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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 OFF-SYSTEM SALES MARGIN SHARING RIDER ADJUSTMENT (CHARGE/CREDIT) APPLICABLE FOR THE BILLING MONTHS OF JANUARY THROUGH DECEMBER 2011	)	**CAUSE NO. 43775 OSS 1** **APPROVED:** DEC 29 2010

<u>BY THE COMMISSION:</u>
David E. Ziegner, Commissioner
Angela Rapp Weber, Administrative Law Judge

On September 1, 2010, Indiana Michigan Power Company ("I&M" or "Petitioner") filed its Verified Petition for a New Off-System Sales ("OSS") Margin Sharing Rider Adjustment ("Petition") with the Indiana Utility Regulatory Commission ("Commission"). The Verified Petition requested approval of a new OSS Margin Sharing 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 Stacie R. Gruca, Utility Analyst in the OUCC's Electric Division. By Docket Entry dated November 16, 2010, the Commission issued questions to the OUCC, and the OUCC filed response 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 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 an OSS Margin Sharing Rider ("OSS Rider"), which tracks Indiana retail jurisdictional OSS margins above $37.5 million to be equally shared between Petitioner's customers and Petitioner. I&M's current OSS Rider factors were approved on December 16, 2009 in Cause No. 43775 and became effective the first billing cycle of January 2010. I&M seeks to reconcile actual OSS margins for the period July 1, 2009 through June 30, 2010 and to also reflect in billing factors its projection of OSS margins for the calendar year 2011. I&M seeks to make the new OSS Rider factors effective with the first billing cycle for the billing month of January 2011.

4. **Evidence.**

(a) I&M's Case-in-Chief. I&M witness Mr. Krawec testified that the OSS Rider results from the Final Order in Cause No. 43306, I&M's most recent base rate case, approved by the Commission on March 4, 2009. Mr. Krawec further testified the OSS Rider factors are expected to be established annually based upon a projected level of I&M OSS margins and include a reconciliation of actual OSS margins and rider revenues from jurisdictional kilowatt hour sales for a prior period. Mr. Krawec explained that per the Commission's Order in Cause No. 43306, I&M's revenue requirement used to establish basic rates includes a credit of $37.5 million of OSS margins allocated to the Indiana retail jurisdiction. The OSS Rider tracks OSS margins above $37.5 million to be shared 50% to customers and 50% to Petitioner. According to Mr. Krawec, the OSS Margin Sharing Rider allows customers and I&M to share in the risks and rewards of AEP's efforts to maximize OSS margins in today's wholesale markets.

Mr. Krawec testified I&M seeks to reconcile actual OSS margins for the period July 1, 2009 through June 30, 2010 and to also reflect in its billing factors the 2011 forecast of OSS margins. He explained that the reconciliation of the OSS Rider is to adjust for any variance between the incremental historical amount charged or credited to customers, whichever is applicable, during the tracked months in which the adjustment was in effect, and the incremental amount that should have been charged or credited, whichever is applicable, based upon actual OSS margin results.

Mr. Krawec testified that I&M's current OSS tracker factor is set at 0.00 mills/kWh pursuant to the Settlement Agreement approved by the Commission in Cause No. 43775. The approved Settlement Agreement was based upon a projection of benefits to customers thereby avoiding a charge to customers during calendar 2010. The setting of the OSS tracker factor at 0.00 mills/kWh included recovery of a $5.9 million regulatory asset and a credit of $5.9 million for the 50% sharing of the $11.8 million of forecasted OSS margins above the $37.5 million included in basic rates.

Mr. Krawec explained the impact of I&M's share of OSS margins on the earnings test pursuant to Indiana Code 8-1-2-42 *et seq.* Mr. Krawec stated that pursuant to the Commission's Order in Cause No. 43306, I&M's 50% share of OSS margins above the basic credit of $37.5 million and net Financial Transmission Right ("FTR") revenues are excluded from the earnings test in determining I&M's compliance with the provisions of Indiana Code 8-1-2-42(d)(3) and Indiana Code § 8-1-2-42.3 for a period of four years.

