ORIGINAL

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 2014	CAUSE NO. 43775 OSS 4 APPROVED: DEC 30 2013

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" or "Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") for approval of a new Off-System Sales Margin Sharing Rider Adjustment (Charge/Credit) to be applicable during the January through December 2014 billing months. Also on August 26, 2013, I&M prefiled the testimony, exhibits and supporting workpapers of Scott M. Krawec, Director of Regulatory Services for I&M, Jason M. Yoder, Staff Accountant for American Electric Power Service Corporation ("AEPSC"), Scott E. Mertz, Principal Regulatory Consultant for AEPSC, and Teresa A. Caudill, Senior Regulatory Consultant in Regulated Pricing and Analysis for AEPSC.

On November 6, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Stacie R. Gruca, a Senior Utility Analyst in the Electric Division of the OUCC.

Pursuant to notice published as required by law, proof of which was incorporated into the record the Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on December 5, 2013 in Hearing Room 222, 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 exhibits, which were admitted into evidence without objection.

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 as required by law. Petitioner is a public utility as that term is defined by Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code § 8-1-2-42, the Commission has jurisdiction over rates and charges for utility service, including tracking mechanisms. Therefore, 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 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. In Cause No. 44075, the Commission approved an adjustment to the OSS margin sharing mechanism, authorizing I&M to include $26.9 million in annual OSS margins in I&M's base rates and share the amount of OSS margins above or below that amount on a 50/50 basis with I&M's customers.

I&M further requests that, consistent with the Commission's Order in Cause No. 43306, I&M's 50% share of OSS margins above the amount embedded as a credit in customer's base rates and net of Financial Transmission Right ("FTR") revenues be excluded from the earning test in determining I&M's compliance with the provisions of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42.3

I&M's current OSS Rider factors were approved on December 19, 2012 in Cause No. 43775 OSS 3, and became effective the first billing cycle of January 2013. The OSS Rider factors were modified as a result of the 44075 Order and were effective February 28, 2013. I&M seeks to reconcile actual OSS margins for the period of July 1, 2012 through June 30, 2013 and also to reflect in billing factors its projection of OSS margins for calendar year 2014. I&M seeks to make the new OSS Rider factors effective with the first billing cycle for the month of January 2014.

4. **Evidence.**

A. **I&M's Case-in-Chief Evidence.** Mr. Krawec explained that per the Commission's Order in Cause No. 43306, I&M's revenue requirement used to establish basic rates included a credit of $37.5 million of OSS margins allocated to the Indiana retail jurisdiction. The OSS Rider as approved in Cause No. 43306 tracked OSS margins above $37.5 million to be shared 50% to customers and 50% to I&M during the period Cause No. 43306 base rates were in effect. The Commission's February 13, 2013 Order in Cause No. 44075 (the "44075 Order") modified I&M's OSS Rider. Per the 44075 Order, I&M's revenue requirement used to establish basic rates includes an annual credit of $26.9 million of OSS margins allocated to the Indiana retail jurisdiction. Mr. Krawec also stated that I&M modified the allocation of the margins to the various rate classes based on the production demand allocation factors approved in the 44075 Order.

Mr. Krawec testified I&M seeks to reconcile actual OSS margins for the period July 1, 2012 through June 30, 2013, and to reflect the 2014 forecast of OSS margins in its billing factors. Mr. Krawec explained that the reconciliation of the OSS Rider adjusts 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 residential OSS Rider factor was set at a credit of 0.0500 per ¢/kWh pursuant to the Commission's December 19, 2012 Order in Cause No. 43775 OSS 3. The Commission's December 19, 2012 Order included recovery of a $6.2 million regulatory asset. I&M's OSS Rider factor was modified as a result of the 44075 Order. For the period February 28, 2013 through June 30, 2013, I&M's OSS Rider residential factor was set at a credit of 0.1058 per ¢/kWh.

