

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 2010 THROUGH )  
SEPTEMBER 2010 PURSUANT TO THE ONGOING )  
REVIEW PROCESS APPROVED BY THE )  
COMMISSION'S ORDER IN CAUSE NO. 43636. )

CAUSE NO. 43636 ECR 1

APPROVED:

JUN 09 2010

BY THE COMMISSION:

David E. Ziegner, Commissioner

Aaron A. Schmoll, Administrative Law Judge

On February 9, 2010, Indiana Michigan Power Company ("Petitioner," "Company" or "I&M") filed a Petition for an adjustment to its rates through its Clean Coal Technology Rider with the Indiana Utility Regulatory Commission ("Commission") for the billing months of April 2010 through September 2010, pursuant to the Commission's Order in Cause No. 43636. I&M filed its direct testimony and exhibits on February 9, 2010.

On April 1, 2010, I&M Industrial Group ("Industrial Group"), an ad hoc group of industrial customers located in the electric service territory of I&M, filed its Petition to Intervene,<sup>1</sup> which was granted by the presiding officers at the hearing. On April 13, 2010, I&M filed an Unopposed Motion to Amend the Procedural Schedule which was granted by Docket Entry dated April 19, 2010. On April 20, 2010, the Indiana Office of Utility Consumer Counselor ("OUCC") filed a Motion to Amend Procedural Schedule. On April 28, 2010, I&M filed supplemental testimony and exhibits and the OUCC filed its direct testimony and exhibits.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause by reference and placed in the official files of the Commission, a public hearing was held on May 14, 2010 at 9:30 a.m. in Room 224, National City Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner, OUCC and Industrial Group 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 was I&M's response to the Commission's May 13, 2010 Docket Entry.

The Commission, based upon the applicable law, the evidence herein, and being duly

<sup>1</sup> The I&M-Industrial Group included Air Products & Chemicals, Inc., Arcelor Mittal USA, Hartford City Paper, LLC, Marathon Petroleum Company, LLC, Praxair, Inc. and The Linde Group.

advised, now finds as follows:

**1. Notice and Jurisdiction.** Proper notice of the hearing in this Cause was given as required 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 Interconnection 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 also entitled to use the ratemaking treatment for the construction costs provided in Ind. 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 Ind. Code § 8-1-8.7-7 is to occur. 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 begin earning 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, 2009. Petitioner also 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 Clean Coal Technology Rider (“CCTR”) for the period August 1, 2009 through December 31, 2009 and to reflect in billings factors the April 1, 2010 through September 30, 2010 forecast costs.

I&M Witness Scott Krawec stated that the June 30 Order: (1) approved two Projects to reduce nitrogen oxides (“NO<sub>x</sub>”) and 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 December 31, 2008 through December 31, 2009 and reconciling the revenues received with allowed costs for the time period of August 1, 2009 through December 31, 2009. 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 December 31, 2008 through December 31, 2009 to the value of the property upon which the Company is authorized to earn a return.

Mr. Krawec's supplemental testimony modified Petitioner's exhibits based on OUCC recommendations to change the computation of the gross revenue conversion factor and to correct the computation of the investment on which I&M is allowed to earn a return. He explained that the Company had used last year's Indiana Utility Receipts Tax rate<sup>2</sup> rather than the current rate and used a composite state corporate income tax rate rather than the Indiana Corporate Income Tax rate. Mr. Krawec also stated that when the Company computed its forecast investment on which it is requesting a return, it inadvertently failed to subtract accumulated depreciation from the investment, thus overstating its return by approximately \$7,000.

Mr. Krawec stated that for the period August 1, 2009 through December 31, 2009, I&M has over-recovered \$2,439,758 for the CCTR. See Exhibit SMK-1. He provided (1) the CCTR jurisdictional return calculation for the actual period, August 1, 2009 through December 31, 2009; (2) the Rockport activated carbon injection ("ACI") 2009 investment balances and post in-service return; (3) the Tanners Creek selective non-catalytic reduction ("SNCR") 2009 investment balances and post in-service return; (4) the calculation of CCTR jurisdictional post in-service depreciation; and (5) the CCTR jurisdictional monthly O&M expenses and consumables for the reconciliation of the actual period. See Exhibit 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. See Revised Exhibit SMK-3. He stated that I&M is requesting to implement a decrease in the CCTR factors resulting in semi-annual CCTR revenues of \$762,007. See Revised Exhibit SMK-4.

Mr. Krawec also sponsored Revised 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 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 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.

Mr. Krawec stated that I&M seeks to make the CCTR factors reflected in Revised Exhibit SMK-7 effective for all bills rendered for electric services beginning with the first billing cycles for the April 2010 billing month, remaining in effect for approximately six months or until replaced by different adjustment factors approved in a subsequent filing. He stated that approval of I&M's revised CCTR factors will cause the monthly bill of a typical residential customer to decrease by

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<sup>2</sup> Mr. Krawec's correction was to the IURC Fee rate rather than the Utility Receipts tax rate.

