

ORIGINAL

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 2010)

CAUSE NO. 43774

APPROVED: DEC 16 2009

[Handwritten signatures and initials: JLA, JLG, and a large signature]

BY THE COMMISSION:

David E. Ziegner, Commissioner

Lorraine L. Seyfried, Administrative Law Judge

On September 2, 2009, Indiana Michigan Power Company ("I&M" or "Petitioner") filed its Verified Petition for a New PJM Cost Rider Adjustment Charge ("Petition") with the Indiana Utility Regulatory Commission ("Commission") for approval of a new PJM Cost Rider Adjustment charge for electric service to be applicable during the January through December 2010 billing months. On September 2, 2009, Petitioner also filed the testimony and exhibits of Scott M. Krawec, Petitioner's Director of Regulatory Services; William A. Allen, Director of Operating Company Forecasts for American Electric Power Service Corporation ("AEPSC"); Jeffrey L. Brubaker, Director of Regulatory Accounting Services for AEPSC; and David M. Roush, Manager-Regulated Pricing and Analysis for AEPSC. On September 17, 2009, the Indiana Michigan Power Company Industrial Group ("Industrial Group"), an ad hoc group of industrial customers located in the electric service territory of I&M,¹ filed its Petition to Intervene, which was subsequently granted by docket entry dated September 25, 2009.

In accordance with the Commission's October 14, 2009 Prehearing Conference Order issued in this Cause, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Michael D. Eckert on November 5, 2009. Petitioner filed its Notice of Intent Not to Prefile Rebuttal on November 13, 2009.

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 24, 2009 at 9:30 a.m. in Room 224 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner, the OUCC and the Industrial Group 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. Also admitted into evidence were the responses of I&M and the OUCC to questions contained in docket entries issued by the Commission on November 19, 2009.

¹ The Industrial Group included Air Products & Chemicals, Inc., Arcelor Mittal USA, Hartford City Paper, LLC, LINDE; Marathon Petroleum Company, LLC, Praxair, Inc. and The Linde Group.

The Commission, based upon applicable law and the evidence of record, and being duly advised in the premises, 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 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, and 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 certain costs and revenues related to I&M's membership in PJM Interconnection, L.L.C. ("PJM"). The tracked costs 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's current PJM Cost Rider Adjustment factors were approved in Cause No. 43306 on March 4, 2009, and became effective on March 23, 2009. I&M seeks approval of its reconciliation of actual PJM costs for the period March 23, 2009 through June 30, 2009 and its projection of PJM charges and credits for the calendar year 2010. I&M seeks to make the new PJM Cost Rider Adjustment factors effective with the first billing cycle for the billing month of January 2010.

4. **Charges Recovered Through the PJM Cost Rider.** As shown in Petitioner's Exhibit JLB-1, the PJM Cost Rider includes charges such as net operating reserve, net synchronous condensing, net regulation service, meter corrections, emergency purchase, inadvertent meter reserve, day-ahead scheduling reserve market, net spinning, net transmission line loss, net blackstart, net reactive supply, variance in administrative fees from the amount in basic rates and transmission enhancement charges.

Petitioner's Witness Krawec testified that there are two new charges that I&M has begun to incur since the Commission approved I&M's PJM Cost Rider in Cause No. 43306. These charges include the Peak-Hour Period Availability Penalty and the Demand Resource and Interruptible Load for Reliability ("ILR") Penalty. Mr. Krawec stated that the costs for the Peak-Hour Period Availability Penalty are assigned between off-system sales ("OSS") and the Load Serving Entity ("LSE") based on the capacity assigned to the Reliability Pricing Model and the Fixed Resource Requirement, respectively. Once charges have been assigned between OSS and the LSE, the charges are then allocated to the respective companies. Mr. Krawec indicated that only the LSE portion is included in the PJM Cost Rider Adjustment. Mr. Krawec stated that the Demand Resource and ILR Penalty is assessed if a demand resource of an ILR customer does not respond by curtailing their load during a PJM emergency event. These penalties are directly

assigned to the LSE because these charges are associated with American Electric Power Company, Inc.'s ("AEP") retail customers. The charges are then allocated to the AEP-East operating companies on a Member Load Ratio basis.