Mr. Krawec stated that the 2014 total company forecasted OSS margin is $79.3 million and the forecasted Indiana jurisdictional OSS margin is $50.4 million. The incremental OSS margin available for 50% sharing is $23.5 million after subtracting the $26.9 million included in basic rates.

Mr. Krawec explained the impact of I&M's share of OSS margins on the earnings test pursuant to Ind. Code ch. 8-1-2. Mr. Krawec stated that pursuant to the Commission's Order in Cause No. 43306, I&M's 50% share of OSS margins above the amount embedded as a credit in base rates and net of FTR revenues are excluded from the earnings test in determining I&M's compliance with the provisions of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42.3 for a period of four years. Mr. Krawec stated the four year time period authorized in Cause No. 43306 has elapsed. However, I&M's filing reflects the continuation of the earning test exclusion consistent with the Commission's Order in Cause No. 43306. I&M requests that the 50% share of OSS margins above the amount embedded as a credit in customer's base rates and net of FTR revenues continue to be 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.

Mr. Yoder testified that in accordance with the OSS Rider approved in Cause No. 43306 that was effective on 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 OSS rider revenue credits for future recovery or refund through the yearly true-up to actual. 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 during the period Cause No. 43306 base rates were in effect. Effective February 28, 2013 at noon, the Indiana jurisdiction base rate credit is $26.9 million as approved in the 44075 Order with a 50/50 sharing above $26.9 million annually. Annual OSS margins below $26.9 million annually are shared 50/50 down to zero.

Mr. Yoder further explained what is included in the OSS Rider. 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. Yoder sponsored Petitioner's Exhibit JMY-2, which is 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. Yoder explained that the list indicates the accounts that are included in the PJM Cost Rider, which are also included in the OSS Rider and the jurisdictional allocation basis. According to Mr. Yoder, the accounts included in the list that 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. Yoder also testified regarding the actual Indiana jurisdictional OSS margins for the period of July 1, 2012 through June 30, 2013. For that period, the Indiana jurisdictional OSS margins were $26,519,806 as shown on Petitioner's Exhibit JMY-1. Mr. Yoder stated the actual OSS Margin Sharing Rider revenues for the period July 1, 2012 through June 30, 2013 were $3,765,387 as shown on Petitioner's Exhibit JMY-1. Mr. Yoder further testified that the Indiana jurisdictional over-recovery balance of the OSS Rider as of June 30, 2013 was $1,204,962 for the OSS rider as shown on Petitioner's Exhibit JMY-1.

Mr. Mertz presented the forecast of I&M's OSS margins consistent with the Commission's Orders in Cause No. 43306 and 44075. Mr. Mertz stated that the methodology used to allocate forecasted OSS margins to I&M in this Cause is different from the methodology used in Cause No. 43775 OSS-3. Mr. Mertz explained that the AEP System Pool will terminate effective January 1, 2014, which is the beginning of the forecast period in this cause. Traditionally, I&M has received a Member Load Ratio ("MLR") share of OSS margins derived by the entire AEP System Pool. With the termination of the AEP System Pool, I&M will become predominately a stand-alone company optimizing its resource and load portfolio directly with PJM and receiving directly the associated net benefits. As testified to by Mr. Mertz, the projected OSS margins consist of the forecasted activity in the accounts identified as includable by Company witness Yoder in the OSS Margin Rider on Petitioner's Exhibit JMY-2.

Mr. Mertz testified in support of the projected January through December 2014, OSS margins. Mr. Mertz stated that the Total Company OSS margins, derived with the knowledge that the AEP System Pool will be terminated on January 1, 2014 and computed in a manner consistent with the Commission's Orders in Cause Nos. 43306 and 44075, are estimated to be $79.3 million, as shown in Petitioner's Exhibit SEM-1. Mr. Mertz also compared the projected 2014 OSS margins to current actual margins. The forecasted 2014 OSS margins are $38.4 million higher than the $40.9 million actually recorded for the twelve months ended June, 2013, as shown on Petitioner's Exhibit JMY-1. Mr. Mertz explained that this increase is driven by two factors: 1) a net increase related to several impacts resulting from the termination of the AEP System Pool Agreement on January 1, 2014, and 2) an expected increase in market prices over those experienced during the actual period. Mr. Mertz concluded that in his opinion the OSS margins that I&M has projected for the months of January through December, 2014, are reasonable.