\$0.50 or 0.6% for a residential customer using 1,000 kWh per month effective no later than the first billing cycle of July 2010. See Revised Exhibit SMK-8.

I&M Witness Robert L. Walton provided an update regarding the progress of the Projects. He stated the ACI project at the Rockport Plant was placed into service on September 28, 2009. He stated through December 31, 2009, the total capital expenditure incurred for the ACI project was \$23,209,618, with approximately \$117,000 capital dollars forecasted to be spent on the ACI project in 2010. See Exhibit RLW-1.

Mr. Walton stated the SNCR systems on Tanners Creek Units 1, 2 and 3 were all placed in-service on December 11, 2009. He stated through December 31, 2009, the total capital expenditure incurred for the SNCR project was \$13,407,830, with zero capital dollars forecasted to be spent on the SNCR project in 2010. See Exhibit RLW-1.

Mr. Walton provided the budgeted O&M costs to operate the Projects from April 2010 through September 2010. See Exhibit RLW-2. Mr. Walton explained that O&M costs consist of both fixed and variable costs. He stated that fixed O&M costs are associated with typical routine maintenance that must be performed on an ongoing basis to maintain the operability of the system and variable O&M costs consist of consumables (activated carbon and urea) and NO<sub>x</sub> allowance avoidance costs, which fluctuate with the level of generation from each individual unit.

Mr. Walton stated from April 2010 through September 2010 the budget for activated carbon for the Rockport Plant is approximately \$2.7 million. He stated this amount is based on continuous operation of the ACI system at an optimized injection rate when either unit at the Rockport Plant is operating. He explained that since the ACI system at the Rockport Plant has been in service I&M has not been able to inject activated carbon 100% of the time that the units are running, as work to improve the reliability of the injection system continues. Thus, I&M is not requesting recovery of the full budgeted amount of activated carbon. See Exhibit RLW-3.

Mr. Walton explained that late in 2009, it was necessary to empty one of the activated carbon silos to perform maintenance to fix leaks, and this work will continue in the first quarter of 2010. He stated that I&M has also ordered new rotary feeders, which are the pieces of equipment that are responsible for mechanically moving the activated carbon from the silo into the injection lines and that new rotary feeders, with revised clearances, are expected to increase the performance of the system by more accurately metering the amount of carbon being injected at any given time. Mr. Walton stated that I&M has also replaced the lances which inject the carbon into the flue gas. He explained that the originally installed lances were becoming plugged due to deposition on the outside of the lances. As the lances become plugged the distribution of carbon in the duct becomes less uniform, which leads to poorer carbon utilization and lower mercury removal, as well as more system down time to remove the deposition. It is expected that the new lance design will alleviate the problem and allow the system to operate more reliably.

Mr. Walton stated that although I&M intends to operate the ACI system any time the system is available, he believes that recovery of 80% of the budget amount for activated carbon expense will more accurately represent I&M's actual activated carbon expenses over the six month forecast period. He stated that this cost is approximately \$2.2 million. See Exhibit RLW-3.

Mr. Walton stated from April 2010 through September 2010 the budget for urea is approximately \$0.52 million. See Exhibit RLW-2. He stated that I&M is not requesting recovery of any urea costs in this filing. See Exhibit RLW-3. He stated that while the corresponding tonnage of urea is consistent with the load forecast for the Tanners Creek Plant shown in I&M's current fuel filing in Indiana, Cause No. 38702-FAC64, I&M continually evaluates the economics of purchasing urea to operate the SNCR systems compared to purchasing NO<sub>x</sub> allowances.

Mr. Walton explained that at this time the SNCR systems at the Tanner Creek Plant are not operating. He stated that based on an economic analysis comparing the current costs of urea and NO<sub>x</sub> allowances, it is not economically beneficial to operate the SNCRs at the Tanner Creek Plant at this time but that I&M may still operate the SNCRs at the Tanner Creek 1-3 during the forecast period. He stated that I&M and AEPSC regularly monitor the market prices for urea and NO<sub>x</sub> allowances, as well as track and project total fleet NO<sub>x</sub> emissions, which must remain below caps established in the New Source Review Consent Decree. Mr. Walton stated that if at any time it is determined that the SNCR systems at the Tanner Creek Plant can benefit customers by providing low-cost NO<sub>x</sub> reductions, the system can be operated; however, operating or not operating the SNCR systems has no effect on the operability of the generating units.

