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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 2015 )	CAUSE NO. 43774 PJM 5  APPROVED:
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**DEC 30 2014**

ORDER OF THE COMMISSION

**Presiding Officers:**

**Angela Rapp Weber, Commissioner**

**Aaron A. Schmoll, Senior Administrative Law Judge**

On August 29, 2014, Indiana Michigan Power Company (“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 2015. Also on August 29, 2014, Petitioner prefiled the testimony, attachments and supporting workpapers of Christopher M. Halsey, Senior Regulatory Consultant for Petitioner, Jason M. Yoder, Staff Accountant for American Electric Power Service Corporation (“AEPSC”), Scott E. Mertz, Principal Regulatory Consultant for AEPSC, and Shermetre J. Pollard, Regulatory Analyst in Regulated Pricing and Analysis for AEPSC.

On November 7, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Duane P. Jasheway, a Utility Analyst in the Electric Division of the OUCC.

The Commission conducted a hearing in this Cause at 10:00 a.m. on December 10, 2014, in Room 224 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 pre-filed testimony and attachments, which were admitted into evidence without objection.

Based upon the applicable law and the evidence presented the Commission finds as follows:

**1. Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. Proofs of publication of the notice are contained in the official files of the Commission. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(a) and our Orders in Cause Nos. 43306, 44075, and 43774 PJM 4, the Commission has jurisdiction over changes in Petitioner’s schedules of rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

**2. Petitioner’s Characteristics and Business.** Petitioner 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. Petitioner 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 Petitioner's electric customers certain costs and revenues related to Petitioner's membership in PJM Interconnection, L.L.C. ("PJM"). In Cause No. 44075, the Commission expressly authorized the continued operation of the PJM Cost Rider as approved in Cause No. 43306. In Cause No. 43774 PJM 4 ("PJM 4"), the Commission approved a Settlement Agreement ("PJM 4 Settlement Agreement"), which expanded the scope of the PJM Cost Rider to include 43.5% of the Indiana jurisdictional share of the incremental PJM costs identified therein ("Agreed PJM Costs"). 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, net transmission congestion costs, and the Agreed PJM Costs added pursuant to the PJM 4 Settlement Agreement. Petitioner's current PJM Cost Rider factors were approved on May 14, 2014, in PJM 4 and became effective the first billing cycle of June 2014. Petitioner seeks approval of its reconciliation of actual PJM costs for the period July 1, 2013 through June 30, 2014 and its projection of PJM charges and credits for the calendar year 2015. Petitioner seeks to make the new PJM Cost Rider factors effective commencing with the first billing cycle for the billing month of January 2015.

**4. Petitioner's Evidence.** Petitioner's proposed PJM Cost Rider factors will replace those currently in effect, which were approved in PJM 4 and became effective commencing with the first billing cycle of June 2014.

(a) Charges Recovered Through the PJM Cost Rider. Mr. Halsey testified that PJM is a FERC-approved regional transmission organization ("RTO"), which AEP and Petitioner joined to fulfill its regulatory obligation to join an RTO. 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 Petitioner for functional operation of the transmission system, management of the PJM markets, and general administration of the RTO. Petitioner seeks to update its PJM net costs to those projected for the period the rider will be in effect (calendar year 2015), and also provide the reconciliation of actual PJM net costs and PJM Cost Rider revenues for the time period of July 1, 2013 through June 30, 2014.

Mr. Halsey testified in Cause No. 43306 the Commission authorized Petitioner to establish a PJM Cost Rider to track costs related to its membership in PJM. 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 Ex. 2, Attached Ex. JMY-2.

Mr. Halsey testified that the PJM 4 Settlement Agreement allows Petitioner to modify the PJM Cost Rider for a period of three years, to include recovery of 43.5% of the Agreed PJM Costs above the amount included in Petitioner's basic rates. Mr. Halsey identified the incremental Agreed PJM Costs as the following accounts:

- 4561002 LSE Charges – RTO Formation Cost Recovery (SCRC)
- 4561003 LSE Charges – Expansion Cost Recovery (ECRC)

- 4561005 LSE Firm and Non-Firm Point-to-Point Credits
- 4561035 LSE NITS Expense (4561035/5650016)
- 4561036 LSE Schedule 1A Expense (4561036/5650015)
- 5650015 LSE Schedule 1A Expense (4561036/5650015)
- 5650016 LSE NITS Expense (4561035/5650016)

Mr. Halsey sponsored Petitioner's Ex. 1, Attached Ex. CMH-2, which provides the calculation of the 43.5% Indiana jurisdictional portion of incremental Agreed PJM Costs to be included in Petitioner's PJM Cost Rider.