Last, Mr. Krawec testified that I&M developed a standard audit packet to be provided to the OUCC as part of annual OSS Rider filings. The standard audit package consists of the exhibits and workpapers supporting the calculation of I&M's OSS margins.

I&M witness Mr. Brubaker testified that in accordance with the OSS Rider approved in Cause No. 43306, I&M has deferred monthly, as a regulatory asset, any under-recovery and, as a regulatory liability, any over-recovery of the OSS rider revenue credits for future recovery or refund through the yearly true-up to actual. He explained that the under- or over-recovery is calculated by comparing revenues credited to customers from the OSS Rider to actual OSS margins less the basic rate credit of $37.5 million annually. According to Mr. Brubaker, the OSS Rider includes the revenues I&M is allocated from certain non-firm wholesale sales and other transactions made by the Commercial Operations business unit of AEP.

Mr. Brubaker supported Petitioner's Exhibit JLB-2, a detailed list of I&M's subaccounts of FERC account numbers 447 (Sales for Resale), 456 (Other Electric Revenues), 555 (Purchased Power), 561 (Load Dispatching), 565 (Transmission of Electricity by Others), and 575.7 (Market Facilitation, Monitoring and Compliance Services). Mr. Brubaker explained that the list indicates which accounts are included in the PJM Cost Rider, which accounts are included in the OSS Rider, and the jurisdictional allocation basis. Mr. Brubaker stated the accounts included in the list which are not included in either the PJM Cost Rider or the OSS Rider are used in the determination of I&M's Indiana basic rates.

Mr. Brubaker testified regarding the actual Indiana jurisdiction OSS margins for the period July 1, 2009 through June 30, 2010. Per Mr. Brubaker, for the period July 1, 2009 through June 30, 2010, the Indiana jurisdiction OSS margins were $33,956,423 as shown on Petitioner's Exhibit JLB-1. Mr. Brubaker stated the actual revenues credited to customers in the OSS Margin Sharing Rider for the period July 1, 2009 through June 30, 2010 were $10,557,123 as shown on Petitioner's Exhibit JLB-1. Mr. Brubaker stated I&M is entitled to recover the $10.6 million excess OSS margins given to its customers since the actual Indiana jurisdiction OSS margins for the period July 1, 2009 through June 30, 2010 were less than the $37.5 million credit built into basic rates. Mr. Brubaker further testified that the Indiana jurisdictional under-recovery balance of the OSS Rider as of June 30, 2010 is $16,446,590 for the OSS Rider as shown on Petitioner's Exhibit JLB-1.

Mr. Brubaker testified the approved OSS Rider rates included an OSS margins sharing mechanism with an annual $37.5 million Indiana jurisdiction fixed credit in basic rates and a

50/50 sharing of OSS margins above $37.5 million annually. The initial annual Indiana jurisdiction factor effective on March 23, 2009 for the OSS margins sharing mechanism was a credit to customers of $25.1 million, which is to be adjusted annually as part of a true-up process. Mr. Brubaker stated the initial annual Indiana jurisdiction factor established for the OSS margins sharing mechanism changed in Cause No. 43775. Specifically, the annual Indiana jurisdiction factor effective with the first billing cycle of January 2010 for the OSS Margin Sharing Rider was set at $0.00 mills/kWh as approved in Cause No. 43375 on December 16, 2009.

The testimony of I&M witness Mr. Riley provided a general description of the methodologies used in the development of I&M's forecasted OSS margins for the months of January 2011 through December 2011. According to Mr. Riley, the projected OSS margins consist of the forecasted activity in the accounts identified as includable by Mr. Brubaker in the OSS Margin Rider on Petitioner's Exhibit JLB-2.

