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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 NEW OFF-SYSTEM SALES MARGIN SHARING RIDER ADJUSTMENT FACTORS APPLICABLE FOR THE BILLING MONTHS OF JANUARY THROUGH DECEMBER 2015	)	**CAUSE NO. 43775 OSS 5**
		APPROVED: 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 ("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 Factors to be applicable during the January through December 2015 billing months. Also on August 29, 2014, I&M prefiled the testimony, attachments, and supporting workpapers of Andrew J. Williamson, 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 Robert E. Yontz, Senior Regulatory Consultant in Regulated Pricing and Analysis for AEPSC.

On November 7, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Stacie R. Gruca, Senior 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.** Due, legal, and timely notice of the public 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 I&M's rates and charges for utility service, including its Off-System Sales Margin Sharing Rider ("OSS Rider"). 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 the 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 Rider 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's current OSS Rider factors were approved in the Commission's December 30, 2013 Order in Cause No. 43774 OSS 4 ("OSS 4 Order"), and became effective the first billing cycle of January 2014. I&M seeks to reconcile actual OSS margins for the period of July 1, 2013, through June 30, 2014, and also to reflect in billing factors its projection of OSS margins for calendar year 2015. I&M seeks to make the new OSS Rider factors effective with the first billing cycle for the month of January 2015.

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 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.

4. Evidence.

A. I&M's Case-in-Chief. Mr. Williamson explained that per the Commission's Order in Cause No. 44075, I&M's revenue requirement used to establish basic rates included a credit of $26.9 million of OSS margins allocated to the Indiana retail jurisdiction. The OSS Rider tracks margins to be shared on a 50/50 basis above and below $26.9 million, down to zero. Mr. Williamson also stated that I&M allocates the margins to the various rate classes based on the production demand allocation factors approved in the Order issued in Cause No. 44075.

Mr. Williamson testified I&M seeks to reconcile actual OSS margins for the period July 1, 2013, through June 30, 2014, and to reflect the 2015 forecast of OSS margins in its billing factors. Mr. Williamson 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 reconciliation period.

Mr. Williamson testified that I&M's residential OSS Rider factor was set at a credit of 0.1182¢/kWh pursuant to the OSS 4 Order. The OSS 4 Order included recovery of a $1.2 million regulatory liability.

Mr. Williamson stated that the 2015 total company forecasted OSS margin is $38.8 million and the forecasted Indiana jurisdictional OSS margin is $24.7 million. The incremental OSS margin available for 50% sharing is -$2.2 million after subtracting the $26.9 million included in basic rates from the forecasted $24.7 million.

Mr. Williamson explained the impact of I&M's share of OSS margins on the earnings test

pursuant to Ind. Code ch. 8-1-2. Mr. Williamson 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 unless it is changed during I&M's next rate case, or until otherwise ordered by the Commission.

Mr. Yoder 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. 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 $26.9 million as approved in Cause No. 44075 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 American Electric Power Company, Inc., Petitioner's parent company. Mr. Yoder sponsored attachment 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[1] or the OSS Rider are used in the determination of I&M's Indiana base rates or other rider rates.

Mr. Yoder also testified regarding the actual Indiana jurisdictional OSS margins for the period of July 1, 2013, through June 30, 2014. For that period, the Indiana jurisdictional OSS margins were $98,035,471 as shown on Petitioner's Ex. 2, Attached Ex. JMY-1. Mr. Yoder stated the actual OSS Rider revenues for the period July 1, 2013, through June 30, 2014, were $12,139,843 as shown on Petitioner's Ex. 2, Attached Ex. JMY-1. Mr. Yoder further testified that the Indiana jurisdictional over-recovery balance of the OSS Rider as of June 30, 2014, including prior period adjustments, was $24,511,068 for the OSS Rider as shown on Petitioner's Ex. 2, Attached Ex. JMY-1.

Mr. Mertz presented the forecast of I&M's OSS margins consistent with the Commission's Orders in Cause Nos. 43306 and 44075. Mr. Mertz stated the projected OSS margins consist of the forecasted activity in the accounts identified as includable by Mr. Yoder in the OSS Rider on Petitioner's Ex. 2, Attached Ex. JMY-2.

Mr. Mertz testified in support of the projected January through December 2015 OSS margins. Mr. Mertz stated that the total company OSS margins, computed in a manner consistent with the Commission's Orders in Cause Nos. 43306 and 44075, are estimated to be $38.8 million, as shown in Petitioner's Ex. 3, Attached Ex. SEM-1. Mr. Mertz also compared the projected 2015 OSS margins to current actual margins. The forecasted 2015 OSS margins are $115.7 million lower than the $154.5 million, excluding prior period adjustments, actually recorded for the 12 months

[1] The PJM Cost Rider tracks recovery from Petitioner's electric customers certain costs and revenues related to Petitioner's membership in PJM Interconnection, L.L.C. in separately docketed proceeding before the Commission.

ended June 30, 2014, as shown on Petitioner's Ex. 2, Attached Ex. JMY-1. Mr. Mertz explained that this decrease is driven by a projected decrease in OSS volume, lower expected market prices, and a decrease in the projected OSS legacy trading margins related to the termination of the AEP System Pool Agreement on January 1, 2014. Mr. Mertz concluded that in his opinion the OSS margins that I&M has projected for the months of January through December, 2015 are reasonable.

Mr. Yontz 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. In the alternative, 50% of any OSS margins below $26,900,000 will also be charged to customers up to $13,450,000.

Mr. Yontz 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 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. Mr. Yontz 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 Rider calculation. For the time period of July 1, 2013, through June 30, 2014, LSE congestion costs exceeded total FTR revenues.

Mr. Yontz 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 Ex. 4, Attached Ex. REY-1 to the tariff classes based upon the approved production demand allocation factor 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. This calculation is shown on Petitioner's Ex. 4, Attached Ex. REY-2.

Mr. Yontz prepared a comparison of current and proposed OSS Rider rates. Petitioner's Ex. 4, Attached Ex. REY-3 summarizes projected 2015 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 $1.03, or 1.0%. Petitioner's Ex. 4, Attached Ex. REY-5 shows the percentage decreases at various typical usage levels for I&M's major tariff schedules.

B. OUCC's Case-in-Chief. Ms. Gruca stated that nothing came to her attention during the review that would indicate that the projections used by Petitioner for OSS margins were unreasonable. Ms. Gruca stated that FTR revenues were not included as part of the OSS Rider calculation for the actual period of July 2013 through June 2014, nor were FTR revenues included in the forecast period of January through December 2015. She stated that I&M excluded net FTR revenues from the OSS Rider calculation consistent with the Commission's Orders in Cause Nos. 43306 and 44075.

Ms. Gruca testified that I&M's filing in this Cause continued the practice of excluding from the earnings test I&M's 50% share of OSS margins above the amount embedded as a credit in customers' basic rates as approved in the Commission's Order in Cause No. 43306 and the OSS 4 Order. Ms. Gruca testified that the OUCC recommends that the Commission approve Petitioner's requested OSS Rider factors.

5. Commission Discussion and Findings. The evidence supports the conclusion that I&M's requested OSS Rider factors were properly calculated and are thus approved. I&M's revenue requirement used to establish current base 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 2015 are shown in Petitioner's Ex. 3, Attached Ex. SEM-1. When the appropriate jurisdictional allocation factors are applied, the Indiana retail jurisdictional portion of forecasted OSS margins totals $24,654,244 as shown on Petitioner's Ex. 4, Attached Ex. REY-1. As shown on Petitioner's Ex. 2, Attached Ex. JMY-1, for the period July 1, 2013, through June 30, 2014, Petitioner has an over-recovery balance of $24,511,068 for the OSS 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 Ex. 4, Attached Ex. REY-1, total LSE congestion costs exceeded FTR revenues for the July 1, 2013 through June 30, 2014 period. Therefore, the FTR revenues were not included as part of the OSS Rider calculation.

Petitioner's Ex. 4, Attached Ex. REY-1 demonstrates that a total amount of $23,388,190 in OSS margins should be credited through the OSS Rider. As shown on Petitioner's Ex. 4, Attached Ex. REY-3, this results in a credit increase of $10,897,666 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 2015 or thereafter until modified by the Commission. Mr. Yontz sponsored Petitioner's Ex. 4, Attached Ex. REY-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	-0.2214
GS, GS-TOD and GS-TOD2	-0.1811
LGS and LGS-TOD	-0.1614
IP, CS-IRP and CS-IRP2	-0.1413
MS	-0.1741
WSS	-0.1331
IS	-0.1591
EHG	-0.2039
OL	-0.0762
SLS, ECLS, SLC, SLCM and FW-SL	-0.0695

Consistent with the Commission's Order in Cause No. 43306 and the OSS 4 Order, I&M's 50% share of OSS margins above the amount imbedded as a credit in customers' 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.

6. **Effect on Customers.** The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of $1.03, or 1.0%, on his or her electric bill for the period of January through December 2015.

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

1. Petitioner is authorized to implement its requested OSS Rider factors.

2. Petitioner shall place into effect the OSS Rider factors approved herein, applicable to bills rendered beginning with the later of the first billing cycle for the billing month of January 2015, or upon filing with the Electricity Division of this Commission, Tariff Sheet No. 40 consistent with the findings set forth herein and as shown in Petitioner's Ex. 4, Attached Ex. REY-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

Brenda A. Howe
Secretary to the Commission