Mr. Walton explained the changes that have occurred regarding urea and NO<sub>x</sub> allowance prices that have affected I&M's decision not to operate the SNCRs. He stated that depressed local and national economic conditions have reduced electric generation demand in the United States, which has resulted in significantly lower annual and seasonal NO<sub>x</sub> allowance prices. He provided a table showing the changes in forecasted NO<sub>x</sub> prices from the time of filing Cause 43636 to January 2010, as taken from Argus Air Daily, a power industry publication that tracks allowance prices and transactions. See Exhibit RLW-3. He pointed out that the table also shows the change in I&M's forecasted cost per ton of urea over the same period of time. He stated the reduction in forecasted urea costs, while significant, was not as substantial as the drastic drop in the cost of NO<sub>x</sub> allowances. He stated that given the current market conditions and projections, operating the SNCR at the Tanners Creek Plant to reduce NO<sub>x</sub> emissions is not the most beneficial option at this time. He stated that if these forecasted costs prove correct, I&M will not need to use urea at the Tanners Creek Plant for the six month period from April 2010 through September 2010, which is the basis for requesting recovery of zero dollars for urea expense in the CCTR in this filing. Mr. Walton stated that the forecasted price for activated carbon has not changed significantly since I&M's last filing. He stated that it remains relatively constant due to the existence of a stable supply and the vacatur of the Clean Air Mercury Rule ("CAMR").

Mr. Walton did not propose any changes to the fixed O&M cost forecasted for the ACI system at the Rockport Plant and the SNCR systems at the Tanner Creek Plant. He stated that in Cause No. 43636, I&M proposed fixed O&M amounts of \$250,000 associated with the SNCR at the Tanner Creek Plant and \$225,000 (representing I&M's 50% interest in the Rockport Plant) associated with the ACI system at the Rockport Plant. He stated that due to the fact that these systems do not yet have a long operating history, I&M does not have any substantive basis to propose increasing or decreasing the fixed O&M factors that were put in place in Cause No. 43636. See Exhibit RLW-2 and RLW-3.

Mr. Walton stated that although I&M is not forecasting operation of the SNCR system at this

time, it remains necessary to maintain the system in an operable condition in the event that its operation becomes beneficial. He stated that if I&M fails to maintain the system properly, then it will not be possible to utilize the system if NO<sub>x</sub> prices rebound, or if the fleet NO<sub>x</sub> cap is approached, without a significant O&M cost to restore the operability of the system.

OUCC Witness Wes R. Blakley testified that following discussions with OUCC staff, I&M recognized that it did not net accumulated depreciation from its jurisdictional return calculation, which resulted in overstating jurisdictional CWIP by \$190,086. Mr. Blakley also stated I&M used an incorrect state income tax percentage in its revenue conversion factor calculation, which understated the gross up factor. Mr. Blakley verified that these corrections were made by I&M's witness Krawec as shown in Revised Exhibits SMK-3 and WP-I. With these corrections, Mr. Blakley stated that nothing came to his attention that would indicate that Petitioner's calculation of estimated CCTR adjustment factors for the relevant period is unreasonable.

**5. 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 ratemaking treatment for its QPCP construction costs. Pursuant to Section 12(a), Witness Walton sponsored Petitioner's Exhibit RLW-1 which set forth the construction costs as of December 31, 2009 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.** Witness Krawec sponsored Petitioner's Revised Exhibit SMK-3 which reflects the calculation of Petitioner's Gross Revenue Conversion Factors utilizing a weighted cost of capital rate of 7.20%

**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. Witness Krawec sponsored Petitioner's Exhibit SMK-2 which provided the CCTR jurisdictional return calculation for the actual period August 1, 2009 through December 31, 2009 (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 the CCTR jurisdictional monthly O&M expenses and consumables for the reconciliation of the actual period (Page 5).

**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. Witness Krawec sponsored Petitioner's Revised Exhibit SMK-4 which provides the revenue requirement from April 1, 2010 through September 30, 2010 reduced by the prior period over recovery that occurred during August 1, 2009 through December 31, 2009. Mr. Krawec stated the resulting net forecasted revenue requirement for April 2010 through September 2010 is \$762,007.

**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 IC 8-1-2-42(d)(2) and IC 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 IC 8-1-2-42(d)(2) and IC 8-1-2-42(d)(3), the jurisdictional portion of the increase 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), 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	0.0125
SGS and SGS-TOD	0.0120
MGS and MGS-TOD	0.0114
LGS and LGS-TOD	0.0108
IP, CS-IRP and CS-IRP2	0.0103
MS	0.0105
WSS	0.0084
IS	0.0051
EHS	0.0143
EHG	0.0157
OL	0.0071
SLS, ECLS, SLC, SLCM AND FW-SL	0.0072

**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 billing cycles for the July, 2010 billing month.

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

1. The Projects' construction work and construction costs incurred as of December 31, 2009 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 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 Ind. 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 Ind. 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 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, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:**

APPROVED: JUN 09 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**