Mr. Riley testified in support of the projected January 2011 through December 2011 OSS margins. Mr. Riley stated that the Total Company OSS margins, computed in a manner consistent with the Commission's Order in Cause No. 43306, are estimated to be $57.9 million, as shown in Petitioner's Exhibit RAR-1. Mr. Riley compared the projected 2011 OSS margins to current actual margins. Per his comparison, the forecasted 2011 OSS margins are $5.8 million higher than the $52.1 million actually recorded for the twelve months ended June 2010, as shown on Petitioner's Exhibit JLB-1. Mr. Riley explained that this increase is driven by higher price projections for capacity sales into the PJM market. By contrast, market prices and demand for energy are projected to remain low throughout 2011. Mr. Riley concluded that in his opinion the OSS margins which I&M has projected for the months of January 2011 through December 2011 are reasonable.

The testimony of I&M witness Mr. Roush supported the I&M's calculation of the updated OSS Rider, explained the methodology for updating the OSS Rider annually, and provided the resulting rate impacts on I&M's customers. Mr. Roush testified about the components of the OSS Rider. Per Mr. Roush, the OSS Rider consists of two components. The first component is a projection of off-system sales margins for the next calendar year. The second component is a reconciliation of actual off-system sales margins to actual billing under the OSS Rider.

Mr. Roush explained how the Indiana retail jurisdictional off-system sales margins are determined. According to Mr. Roush, consistent with the calculations performed in Cause No. 43306 and Cause No. 43775, each component of total I&M off-system sales margins 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 off-system sales margins.

Next, Mr. Roush explained how the amounts to be included in the OSS Rider were calculated. Again Mr. Roush explained that as shown in Petitioner's Exhibit DMR-1, the first step is to calculate the Indiana retail jurisdictional portion of forecasted off-system sales margins. This amount is then compared to the level of off-system sales margins included in basic rates in Cause No. 43306 of $37.5 million. According to Mr. Roush, to the extent that forecast Indiana retail jurisdictional off-system sales margins exceed $37.5 million, then 50% of the margins that exceed $37.5 million will be included as a credit to customers in the OSS Rider. If forecast

Indiana retail jurisdictional off-system sales margins are less than $37.5 million then no credit will be included in the OSS Rider.

Mr. Roush further testified that the second step is to include any actual (over)/under recovery balance remaining at the end of the prior year in the OSS Rider. To the extent that customers received credits under the OSS Rider which were greater than the actual customer share of off-system sales margins, the under-recovery would reduce the credit provided under the OSS Rider in the next year. As is the circumstance in this filing, it is possible for such under-recovery to result in the OSS Rider being a charge to customers instead of a credit to customers. This can only occur when customers were provided too much credit through the OSS Rider in a prior period. In no event will this ever diminish the $37.5 million customer share of margins included in basic rates.

Mr. Roush testified that FTR revenues are included in OSS margins. Per Mr. Roush, in accordance with the Settlement Agreement and Commission Order in Cause No. 43306, I&M shall compare total FTR revenues to Load Serving Entity ("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. In both periods presented herein, total FTR revenues exceeded LSE congestion costs. Therefore the net FTR revenues were included as part of the Off-System Sales Margin Sharing Rider calculation. This calculation is shown at the bottom of Petitioner's Exhibit DMR-1.

Mr. Roush further testified concerning how the proposed OSS Rider rates were calculated. Per Mr. Roush, consistent with the formulas established in the OSS Rider in Cause No. 43306, I&M allocated the demand- and energy-related components as developed in Petitioner's Exhibit DMR-1 to the tariff classes based upon demand and energy allocation factors developed using forecasted 2011 billing energy. Mr. Roush stated that once the amounts were allocated to each tariff class, an energy rate was calculated using the forecasted 2011 billing energy for that class. This calculation is shown on Petitioner's Exhibit DMR-2.

