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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF INDIANA) MICHIGAN POWER COMPANY FOR) AUTHORIZATION OF A NEW PJM COST RIDER) ADJUSTMENT CHARGE APPLICABLE FOR THE) BILLING MONTHS OF JANUARY THROUGH) DECEMBER 2014)	CAUSE NO. 43774 PJM 4 APPROVED: MAY 14 2014
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ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On August 26, 2013, Indiana Michigan Power Company (“I&M”, “Company” or “Petitioner”) filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) requesting an adjustment to its rates through its PJM Cost Rider beginning with the billing month of January 2014. On August 26, 2013, I&M filed its case-in-chief and supporting workpapers. On October 23, 2013, I&M filed its Motion to Amend the Petition, along with supporting testimony and exhibits.

The I&M Industrial Group (“IG”) intervened in this Cause. By docket entry dated November 27, 2013, the Commission granted a Joint Motion for Modification of Procedural Schedule and Treatment of PJM Rider Rate Going Forward. On December 16, 2013, the Indiana Office of Utility Consumer Counselor (“OUCC”) and IG filed their respective cases-in-chief. On December 31, 2013, I&M filed its rebuttal evidence. On January 10, 2014, I&M filed revisions to its direct testimony.

The Commission held an evidentiary hearing in this Cause at 10:30 a.m. on January 14, 2014, in Room 222, 101 West Washington Street, Indianapolis, Indiana. I&M, the OUCC and IG appeared and participated at the hearing. No members of the general public attended the hearing.

Based upon applicable law and evidence presented, the Commission finds:

1. Notice and Jurisdiction. Notices of the hearing in this Cause were given and published as required by law. Proofs of publication of the notices are contained in the official files of the Commission. I&M is a public utility as defined in Ind. Code §8-1-2-1(a). Under Indiana Code § 8-1-2-42(a) (“Section 42(a)”), the Commission has jurisdiction over changes in I&M’s schedules of rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. I&M’s Characteristics and Business. I&M is a wholly-owned subsidiary of the American Electric Power Company, Inc. (“AEP”). I&M is a corporation 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, among other things, rendering electric service in the States of Indiana and Michigan. In Indiana, I&M provides service in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells, and Whitley.

3. **Relief Requested.** In the March 4, 2009 Order in Cause No. 43306 (“43306 Order”) (at 50, also Settlement Agreement, at 4), the Commission approved an adjustment mechanism for I&M’s recovery of costs related to its membership in the FERC-approved PJM Interconnection, L.L.C. (“PJM”) Regional Transmission Organization (“RTO”), which membership was authorized by the Commission in *Commission’s Investigation*, Cause Nos. 42350/42353 (IURC Sept. 10, 2003). In the February 13, 2013 Order in *Petition of Indiana Michigan Power Company*, Cause No. 44075, at 121 (“44075 Order”), the Commission expressly authorized the continued operation of the PJM Cost Rider as approved in Cause No. 43306. I&M requests approval of updated PJM Cost Rider factors for 2014 (“Originally Filed PJM 4 Factors”). The proposed factors reflect a reconciliation of PJM costs and a projection of PJM charges and credits for the calendar year 2014. I&M also seeks approval from the Commission to expand the scope of the tracker to include four additional charges in the PJM Cost Rider commencing January 1, 2014 and to include such costs in the factors to be presented for Commission review in PJM-5.

4. **I&M’s Direct Evidence.**

A. **Originally Filed PJM 4 Factors.** Christopher M. Halsey, an I&M Senior Regulatory Consultant, and several AEP Service Corporation (“AEPSC”) employees -- Jason M. Yoder, Staff Accountant, Scott E. Mertz, Principal Regulatory Consultant and Teresa A. Caudill, Senior Regulatory Consultant -- presented I&M’s request to update its PJM 4 Factors. These witnesses addressed the reconciliation of actual PJM net costs and PJM Cost Rider revenues for July 1, 2012 through June 30, 2013, the forecast of PJM charges and credits, the allocation factors and the revenue requirement. Mr. Halsey testified that there are no new PJM charges or materially modified charges that I&M has incurred since the Commission approved I&M’s initial PJM Cost Rider reconciliation in cause No. 43774, and that he was not aware of any anticipated new or modified PJM charges for 2014. Pet. Ex. CMH, at 8-9. Messrs. Halsey and Yoder discussed the PJM costs reflected in the Rider. Pet. Ex. CMH, at 4; Pet. Ex. JMY, at 2-5; Pet. Ex. JMY-1. Mr. Halsey explained these costs are billed to I&M for PJM’s functional operation of the transmission system, management of the PJM markets, and general administration of the RTO. Pet. Ex. CMH, at 3-4. Mr. Halsey reported on the I&M-owned and non-I&M owned PJM Regional Transmission Expansion Plan (“RTEP”) projects. *Id.* at 8, Pet. Ex. CMH-1. Mr. Halsey and Ms. Caudill explained that the proposed PJM 4 Factors represent a decrease from the factors approved in PJM 3. Pet. Ex. CMH, at 6; Pet. Ex. TAC-3.