In response to the Presiding Officers' November 19, 2009 docket entry concerning cost allocation of the Demand Response and ILR Penalty, Mr. Krawec stated that because of I&M's participation in the AEP Interconnection Agreement, Indiana customers would pay a portion of any ILR Penalties assessed regardless of whether the retail customer causing the penalty and the LSE serving that customer is located inside or outside of Indiana. The Commission continues to note the prominence in which the AEP Interconnection Agreement figures into allocating PJM costs and this new charge only enhances our concerns with the continued appropriateness of the AEP Interconnection Agreement. However, we are also aware that the report I&M is required to submit pursuant to the Commission's March 4, 2009 Order in Cause No. 43306 summarizing the discussion of the parties concerning the effectiveness, relative costs, customer benefits and other aspects of the AEP Interconnection Agreement, including whether it is a redundant mechanism now that I&M participates in the PJM Interconnect, has just recently been filed and will be reviewed accordingly.

Finally, Mr. Krawec also testified that since the Commission's Order in Cause No. 43306 there have been no material modifications made to any existing PJM charges or credits, no PJM charges or credits have been discontinued and no new or modified PJM charges are anticipated for 2010.

5. PJM RTEP Projects. Petitioner's Witness Krawec stated that 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. Mr. Krawec stated that for RTEP projects that operate at the 500 kV level and higher, the Federal Energy Regulatory Commission ("FERC") has determined that the cost of these facilities shall be allocated to all consumers across the PJM footprint. He stated the costs of RTEP projects that operate below the 500 kV level and exceed \$5 million are allocated to consumers based on the extent to which their use of the transmission system contributes to the need for the transmission upgrade or expansion. The PJM Cost Rider recovers costs associated with both I&M-owned and non-I&M-owned RTEP projects through the PJM transmission enhancement charge.

(a) I&M-owned RTEP Projects. Mr. Krawec stated I&M does not currently own any PJM RTEP projects. However, pursuant to the Settlement Agreement approved as modified in Cause No. 43306, should Petitioner own any such PJM RTEP projects in the future, Petitioner will maintain records such that these PJM RTEP project costs recognized in the PJM Cost Rider will be separately identified in future filings.

(b) Non-I&M-owned RTEP Projects. As shown in Petitioner's Exhibit SMK-1, there are a number of major RTEP projects for which Petitioner will incur transmission enhancement charges. Petitioner's Witness Allen testified that several of these projects will increase spending throughout the remainder of 2009 and in 2010 in order to meet future PJM required in-service dates, resulting in continued increased charges to Petitioner.

6. **Forecasted PJM Costs.** As shown in Petitioner's Exhibit WAA-1, Total Company PJM charges and credits computed consistent with the Commission's Order in Cause No. 43306 are estimated to be approximately \$55.4 million. I&M Witness Allen testified that the forecasted 2010 PJM costs and credits are \$8.9 million higher than the \$46.5 million actually incurred for the twelve months ended June 2009. He stated the primary drivers of this increase are: (1) a \$13.6 million increase in PJM transmission enhancement charges; (2) a \$2.9 million decrease in PJM peak hour availability charges; and (3) a \$3.5 million decrease in net PJM transmission loss charges and credits. When the appropriate jurisdictional allocation factors are applied, the Indiana retail jurisdictional portion of forecasted PJM costs totals \$36,155,424, as shown on Petitioner's Exhibit DMR-1. No party disputed these estimates, and based upon the evidence presented, the Commission finds that Petitioner's forecast costs are reasonable and should be utilized to compute its PJM Cost Rider Adjustment factor.

7. **Actual PJM Costs/Actual PJM Rider Revenue.** The initial PJM Cost Rider Adjustment factor, as established in the Commission's Order in Cause No. 43306, was set to recover \$39.122 million of annual PJM costs. As shown on Petitioner's Exhibit JLB-1, for the period March 23, 2009 through June 30, 2009 Petitioner over recovered \$5,875,173 through the PJM Cost Rider. OUCC Witness Eckert concurred with this calculation.