Mr. Roush testified he prepared a comparison of current and proposed Off-System Sales Margin Sharing Rider rates. Petitioner's Exhibit DMR-3 summarizes projected 2011 billing under current OSS Rider rates and under proposed OSS Rider rates. The proposed rider rates have also been incorporated in Petitioner's existing OSS Rider in both redline format and clean format as shown in Petitioner's Exhibit DMR-4.

Mr. Roush testified that I&M seeks to make the new OSS Rider rates requested herein effective for all bills rendered for electric services beginning with the first billing cycle for January 2011. Last, Mr. Roush testified that upon implementation, residential customers using 1,000 kWh of electricity per month would see a monthly rate increase of $1.18 or 1.4%. Petitioner's Exhibit DMR-5 shows the percentage increases at various "typical" usage levels for I&M's major tariff schedules.

(b) <u>OUCC's Case-in-Chief.</u> Ms. Gruca testified regarding I&M's OSS Rider reconciliation period, projection period, and variance, as well as the Cook Plant outage impact. She provided recommendations concerning I&M's proposed recovery. According to Ms. Gruca, I&M is requesting to: (1) adjust its OSS Rider factors approved in Cause No. 43775; (2) update its OSS levels included in the Rider to those projected for the period the Rider will be in effect, which is for the calendar year 2011; and (3) provide for the reconciliation of actual OSS margins for the time period of July 1, 2009 through June 30, 2010.

Ms. Gruca testified that I&M did not achieve the OSS Rider base rate amount of $37.5 million, approved in Cause No. 43306, in this proceeding. According to Ms. Gruca, for the period July 1, 2009 through June 30, 2010, I&M achieved OSS Rider margins of $33,956,423. The annual base rate amount of $37.5 million was subtracted from the actual amount for a total variance below the base level of $3,543,577. Ms. Gruca described the supporting documentation for the calculation of its actual OSS margins and the OSS margins retail sharing portion provided by I&M. According to Ms. Gruca, I&M provided work papers showing the calculation of the actual OSS Margins for the twelve-month period, July 2009 through June 2010, as well as the individual months for the same period. In addition, I&M provided documentation supporting the calculation of the OSS margin under-recovery amount in this proceeding. She explained that I&M's work papers provided detailed information about total I&M amounts allocated to Indiana jurisdictional (including demand/energy and total dollar allocations), as well as a breakdown of each OSS margin component including the general ledger account numbers and dollar amounts and allocation factor (demand/energy). Ms. Gruca stated that nothing came to her attention during her audit which would indicate that the projections used by I&M for the OSS Rider were unreasonable. Ms. Gruca testified that the evidence submitted by I&M supports I&M's OSS Rider variance calculation.

The testimony of Ms. Gruca explained the OSS Rider revenue. Per Ms. Gruca, the OSS Rider revenue is the portion of the approximately $25.055 million credit to customers for their share of projected OSS margins (approved in Cause No. 43306). Of the $25.055 million credit, $10,557,123 million was included as a credit on customer bills for the reconciliation period of July 2009 through June 2010. I&M seeks to recover this $10.6 million of excess OSS margins given to its customers since the actual Indiana jurisdictional OSS margins for the reconciliation period were less than the $37.5 million credit built into basic rates. She explained that the proposed factors include the $5.9 million "over-credit" or under-recovery variance for the period of March 2009 through June 2009, which was approved by the Commission in the initial OSS proceeding, Cause No. 43775, to be recovered by I&M in the current proceeding.

Per Ms. Gruca, the inclusion of the $5.9 million "over-credit" or under-recovery variance (from the previous OSS proceeding) in the current proceeding was due to the possibility of the economy improving, which would help to increase OSS margins. Therefore, rather than applying an increase to customer bills as a result of including the $5.9 million in the previous OSS proceeding, the view of the parties involved in the settlement agreement was that if the economy improved, OSS margins might have also increased. Thus, applying the $5.9 million under-recovery variance against increased revenues might have avoided a rate increase or charge to customers during the calendar year 2010. Ms. Gruca stated that unfortunately, the economy did not improve significantly during the reconciliation period because actual OSS margins remained below the base rate amount. Therefore, $10.5 million for the current proceeding, as well as the $5.9 million from the previous OSS proceeding (both of which were already credited to ratepayers) represent an "over-credit" or under-recovery variance which must be returned to I&M.

