

ORIGINAL

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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 COMMENCING WITH THE BILLING)
MONTH OF APRIL 2013 PURSUANT TO THE)
COMMISSION'S ORDER IN CAUSE NO. 43306)
AND 43856)

CAUSE NO. 43992 ECCR 2

APPROVED: APR 24 2013

ORDER OF THE COMMISSION

Presiding Officers:

Kari A. E. Bennett, Commissioner

Lorraine L. Seyfried, Administrative Law Judge

On January 31, 2013, 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 2013 or the first full billing month following a Commission Order, pursuant to the Commission's Orders in Cause Nos. 43306 and 43856.

On January 31, 2013, Petitioner also filed the testimony and exhibits of Scott M. Krawec, Petitioner's Director of Regulatory Services and Brian D. Hamborg, Staff Financial Analyst Coordinator for American Electric Power Service Corporation ("AEPSC"). In addition, on January 31, 2013, I&M submitted supporting workpapers. On February 28, 2013, I&M filed the supplemental testimony and exhibits of Scott M. Krawec. On March 19, 2013, 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. On April 3, 2013, I&M filed its rebuttal testimony and exhibits of Timothy M. Dooley.

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 April 11, 2013 at 1:30 p.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, 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 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 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 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, 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 Environmental Compliance Cost Rider to track net emission allowance costs. 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.¹ Under the ECCR, I&M tracks net emission allowances for purposes of seeking cost recovery via retail rates on an annual basis. The initial ECCR factor was established pursuant to the Commission's March 4, 2009 Order in Cause No. 43306. I&M's current ECCR factor was established pursuant to the Commission's May 23, 2012 Order in Cause Nos. 43992 S1 and 43992 ECCR 1.

4. **Relief Requested.** In its Verified Petition, I&M seeks Commission approval for an ECCR Adjustment commencing with the billing month of April 2013 or the first full billing month following a Commission Order. This is I&M's fourth annual ECCR Adjustment petition and includes the reconciliation of actual costs for December 1, 2011 through November 30, 2012 and a projection of emission allowance costs for a forecast period of April 1, 2013 through March 31, 2014.

5. **I&M's Evidence.** I&M witness Scott Krawec, Director of Regulatory Services for I&M, testified that I&M's ECCR results from the Settlement Agreement and final Order in Cause No. 43306 wherein the Commission authorized I&M to establish an ECCR to track costs comprised of allowance consumption expense and net gains or losses on the disposition of allowances. Total company emission allowances are then jurisdictionalized to Indiana based upon the energy allocator. Pet. Ex. SMK at 4. Mr. Krawec testified that I&M's filing in this matter incorporates the additional conditions set forth and approved in the Order and Settlement Agreement in Cause Nos. 43992-S1 and 43992 ECCR 1. Specifically, I&M's filing reflects the agreement related to the NO_x allowances purchased by I&M from Buckeye Power and the agreement related to the surrender of emission allowances (SO₂ and NO_x) in accordance with the New Source Review ("NSR") Consent Decree. *Id.*

¹ 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.

Mr. Krawec testified the current ECCR was designed to recover approximately \$5.7 million of Indiana jurisdictional annual emission allowance costs. *Id.* at 5; *see also* Pet. Revised Ex. SMK-4. He explained the ECCR consists of two components: (1) a projection of emission allowance costs for the forecast period; and (2) cumulative over-recovery of ECCR costs as of November 30, 2012, which includes the under-recovery of actual jurisdictional emission allowance costs to actual billing under the ECCR for the reconciliation period December 1, 2011 through November 30, 2012. *Id.* Mr. Krawec 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. *Id.*

Mr. Krawec stated that beginning 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. *Id.* at 6. The under or over-recovery is calculated by comparing revenues collected from the ECCR to actual environmental compliance costs. 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. *Id.*

Mr. Krawec testified that for the reconciliation period, December 1, 2011 through November 30, 2012, I&M under-recovered \$726,751 for the emission allowance costs. *Id.* at 6; *see also* Pet. Ex. SMK-1. When this is netted with the \$1,823,260 over-recovery as of the beginning of the current reconciliation period, I&M has a cumulative over-recovery of \$1,096,509 remaining at November 30, 2012. *Id.* at 7.

Mr. Krawec described how the ECCR factor was calculated. First, the forecast component is reduced by the reconciliation component. The net amount is then divided by the projected energy to arrive at an ECCR rate per kWh. Mr. Krawec's supplemental testimony provides the ECCR factor calculation, updated to incorporate the jurisdictional energy allocation factor approved in Cause No. 44075. Pet. Ex. SMK-S. Petitioner's Revised Exhibit SMK-3 provides the ECCR factor calculation as follows:

Projected - April 1, 2013 to March 31, 2014	\$7,266,198
(Over)/Under-Recovery Balance as of November 30, 2012	(1,096,509)
Total Costs	\$6,169,690
Projected Billing Energy	13,139,073,961
Per kWh Rate	\$0.000470

As reflected on Petitioner's Revised Exhibit SMK-4, the factor increase will result in annual ECCR revenues of approximately \$6,181,642, or an increase of \$539,250 from current levels. I&M is requesting to implement an increase in the ECCR factor and upon implementation of the new ECCR factor, as reflected on Petitioner's Revised Exhibit SMK-6,

a residential customer using 1,000 kWh of electricity per month would experience a monthly rate increase of \$0.04.

Last, Mr. Krawec testified that I&M has developed a standard audit packet and identified the exhibits and workpapers supporting the calculation of I&M's ECCR costs. He further noted that I&M included the additional information requested by the OUCC pursuant to the Commission's June 23, 2010 Order in Cause No. 43856. Pet. Ex. SMK at 8-9.

I&M witness Brian D. Hamborg, Staff Financial Analyst Coordinator for AEPSC, testified in support of the forecast of expenses to be included in the ECCR. Pet. Ex. BDH at 1; *see also* Pet. Revised Ex. BDH-1. Mr. Hamborg testified that the forecast period for this ECCR proceeding is April 2013 through March 2014. *Id.* at 2. Mr. Hamborg stated that he has provided the forecasted information to determine the amount of allowance consumption expense and gains and losses on the sale of emission allowances to be included in ECCR. *Id.* at 3. Mr. Hamborg's forecast provides both total I&M and Indiana jurisdictional calculations. Mr. Hamborg 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. *Id.* at 3-4.

Mr. Hamborg stated that the forecast reflects that I&M is subject to both a seasonal NO_x requirement and an annual NO_x requirement. The annual requirement began January 1, 2009 as a result of the Clean Air Interstate Rule ("CAIR"). In addition, the forecast of SO₂ allowance expense factors in the requirement under CAIR requires I&M to remit to the U.S. Environmental Protection Agency ("EPA") two 2010 and later vintage allowances for each ton of SO₂ emissions. For 2009 or earlier vintage allowances, the requirement is for one SO₂ allowance to be remitted for each ton of emissions. Mr. Hamborg testified that for the forecasted period of this filing, I&M is assumed to have exhausted its one for one allowances leaving only the two for one allowances. *Id.* at 4.

Regarding I&M's calculation of allowance consumption expense, Mr. Hamborg stated that 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 (approved by the Federal Energy Regulatory Commission), and allowances purchased from non-affiliates. For NO_x, the inventory is composed of zero cost allowances received from the EPA and purchased allowances. *Id.*

Mr. Hamborg further testified that I&M's forecasted consumption expense for the year ending March 2014 is expected to be lower than its actual consumption expense for the year ended November 30, 2012 by \$5 million. He stated this difference is mostly due to a \$5 million projected decrease in the weighted average price of SO₂ allowances. *Id.* at 5.

Mr. Hamborg 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 2014, is fair and reasonable. *Id.*

6. **OUCC's Evidence.** OUCC witness Cynthia M. Armstrong, Senior Utility Analyst, expressed a concern the OUCC had regarding I&M's ECCR calculation. OUCC Ex. 1 at 4. Ms. Armstrong testified that it appeared that I&M included more than 20% of the costs associated with the surrender of emission allowances pursuant to AEP's NSR Consent Decree. Ms. Armstrong stated that according to Term No. 6 of the Settlement Agreement between I&M and the OUCC approved by the Commission in Cause Nos. 43992 S1 and ECCR 1, I&M is to only include 20% of the Indiana jurisdictional share of I&M's costs of emission allowances surrendered as a result of the NSR Consent Decree. Ms. Armstrong noted that according to pages 5 and 6 of the Standard Audit Package, I&M surrendered allowances pursuant to the Consent Decree amounting to \$94,094. *Id.* Twenty percent of these costs would equal \$18,819, but I&M included \$24,061 in 2011 allowance surrender costs in calculating its factor. *Id.* Ms. Armstrong noted she did not find any other errors in I&M's calculation of the ECCR rate. *Id.* at 5.

7. **I&M's Rebuttal Evidence.** I&M witness Timothy M. Dooley, Director of Energy Accounting for AEPSC, responded to the OUCC's testimony. Mr. Dooley explained the difference in the allowance surrender calculation and informed the Commission that I&M and the OUCC have resolved the allowance surrender calculation. Pet. Ex. TMD-R at 2. Mr. Dooley testified that on March 28, 2013, I&M and the OUCC discussed that the 20% of 2011 allowance surrender cost can be reconciled with the information provided in Audit Package Item 2. *Id.* at 3; *see also* Pet. Ex. TMD-R1. Mr. Dooley explained the \$5,242 difference OUCC witness Armstrong raised a concern about is an offsetting credit (reduction to expense) for April 2012. Mr. Dooley testified that the parties further discussed that the 2011 surrender was recorded in December 2011 as an estimate and additionally in April 2012 as a true-up to actual. *Id.* Mr. Dooley stated that the OUCC and I&M are in agreement that the ECCR factor for the relevant period is \$0.000470. *Id.* at 4. Last, Ms. Armstrong provided an affidavit indicating her agreement with Mr. Dooley's testimony and that the OUCC and I&M were able to clear up any misunderstanding. *Id.*

8. **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 Revised Exhibit SMK-3, the Indiana retail jurisdictional portion of forecast ECCR costs of \$7,266,198 plus the over-recovery of \$1,096,509, results in a total amount of \$6,169,690 in ECCR costs to be recovered through the ECCR. 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. Based upon the evidence of record the Commission approves I&M's proposed ECCR Adjustment factor of \$0.000470 as shown on Petitioner's Revised Exhibit SMK-5.

9. **Effect on Customers.** The average residential customer using 1,000 kWh per month will experience a monthly rate increase of \$0.04 on his or her electric bill effective the first full billing cycle following this Order as shown on Petitioner's Revised Exhibit SMK-6.

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

1. I&M is authorized to implement its requested ECCR Adjustment 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.
3. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: APR 24 2013

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



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