B. **Amended Request to Add Additional Charges.** On January 10, 2014, Mr. Halsey revised his direct testimony to indicate that while he was not aware of any anticipated new or modified PJM Open Access Transmission Tariff (“OATT”) charges for 2014 as of the original filing date of his testimony, changing circumstances thereafter caused I&M to seek to include a material modification to certain PJM charges in the Rider. Pet. Ex. CMH, at 9. David M. Roush, AEPSC Director-Regulated Pricing and Analysis explained that I&M seeks to include

the following additional charges in the PJM Cost Rider: 1) Network Integration Transmission Service (“NITS”), pursuant to PJM OATT Attachments H-14 and H-20, which includes credits for Point-to-Point Transmission Service; 2) Transmission Owner Scheduling, System Control and Dispatch Service, pursuant to PJM OATT Schedule 1A; 3) PJM Expansion Cost Recovery Charges (“ECRC”), pursuant to PJM OATT Schedule 12; and 4) AEP RTO Start-up Cost Recovery Charges (“SCRC”), pursuant to PJM OATT Attachment H-14 (referred to collectively herein as “Modified OATT Charges”). Pet. Ex. DMR, at 3. Mr. Roush discussed the nature of the Modified OATT Charges and stated that the charges are similar in origin and nature to a number of charges that are already reflected in the PJM Cost Rider. *Id.* at 3-4. He stated that Modified OATT Charges are necessary transmission costs. *Id.* at 6. Mr. Roush also presented the calculation of the Indiana retail jurisdictional costs and allocation basis and factors for each charge. Pet. Ex. DMR-1 through DMR-3. Mr. Roush also testified that I&M was not only seeking to recover these charges because they are always increasing, noting that there were two occasions in the past where the charges went down. *Id.* at 7.

Mr. Roush explained that the Company proposes to track the incremental difference between these actual ongoing costs and the level of such costs (\$80,257,524) embedded in basic rates in Cause No. 44075. Pet. Ex. DMR, at 4. Mr. Roush explained that I&M proposes to begin including any such difference in the over/under recovery calculations for the PJM Cost Rider beginning January 2014. *Id.* Therefore, any cost or credits resulting from the proposal would be part of the PJM 5 filing. *Id.* at 5.

Petitioner’s Exhibits DMR-1 and DMR-3 showed that actual costs for the Modified OATT Charges are expected to exceed the level of such costs embedded in basic rates by approximately \$8 million in 2014. Pet. Ex. DMR-3. Mr. Roush testified that it is appropriate to include the Modified OATT Charges in the Rider because I&M no longer has exclusive control over its transmission costs because of its membership in PJM; transmission costs vary with customer power supply needs; inclusion allows for recognition of known periodic changes in costs; and inclusion in the PJM Cost Rider allows for more timely adjustments in customers’ rates, either up or down. Pet. Ex. DMR, at 5-7. Mr. Roush stated that these FERC-approved rates can increase or decrease and that certain charges (ECRC and SCRC) are scheduled to expire. *Id.* at 7-8.

5. OUCC’s Evidence. The OUCC presented the testimony of Duane P. Jasheway, OUCC Electric Division Utility Analyst. Mr. Jasheway recommended approval of the proposed PJM 4 Factors which I&M proposed in its original filing in this Cause. Public’s Ex. 1, at 12. Mr. Jasheway testified Cause No. 43306 provided an explanation of how to modify charges in the PJM Cost Rider:

In each annual PJM Tracker proceeding I&M will identify any **new PJM charge or material modification of an existing PJM charge** (modified PJM charge) that I&M seeks approval from the Commission to include in the PJM Tracker and any anticipated new or modified PJM charge of which I&M is aware. I&M will present testimony explaining the nature of any new or modified PJM charge and a proposed cost allocation.