Ms. Caudill supported 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. Consistent with the calculations performed in Cause Nos. 43306, 43775 and 44075, each component of the total I&M OSS margin 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 OSS margins.

This amount is then compared to the level of OSS margins included in basic rates in Cause No. 44075 of $26,900,000. To the extent that forecast Indiana retail jurisdictional OSS margins exceed $26,900,000, then 50% of the margins that exceed $26,900,000 will be included as a credit to customers in the OSS Rider. If, on the other hand, forecast Indiana retail jurisdictional OSS margins are less than $26,900,000, then no credit will be included in the OSS Rider.

Ms. Caudill 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 that were greater than the actual customer share of OSS margins, that under recovery would reduce the credit provided under the OSS Rider in the next year. Even though it is not 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 or if the OSS sales forecast indicated a shortfall.

Ms. Caudill testified that FTR revenues are not included in OSS margins. Rather, in accordance with the Settlement Agreement and Commission Order in Cause No. 43306, I&M compares 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 OSS Margin Sharing Rider calculation. For the time period of July 1, 2012, through June 30, 2013, LSE congestion costs exceeded total FTR revenues.

Ms. Caudill further testified how the proposed OSS Rider rates were calculated. Consistent with the formulas established for the OSS Rider in Cause No. 44075, I&M allocated the demand- and energy- related components as developed in Petitioner's Exhibit TAC-1 to the tariff classes based upon the approved production demand allocation factor developed using forecast 2014 billing energy. Once the amounts were allocated to each tariff class, an energy rate was calculated using the forecast 2014 billing energy for that class. This calculation is shown on Petitioner's Exhibit TAC-2.

Ms. Caudill prepared a comparison of current and proposed OSS Margin Sharing Rider rates. Petitioner's Exhibit TAC-3 summarizes projected 2014 billing under current OSS Rider rates and under proposed OSS Rider rates. Residential customers using 1,000 kWh of electricity per month would see a monthly rate decrease of $0.12 or 0.1%. Petitioner's Exhibit TAC-5 shows the percentage decreases at various "typical" usage levels for I&M's major tariff schedules.

B. <u>OUCC's Case-in-Chief.</u> Ms. Gruca explained that I&M's OSS Rider, established in Cause No. 43306, has been modified as a result of the 44075 Order. In Cause No. 43306, the Commission authorized I&M's OSS Rider and I&M's revenue requirement to establish rates include an annual Indiana retail jurisdictional credit of $37.5 million. Annual OSS margins above $37.5 million were required to be shared 50/50 between I&M and its Indiana customers during the period Cause No. 43306 rates were in effect. Per Ms. Gruca, the Commission modified I&M's revenue requirement used to establish base rates to include an annual Indiana retail jurisdictional credit of $26.9 million and annual OSS margins are now required to be shared 50/50 above and below, down to zero, the annual base rate credit of $26.9 million. Ms. Gruca testified that the OSS margins reconciliation for the period July 2012 through June 2013 provides for (1) annual base rate amount approved in Cause No. 43306 of $37.5 million adjusted to $25.0 million for the 8 months (July 2012 through February 2013) Cause No. 43306 rates were in effect; and (2) the annual base rate amount modified in the 44075 Order of $26.9 million adjusted to approximately $8.967 million for the four months, March 2013 through June 2013, Cause No. 44075 rates were in effect.

