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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)	
INDIANA MICHIGAN POWER COMPANY)	CAUSE NO. 43774 PJM 1
FOR AUTHORIZATION OF A NEW PJM)	
COST RIDER ADJUSTMENT CHARGE)	
APPLICABLE FOR THE BILLING MONTHS)	APPROVED: DEC 29 2010
OF JANUARY THROUGH DECEMBER 2011)	

BY THE COMMISSION:

David E. Ziegner, Commissioner
Angela Rapp Weber, Administrative Law Judge

On September 1, 2010, Indiana Michigan Power Company (“I&M” or “Petitioner”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Verified Petition for a new PJM Cost Rider Adjustment Charge for electric service to be applicable during the January through December 2011 billing months. On September 1, 2010, Petitioner also filed the testimony and exhibits of Scott M. Krawec, Petitioner’s Director of Regulatory Services; Richard A. Riley, Financial Forecasting Manager for American Electric Power Service Corporation (“AEPSC”); Jeffrey L. Brubaker, Director of Regulatory Accounting Services for AEPSC; and David M. Roush, Director-Regulated Pricing and Analysis for AEPSC. In addition, on September 1, 2010, I&M filed its supporting workpapers.

On October 22, 2010, the Indiana Office of Utility Consumer Counselor (“OUCC”) and I&M filed a Joint Motion to Revise Procedural Schedule, which the Presiding Officers granted by Docket Entry dated October 26, 2010. On November 10, 2010, the OUCC filed the testimony of Greg A. Foster, Utility Analyst in the OUCC’s Electric Division. By Docket Entry dated November 16, 2010, the Presiding Officers issued questions to the OUCC, to which the OUCC responded on November 17, 2010.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause on November 18, 2010 at 10:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC participated in the hearing. No members of the general public appeared. At the hearing, Petitioner and the OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection.

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

- 1. Notice and Jurisdiction.** Due, legal, and timely notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public utility and, as such, is subject to the jurisdiction of the Commission in the manner and to the extent provided by the Public Service Commission Act, as amended, and other pertinent laws

of the State of Indiana. Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Characteristics. I&M is a wholly-owned subsidiary of the American Electric Power Company, Inc. ("AEP") and a public electric generating utility, organized and existing under the laws of the State of Indiana, with its principal office and place of business at One Summit Square, Fort Wayne, Indiana. I&M is engaged in rendering electric service in the State of Indiana. It owns, operates, manages, and controls, among other properties, plant and equipment within the State of Indiana that are used for the generation, transmission, delivery, and furnishing of such service to the public.

3. Relief Requested. In Cause No. 43306, the Commission approved a PJM Cost Rider to track recovery from I&M's electric customers of certain costs and revenues related to I&M's membership in PJM Interconnection, L.L.C. ("PJM"). Tracked costs billed to AEP and I&M include the variance from the forecasted administrative costs reflected in basic rates, the cost of PJM Regional Transmission Expansion Plan ("RTEP") projects, and net transmission congestion costs. I&M seeks approval of its reconciliation of actual PJM costs for the period July 1, 2009 through June 30, 2010 and its projection of PJM charges and credits for the calendar year 2011. I&M seeks to make the new PJM Cost Rider Adjustment factors effective with the first billing cycle for the billing month of January 2011.

4. I&M's Evidence. I&M's proposed PJM Cost Rider factors will replace those currently in effect, which were approved in Cause No. 43774 and became effective the first billing cycle of January 2010.

(a) **Charges Recovered Through the PJM Cost Rider.** Mr. Krawec testified that PJM is a FERC-approved Regional Transmission Operator ("RTO"), which AEP and I&M joined to fulfill its regulatory obligation to join an RTO. PJM is a long-established organization that manages the transmission grid for numerous companies in the eastern United States and fulfills the functions defined in FERC Order 2000. PJM operates the largest centrally-dispatched electric grid in the United States. The AEP System-East Zone ("AEP Zone") integrated its operations with PJM and began participating in the PJM energy market on October 1, 2004. As a member of PJM, costs are billed to AEP and I&M for functional operation of the transmission system, management of the PJM markets, and general administration of the RTO.

Mr. Krawec testified that the PJM Cost Rider results from the Settlement Agreement and Final Order in Cause No. 43306, I&M's most recent electric rate case, approved by the Commission on March 4, 2009. In Cause No. 43306, the Commission authorized I&M to establish a PJM Cost Rider to track costs related to its membership in PJM. According to Mr. Krawec, the tracked costs include the variance from the forecasted administrative costs reflected in basic rates, the cost of PJM RTEP projects, and net transmission congestion costs. PJM charges are tracked and allocated among the customer classes on a demand or energy basis as indicated on Petitioner's Exhibit JLB-2.

Petitioner's Exhibit JLB-1 sets forth the various PJM charges reflected in the PJM Cost Rider. Mr. Krawec testified there are no new PJM charges that I&M has begun to incur since the Commission approved I&M's PJM Cost Rider reconciliation in Cause No. 43774. He explained

there have been no material modifications made to any existing PJM charges or credits since Commission approval of the PJM Cost Rider reconciliation in Cause No. 43774. In addition, Mr. Krawec stated he is not aware of any anticipated new or modified PJM charges for 2011. Further, he stated there have been no PJM charges or credits discontinued since Commission approval of the PJM Cost Rider in Cause No. 43306.

Mr. Krawec testified that the allocation method for PJM RTEP charges and credits will possibly be revised in future PJM tracker filings. Mr. Krawec stated AEP has proposed to modify the manner in which the PJM Transmission Enhancement Charges (Account 5650012) are allocated. He explained that pursuant to a Settlement Agreement filed with FERC in Docket No. ER09-1279, the PJM Transmission Enhancement charges may change from an allocation of costs on an MLR to a 12CP. Per Mr. Krawec, for this filing, the method in the forecast used by Petitioner's witness Mr. Riley continues to be on an MLR basis.

Finally, Mr. Krawec testified that I&M developed a standard audit packet to be provided to the OUCC as part of annual PJM cost tracker filings. According to Mr. Krawec, the audit package consists of the exhibits and workpapers supporting the calculation of I&M's PJM costs.

(b) PJM RTEP Projects. Mr. Krawec further testified regarding PJM RTEP projects. PJM RTEP projects are transmission expansions or enhancements that are required to achieve compliance with respect to PJM's system reliability, operational performance, or market efficiency as determined by PJM's Office of Interconnection. Also included are transmission projects that result from transmission customer requests for generator interconnection, merchant transmission additions, and long-term transmission service. The agreement, signed by transmission-owning utilities when they join PJM, obligates them to build transmission facilities approved by the PJM Board. PJM monitors and coordinates the construction of all new transmission facilities to ensure the required in-service dates can be met to address the identified reliability criteria violations.

Mr. Krawec explained that for RTEP projects which operate at the 500 kV level and higher, the FERC has determined the cost of these facilities shall be allocated to all consumers across the PJM footprint. PJM allocates a load share percentage calculated as the transmission owner's annual zonal peak divided by the sum of all the non-coincident zonal peaks. Mr. Krawec stated the AEP Zone load share percentage for calendar year 2010 is 17.96%. The costs of RTEP projects that operate below the 500 kV level and that are greater than \$5 million are allocated to consumers based on the extent to which their use of the transmission system contributes to need for the transmission upgrade or expansion ("Beneficiary pays Principle"). In the event it is determined that a below 500 kV project has more than one beneficiary, PJM performs an analysis to determine the percentage of the project cost that should be allocated to each beneficiary zone. Mr. Krawec further explained in AEP, projects that are determined to benefit only the AEP Zone (100% AEP) are included in the plant in service amount for the constructing AEP operating company and recovered through the PJM Open Access Transmission Tariff formula rates.

(i) I&M-Owned RTEP Projects. Mr. Krawec testified I&M owns one PJM RTEP project. Per Mr. Krawec, I&M owns RTEP Project b0839 described by PJM as "Replace existing 450 MVA transformer at Twin Branch 345/138 kV with a 675 MVA transformer."

According to Mr. Krawec, this project is a beneficiary allocated project with 99.73% of the cost allocated to the AEP Zone. The revenue requirement for the Twin Branch project (excluding true-up) being collected effective July 1, 2010 through June 30, 2011 is \$1,408,114.