(Emphasis added.) *Id.* at 8, 10-20 (quoting Cause No. 43306, I&M’s rate case, at page 29.)

Mr. Jasheway explained these charges are not new since I&M has been paying these since 2004 and 2005. Mr. Jasheway further clarified that I&M sought and received approval to include \$80 million of these charges in base rates in Cause No. 44075. *Id.* at 8-9. Mr. Jasheway further explained Petitioner provided no explanation of PJM materially modifying these charges or how they are calculated other than saying the dollar amounts have increased. Mr. Jasheway testified these charges are neither new nor do they represent a material modification to existing PJM charges. *Id.* at 9.

Mr. Jasheway explained Mr. Roush interpreted Cause No. 44075 allowed Petitioner to track transmission charges. Mr. Jasheway did not agree with Mr. Roush's characterization of Cause No. 44075 as he could not find any language that allows I&M to track transmission charges. Mr. Jasheway stated Mr. Roush previously testified in Cause No. 44075 I&M is not proposing to track transmission charges. *Id.* at 9, 10.

Mr. Jasheway detailed I&M's proposal was objectionable for 3 reasons: (1) Petitioner has not satisfied the conditions necessary to modify the PJM Cost Rider consistent with the Settlement Agreement in Cause No. 43306 or provided a sufficient explanation to support expanding the scope of the PJM Cost Rider; (2) Petitioner sought and received authorization to include over \$80 million of these charges in its base rates in Cause No. 44075; and (3) allowing Petitioner to track these transmission costs would alter the nature of the PJM Cost Rider and would for all intents and purposes become a new transmission tracker covering a much wider range of transmission costs. *Id.* at 10-11.

Mr. Jasheway recommended the Commission deny I&M's request to include the additional PJM costs in the Rider on the grounds that the request does not meet the criteria for modifications to the PJM Cost Rider and would change the current design of the Rider from a PJM administrative cost tracker to a transmission tracker which covers a much wider range of transmission costs. *Id.* at 2-3, 7-12.

6. IG's Evidence. Nicholas Phillips, Jr., Managing Principal of Brubaker & Associates, Inc., reviewed the Company's PJM-4 filing, including the request to expand the PJM Cost Rider. Phillips Direct at 3. Mr. Phillips discussed I&M's requested ratemaking changes in I&M's recent rate case, Cause No. 44075. He noted the testimony of Mr. Roush that "the Company is not proposing to track its transmission costs in the PJM Cost Rider." *Id.* at 5. Mr. Phillips testified that had I&M proposed to track the subject costs, the Industrial Group's positions and recommendations would have been different in Cause No. 44075. He explained that the creation or expansion of a new tracker, as proposed by I&M in this proceeding, could have impacted the allowed return on equity, quoting the Commission as follows: "We also consider the effect of cost tracking and rate adjustment mechanisms in reducing Petitioner's earnings risks and attempt to properly reflect them in Petitioner's cost of equity." *Id.* at 6 (quoting Cause No. 44075, at page 43.).

Mr. Phillips explained that I&M's proposal would increase the base level of costs being tracked through the PJM Cost Rider from just over \$5 million to about \$80 million. *Id.* at 6. Mr. Phillips also addressed Mr. Roush's statement that I&M did not want to add the costs to the PJM Cost Rider just because they were going up. IG Ex. NP, at 7. He noted that while Mr. Roush had

provided two past examples of where the costs had gone down, Mr. Phillips pointed out that I&M in discovery acknowledged that the costs which I&M seeks to add to the Rider are expected to increase annually by \$10 million - \$15 million per year or \$70 million over six years. *Id.* Mr. Phillips urged the Commission to reject I&M's proposal based on his view that the matter should be considered in the context of a base rate proceeding. *Id.* at 8.

7. **I&M Rebuttal.** In response to Mr. Jasheway's assertion that the PJM Rider is mostly an administrative cost tracker, Mr. Roush further described the design of the Rider approved in Cause No. 43306, as being designed to track costs related to I&M's membership in PJM, including the variance from the forecasted administrative costs reflected in basic rates and the cost of PJM Regional Transmission Expansion Plan projects, and including what he described as a wide variety of items related to PJM membership and on PJM invoices. Mr. Roush also discussed I&M's ability to seek Commission approval to include additional PJM charges in the annual PJM Rider filings. Pet. Ex. DMR-R, at 2, 5. Mr. Roush also explained why he disagreed with Mr. Phillips' testimony. *Id.* at 4-7. Mr. Roush also testified that FERC Docket No. ER-09-1279 fundamentally changed the transmission charges under the PJM OATT. Pet. Ex. DMR-R, at 2-3; also Roush CX. Mr. Roush testified that in his rebuttal testimony in Cause 44075, he "clarified that that was not the Company's proposal in the rate proceeding." Pet. Ex. DMR-R, at 3-4. He added that he had indicated that tracking would be a "good idea" and testified that the Company's pre-existing ability to propose changes to the Rider was not altered by anything in Cause No. 44075. Pet. Ex. DMR-R, at 2, 4. Mr. Roush explained that events over the last six months of 2013 led to the need to exercise the annual check on PJM costs through the PJM Cost Rider. Pet. Ex. DMR-R, at 4. For the first time at the hearing, Mr. Roush also testified that a major driver of these increased costs and changes to PJM charges is the increased transmission build ordered by PJM to maintain reliability in light of a large number of coal plant retirements caused by new EPA regulations. Mr. Roush clarified that the Company's proposal addresses incremental cost changes and if the annualized levels shown in Exhibit DMR-3 were included in the Company's forecast 2014 PJM Cost Rider request, the revenue requirement would increase from approximately \$42.5 million to approximately \$50.5 million which he asserted was not a seventeen-fold increase as suggested by Mr. Jasheway. *Id.* at 6.

The Company's President and Chief Operating Officer, Paul Chodak III, testified for the first time on rebuttal, addressing the other parties' position that I&M's request should only be considered in the context of a base rate proceeding. Mr. Chodak testified that approval of I&M's request will avoid serious financial harm to the Company. Pet. Ex. PC-R, at 6-7. He explained that the Company has been and continues to significantly under-earn its authorized return. *Id.* at 6-7. He stated that if the PJM costs are not included in the PJM Cost Rider, I&M will not have a reasonable opportunity to earn the return authorized by the Commission in Cause No. 44075 and will be perceived negatively by the capital market, which expects utilities to achieve timely cost recovery. *Id.* at 7. He added that this negative impact will be particularly problematic in the current environment in which the fundamental structure of the utility industry is being challenged on several fronts. *Id.* He noted that the legitimacy of the costs is not contested and explained that allowing reasonably incurred costs to go unrecovered harms the Company and customers. *Id.* at 4-6, 7. Mr. Chodak discussed the Commission's utilization of trackers and explained that timely cost recovery is important to I&M's financial health. *Id.* at 4-5. He pointed out that a full rate case for each year of operations is laborious, expensive and time consuming for all involved, and the costs at issue here are beyond the Company's control and can be

distinguished from general operating costs within I&M's control. *Id.* at 5-6.

8. Commission Discussion and Findings.

A. Originally Filed PJM 4 Factors. There is no dispute as to this portion of the Cause. Under the existing PJM Cost Rider, I&M tracks recovery through its retail rates of certain charges and credits related to its PJM membership, including the variance from the level of administrative costs reflected in I&M's basic rates and the cost of PJM RTEP projects. The incremental amount above or below the amount embedded in basic rates is adjusted and reflected in the PJM Cost Rider annually. I&M's proposed PJM 4 Factors reflect the reconciliation of its PJM 3 factors and a forecast of 2014 costs. The OUCC recommends approval of the proposed PJM 4 Factors.

Based on the evidence presented, the Commission finds that the PJM 4 Factors are reasonable and should be approved. As shown in Petitioner's Exhibit TAC-1, the Indiana retail jurisdictional portion of forecast PJM costs of \$48,696,444, less the PJM costs included in basic rates of \$5,224,801 plus the variance of \$1,565,023, less the Retail Ratemaking Credit of \$2,467,967, results in a total amount of \$42,568,700 in PJM costs to be recovered through the PJM Cost Rider. As shown on Petitioner's Exhibit TAC-3, this amounts to a decrease of \$4,128,187 from current PJM Cost Rider levels. We find Petitioner should be authorized to apply its requested PJM 4 Factors to its Indiana retail tariffs. Petitioner's Exhibit TAC-4 sets forth the PJM 4 Factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.3420
GS, GS-TOD and GS-TOD2	0.3149
LGS and LGS-TOD	0.3018
IP, CS-IRP and CS-IRP2	0.2880
MS	0.3102
WSS	0.2827
IS	0.3001
EHG	0.3301
OL	0.2443
SLS, ECLS, SLC, SLCM and FW-SL	0.2399

Using currently effective rates, as shown on Petitioner's Exhibit TAC-5, the bill of a typical customer using 1,000 kWh per month will decrease by approximately \$0.11 or 0.1%.

B. Modified OATT Charges. As discussed above, I&M requested permission to add additional charges to the PJM Cost Rider. The OUCC and IG raise essentially two issues for excluding the new OATT charges: first, that the OATT charges are not the type of charges to be included in the PJM tracker as created in Cause No. 43306; and second, I&M stated in Cause No. 44075 that it would not track the OATT charges. We find the second argument dispositive.

I&M presented testimony in Cause No. 44075 that it proposed to include the specified transmission costs in its base rates, and specifically stated that it was not proposing to track those transmission costs in the PJM Cost Rider. I&M now proposes to track those costs. If we

allowed Indiana’s utilities to disregard clear commitments made in their last rate cases, it would undermine the public’s confidence in the ability of the regulatory process. Given that I&M’s rate case position contradicts its current proposal, we believe it unreasonable to include OATT costs in the PJM Cost Rider at this time.

In Cause No. 44075, the Commission made certain determinations based on the positions presented in that proceeding, namely the amount of costs that would be subject to tracking mechanisms and the resultant risk and related return on plant based on that level of risk. Having received a return on equity (“ROE”) based, in part, on its proposal to not track OATT costs, I&M’s about-face proposal to now track those same costs is one-sided. While I&M would reduce its risk by tracking OATT costs, it did not propose to alter its ROE to reflect the reduced risk. By not doing so, I&M’s ratepayers would not only face the new tracked costs, but would continue paying base rates that no longer reflect a reduced level of risk. In other words, ratepayers would continue to bear the higher risk as set in base rates, and going forward, bear the additional risk from the volatility of tracked OATT costs. I&M’s failure to present a balanced approach is fatal to its proposal.

I&M argues that the Commission already considered the reduction of risk in determining the ROE in Cause No. 44075. I&M’s argument misses the mark, and actually supports the opposite result. In determining the ROE in I&M’s last base rate case, the Commission considered the effect of tracking mechanisms and what was included or not included in those mechanisms. I&M specifically stated that it would not track OATT costs, and based on that statement, the Commission embedded OATT costs in I&M’s base rates and determined an appropriate ROE given the higher risk that I&M would face by not tracking those costs.

Mr. Chodak testified that approval of I&M’s request will allow I&M to avoid serious financial harm, which I&M testified would be approximately \$8 million for 2014. While we are sensitive to the needs of utilities to have reasonable opportunities to cover prudently incurred costs, an authorized level of return is not a guarantee. Utilities face cost pressures, but so do the businesses and individual ratepayers of this state. To the extent utilities face increasing cost pressures, they have a responsibility to seek recovery in a manner which will allow ratepayers a fair opportunity to ensure that such changes are fair in the overall context of the rates being charged.

To that end, we would encourage I&M to work with its stakeholders to reach an agreement on a balanced plan, and if such agreement can be reached, seek Commission approval under a separate docket.

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

1. Indiana Michigan Power Company is authorized to implement its requested PJM Cost Rider Adjustment factors identified in Para. 8(A).
2. Indiana Michigan Power Company shall place into effect the PJM Cost Rider Adjustment factors approved in this Order applicable upon filing with the Electricity Division of this Commission, Tariff Sheet No. 41, as shown in Petitioner’s Exhibit TAC-4.

3. Indiana Michigan Power Company's request to add the Modified PJM OATT Charges incurred on and after January 1, 2014 to the PJM Rider is denied.

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

ATTERHOLT, MAYS, STEPHAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: MAY 14 2014

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



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