Ms. Gruca testified that I&M did not achieve the OSS Margin base rate amount of $37.5 million approved in Cause No. 43306, for the 8 month period of July 2012 through February 2013. For the period July 2012, through February 2013, Petitioner achieved Indiana jurisdiction OSS Margins of $20,011,119. The adjusted annual base rate amount of $25.0 million was subtracted from the actual amount for a total variance below the base level of $4,988,881. OSS margins did not exceed the adjusted base level of $25.0 million and therefore 50/50 sharing does not apply. Ms. Gruca testified for the four month period of March 2013 through June 2013, I&M did not achieve the OSS margin base rate amount of $8,966,667. For this four month period, I&M achieved OSS margins of $6,508,687. The adjusted annual base rate amount of $8,966,667 was subtracted from the actual amount for a total variance below the base level of $2,457,980. Per the 44075 Order, 50/50 sharing applies to OSS margins above and below, down to zero, the base level of $8,966,667 and therefore 50/50 sharing applies. The customers' portion of the OSS margins below the base rate amount is a charge of $1,228,990.

Ms. Gruca stated that Petitioner provided work papers showing the calculation of the actual OSS Margins for the 12 month period of July 2012, through June 2013, as well as supporting documentation for the calculation of the OSS margin under-recovery, or charge to customers of $1,228,990.

Ms. Gruca explained that Petitioner estimated total I&M OSS Margins for the period of January through December 2014, to be $79,344,563. When applying the jurisdictional allocation factors, the Indiana jurisdictional amount is estimated to be $50,372,933. She further explained that when subtracting the OSS Margin base rate amount of $26,900,000, the incremental OSS Margins projected results in a credit of $23,472,933. The projected customer share estimate results in $11,736,467. Ms. Gruca testified that I&M's methodology to allocate forecasted OSS margins in OSS-4 is different from the methodology used in OSS-3 due to the termination of the AEP System Pool effective January 1, 2014. Ms. Gruca noted that the net impact of anticipated changes in I&M's operations as a result of the AEP System Pool termination results in a positive contribution toward 2014 OSS Margins, and is a key factor in the resulting increase in OSS Margins projected in 2014. Ms. Gruca stated I&M's calculation of the OSS Margin variance, which reconciles the actual OSS Margins booked and the OSS Margin Sharing Rider Revenue was supported by I&M's prefiled testimony, exhibits and supporting workpapers. Ms. Gruca stated she reviewed these materials and was able to use workpapers and supporting documentation to verify I&M's exhibits that illustrate the under/over recovery of the OSS margin variance for July 2012 through June 2013. I&M's calculated OSS Margin under/over recovery for July 2012 through June 2013, is an over-recovery or credit to customers of $1,204,962.

Ms. Gruca further testified that Petitioner only recorded a cumulative over-recovery balance of $1,189,634 for the OSS Margin Sharing Rider on its balance sheet as of June 30, 2013. The difference of $15,328 between the amount included in the general ledger and the balance calculated and included on Petitioner's Exhibit JMY-1, was due to a small error in the recording of monthly balances and in calculations reflecting the reclassification of certain accounts. An adjustment was made in August 2013 to correct this difference. Ms. Gruca testified that it is her understanding that this adjustment will be reflected in I&M's OSS-5, at which time the July 2013 through June 2014 period is reconciled.

Ms. Gruca testified that the impact of the change in the OSS Margin Sharing Rider factor on a typical residential customer's bill using 1,000 kWh per month results in a decrease of approximately $0.000124 per kWh, or approximately $0.12 per month.

Ms. Gruca stated that FTR revenues were not included as part of the OSS Margin Sharing Rider calculation for the actual period of July 2012 through June 2013, nor were FTR revenues included in the forecast period of January through December 2014. She stated that I&M appropriately excluded net FTR revenues from the OSS Margin Sharing Rider Calculation.