(ii) Non-I&M-owned RTEP Projects. Mr. Krawec testified regarding the costs I&M incurs for non-I&M owned PJM RTEP projects. Mr. Krawec sponsored Exhibit SMK-1, a summary of I&M and non-I&M owned RTEP projects. Mr. Krawec stated that PJM-provided settlement worksheets are used to show the charges for the AEP Zone through December 2010. In addition, I&M's reconciliation includes RTEP project costs of \$2,395,323, which are the Indiana jurisdictional charges for the period July 1, 2009 through June 30, 2010 as shown in Petitioner's Exhibit JLB-1.

Mr. Krawec stated that, as supported by I&M witness Mr. Riley, forecasted 2011 charges are based on (1) an estimated construction schedule for major projects approved by FERC to the PJM required in-service date, and (2) the required in-service date for minor projects.

(c) Forecasted PJM Costs. I&M witness Mr. Riley testified concerning the forecast of I&M's PJM charges and credits consistent with the Commission's Order in Cause No. 43306. Mr. Riley sponsored Exhibit RAR-1, Total Company PJM charges and credits computed consistent with the Commission's Order in Cause No. 43306, which are estimated to be approximately \$48.0 million. Mr. Riley compared the 2011 projected PJM costs and credits to current actual costs and credits. Per Mr. Riley, the forecasted 2011 PJM costs and credits are \$8.0 million higher than the \$40.0 million actually incurred for the twelve months ended June 2010, as shown in Petitioner's Exhibit JLB-1. He stated the primary driver for this increase is a \$7.4 million increase in PJM RTEP charges. Mr. Riley explained that RTEP projects are developed annually, and the transmission project costs are allocated by PJM in accordance with FERC-approved allocation methods. Throughout the remainder of 2010 and 2011, several large RTEP projects will increase spending in order to meet future PJM required in-service dates. These projects have been authorized by FERC and will result in continued increased charges to AEP and I&M. In Mr. Riley's opinion, the PJM charges and credits that I&M has projected for the months of January 2011 through December 2011 are just and reasonable.

(d) Actual PJM Costs/Actual PJM Rider Revenue. I&M witness Mr. Brubaker compared the revenues I&M has collected from its PJM Rider to the actual PJM costs I&M has incurred during the reconciliation period of July 2009 through June 2010. He explained that beginning March 23, 2009, I&M has deferred monthly, as a regulatory asset, any under-recovery and, as a regulatory liability, any over-recovery of the PJM Rider revenues for future recovery or refund through the yearly true-up to actual. The under- or over-recovery is calculated by comparing revenues collected from the PJM Rider to actual PJM costs net of \$5,224,801 of annual Indiana jurisdictional costs related to PJM administrative fees being recovered in Indiana basic rates. If the PJM Rider revenues are less than the net PJM costs, I&M records the under-recovery as a regulatory asset. If the PJM Rider revenues are greater than the net PJM costs, I&M records the over-recovery as a regulatory liability.

Mr. Brubaker explained that the PJM Rider's initial factor effective on March 23, 2009 was set to recover \$39.1 million of annual PJM expenses. Per Mr. Brubaker, the annual Indiana jurisdictional factor effective with the first billing cycle of January 2010 for the PJM Rider was

revised to recover \$23.3 million of annual PJM expenses as approved in Cause No. 43374. Mr. Brubaker stated that as of June 30, 2010, I&M has an over-recovery balance of \$16,083,338 for the PJM Cost Rider as shown on Petitioner's Exhibit JLB-1.

(e) LSE Congestion Costs. I&M witness Mr. Roush testified concerning the Load Serving Entity ("LSE") congestion costs in the PJM Cost Rider. He explained that LSE congestion costs are not included in the PJM Cost Rider. Per Mr. Roush, in accordance with the Commission's Order in Cause No. 43306, I&M compared total Financial Transmission Right ("FTR") revenues to LSE congestion costs for both the actual and forecast periods. If LSE congestion costs exceed total FTR revenues, the net amount is included in the PJM Cost Rider calculation. If total FTR revenues exceed LSE congestion costs, the net amount is included in the Off-System Sales Margin Sharing Rider calculation. As shown in Petitioner's Exhibit DMR-1, total FTR revenues exceeded LSE congestion costs for both periods presented herein. Therefore, LSE net congestion costs are zero in the PJM Cost Rider and the net FTR revenues were included as part of I&M's Off-System Sales Margin Sharing Rider calculation.

(f) Resulting PJM Cost Rider Adjustment Factors. Mr. Roush testified that the PJM Cost Rider consists of two components. The first component is a projection of PJM costs for the next calendar year. The second component is a reconciliation of actual PJM costs to actual billing under the PJM Cost Rider. Mr. Roush further testified that the Indiana retail jurisdictional PJM costs are determined consistent with the calculations performed in Cause No. 43306 and Cause No. 43774. In particular, each component of total I&M PJM costs is classified as either demand- or energy-related. The appropriate jurisdictional demand and energy allocation factors are then applied to determine the Indiana retail jurisdictional portion of PJM costs.

Mr. Roush explained how the amounts to be included in the PJM Cost Rider were calculated. According to Mr. Roush, as shown in Petitioner's Exhibit DMR-1, the first step is to calculate the Indiana retail jurisdictional portion of forecast PJM costs. This amount is then reduced by the level of PJM administrative costs included in basic rates in Cause No. 43306 of \$5,224,801. The final step is to include any actual (over-)/under-recovery balance remaining at the end of the prior year in the PJM Cost Rider.

5. OUCC's Evidence. OUCC witness Mr. Foster testified regarding I&M's request to recover certain costs and revenues related to I&M's membership in PJM through its PJM Cost Rider. Mr. Foster testified that he reviewed the books and records of I&M and PJM invoices to determine if he agreed with I&M's prior period (under-)/over-calculation. Mr. Foster agreed with I&M's prior period (under-)/over-credit calculation. Mr. Foster further testified he made inquiries of I&M to explain the variance between actual results and the estimate used during the prior period. Mr. Foster reported that the downturn in the economy negatively impacted the actual results. Mr. Foster went on to state nothing came to his attention which would indicate that I&M's calculation of estimated PJM costs for the relevant period is unreasonable.

Mr. Foster testified that other proceedings in other jurisdictions may impact future PJM Cost Rider filings. Per Mr. Foster, there are two proceedings pending at the FERC. The first proceeding involves an AEP settlement agreement before FERC to modify the allocation methodology for the PJM Transmission Charges. The second proceeding is a petition filed by AEP with FERC seeking approval to create AEP Transmission Company, L.L.C., a holding

company for seven newly created transmission-only public utility companies.

Mr. Foster testified the OUCC recommends that I&M's requested PJM factors be approved.

6. Commission Findings. Based on the evidence presented, the Commission finds that I&M's request is reasonable and should be approved. As shown in Petitioner's Exhibit DMR-1, the Indiana retail jurisdictional portion of forecast PJM costs of \$31,367,739, less the PJM administrative costs included in basic rates of \$5,224,801 and the variance of \$16,083,338, results in a total amount of \$10,059,600 in PJM costs to be recovered through the PJM Cost Rider. As shown on Petitioner's Exhibit DMR-3, this amounts to a decrease of \$13,877,794 from current PJM Cost Rider levels. In accordance with the methodology approved by the Commission in Cause No. 43306, we find Petitioner should be authorized to apply its requested PJM Cost Rider Adjustment factors to its Indiana retail tariffs for the billing months of January through December 2011. Mr. Roush sponsored Petitioner's Exhibit DMR-4, which set forth the proposed PJM Cost Rider factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.0750
SGS and SGS-TOD	0.0749
MGS and MGS-TOD	0.0742
LGS and LGS-TOD	0.0732
IP, CS-IRP and CS-IRP2	0.0717
MS	0.0731
WSS	0.0710
IS	0.0711
EHS	0.0749
EHG	0.0764
OL	0.0671
SLS, ECLS, SLC, SLCM and FW-SL	0.0672

7. Effect on Customers. The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of \$1.10 or 1.4 % on his or her electric bill for the period of January 2011 through December 2011.

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

1. Indiana Michigan Power Company shall be and hereby is authorized to implement its requested PJM Cost Rider Adjustment factors.

2. Petitioner shall place into effect the PJM Cost Rider Adjustment factors approved herein, applicable to bills rendered beginning with the later of the first billing cycle for the billing month of January 2011, or upon filing with the Electricity Division of this Commission, Tariff Sheet No. 53 consistent with the findings set forth herein amendment, as shown in Petitioner's Exhibit DMR-4.

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

ATTERHOLT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED:

DEC 29 2010

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



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