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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 ) CAUSE NO. 43636 ECR 7  
CLEAN COAL TECHNOLOGY RIDER )  
BEGINNING WITH THE BILLING MONTH OF ) APPROVED:  
NOVEMBER 2013 PURSUANT TO THE ONGOING ) OCT 16 2013  
REVIEW PROCESS APPROVED BY THE )  
COMMISSION'S ORDER IN CAUSE NO. 43636. )

ORDER OF THE COMMISSION

**Presiding Officers:**

**James D. Atterholt, Chairman**

**Jeffery A. Earl, Administrative Law Judge**

On April 23, 2013, Indiana Michigan Power Company ("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 billing cycle for the billing month of November 2013 (October 28, 2013) or the first full billing month following a Commission Order. On August 20, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony. On August 22, 2013, I&M filed its rebuttal testimony.

Pursuant to notice given and published as required by law, the Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on August 27, 2013, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. I&M and the OUCC appeared and participated in the hearing. No members of the general public appeared or sought to participate.

Based on the applicable law and the evidence presented and being duly advised, the Commission now finds:

**1. Notice and Jurisdiction.** Notice of the hearing in this case was given and published by the Commission as required by law. Petitioner is a public utility as that term is defined in Ind. Code 8-1-2-1(a). Under Ind. Code §§ 8-1-2-6.6 and 8-1-2-6.8 and Ind. Code chs. 8-1-8.7 and 8-1-8.8, the Commission has jurisdiction over a public utility's cost recovery related to the use of clean coal technology. Therefore, the Commission has jurisdiction over the Petitioner and subject matter of this case.

**2. I&M'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 electric service to the public.

3. **Background.** In the 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 ch. 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 authorized I&M to use the ratemaking treatment for costs provided in Ind. Code § 8-1-2-6.8 and 170 I.A.C. 4-6-9 through 4-6-23 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 ch. 8-1-8.8. The June 30 Order approved I&M's proposed CCTR and the procedures for ongoing review and implementation of the CCTR.

4. **Relief Requested.** In its Verified Petition, I&M seeks Commission approval to earn a return on the Projects prior to February 28, 2013, in accordance with the June 30 Order. I&M 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, 2012, through February 28, 2013. I&M requests Commission approval to suspend the CCTR and set the CCTR factors to zero effective with the first billing cycle of November 2013. I&M further requests Commission approval that any under- or over-recovery and regulatory assets arising from the deferred post in-service return as of the final Order in this Cause be reconciled and included in the initial CCTR filing or proposed Federal Mandate Rider ("FMR"), whichever rider is utilized to recover costs related to the Rockport Clean Coal Technology ("Rockport CCT") Project pending approval in Cause No. 44331.

5. **Evidence.**

A. **I&M's Case-in-Chief.** Scott Krawec, I&M's Director of Regulatory Services, stated that in Cause No. 43636, I&M requested that the Commission approve two Projects to reduce nitrogen oxides ("NO<sub>x</sub>") and mercury emissions from I&M's generating facilities and approve the associated accounting and ratemaking relief. He explained that I&M further requested the Projects be approved as QPCP and for the issuance of a CPCN to use CCT. Krawec testified that the Commission granted I&M a CPCN for the Projects and approved the Project's construction work and construction costs incurred as of December 31, 2008. He stated that the Commission further approved I&M's request for ongoing review of the Projects through semi-annual filings.

In Cause No. 44075, I&M sought approval of changes to its basic rates and charges for electric utility service. Mr. Krawec stated that by its February 13, 2013 Order in Cause No. 44075 ("2013 Rate Order"), the Commission approved new basic rates and charges. As a result of the 2013 Rate Order, the previously approved QPCP Projects, consisting of Selective Non-

Catalytic Reduction (“SNCR”) at I&M’s Tanners Creek Plant and Activated Carbon Injection (“ACI”) at I&M’s Rockport Plant, were included in I&M’s rate base. He stated that the cost of these Projects, including O&M and depreciation expense, will be recovered through I&M’s basic rates effective February 28, 2013, and these projects will no longer be recovered through the CCTR. I&M continued to recover, through the CCTR, the carrying charge, O&M expense and depreciation expense related to these projects up until February 28, 2013. According to Mr. Krawec, the actual costs in this matter reflect O&M and depreciation expense recorded during the time period July 1, 2012, through February 28, 2013, for the SNCR and ACI projects. Krawec testified that the regulatory assets related to the deferred post in-service return on the ACI and SNCR and their associated amortization expense were not included in the basic rates in Cause No. 44075.