8. **LSE Congestion Costs.** In accordance with the Commission's Order in Cause No. 43306, Petitioner 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 (0) in the PJM Cost Rider and the net FTR revenues were included as part of its Off-System Sales Margin Sharing Rider calculation.

9. **One-Time Credit for the Cost of Variable Transmission Losses.** As explained by Petitioner's Witness Roush, in Cause No. 38702 FAC 61 Petitioner submitted and received approval to apply the loss factor that would be applicable during the actual months of July 2008 through June 2009 based on 2007 FERC Form 1 data. He stated that because the change from physical variable transmission losses to PJM transmission loss costs did not commence until July 2007, actual fuel costs used to compute fuel (over)/under recovery for March 23, 2009 through June 2009 reflect variable transmission losses. Mr. Roush stated since the PJM Cost Rider became effective on March 23, 2009 and includes the cost of PJM transmission losses, Petitioner has included a one-time credit to customers for the costs associated with actual variable transmission losses included in the fuel (over)/under recovery calculation. As shown in Petitioner's Exhibit DMR-4, this one-time credit to the PJM Cost Rider amounts to \$1,794,866. No party disputed Petitioner's calculation, and based upon the evidence presented, we find that it should be utilized to compute Petitioner's PJM Rider Adjustment factors.

10. **Resulting PJM Cost Rider Adjustment Factors.** As shown in Petitioner's Exhibit DMR-1, the Indiana retail jurisdictional portion of forecast PJM costs of \$36,155,424, less the PJM administrative costs included in basic rates of \$5,224,801, the variance of \$5,875,173 and the one-time credit of \$1,794,866, results in a total amount of \$23,260,584 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 \$13,545,621 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, 2010.

11. **Effect on Customers.** The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of \$0.93 or 1.1% on his or her electric bill for the period of January 2010 through December 2010.

12. **Other Issues.** OUCC Witness Eckert noted that the timing of the reconciliation in this Cause, and the anticipated effective date of the proposed rates, means that the next adjustment proceeding must reconcile six months of the existing rate and six months of the newly-approved rate. Mr. Eckert did not believe this would be difficult, provided future reviewers are aware of this. Mr. Eckert also recommended that Petitioner provide workpapers and explanations of changes within two days after testimony is filed in subsequent cases. Petitioner expressed no opposition to this recommendation. Thus, Petitioner should provide workpapers and explanations of changes within two days after testimony is filed in subsequent PJM Cost Rider Adjustment filings.

13. **Future Filings.** Consistent with our current docketing convention for other tracker filings, we direct Petitioner to use the following docketing convention for the next and subsequent annual PJM Cost Rider Adjustment filings: Cause No. 43774 PJM 1, Cause No. 43774 PJM 2, etc.

In addition, we note that the OUCC's response to the Presiding Officers' November 19, 2009 Docket Entry indicated that an informal commitment had been made by I&M to work with the OUCC to develop a "standard audit packet" to be provided in the next annual filing. The Commission has previously recognized that the development of standard procedures, based on a proper balancing of the nature of the proceedings and the effort required by the OUCC to perform an adequate review, should assist in the timely review of issues presented in these types of proceedings.² Accordingly, we appreciate I&M's informal commitment and direct I&M to address the status of establishing a standard audit package in its testimony in support of its next OSS Margin Sharing Rider filing.

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.

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 2010, or upon filing with the Electricity Division of this Commission, a

² See, *In re Application of PSI Energy Inc.*, Cause No. 42736-RTO 1 (IURC, 03/16/2005), pp. 5-6.

revised Tariff Sheet No. 53 consistent with the findings set forth herein amendment, as shown in Petitioner's Exhibit DMR-5.

3. Petitioner shall address in its testimony supporting its next OSS Margin Sharing Rider the status of developing a standard audit packet with the OUCC.

4. Petitioner shall provide workpapers and explanations of changes within two days after testimony is filed in subsequent PJM Cost Rider Adjustment filings.

5. Petitioner shall use the docketing convention described in Finding No. 13 for future PJM Cost Rider Adjustment filings.

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

HARDY, ATTERHOLT, GOLC, LANDIS, AND ZIEGNER CONCUR:

APPROVED: DEC 16 2009

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



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