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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED PETITION OF)
INDIANA MICHIGAN POWER COMPANY FOR)
APPROVAL OF AN ADJUSTMENT TO ITS RATES)
THROUGH ITS ENVIRONMENTAL COMPLIANCE)
COST RIDER ADJUSTMENT COMMENCING WITH)
THE BILLING MONTH OF APRIL 2015 PURSUANT)
TO THE COMMISSION’S ORDERS IN CAUSE NOS.)
43306, 43856 AND 44075.)

CAUSE NO. 43992 ECCR 4

APPROVED:

MAR 18 2015

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On January 30, 2015, Indiana Michigan Power Company (“I&M” or “Petitioner”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Verified Petition for an Environmental Compliance Cost Rider (“ECCR”) Adjustment to be effective with the first billing cycle for the billing month of April 2015 or the first full billing month following a Commission Order, pursuant to the Commission’s Orders in Cause Nos. 43306, 43856, and 44075.

On January 30, 2015, Petitioner also filed the testimony and attachments of Christopher M. Halsey, Petitioner’s Regulatory Consultant Principal and Todd A. March, Principal RTO Operations Support Analyst for American Electric Power Service Corporation. In addition, on January 30, 2015, I&M submitted supporting workpapers. On February 18, 2015, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Cynthia M. Armstrong, Senior Utility Analyst in the Electric Division of the OUCC.

The Commission held a public hearing in this Cause on March 12, 2015 at 10:00 a.m. 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 prefiled testimony and attachments, which were admitted into evidence without objection.

Based upon applicable law and evidence presented, the Commission finds:

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 as that term is defined in Ind. Code § 8-1-2-1 and is subject to the Commission’s jurisdiction for rates and charges under Ind. Code § 8-1-2-42. Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** I&M is a wholly-owned subsidiary of the American Electric Power Company, Inc. ("AEP") and 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 Indiana Michigan Power Center, 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. **Background.** In Cause No. 43306, I&M proposed, among other things, an ECCR to track net emission allowance costs for purposes of seeking cost recovery via retail rates on a periodic basis. In its March 4, 2009 Order in Cause No. 43306, the Commission approved the ECCR as set forth in the Settlement Agreement in that Cause. In I&M's last base rate case, Cause No. 44075, the Commission's February 13, 2013 Order approved the continued utilization of the ECCR. I&M's current ECCR factor was established pursuant to the Commission's May 21, 2014 Order in Cause No. 43992 ECCR 3.

4. **Relief Requested.** I&M seeks Commission approval for an ECCR Adjustment factor commencing with the billing month of April 2015 or the first full billing month following a Commission Order. This filing includes the reconciliation of actual costs for December 1, 2013 through November 30, 2014 (the "Reconciliation Period") and a projection of emission allowance costs for the period of April 1, 2015 through March 31, 2016 (the "Forecast Period").

5. **I&M's Evidence.** Christopher M. Halsey provided a description of I&M's ECCR, supported the calculation of the revised ECCR factor, and sponsored I&M's standard audit packet.

Mr. Halsey testified the current ECCR was designed to recover approximately \$4.0 million of Indiana jurisdictional annual emission allowance costs. He explained the ECCR consists of two components: (1) a projection of emission allowance costs for the Forecast Period; and (2) the cumulative under-recovery of ECCR costs as of November 30, 2014, which includes the under-recovery of actual jurisdictional emission allowance costs to actual billing under the ECCR for the Reconciliation Period. Mr. Halsey stated that the reconciliation component of the ECCR adjusts for the difference between the amount recovered during the months in which the ECCR factor was in effect and the actual costs incurred during that time period.

Mr. Halsey stated that beginning on March 23, 2009, I&M has deferred monthly, as a regulatory asset, any under-recovery of ECCR costs and, as a regulatory liability, any over-recovery of ECCR costs for future recovery or refund, respectively, through the yearly true-up for the ECCR factor to actual results. He noted the under- or over-recovery is calculated by comparing revenues collected from the ECCR to actual environmental compliance costs. He further noted that if the ECCR revenues are less than the emission allowance costs, I&M records the under-recovery as a regulatory asset. If the ECCR revenues are greater than the emission allowance costs, I&M records the over-recovery as a regulatory liability.

Mr. Halsey testified that, for the Reconciliation Period, I&M over-recovered \$157,854 for the emission allowance costs. When this is netted with the \$392,414 under-recovery as of the

beginning of the current Reconciliation Period, I&M has a cumulative under-recovery of \$234,560 remaining at November 30, 2014. Pet.’s Exh. 1, Attachment CMH-1.

Mr. Halsey described how the ECCR factor was calculated. First, the forecast component is increased by the reconciliation component. The net amount is then divided by the projected billing energy to arrive at an ECCR rate per kilowatt hour (“kWh”). Petitioner’s Exhibit 1, Attachment CMH-3 provides the ECCR factor calculation as follows:

Projected Costs - April 1, 2015 to March 31, 2016	\$903,283
(Over)/Under Recovery Balance as of November 30, 2014	\$234,560
Total Costs	\$1,137,843
Projected Billing Energy (kWh)	13,065,625,783
Per kWh Rate	\$0.000087

As reflected on Petitioner’s Exhibit 1, Attachment CMH-4, the factor decrease will result in annual ECCR revenues of approximately \$1.1 million, or a decrease of approximately \$3.0 million from current levels. I&M is requesting to implement a decrease in the ECCR factor and upon implementation of the new ECCR factor, as reflected on Petitioner’s Exhibit 1, Attachment CMH-6, a residential customer using 1,000 kWh of electricity per month would experience a monthly rate decrease of \$0.23 or 0.2%.

Todd A. March supported the forecast of expenses to be included in the ECCR set forth in Petitioner’s Exhibit 2, Attachment TAM-1. Mr. March stated that the forecasted components of the ECCR include the amount of allowance consumption expense and gains and losses on the sale of emission allowances. Mr. March’s forecast provides both total I&M and Indiana jurisdictional calculations. Mr. March testified that the forecast allowance consumption expenses have been projected based upon the same forecast methodology used in I&M’s fuel adjustment clause proceedings, which has previously been found to be reasonable.

Mr. March stated that the forecast reflects that I&M is subject to both a seasonal nitrogen oxide (“NO_x”) requirement and an annual NO_x requirement, in addition to two annual sulfur dioxide (“SO₂”) allowance programs. Mr. March described the impact of the Environmental Protection Agency’s (“EPA”) Cross State Air Pollution Rule (“CSAPR”) on the forecast in this ECCR proceeding. Effective January 1, 2015, when CSAPR replaced the Clean Air Interstate Rule (“CAIR”), new CSAPR allowances were created for these new programs replacing CAIR allowances. The forecast of SO₂ allowance expense under CSAPR is generated by the requirement that I&M remit to the EPA one CSAPR Group 1 SO₂ allowance and one Title IV allowance for each ton of SO₂ emissions. This is a change from the CAIR SO₂ requirement that utilized only Title IV allowances and where two SO₂ allowances were remitted for each ton of emissions in 2014. Mr. March testified that I&M is expected to have sufficient Title IV and CSAPR SO₂ allowances for consumption in the Forecast Period. I&M is also expected to have sufficient CSAPR Annual NO_x and Seasonal NO_x allowances for consumption in the Forecast Period.

Regarding I&M’s calculation of allowance consumption expense, Mr. March stated I&M expenses allowances based on the weighted average inventory (“WAI”) price of allowances held

in current inventory. The WAI price is the total dollar balance of current inventory divided by the number of allowances held. For SO₂, the inventory balance includes zero cost allowances received from the EPA, allowances purchased from affiliates through the Interim Allowance Agreement (“IAA”), and allowances purchased from non-affiliates. For CSAPR NO_x, and SO₂ allowances the inventory is composed of zero cost allowances received from the EPA and purchased allowances. Mr. March testified that the IAA was terminated on December 31, 2013 in conjunction with the termination of the AEP System Power Pool on the same date and I&M no longer participates in the sale or purchase of allowances with affiliates.

Mr. March further testified that I&M’s forecasted consumption expense for the year ending March 2015 is expected to be lower than its actual consumption expense for the year ended November 30, 2014 by approximately \$4.0 million on an Indiana jurisdictional basis. He stated this decrease can be attributed to fewer environmental emissions, a change in the consumption ratio from 2:1 to 1:1, and a projected decrease in the weighted average price of SO₂ allowances.

Mr. March concluded that I&M’s forecast of allowance consumption costs, net of gains or losses on the sales of allowances, for the year ending March 2016 is fair and reasonable.

6. OUCC’s Evidence. Cynthia M. Armstrong testified in support of I&M’s reconciliation and calculation of the ECCR rate. She recommended approval of I&M’s proposed ECCR factor.

7. Commission Findings. Based on the evidence presented, the Commission finds that I&M’s request is reasonable and should be approved. As shown in Petitioner’s Exhibit 1, Attachment CMH-3, the Indiana retail jurisdictional portion of forecast ECCR costs of \$903,283 plus the under-recovery of \$234,560, results in a total amount of \$1,137,843 in ECCR costs to be recovered through the ECCR. As shown on Petitioner’s Exhibit 1, Attachment CMH-4, this amounts to a decrease of approximately \$3.0 million from current ECCR levels. In accordance with the methodology approved by the Commission in Cause No. 43306, we find Petitioner should be authorized to apply its requested ECCR Adjustment factor to its Indiana retail tariffs and I&M’s proposed ECCR factor of \$0.000087 as shown on Petitioner’s Exhibit 1, Attachment CMH-5 is approved.

8. Effect on Customers. The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of \$0.23 or 0.2% on his or her electric bill effective the first full billing cycle following this Order as shown on Petitioner’s Exhibit 1, Attachment CMH-6.

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

1. I&M is authorized to implement its requested ECCR factor.
2. I&M shall file with the Electricity Division of the Commission, prior to placing in effect the ECCR Adjustment factor herein approved, an amendment to its tariff reflecting the approved ECCR rate adjustment as shown in Petitioner’s Exhibit 1, Attachment CMH-5.

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

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER AND ZIEGNER CONCUR:

APPROVED:

MAR 18 2015

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



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