Mr. Krawec explained that ongoing Commission review is no longer necessary for the CCT projects approved in Cause No. 43636. I&M’s filing in this matter reflects the inclusion into rate base of the approved investment in SNCR and ACI pollution controls as approved by the Commission’s Order in Cause No. 44075. Mr. Krawec testified that the investment costs related to I&M’s SNCR and ACI projects have been eliminated from the CCTR as of February 28, 2013, except for any prior period over/under reconciliation variance and the post in-service return amortization expense. I&M is reconciling prior period CCTR expenses and recoveries and setting the CCTR factors to zero; any remaining difference as a result of the reconciliation will be carried over to a subsequent proceeding establishing recovery of a CPCN project.

Mr. Krawec testified that the Company is requesting to suspend the CCTR until such time that I&M receives CPCN approval and QPCP recovery for the Rockport Clean Coal Technology Project as requested in Cause No. 44331.

Mr. Krawec stated that I&M is reconciling the allowed costs from July 1, 2012, through February 28, 2013, with revenues received for the time period of July 1, 2012, through March 31, 2013. I&M is requesting that the Commission approve the recovery through the CCTR of actual cost incurred through February 28, 2013, associated with the SNCR and ACI and set the current CCTR credit factors to zero effective with the first billing cycle of November (October 28, 2013) or the first full billing cycle following a Commission order, whichever is later.

Mr. Krawec stated that the net forecasted revenue requirement was modified to reflect the net cumulative over recovery as of March 31, 2013, and the estimated credit revenues returned to customers from April 2013 through October 2013, resulting in an estimated final under recovery of \$46,950 as of October 31, 2013. Mr. Krawec noted that the value, based upon when rates are implemented, will be carried forward to the first CCTR rate request stemming from the approval of a CPCN in Cause No. 44331.

Mr. Krawec testified that I&M is requesting an increase in the CCTR factor from a credit to zero. He stated that this will result in monthly CCTR revenues increasing from a credit of approximately \$136,000 per month to zero. I&M seeks to make the CCTR zero factor in Petitioner’s Exhibit SMK-6 effective with the first billing cycle for the billing month of November 2013 (October 28, 2013) or the first full billing month following a Commission Order, whichever is later. I&M further proposes that the zero factor, upon becoming effective, shall remain in effect until such time as any remaining over/under collection will be reconciled

and incorporated into the initial CCTR filing to recover costs of the Rockport CCT Project filed in Cause No. 44331 and incorporated into a new adjustment factor that is approved in a subsequent filing. Mr. Krawec stated that upon implementation of the zero factor, residential customers using 1,000 kWh of electricity per month would experience a monthly rate increase of \$0.13 or 0.1%.

**B. OUCC's Case-in-Chief.** Wes R. Blakley, Senior Utility Analyst in the OUCC's Electric Division testified that the rates approved in ECR 6 continued until approval of I&M's base rate case in Cause No. 44075 on February 13, 2013, at which time the ECR costs were rolled into base rates. However, ECR 6 remained active. In order to avoid a large over-recovery, I&M adjusted the active ECR 6 rates downward to produce a credit to offset the over-recovery and forestall the creation of a large over-recovery. I&M has netted the over-recovery of \$874,431 as of March 31, 2013, with an estimated billed credit of \$(921,381) through October 2013. This results in a small under-recovery of \$(46,950). Mr. Blakley stated no forecasted costs are included in this ECR tracker reconciliation and that I&M requests to adjust the CCTR from its adjusted credit rates to zero, resulting in an increase of \$136,000 per month in the CCTR. Mr. Blakley further 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.

**C. I&M Rebuttal Testimony.** In rebuttal, Mr. Krawec stated he generally concurs with Mr. Blakley's testimony. However, he clarified that I&M has requested that the residual balance for the QPCP projects be included in the initial CCTR filing made to recover costs related to I&M's next QPCP project, which is pending approval before the Commission in Cause No. 44331 wherein I&M sought approval and cost recovery for the Rockport CCT Project. Mr. Krawec stated that I&M's proposal in Cause No. 44331 contemplated that cost recovery would be implemented through I&M's CCTR.

Mr. Krawec testified that on August 12, 2013, I&M, the OUCC, and the Indiana Michigan Industrial Group filed a Settlement Agreement in Cause No. 44331 that provides for cost recovery for the proposed Rockport CCT Project in accordance with Ind. Code ch. 8-1-8.4 and the terms of the Settlement Agreement. Such cost recovery will be implemented through the proposed FMR, instead of under I&M's existing CCTR. The Settlement Agreement remains pending approval by the Commission. Mr. Krawec stated that if the FMR is approved it would be administratively efficient to include any residual balance in the FMR. Mr. Krawec testified that that any residual balance should be included in I&M's CCTR or the proposed FMR, whichever rider is utilized for cost recovery related to I&M's Rockport CCT Project.

Mr. Krawec further clarified I&M's request related to the regulatory assets arising from the deferred post in-service return on the ACI and SNCR and their associated amortization expense. He stated I&M requests for purposes of administrative efficiency that these uncontested regulatory assets be recovered through either the CCTR or FMR, whichever rider is utilized for cost recovery related to I&M's Rockport CCT Project.

## **6. Commission Discussion and Findings.**

**A. Amount of QPCP Construction Costs.** 170 I.A.C. 4-6-12 ("Section 12") requires I&M 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. Mr. Krawec's testimony states that as a result of the 2013 Rate Order, the previously approved QPCP Projects consisting of SNCR and ACI have been included in I&M's rate base. Therefore, this CCTR Adjustment does not include recovery of any additional construction 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 I&M's Gross Revenue Conversion Factors utilizing a weighted cost of capital rate of 6.75%.

**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 July 1, 2012, through March 31, 2013, 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 I&M 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 testified that I&M requests to suspend the CCTR process and set the rates to zero until such time that I&M receives a new CPCN. Therefore, I&M is not proposing a new revenue requirement. However, Mr. Krawec sponsored Exhibit SMK-4, which provides the estimated under recovery as of October 31, 2013. I&M requests that this balance be included in I&M's CCTR or the proposed FMR, whichever rider is utilized for cost recovery related to I&M's Rockport CCT Project. I&M further requested that the regulatory assets be recovered through either the CCTR or FMR, whichever rider is utilized for cost recovery related to I&M's Rockport CCT Project. We accept I&M's proposal to include the residual CCTR balance and regulatory assets, consisting of deferred post in-service AFUDC, for cost recovery in either the CCTR or FMR, whichever rider is utilized for cost recovery related to I&M's Rockport CCT Project.

**E. Net Operating Income for Fuel Adjustment Clause ("FAC").** Pursuant to 170 I.A.C. 4-6-21, I&M 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 8-1-2-42(d)(3) in all subsequent FAC proceedings. Since the QPCP projects have been included in I&M's rate base, the Commission finds that I&M's net operating income is not affected by 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), Mr. Krawec testified that the CCTR rates will be set to zero. Mr. Krawec also sponsored Exhibit SMK-5, which demonstrates the allocation of the QPCP construction cost revenue requirement among the utility's customer

classes. I&M's allocation factors are from I&M's most recent electric rate case in Cause No. 44075, which the Commission approved on February 13, 2013.

**G. Amount of Rider Adjustments.** Mr. Krawec sponsored Exhibit SMK-6, which set forth the proposed CCTR Adjustment factors of zero for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.0000
GS, GS-TOD and GS-TOD2	0.0000
LGS and LGS-TOD	0.0000
IP, CS-IRP and CS-IRP2	0.0000
MS	0.0000
WSS	0.0000
IS	0.0000
EHG	0.0000
OL	0.0000
SLS, ECLS, SLC, SLCM AND FW-SL	0.0000

**H. Approval of Rider Adjustments.** The Commission finds that I&M 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. The Commission approves suspension of I&M's CCTR semi-annual filings related to the SNCR and ACI projects. I&M is further authorized to include the residual CCTR balance and regulatory assets, consisting of deferred post-in-service AFUDC, for cost recovery through either the CCTR or FMR, whichever rider is utilized for cost recovery related to I&M's Rockport CCT Project. Therefore, the Commission finds that the Rider Adjustment factors contained in 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 November 2013 or the first full billing month following the issuance of this Order.

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

1. I&M's Clean Coal Technology Rider Adjustment as set out in this Order is approved.
2. I&M is authorized to suspend CCTR semi-annual filings related to the SNCR and ACI projects.
3. I&M is authorized to include the residual CCTR balance and regulatory assets, consisting of deferred post-in-service AFUDC, related to I&M's SNCR and ACI projects for cost recovery through either the CCTR or FMR, whichever rider is utilized for cost recovery related to I&M's Rockport CCT Project.

4. I&M 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 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:**            **OCT 16 2013**

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

A handwritten signature in cursive script that reads "Brenda A. Howe". The signature is written in black ink and is positioned above a horizontal line.

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