Ms. Gruca testified that she was able to use the workpapers and supporting documentation provided by I&M to support I&M's exhibits, which illustrate the over/under recovery of the OSS Rider variance for June 2009 through July 2010. Ms. Gruca further testified that I&M appropriately included net FTR revenues as part of the OSS Rider calculation. Also, Ms. Gruca testified that the figures used by I&M in the calculation of its OSS Rider are supported by the books, records, and source documents of I&M.

Finally, Ms. Gruca stated OUCC technical staff met with representatives of AEP and I&M to discuss the impact of the Cook Nuclear Plant Unit 1 outage on I&M's OSS margins. Ms. Gruca indicated that based upon a "back of the envelope" calculation of the impact the Cook Plant outage may have had on OSS margins, the Indiana jurisdictional allocation amount would have been minimal. Further, the inclusion of this estimate would probably still have not achieved the $37.5 million base rate credit.

Ms. Gruca recommended that the Commission approve I&M's requested OSS Rider factors.

5. Commission Discussion and Findings. The evidence presented in this matter supports the conclusion that I&M's requested OSS Rider factors were properly calculated and should be approved. Per the Commission's Order in Cause No. 43306, I&M's revenue requirement used to establish basic rates includes a credit of $37.5 million of OSS margins allocated to the Indiana retail jurisdiction. As a fixed component of current basic rates, the $37.5 million OSS margins credit is not subject to true-up or sharing. The OSS Rider tracks OSS margins above $37.5 million to be shared 50% to customers and 50% to Petitioner.

The total I&M OSS margins computed consistent with the Commission's Order in Cause No. 43306 for the forecasted period of January through December 2011 are shown in Petitioner's Exhibit RAR-1. When the appropriate jurisdictional allocation factors are applied, the Indiana retail jurisdictional portion of forecasted OSS margins totals $37,782,974 as shown on Petitioner's Exhibit DMR-1. As depicted on Petitioner's Exhibit JLB-1, for the period July 1, 2009 through June 30, 2010, Petitioner has an under-recovery balance of $16,446,590 for the OSS Margin Sharing Rider, which Petitioner has recorded as a regulatory asset. No party disputed this calculation.

In accordance with the Commission's Order in Cause No. 43306, Petitioner has compared total FTR revenues to LSE congestion costs for both the actual and forecasted periods. According to Petitioner's Exhibit DMR-1, total FTR revenues exceeded LSE congestion costs for both periods presented herein. Therefore, the net FTR revenues were included as part of the OSS Margin Sharing Rider calculation.

Petitioner's Exhibit DMR-1 shows that a total amount of $16,305,103 in OSS margins should be recovered through the OSS Rider. As shown on Petitioner's Exhibit DMR-3, this amounts to an increase of $16,304,988 from current OSS Rider levels. In accordance with the methodology approved by the Commission in Cause Nos. 43306 and 43775, we find Petitioner should be authorized to apply its requested OSS Rider 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 OSS Rider factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.1178
SGS and SGS-TOD	0.1180
MGS and MGS-TOD	0.1186
LGS and LGS-TOD	0.1195
IP, CS-IRP and CS-IRP2	0.1208
MS	0.1196
WSS	0.1214
IS	0.1216
EHS	0.1179
EHG	0.1165
OL	0.1250
SLS, ECLS, SLC, SLCM and FW-SL	0.1249

6. Effect on Customers. The average residential customer using 1,000 kWh per month will experience a monthly rate increase of $1.18 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 OSS Margin Sharing Rider Adjustment factors.

2. Petitioner shall place into effect the OSS Margin Sharing 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. 52 consistent with the findings set forth herein and 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 2 9 2010

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission