.

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 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 (“FERC”) 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. **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 December 31, 2011. 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, 2011 through December 31, 2011 and to reflect in billing factors the April 2012 through September 2012 forecast of 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<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. Krawec Direct at 5. Mr. Krawec stated in this filing I&M is updating the actual capital investments for the time period of July 1, 2011 through December 31, 2011 and reconciling the revenues received with allowed costs for the time period of July 1, 2011 through December 31, 2011. *Id.* at 6. In this proceeding, I&M is requesting that the Commission add the amount of I&M’s expenditures for QPCP incurred from July 1, 2011 through December 31, 2011 to the value of the property upon which the Company is authorized to earn a return. *Id.* at 6. Mr. Krawec stated that for the period July 1, 2011 through December 31, 2011, I&M has over-recovered \$478,823 for the CCTR. *Id.* at 6; *see also* Pet.’s Ex. SMK-1. Mr. Krawec sponsored exhibits showing the (1) CCTR jurisdictional return calculation for the actual period, July 1, 2011 through December 31, 2011; (2) Rockport activated carbon injection (“ACI”) July 1, 2011

through December 31, 2011 investment balances and post in-service return; (3) Tanners Creek selective non-catalytic reduction (“SNCR”) July 1, 2011 through December 31, 2011 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. *Id.* at 6-7; *see also* Pet.’s Ex. SMK-2.

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 7; *see also* Pet.’s Ex. SMK-3.

Mr. Krawec’s supplemental testimony modified Petitioner’s exhibits to reflect a revised over-recovery variance calculation. Krawec Supplemental Direct at 1. He stated that I&M is requesting that the Commission authorize an increase in the CCTR factors resulting in semi-annual CCTR revenues of \$2,901,335. *See* Pet.’s Revised Ex. SMK-4. According to Mr. Krawec, Petitioner’s Revised Exhibit SMK-4 reflects the variance calculation as agreed upon in ECR 3. *Id.* at 1.

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. Krawec Direct at 7. He also sponsored Revised 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. *Id.* at 7-8; Krawec Supplemental Direct at 2.

Mr. Krawec stated that I&M seeks to make the CCTR factors reflected in Revised Exhibit SMK-6 effective with the first full billing cycle for the billing month of April 2012 (March 29, 2012) 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 (6) months or until replaced by a different adjustment factor that is approved in a subsequent filing. *Id.* at 8; Krawec Supplemental Direct at 2. 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 \$0.14 or 0.2% for a residential customer using 1,000 kWh per month, effective no later than the first billing cycle of April 2012. *Id.* at 8; Krawec Direct Supplemental at 2; *see also* Pet.’s Revised Ex. SMK-8.

Finally, Mr. Krawec explained the standard audit packet developed by I&M was provided to the OUCC and to the Commission as part of I&M’s semi-annual CCTR filings. *Id.* at 9.

I&M witness Daniel V. Lee provided an update regarding the progress of the Projects. Mr. Lee stated that the ACI project at the Rockport Plant was placed into service on September 28, 2009. *See* Pet.’s Ex. DVL. He explained that through December 31, 2011 the total capital expenditure incurred for this project was \$23,405,491, 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. *Id.* at 3. He stated through December 31, 2011, the total capital expenditure incurred for the SNCR project was \$14,152,244. *See* Pet.'s Ex. DVL-1.

Mr. Lee stated there is no anticipated capital investment for the SNCR Systems for the forecast period. All of the capital investment to complete and place the SNCR project 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. *Id.* at 7.

Mr. Lee did not propose a change in the amount of fixed O&M for the Tanners Creek SNCR system. *Id.* He stated that the O&M requested in Cause No. 43636 ECR 4 for the SNCR system was reduced to \$0. This amount is consistent with the expected forecasted levels of O&M for the SNCR system in this update filing. *Id.* Though the O&M cost for the SNCR system is \$0 over the forecast period, it is expected that the fixed O&M costs to safely and reliably operate the SNCR system will increase in the future with potential increased operation. *Id.*

Mr. Lee testified about I&M's forecasted urea use. Mr. Lee stated that it is not expected to be economically advantageous to operate the SNCR systems to reduce NO<sub>x</sub> emissions from the Tanners Creek Plant through September 2012. *Id.* at 7.

For the ACI project at the Rockport Plant, Mr. Lee stated that there have not been any changes in the amount of capital incurred for the ACI project at the Rockport Plant since the filing in Cause No. 43636 ECR 4. *Id.* at 8. Mr. Lee stated there is no anticipated capital investment for the forecast period. According to Mr. Lee all of the capital investment to complete and place the ACI system in-service has been incurred.

Mr. Lee supported an amount of fixed O&M for the Rockport ACI System. *Id.* at 8-9. He explained that the O&M required to operate and to maintain the ACI System is \$70,542<sup>1</sup> for the six-month forecast period. *Id.* at 9; *see also* Pet.'s Ex. DVL-2.

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 is approximately \$5.0 million for the forecast period. *Id.* I&M's share of this cost is \$2.5 million. *See* Pet.'s Ex. DVL-2. Mr. Lee stated that the amount of activated carbon is a decrease of approximately \$0.5 million dollars to the amount requested in Cause No. 43636 ECR 4. He explained that due to reduced generation that is projected for Rockport in the forecast period, the ACI system will be required to operate less and will consume less activated carbon. *Id.*

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. He stated that this amount was calculated and evaluated based on the projected generation for Rockport during the forecast period. *Id.* at 9.

**B. OUCC's Case-in-Chief.** OUCC witness Wes R. Blakley testified that I&M is requesting construction work in progress ratemaking treatment for its QPCP projects at its Tanners Creek and Rockport generating stations. This treatment includes a return on investment,

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<sup>1</sup> \$70,541 represents the total fixed O&M cost for the Rockport ACI System, with I&M responsible for half that amount.

recovery of depreciation and O&M expenses and taxes relating to the same equipment per Indiana's QPCP statutes. OUCC's Ex. at 2. Mr. Blakley testified that the OUCC's concerns in ECR-3 over how I&M calculated the over (under) recovery to be included in the forecast revenue requirement have been resolved. He stated that I&M has properly removed the under-recovery that was billed in ECR-3 and netted it with the over-recovery in ECR-5, to arrive at the total under-recovery variance of \$2,187,942. He explained that this amount is added to the forecast revenue requirement to be billed to customers for the period April 1, 2012 through September 30, 2012. Mr. Blakley testified that this adjustment eliminates the over-or under-collections of prior periods from billed rates. According to Mr. Blakley, for ECR-5, the total revenue requirement requested including the reconciliation is \$5,341,093. *Id* at 3. Mr. Blakley stated that according to I&M, a residential customer using 1,000 kWh will experience a monthly rate increase of \$.56 or 0.7%. *Id*. Finally, Mr. Blakley testified that nothing came to his attention that would indicate that I&M's calculation of estimated adjustment factors for the relevant period is unreasonable. *Id*.

## **6. Commission Discussion and 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 Petitioner's Exhibit DVL-1, which set forth the construction costs as of December 31, 2011 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 Petitioner's Exhibit SMK-3 which reflects the calculation of Petitioner's Gross Revenue Conversion Factors utilizing a weighted cost of capital rate of 7.05%.

**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 Petitioner's Exhibit SMK-2, which provides the CCTR jurisdictional return calculation for the actual period July 1, 2011 through December 31, 2011; the investment balances and post in-service return on the CCT Projects; the calculation of CCTR jurisdictional post in-service depreciation; the calculation of the jurisdictional regulatory asset and related amortization on the CCTR projects; and the CCTR jurisdictional monthly O&M expenses and consumables for the reconciliation of the actual period.

**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 Petitioner's Revised Exhibit SMK-4, which provides the forecasted revenue requirement from April 1, 2012 through September 30, 2012 of \$3,153,151 decreased by the cumulative variance of \$251,816. The resulting net forecasted revenue requirement for April 1, 2012 through September 30, 2012 is \$2,901,335.

**E. Net Operating Income for Fuel Adjustment Clause ("FAC").** 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 FAC 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 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 Petitioner's 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 in Cause No. 43306, which the Commission approved on March 4, 2009.

**G. Amount of Rider Adjustments.** One of the Commission's Electricity Division analysts discovered a potential error in Petitioner's original data input into its Rider calculation, and the Presiding Officers requested that Petitioner explain its Rider calculations and confirm those inputs in its March 7, 2012 Docket Entry. In its March 12, 2012 Response and supplemental testimony, Petitioner stated that the data used in its February 2, 2012 filing was in error and its variance input was overstated by \$2,439,758, and revised its Rider factors to reflect those savings to ratepayers. Mr. 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	0.0493
SGS and SGS-TOD	0.0466
MGS and MGS-TOD	0.0427
LGS and LGS-TOD	0.0417
IP, CS-IRP and CS-IRP2	0.0392
MS	0.0481
WSS	0.0346
IS	0.0147
EHS	0.0627
EHG	0.0765
OL	0.0323
SLS, ECLS, SLC, SLCM AND FW-SL	0.0307

**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 Petitioner's 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 2012 or the first full billing month following the issuance of this Order.

**I. Confidentiality.** On February 2, 2012, 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 7, 2012, 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.

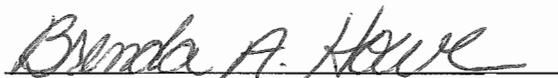
**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. The Projects' construction work and construction costs incurred as of December 31, 2011 are approved.
2. Petitioner's proposed Clean Coal Technology Rider Adjustment as set out in this Order 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 FAC proceedings. However, for purposes of computing the authorized net operating income, 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, MAYS AND ZIEGNER CONCUR;**

**APPROVED:      MAR 28 2012**

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



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