Finally, Mr. Halsey testified that Petitioner has provided the standard audit packet to the OUC as part of the annual PJM cost tracker filing. According to Mr. Halsey, the standard audit package consists of the attachments and workpapers supporting the calculation of Petitioner's PJM costs. In addition, Petitioner has supplemented the standard audit package at the request of the OUC to include the items outlined in Petitioner's Ex. 1, Attached Ex. CMH-3.

(b) PJM RTEP Projects. Mr. Halsey testified 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 the Interconnection. Also included are transmission projects that result from transmission customer requests for generator interconnection, merchant transmission additions, and long-term transmission service. Transmission-owning utilities are obligated 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. Halsey explained how the costs for RTEP projects are allocated in PJM. For RTEP projects that operate at the 500 kV level and higher, Federal Energy Regulatory Commission ("FERC") has determined that 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. The AEP Zone load share percentage for January to December 2014 was 14.18.

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. Mr. Halsey stated that in the event that it is determined a below-500 kV project has more than one beneficiary, PJM performs an analysis to determine the percent of the project cost that should be allocated to each beneficiary zone. In AEP, projects that are determined to benefit only the AEP Zone (i.e., 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.

Mr. Halsey testified regarding the five PJM RTEP projects currently owned by Petitioner. In addition, Mr. Halsey provided the cost of non-Petitioner-owned PJM RTEP projects in Petitioner's Ex. 1, Attached Ex. CMH-1.

Mr. Halsey stated that, as supported by Petitioner witness Mr. Mertz, PJM RTEP forecasted 2015 charges are based on (1) the required in-service date for major projects approved by FERC to

the PJM, and (2) the required in-service date for minor projects.

(c) Forecasted PJM Costs. Mr. Mertz presented the forecast of Petitioner's PJM charges and credits consistent with the Commission's Order in Cause Nos. 43306 and 44075 and the PJM 4 Settlement Agreement. Mr. Mertz explained that to develop Petitioner's forecasted PJM charges and credits for the months of January 2015 through December 2015, he included the projected costs consisting of the forecasted activity in the accounts identified on Petitioner's Ex. 2, Attached Ex. JMY-2 and as outlined in the testimony of Mr. Halsey.

According to Mr. Mertz, the forecasted Total Company PJM charges and credits computed consistent with the Commission's Orders in Cause Nos. 43306 and 44075 are approximately \$79.6 million. The incremental PJM charges consistent with the PJM 4 Settlement Agreement are approximately \$130.8 million for a total 2015 PJM forecast of approximately \$210.5 million, as shown in Petitioner's Ex. 3, Attached Ex. SEM-1.

Mr. Mertz compared the 2015 projected PJM costs and credits to current actual costs and credits. The actual PJM costs and credits for the period ended June 2014 is \$120.5 million, excluding prior period adjustments, as shown on Petitioner's Ex. 2, Attached Ex. JMY-1. The variance is largely attributable to the anomalous weather events experienced between January and March 2014. Mr. Mertz stated that the driver for the increased 2015 forecasted PJM costs and credits compared to what was forecasted for 2014 is the 2015 forecast includes the additional accounts as a result of the PJM 4 Settlement Agreement. Absent the additional accounts, the 2015 forecasted PJM costs and credits are only slightly higher than what was projected for 2014.

(d) Actual PJM Costs/Actual PJM Rider Revenue. Mr. Yoder testified that beginning March 23, 2009, Petitioner 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 Cost Rider to actual PJM costs net of \$5,224,801, which is the annual Indiana jurisdictional costs related to PJM administrative fees being recovered in Indiana basic rates. If the PJM Cost Rider revenues are less than the net PJM costs, Petitioner records the under-recovery as a regulatory asset in Account 182.3, Other Regulatory Assets. If the PJM rider revenues are greater than the net PJM costs, Petitioner records the over-recovery as a regulatory liability in Account 254, Other Regulatory Liabilities.

Mr. Yoder stated that as of June 30, 2014, Petitioner has an under-recovery balance of \$20,460,463 for the PJM Cost Rider as shown on Petitioner's Ex. 2, Attached Ex. JMY-1.

(e) Load Serving Entity ("LSE") Congestion Costs. Ms. Pollard testified that LSE congestion costs are included in the PJM Cost Rider. Per Ms. Pollard, in accordance with the Settlement Agreement and Commission Order in Cause No. 43306, Petitioner is to compare total Financial Transmission Rights ("FTR") revenues to LSE congestion costs for both the actual and forecast periods. If LSE congestion costs exceed total FTR revenues, then the net amount is included in the PJM Cost Rider calculation. If total FTR revenues exceed LSE congestion costs, then the net amount is included in the Off-System Sales Margin Sharing Rider calculation. For the time period of July 1, 2013 through June 30, 2014, LSE congestion costs exceeded total FTR revenues. Therefore, LSE net congestion costs are included in the PJM Cost Rider, and the net FTR revenues were excluded from the Off-System Sales Margin Sharing Rider calculation.

(f) Resulting PJM Cost Rider Adjustment Factors. Ms. Pollard 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. Ms. Pollard further testified that the Indiana retail jurisdictional PJM costs are determined consistent with the calculations performed in Cause Nos. 43306, 43774, and 44075. In particular, each component of Petitioner's total 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.

Ms. Pollard explained the calculation of Indiana retail jurisdictional portion of forecast PJM costs. After determining the Indiana retail jurisdictional portion of forecast PJM costs, this amount is reduced by the level of PJM administrative costs included in basic rates established in Cause No. 44075 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. Ms. Pollard noted that attachment SJP-1 reflects the incremental PJM costs as pursuant to the PJM 4 Settlement Agreement.

Ms. Pollard explained how the proposed PJM Cost Rider rates were calculated. Ms. Pollard stated that consistent with the formulas established in the PJM Cost Rider in Cause Nos. 43306 and 44075, Petitioner allocated the demand- and energy-related components as developed in attachment SJP-1 to the tariff classes based upon demand and energy allocation factors developed using forecast 2015 billing energy. Once the amounts were allocated to each tariff class, an energy rate was calculated using the forecast 2015 billing energy for that class.

**5. OUC's Evidence.** Mr. Jasheway recommended approval of the proposed PJM 5 factors. Mr. Jasheway stated that Petitioner incorporated the elements of the PJM 4 Settlement Agreement and applied them to this proceeding. Mr. Jasheway provided the new accounts to be included in the 2015 PJM forecast per the PJM 4 Settlement Agreement and stated that the Indiana jurisdictional share of 43.5% of the incremental Agreed PJM Costs above the amount included in Petitioner's basic rates has been included in PJM 5. Mr. Jasheway noted that Petitioner will reconcile these incremental Agreed PJM Costs like all other costs beginning with PJM 6.

Mr. Jasheway said 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. Mr. Jasheway noted that the increase in 2015 projected costs and credits was due to the inclusion of the incremental Agreed PJM Costs per the PJM 4 Settlement Agreement. He stated that the other forecasted accounts moderately increased from 2014 projections.

**6. Commission Discussion and Findings.** Under the PJM Cost Rider, Petitioner tracks recovery of charges and credits related to its PJM membership through its retail rates, including the variance from the level of administrative costs reflected in Petitioner'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. Petitioner's proposed PJM 5 factors reflect the reconciliation of its PJM 4 factors and a forecast of 2015 costs. The PJM 5 factors also include additional Agreed PJM Costs in accordance with the PJM 4 Settlement Agreement. The OUC recommends approval of the proposed PJM 5 factors.

Based on the evidence presented, the Commission finds that the PJM 5 factors are reasonable and should be approved. As shown in Petitioner's Ex. 4, Attached Ex. SJP-1, the Indiana retail jurisdictional portion of forecast PJM costs of \$50,966,737, plus the Indiana Jurisdictional

Incremental PJM Expense of \$11,923,128 and the variance of \$20,460,463, less the PJM costs included in basic rates of \$5,224,801, results in a total amount of \$78,125,527 in PJM costs to be recovered through the PJM Cost Rider. As shown on Petitioner's Ex. 4, Attached Ex. SJP-3, this amounts to an increase of \$37,248,210 from current PJM Cost Rider levels. We find Petitioner is authorized to apply its requested PJM 5 factors to its Indiana retail tariffs. Petitioner's Ex. 4, Attached Ex. SJP-4 sets forth the PJM 5 factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.6730
GS, GS-TOD and GS-TOD2	0.6024
LGS and LGS-TOD	0.5682
IP, CS-IRP and CS-IRP2	0.5329
MS	0.5905
WSS	0.5186
IS	0.5640
EHG	0.6422
OL	0.4192
SLS, ECLS, SLC, SLCM and FW-SL	0.4078

Using currently effective rates, the bill of a typical residential customer using 1,000 kWh per month will increase by approximately \$3.31 or 3.3%.

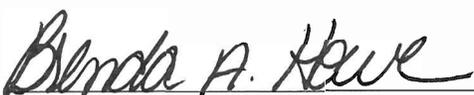
**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:**

1. Petitioner is authorized to implement its requested PJM Cost Rider Adjustment factors.
2. Petitioner 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 Ex. 4, Attached Ex. SJP-4.
3. This Order shall be effective on and after the date of its approval.

**STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR; MAYS-MEDLEY ABSENT:**

APPROVED: DEC 30 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**