Ms. Gruca testified regarding I&M's request to continue to exclude from the earnings test I&M's 50% share of OSS Margins above the amount embedded as a credit in customers' base rates, net of FTR revenues. Ms. Gruca stated that I&M's filing in this cause continued this practice as approved in Cause No. 43306. Ms. Gruca stated that the OUCC does not oppose I&M's request to continue to exclude I&M's 50% share of OSS Margins above the amount embedded as a credit in customers' base rates and net of FTR revenues from the earnings test up until the time of I&M's next base rate case or revisit this issue before that time.

Ms. Gruca testified that the OUCC recommends that the Commission approve Petitioner's requested OSS Margin factors.

5. **Commission Discussion and Findings.** The evidence 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 during the time those base rates were in effect. As a fixed component of 43306 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 44075 Order revenue requirement used to establish current basic rates includes a credit of $26.9 million of OSS margins allocated to the Indiana retail jurisdiction The Commission authorized I&M to continue to share the amount of OSS margins above the $26.9 million embedded amount on a 50/50 basis with I&M's customers and further authorized I&M to share any amount of OSS sales shortfall below the $26.9 million on a 50/50 basis with customers down to zero.

The total I&M OSS margins computed consistent with the Commission's Orders in Cause Nos. 43306 and 44075 for the forecast period of January through December 2014 are shown in Petitioner's Exhibit SEM-1. When the appropriate jurisdictional allocation factors are applied, the Indiana retail jurisdictional portion of forecasted OSS margins totals $50,372,933 as shown on Petitioner's Exhibit TAC-1. As shown on Petitioner's Exhibit JMY-1, for the period July 1, 2012 through June 30, 2013, Petitioner has an over-recovery balance of $1,204,962 for the OSS Margin Sharing Rider, which Petitioner has recorded as a regulatory liability.

In accordance with the Commission's Orders in Cause Nos. 43306 and 44075, Petitioner has compared total FTR revenues to LSE congestion costs for both the actual and forecast periods. As shown in Petitioner's Exhibit TAC-1, total LSE congestion costs exceeded FTR revenues for the July 1, 2012 through June 30, 2013 period. Therefore, the FTR revenues were not included as part of the OSS Margin Sharing Rider calculation.

Petitioner's Exhibit TAC-1 demonstrates that a total amount of $12,941,429 in OSS margins should be credited through the OSS Rider. As shown on Petitioner's Exhibit TAC-3, this results in a credit increase of $1,360,732 from current OSS Rider levels. In accordance with the methodology approved by the Commission in Cause Nos. 43306, 43775 and 44075, 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 2014 or thereafter until modified by the Commission. Witness Caudill sponsored Petitioner's Exhibit TAC-4, which sets forth the proposed OSS Rider factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	-0.1182
GS, GS-TOD and GS-TOD2	-0.0968
LGS and LGS-TOD	-0.0863
IP, CS-IRP and CS-IRP2	-0.0754
MS	-0.0930
WSS	-0.0712
IS	-0.0850
EHG	-0.1090
OL	-0.0408
SLS, ECLS, SLC, SLCM and FW-SL	-0.0372

I&M has requested that its share of OSS margins and net FTR revenues under the OSS margins sharing mechanism be excluded from the earnings test in determining I&M's compliance with the provisions of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42.3. I&M and the OUCC generally agree that this practice should continue as approved in Cause No. 43306. We approve the continuation of excluding I&M's share of OSS margins and net FTR revenues from the earnings test in determining I&M's compliance with the provisions of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42.3 unless it is changed during I&M's next rate case, or until otherwise ordered by the Commission. Any change to the treatment of OSS margins for purposes of the earnings test shall operate prospectively.

6. <u>Effect on Customers</u>. The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of $0.12 or 0.1 % on his or her electric bill for the period of January through December 2014.

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

1. Indiana Michigan Power Company 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 2014, 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 TAC-4.

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

ATTERHOLT, MAYS, AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: DEC 30 2013

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission