

**ORIGINAL**



STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN )  
POWER COMPANY (“I&M”), AN INDIANA )  
CORPORATION, REQUESTING: (1) )  
COMMISSION APPROVAL OF I&M’S ONGOING )  
REVIEW PROGRESS REPORT RELATING TO )  
THE LIFE CYCLE MANAGEMENT PROJECT AT )  
THE D.C. COOK NUCLEAR PLANT; (2) )  
AUTHORITY TO ADJUST ITS RETAIL ELECTRIC )  
RATES THROUGH ITS LIFE CYCLE )  
MANAGEMENT RIDER TO REFLECT LIFE )  
CYCLE MANAGEMENT PROJECT COSTS, FOR )  
THE BILLING MONTHS OF JANUARY 2014 )  
THROUGH JUNE 2014, CONSISTENT WITH THE )  
COMMISSION’S ORDER IN CAUSE NO. 44182; (3) )  
OTHER RELATED RATEMAKING RELIEF )  
CONSISTENT WITH THE COMMISSION’S )  
ORDER IN CAUSE NO. 44182; (4) CONFIDENTIAL )  
TREATMENT OF CERTAIN CONFIDENTIAL AND )  
PROPRIETARY INFORMATION TO BE )  
SUBMITTED IN THIS CAUSE; AND (5) OTHER )  
RELIEF AS MAY BE APPROPRIATE )

CAUSE NO. 44182 LCM 1

APPROVED: **MAY 28 2014**

ORDER OF THE COMMISSION

**Presiding Officers:**

**David E. Ziegner, Commissioner**

**Loraine L. Seyfried, Chief Administrative Law Judge**

On October 3, 2013, Indiana Michigan Power Company (“Petitioner” or “I&M”) filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) initiating this Cause. Also on October 3, 2013, I&M pre-filed its case-in-chief, consisting of the direct testimony of: Paul G. Schoepf; Jeffrey L. Brubaker; Scott M. Krawec (which testimony was subsequently adopted by Christopher M. Halsey); Daniel E. High; and James W. Galambas.

On November 6, 2013, the Commission issued a Prehearing Conference Order establishing the procedural schedule in this Cause. With the agreement of the parties, it was determined that the first phase of this proceeding would address the proposed LCM 1 Rider rates (on an interim basis), and the second phase of this proceeding would address the ongoing review of the Life Cycle Management (“LCM”) project and approval of final LCM 1 Rider rates.

On November 21, 2013, the OUCC prefiled the direct testimony of Michael D. Eckert relating to the first phase of this proceeding. On December 2, 2013, the Citizens Action

Coalition (“CAC”) filed its Petition to Intervene, which was granted on December 12, 2013. On December 3, 2013, I&M filed its rebuttal testimony of Mr. Halsey relating to the first phase of this proceeding.

Pursuant to notice given and published as required by law, the Commission held an evidentiary hearing in the first phase of this proceeding, at 1:30 p.m. on December 13, 2013, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. On December 30, 2013, the Commission issued an Interim Order, approving the implementation of Petitioner’s proposed LCM 1 Rider rates on an interim basis and subject to future reconciliation, if necessary, as a result of this final Order.

The OUCC prefiled the direct testimony of Ronald L. Keen relating to the second phase of this proceeding on February 5, 2014, which was subsequently updated on February 19, 2014. I&M filed its rebuttal testimony of Mr. Schoepf and corrections to certain exhibits on February 19, 2014.

Pursuant to notice given and published as required by law, the Commission held a second evidentiary hearing in this Cause, at 9:30 a.m. on February 27, 2014, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana.

Having considered the evidence presented and the applicable law, the Commission now finds:

**1. Notice and Jurisdiction.** Notice of the hearings in this case was given and published by the Commission as required by law. Petitioner is a public utility as that term is defined in Ind. Code § 8-1-2-1(a), and is an eligible business as that term is defined in Ind. Code § 8-1-8.8-6. The D.C. Cook Nuclear Plant (“Cook Plant”) is undergoing a Life Cycle Management Project (“LCM Project” or “Project”). The Cook Plant is a “nuclear energy production or generating facility” within the meaning of Ind. Code § 8-1-8.8-8.5 and the LCM Project is a “clean coal and energy project” within the meaning of Ind. Code § 8-1-8.8-2. Pursuant to Ind. Code ch. 8-1-8.8 and consistent with the Commission’s July 17, 2013 Order in Cause No. 44182, the Commission has jurisdiction over I&M’s cost recovery and ongoing review of construction related to the LCM Project. 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”). I&M is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at One Summit Square, Fort Wayne, Indiana. I&M is engaged in, among other things, rendering electric utility service in the States of Indiana and Michigan. I&M owns, operates, manages and controls plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public, including the Cook Plant.

**3. Background and Relief Requested.** On July 17, 2013, the Commission issued an Order in Cause No. 44182 (“LCM Order”) finding that Petitioner’s LCM Project, cost estimate (with the exception of the approximately \$23 million in incremental upsizing costs), and proposed implementation schedule, were reasonable and necessary. The Commission approved

the LCM Project for purposes of receiving financial incentives authorized under Ind. Code ch. 8-1-8.8 (including timely recovery of pre- and post-in-service financing costs, incremental depreciation and property tax expenses, and LCM study and analysis costs).

The Commission also approved I&M's proposed LCM Rider rate adjustment mechanism, finding that the form of the proposed LCM Rider complied with the requirements of Ind. Code § 8-1-8.8-12. However, the Commission declined to approve I&M's initial LCM Rider rates at the time of the LCM Order. The Commission ordered I&M to collaborate with the OUCC and other parties to develop the appropriate schedules and an audit package to be utilized in the LCM Rider proceedings and to file updated LCM Rider rates for Commission approval. The Commission further ordered I&M to file LCM Rider proceedings semi-annually.

In the first phase of this proceeding, I&M requested interim approval of its proposed LCM 1 Rider rates and charges, which interim approval was granted by our December 30, 2013 Order in this Cause. In the second phase of this proceeding, I&M is requesting approval of its Ongoing Review Progress Report, as well as final approval of its proposed LCM 1 Rider rates and charges.

**4. Ongoing Progress of the LCM Project.** I&M requests the Commission approve its Ongoing Review Progress Report relating to the LCM Project at the Cook Plant.

**A. Petitioner's Case-in-Chief Evidence.** Petitioner presented the testimony of Paul G. Schoepf, Director of Nuclear Projects at the Cook Plant, and the testimony of Independent Monitor James Galambas, Executive Director at E3 Consulting<sup>®</sup> LLC ("E3 Consulting"), concerning the LCM Project Ongoing Review Progress Report.

Mr. Schoepf testified that as the Director of Nuclear Projects, he is responsible for the execution of major projects at the Cook Plant, including project management and project construction (implementation) for both the LCM Project and other projects.

Mr. Schoepf provided the status of the LCM Project as of June 30, 2013, including actual and forecasted capital project costs. He noted that as of June 30, 2013, seven LCM sub-projects had been completed at a total cost of \$28.1 million, which was a cost reduction of \$13.1 million (31.8%) compared to the Estimate at Completion value of \$41.2 million. He said I&M has used these savings to offset cost increases on other sub-projects. The LCM Project actual expenditures through June 30, 2013 totaled \$182.1 million for completed and in progress sub-projects, with the LCM Project and its associated sub-projects progressing as anticipated and on track to be completed within the 2018 timeframe. Mr. Schoepf noted it is still early in the LCM Project and several not-yet-complete and upcoming sub-projects have a higher level of uncertainty and the specific risks are still not defined or quantified.

Mr. Schoepf identified reasons for changes in sub-project cost estimates and schedules, and discussed current challenges. One such challenge includes sub-projects PRF040034 and PRF090189, concerning the Ice Condenser System (Transport and Bins), which was pushed back from 2013 and into 2014 because 2013 was a dual refueling outage year and there was a concern that the available time window to install the new equipment was not adequate. He explained that

these sub-projects are currently over budget due to an increase in the installation cost estimate that was re-determined once the final design was available. He also noted that sub-project PRF040111, relating to Unit 1 and Unit 2 34.5/4kV Cables, is over budget. He stated the current estimated cost is approximately \$9.2 million over the original cost estimate, which is related to environmental challenges encountered with excavation of the existing cable in state-protected sand dunes.

Mr. Schoepf further noted that two sub-projects had regressed from Phase 2a to Phase 1, and that three sub-projects had been cancelled. The cancelled projects included: PRF110048 Emergency Diesel Generator Load Bank, because an alternative, lower-cost approach was identified; and PRF040236 and PRF040235 U1 / U2 Turbine Driven Auxiliary Feedwater Pump Governors, because Petitioner found that certain equipment was not obsolete and the manufacturer could support the current machinery.

Mr. Schoepf also testified that additional LCM Project changes are being tracked. A change in project scope, schedule, or cost is facilitated through completion of a Project Change Request Form ("PCRF"), which is reviewed and analyzed by project personnel as necessary. The PCRF's will also be reviewed and scrutinized by the Independent Monitor for the LCM Project, with results being provided to the Commission during future six-month ongoing review proceedings.

Mr. Schoepf sponsored several sub-exhibits, many of which he noted were requested by the Commission in its LCM Order. Mr. Schoepf sponsored and provided updated information relating to:

- Update of LCM Sub-Project Phase Designations
- Update of LCM Sub-Project Cost Estimates (Confidential)
- Updated LCM Sub-Project Risk Registers (Confidential)
- Transfers of "Savings" between LCM Sub-Projects Log (Confidential)
- Use of Management Reserve
- LCM Sub-Project Expenditures (Confidential)
- Percent Completion per LCM Sub-Project
- LCM Project Timeline (Confidential)
- Cook Nuclear Plant Pre-Outage Milestone Matrix
- LCM Schedule Changes (Confidential)
- LCM Sub-Project Risk Registers (Confidential)
- Major LCM Contracts (Confidential)
- Major Scope Changes
- Major Issues, Problems, Challenges
- LCM Project Semi-Annual Progress Report for Michigan Public Service Commission (Confidential and Public versions)
- Projected Capital Costs for Forecast Period (Confidential)
- Calculation of Approved LCM Project Cost
- LCM Upsizing Costs (Response to OUCR DR 4-11 in Cause No. 44182)

Mr. Schoepf also provided testimony concerning the Independent Monitor retained to oversee I&M's management of the LCM Project. He noted that both the Commission and the Michigan Public Service Commission agreed that I&M should hire an independent monitor. Accordingly, I&M began a Request for Proposal process to retain a qualified independent monitor that would be responsible for reporting to the two state commissions. I&M solicited approximately a dozen potential candidate companies to determine if they had the necessary skills and resources to perform independent monitoring on the LCM Project. Based on the information contained within the proposals and the composite numerical proposal performance rating, E3 Consulting was awarded the project, and a contract between I&M and E3 Consulting was finalized in August 2013.

Mr. Schoepf concluded his testimony by noting that the LCM Project and its associated sub-projects are progressing as anticipated. He said I&M is on track to complete the remaining sub-projects on time and on budget and that the LCM Project challenges, cost variances, and schedule changes encountered so far are within the norm for a project of this magnitude. In Mr. Schoepf's opinion, continuing to utilize proven project management practices will ensure the success of this LCM Project for many years to come.

Mr. Galambas described E3 Consulting's role as the Independent Monitor for the LCM Project. He said E3 Consulting will conduct a multi-task Independent Monitor review that will focus on the cost and scheduling aspects of the Project to evaluate and explain any differences that may arise between the budget and the actual costs incurred for the Project related to the following:

- Additions or changes in Project contracts/Project scope;
- Delays and/or suspensions of work;
- Labor rates;
- Labor productivity;
- Commodity material costs;
- Performance of the contractors; and
- Any other changes that impact the costs of the LCM Project.

Mr. Galambas explained that as an Independent Monitor, one of E3 Consulting's major roles is to prepare LCM Project Semi-Annual Progress Reports ("SAPR") describing the status of the cost and schedule for the Project. The Independent Monitor Agreement also requires E3 Consulting to participate in regulatory proceedings, communicate regularly, and provide oral and written reports as required by I&M.

Mr. Galambas sponsored and described the September 2013 SAPR that E3 Consulting prepared. Mr. Galambas noted that E3 Consulting has had access to sufficient information to support its responsibilities as Independent Monitor, and noted that whenever E3 Consulting lacked sufficient information on any specific issue, E3 Consulting requested the information from I&M and it was provided in sufficient detail to meet the needs of its inquiry.

Mr. Galambas concluded by summarizing the major conclusions and findings presented in the September 2013 SAPR. He noted that at the time of the report, seven of the 117 sub-

projects had been completed under budget. He testified that the I&M Project Team was cooperative and appears to have strong managerial control over all aspects of the LCM Project. He also indicated that the Team had provided an overall briefing of the LCM Project phases and the methodology used to advance a sub-project from feasibility study, to Capital Improvement (“CI”), to construction, and closeout. Based on this information, he said that E3 Consulting concluded that no further review of the LCM Project process was required and going forward E3 Consulting will focus on the construction and closeout phases for each CI sub-project.

At the February 27, 2014 evidentiary hearing, Mr. Galambas provided an update to the September 2013 SAPR. He noted that he was currently working with I&M on concerns with I&M’s PCRf forms - specifically, E3 Consulting’s request for more complete sub-project cost reporting including reasons for any sub-project cost overruns. He stated that E3 Consulting had not been provided with a summary of each sub-project’s actual completed cost, the reasons for the cost overrun, and the allocation of those cost increases, but noted that I&M has agreed to provide that information. Tr. at B12. Mr. Galambas also testified that the shifting of project dates and escalation that E3 Consulting had reviewed were reflective of a strong management team that is on top of the LCM Project. Tr. at B15. However, he also indicated that he would have a “better top managerial level view” of how the LCM Project is being managed after his participation in an I&M Project review board meeting, which was being planned. Tr. at B18.

**B. OUCC’s Evidence.** Ronald L. Keen, a Senior Analyst within the Resource Planning and Communications Division with the OUCC, testified on behalf of the OUCC with respect to the ongoing review of the LCM Project. Mr. Keen testified that I&M is using the same methodology to manage this initiative as was proposed in the original docket, with a revised total LCM project cost of \$1.145 billion. Mr. Keen described I&M’s project cost estimation methodology, noting that the accuracy of I&M’s cost estimates for each sub-project depends on the execution phase in which the sub-project currently stands, ranging from Phase 1: +/-50%; Phase 2a: +/-25%; Phase 2b: +/-15%; and Phase 3: +/-10%. Mr. Keen sponsored Exhibit RLK-1, which compares the cost estimate and sub-project phase data I&M provided in Cause No. 44182 against the cost estimate and sub-project phase data I&M provided in this Cause. He stated that the Commission declined to authorize I&M to recover \$23 million in uprate costs; however, in his view, I&M had not described how those costs were removed from each sub-project.

Mr. Keen noted that I&M is showing a decrease of eight sub-projects and an increase of five in Phase 1 sub-projects from 2012 to 2013. However, because I&M has shown a historical tendency to shift sub-projects up and down within the phasing process, he believed it would be premature to conclude that the 2013 trending shows an issue in the project management or prudent adjustments by I&M. He said the OUCC will continue to monitor ongoing shifts in sub-project phases and further examine whether faults in I&M’s project management process may be the cause.

Mr. Keen compared the Phase 2a cost estimates as of December 31, 2013 to the Phase 2a cost estimates as of June 30, 2012, and concluded that there has been a significant decrease in Phase 2a sub-projects from 2012 to 2013. He testified this type of trend would be expected as sub-projects shift from Phase 1 through 2a and 2b and upwards to Phase 4. Mr. Keen noted that

the OUCC will continue to examine this issue in the next round of reporting because the significant decrease in Phase 2a sub-projects along with the lack of downward trending in the number of sub-projects in Phase 1 could indicate a lack of sufficient progression of sub-projects through each phase. He also noted that because I&M had not detailed how much of the \$23 million uprate costs have been removed from each sub-project, it is possible that at least some part of the savings from the Phase 4 sub-projects completed to date could be attributed to the removal of uprate costs.

Mr. Keen noted that in response to an OUCC data request, as of December 31, 2013, I&M is not projecting the use of any of the \$220,000,000 Management Reserve funding. He stated that the OUCC was not at this time concerned by the use of Management Reserve funding by I&M and will withhold analysis regarding use of that funding until the next reporting cycle is completed.

Mr. Keen concluded by stating that the OUCC does not have concerns regarding the progress of the sub-projects. He testified that his analysis shows that I&M's total LCM project cost is approximately 2% lower as of December 31, 2013 than it was as of I&M's June 30, 2012 "snapshot" of sub-project costs. Mr. Keen stated that upon examining the June 2012 and December 2013 data, he believed I&M is adequately managing the overall project portfolio, but there are areas of concern associated with individual sub-project costs that may require further investigation once additional data is received for the next reporting period.

**C. Petitioner's Rebuttal Evidence.** Mr. Paul Schoepf responded to the OUCC's testimony, particularly regarding the OUCC's concern with the \$23 million in uprate costs. Mr. Schoepf noted that the \$23 million in incremental upsizing costs were removed from each sub-project for ratemaking purposes, but not for project management purposes. Mr. Schoepf noted that during his initial testimony, he stated that the Unit 2 Low Pressure Feedwater Heaters are being installed during the Unit 2 Cycle 21 refueling outage in the fall of 2013, yet the funding for the upsizing, in the amount of \$5,787,250, is not being included in the LCM Rider in accordance with the Commission's Order. Mr. Schoepf emphasized that while no uprate-related costs are incorporated into the proposed LCM 1 Rider rates, I&M still wants to properly and transparently manage these costs. Therefore, the Commission and the parties will still see these uprate-related costs reflected in the project management documents and spreadsheets.

Mr. Schoepf also addressed the OUCC's comments regarding the shift in sub-project status and the number of sub-project cancellations. Mr. Schoepf noted that given the magnitude of the LCM Project and the numerous sub-projects, the shifting in sub-project status is not a concern. Not all projects will be active at the same time, with most sub-projects taking two to three years to complete. He stated that I&M intends to have engineering started on all of the major sub-projects by the end of 2014. Mr. Schoepf disagreed with the OUCC's description of five sub-projects being "cancelled" and noted that only three sub-projects were cancelled, while two were merged into other existing sub-projects. Mr. Schoepf also noted that there were some differences in OUCC calculations surrounding costs with sub-projects. Therefore, I&M and the OUCC met to discuss these differences prior to the filing of the rebuttal testimony. As a result, he stated the parties were now in agreement that the numbers presented in I&M's case-in-chief are reasonable and materially accurate.

**5. Ratemaking and Accounting Issues.** I&M requests the Commission authorize that I&M's retail electric rates be adjusted, via I&M's LCM Rider, to include the revenue effect of the investment value of the property upon which Petitioner is authorized to earn a return, the amount of I&M's actual capital expenditures plus associated Allowance for Funds Used During Construction ("AFUDC") for the LCM Project incurred from July 1, 2011 through June 30, 2013. I&M further seeks to reflect in the billing factor the July 1, 2013 through December 31, 2013 forecast of such costs ("Bridge Period") and the January 1, 2014 through June 30, 2014 forecast of such costs ("Rider Forecast Period"), which is the period the LCM Rider is anticipated to be in effect.

In particular, I&M requests the Commission approve the LCM Project's unrecovered carrying costs from the time individual sub-projects are placed in-service and any unrecovered incremental depreciation expense and incremental property tax expense associated with those sub-projects. Additionally, I&M's LCM Rider will include carrying costs associated with the LCM Projects Construction Work in Progress ("CWIP") investment starting at the time the initial LCM Rider factor goes into effect. In its filing, I&M assumed the initial LCM Rider would take effect during the January 2014 billing month and accordingly, I&M's filing assumed that the carrying cost recovery on CWIP would commence at that time while the AFUDC on the LCM Project's CWIP would cease.

**A. Petitioner's Case-in-Chief Evidence.** Petitioner presented testimony of Jeffrey L. Brubaker, Christopher M. Halsey, and Daniel E. High in support of its proposed LCM 1 Rider rates and charges.

Jeffrey L. Brubaker, Director of Regulatory Accounting Services for American Electric Power Service Corporation ("AEPSC"), testified concerning the Indiana jurisdictional LCM Project deferred incurred costs for the period January 1, 2012 through June 30, 2013, which I&M requested to include in the LCM Rider. I&M's deferred LCM Project costs include incremental depreciation expense, incremental property tax expense and post-in-service financing costs. Mr. Brubaker testified that inclusion of these deferred costs in the LCM Rider was appropriate because the Commission found in the LCM Order that I&M's proposed LCM Project, with the exception of the upsizing of certain components, is reasonable and necessary.

He testified that the Commission approved I&M's estimated construction cost with the exception of approximately \$23 million in incremental upsizing cost. The LCM Order also authorized timely recovery through the LCM Rider of: I&M's pre- and post-in-service construction and financing costs, its incremental depreciation and property tax costs and expenses associated with the LCM Project incurred on and after January 1, 2012, and associated LCM Project study, analysis and development costs. The LCM Order also granted I&M authority to defer for subsequent recovery its LCM Project related post-in-service financing costs, as well as its incremental depreciation and property tax costs and expenses, after the in-service date of the LCM Project, to the extent that costs are not reflected in I&M's retail electric rates (*i.e.*, through the LCM Rider or in base rates).

With regard to the deferred incurred LCM Project costs, Mr. Brubaker explained that, in this LCM 1 proceeding, I&M is seeking to recover through the LCM Rider an under-recovery balance of \$2,953,443 for the period January 2012 through June 2013, which consists of

incremental depreciation expense, post-in-service carrying costs, and incremental property tax expense. Mr. Brubaker testified that this amount does not include any incremental upsizing costs. Mr. Brubaker also provided the details about how each component of this under-recovery balance was calculated.<sup>1</sup>

Christopher M. Halsey, Senior Regulatory Consultant for I&M, testified concerning the revenue requirement for costs that I&M has incurred through June 30, 2013, and is forecasted to incur from July 1, 2013 through June 30, 2014 for the LCM Project. Mr. Halsey explained that the actual period in this Cause is the time period of July 1, 2011 through June 30, 2013. The forecast period is presented in two segments: the Bridge Period and the Rider Forecast Period. He explained that the Bridge Period is necessary because it provides the expected plant in-service additions necessary to determine the incremental Indiana jurisdictional LCM depreciation expense and carrying costs for the time period July 1, 2013 through December 31, 2013. The Bridge Period costs allow I&M to accurately reflect the deferred carrying costs, deferred incremental depreciation expense and deferred property tax expense related to such property to be included in the amortization of deferred costs incurred prior to the LCM Rider factor going into effect. Moreover, the Bridge Period capital expenditures, less capital additions, provides the incremental CWIP amount to be added to the June 30, 2013 actual CWIP balance to provide the January 1, 2014 starting base for the calculations of the carrying charge on CWIP in the Rider Forecast Period.

Mr. Halsey explained that I&M is not seeking to recover in this initial LCM Rider all of the costs I&M has actually incurred through June 30, 2013 and is forecasted to incur during the Bridge Period. Rather, costs incurred prior to the implementation of the initial LCM Rider will be deferred and amortized over six years starting with the initial LCM Rider and running through December 31, 2019. Accordingly, I&M has deferred its actual costs starting January 1, 2012 through June 30, 2013, and has forecasted its expected costs to be deferred during the Bridge Period. In this initial LCM Rider revenue requirement, I&M has only included a straight-line amortization over 72 months (January 2014 through December 2019) of these costs for the six months of the Rider Forecast Period when the initial LCM Rider is expected to be in effect. This amount was then added to a forecast of the actual costs expected to be incurred during the Rider Forecast Period to determine the total revenue requirement.

Mr. Halsey reiterated that no incremental upsizing costs were placed in-service during the actual period, and incremental upsizing costs projected to be in-service during the Bridge Period (\$5.8 million) were removed for LCM Rider recovery purposes.

Mr. Halsey discussed a correction to the LCM Project cost estimate approved in the LCM Order. In reconciling total project costs to date, I&M realized that the actual LCM Project costs for July 1, 2011 through December 31, 2011 in the amount of \$20,222,000 were actual project costs that included AFUDC in the approximate amount of \$846,000. The forecasted LCM Project costs for 2012 through 2018 presented in Cause No. 44182 (Petitioner's Exhibit TJB-5) did not include AFUDC. Therefore, the originally proposed total forecasted Project cost of \$1.169 billion mistakenly included \$846,000 of AFUDC. To update the total forecasted LCM Project costs I&M also excluded the \$23 million in uprate costs as instructed by the Commission.

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<sup>1</sup> A summary of this testimony was provided in the Commission's December 30, 2013 Interim Order in this Cause.

The revised LCM Project cost estimate is \$1.145 billion.

Mr. Halsey sponsored Petitioner's Exhibit SMK-1, which summarizes the revenue requirement of \$12,454,226 for January 1, 2014 through June 30, 2014. He stated the revenue requirement consists of the LCM Rider Forecast Period costs including the return on CWIP and six months of amortized costs for the actual period and Bridge Period deferrals, but does not reflect the revenue credits related to interruptible customers calculated by Petitioner's witness Mr. High. Mr. Halsey explained that Mr. High applies these credits through the rate design process.

Mr. Halsey further testified that I&M provided to the parties in Cause No. 44182 the proposed filing package consisting of the accounting schedules used to develop and calculate the LCM Rider factor. I&M met with the OUCC regarding the accounting schedules and thereafter provided the accounting schedules to the Indiana Michigan Power Industrial Group and Citizen's Action Coalition. He also noted that I&M collaborated with the parties and Commission Staff regarding the contents of the ongoing review progress reports.

Daniel E. High, Senior Regulatory Consultant for AEPSC, testified concerning I&M's calculation of the LCM Rider and explained the methodology for updating the LCM Rider semi-annually. I&M is requesting to implement initial LCM Rider factors as set forth on Petitioner's Exhibit DEH-3. These factors will result in semi-annual LCM Rider revenues of \$12,014,676 as shown on Petitioner's Exhibit DEH-2. Upon implementation, residential customers using 1,000 kWh of electricity per month would experience a monthly rate increase of \$2.50 or 2.5%. Petitioner's Exhibit DEH-4 shows the percentage increases at various "typical" usage levels for I&M's major tariff classes.

Mr. High explained that the LCM Rider cost calculation consists of two components. The first component is the actual cost through June 2013. The second component is the projected LCM costs for the period January 2014 through June 2014. A reconciliation of prior period costs will not be included in the LCM Rider until the filing of the third revision to the LCM Rider in September 2014, which is expected to incorporate the reconciliation of actual costs to actual billing under the LCM Rider through June 2014.

Mr. High testified that the jurisdictional costs are allocated to the classes based upon the demand allocation parameters established by the Commission in Cause No. 44075, I&M's last approved general rate case proceeding. All costs in this initial LCM Rider filing are demand related. He stated once the costs are allocated to each tariff class, as determined in Petitioner's Exhibit DEH-1, an energy rate is calculated using the forecast billing energy for that class. The billing energy is a forecast for the six months of the Rider Forecast Period.

Mr. High explained that I&M included in its rate design an incremental demand revenue credit associated with its special contract customer, SDI. I&M proposes to determine the incremental demand revenue from the SDI contract consistent with the methodology recently accepted by the Commission in a filing prepared by another Indiana electric utility company in Cause No. 42061. A portion of SDI's revenues are a credit towards LCM Project costs, which reduces rider rates for all other customers. The incremental revenue credit is reflected in Petitioner's Exhibit DEH-2. Mr. High stated that the revenue credit inclusion is consistent with

the Commission's Order in Cause No. 44256.

Finally, Mr. High stated that I&M designed the initial LCM Rider rates assuming that they would be effective for all bills rendered for electric services no later than the first billing cycle of January 2014 (i.e., December 31, 2013). The approved rates would remain in place until the approval of a new or revised LCM Rider in a subsequent filing. Mr. High testified that, assuming the initial LCM Rider is implemented no later than January 2014, I&M would plan to make semi-annual rider filings on or about March and September each year, beginning in 2014.

**B. OUCC's Evidence.** Michael D. Eckert, Senior Utility Analyst for the OUCC, testified concerning certain ratemaking issues in this proceeding. Mr. Eckert expressed a concern about the large amount of forecasted, but not yet incurred, construction costs included in I&M's LCM 1 Rider request. Mr. Eckert stated that under the Commission's CWIP rules, I&M would be permitted to seek a return on its actual LCM investment. If that investment was also used and useful, forecasted depreciation and operation and maintenance ("O&M") expenses could be recovered as well. Mr. Eckert testified that he is familiar with the common practice in CWIP trackers wherein utilities bill customers for estimated depreciation and O&M expenses based on plant investments that are used and useful and then reconcile the differences. He stated I&M's requested LCM cost recovery is contrary to past CWIP trackers of which he was aware because, in this instance, I&M asks ratepayers to pay up front for forecasted construction costs that have been grossed up for income taxes and include estimated depreciation on costs the utility has not yet incurred.

Mr. Eckert disagreed with Petitioner's calculation of post-in-service carrying costs, which was made on a "gross" investment rather than a "net" investment or incremental basis. He stated that to calculate depreciation expense, I&M used a January 2014 plant investment amount of \$93,164,748, but to calculate post-in-service carrying costs I&M used a much higher January 2014 plant investment amount (estimated to be used and useful) of \$126,669,841. Mr. Eckert stated the difference between those two amounts is retirements. He pointed out that this calculation allows Petitioner to recover a return on its LCM Project investments, while also recovering a return through base rates on plant that is being replaced through the LCM Project, because base rates are not adjusted in the LCM Rider.

More specifically, Mr. Eckert testified that I&M's proposed treatment would allow the utility to recover depreciation and property tax expense only on the new plant, but would allow a "return on" both the new plant and the retired plant. Mr. Eckert stated that Petitioner should not be allowed to recover a return on both the new plant and the retired plant, and recommended that I&M use a "net" investment calculation for post-in-service carrying costs that removes retirements, as it has done in its calculation of depreciation expense and property tax expense. To support his position, Mr. Eckert pointed to the Commission's recent order in *Northern Indiana Public Service Company, Inc.*, Cause No. 42150 ECR 21 (IURC Oct. 16, 2013).

**C. Petitioner's Rebuttal Evidence.** Mr. Halsey responded to Mr. Eckert's testimony. With regard to Mr. Eckert's concern about the forecasted costs included in the proposed LCM 1 Rider rates, Mr. Halsey emphasized that the enabling statute in this case explicitly allows the utility's rate adjustment to be based on forecasted (and reconciled) costs. Accordingly, the Commission approved the LCM Rider in Cause No. 44182, including the use of

forecasted and reconciled costs for the LCM Project. He noted that the LCM Project is different from many other clean energy projects in that it is a large and comprehensive project consisting of 117 discrete construction sub-projects over multiple years, as opposed to the construction of a single piece of equipment, such as a pollution control device. He explained that if I&M's LCM Rider did not utilize the recovery of a return on forecasted CWIP, I&M would be incurring AFUDC, which would significantly increase the cost of the overall project to I&M's customers at the time the LCM sub-projects are placed into electric plant in service. According to Mr. Halsey, in this way, I&M's LCM Rider actually matches the timing of rate recovery with actual expenditures much more closely than would a rider limited to historical incurred costs.

Additionally, Mr. Halsey testified that I&M has invested \$248 million in LCM-related projects through October 2013, which is actually \$11 million more than the October 2013 projected balance used to set the factor in this proceeding. Finally, Mr. Halsey noted the accounting proposed by I&M ensures that customers will only pay rates for actual investments made from the time the investments were actually made.

Mr. Halsey disagreed with Mr. Eckert's contention that the carrying charges on LCM Project investments should be reduced to reflect the full retirement value of the replaced equipment. He noted that I&M complies with the Federal Energy Regulatory Commission ("FERC") Electric Plant Instruction No. 10 "Additions and Retirements of Electric Plant", B (2), which requires that the book cost of the plant retired is credited to electric plant and charged to accumulated depreciation. Mr. Halsey stated that retirements following the FERC accounting methodology cause future depreciation expense to decrease, but they have no effect on net plant balances and accordingly, no effect on rate base. Therefore, because rate base is unchanged by the retirement, he stated it is not appropriate to reduce the incremental carrying charge on the new asset for the original cost related to the old asset. Notwithstanding the retirement and replacement of equipment, I&M still must recover its investment, including a return on the remaining net book value. Moreover, he said if the Commission were to grant a reduction in eligible carrying value, it would be improper book accounting procedures to reduce the value of the new equipment by the original cost of the replaced equipment, as proposed by the OUCC.

Mr. Halsey also pointed out that this issue was addressed by the Commission in the LCM Order and expressed his view that it would be inappropriate and unwarranted for the Commission to reverse its previous findings.

## **7. Commission Discussion and Findings.**

**A. Ongoing Review Progress Report.** The LCM Order approved an ongoing review process for the LCM Project. The Commission noted its expectation that any transparency and auditability issues could be addressed through cooperation, collaboration, and the use of both ongoing review proceedings and an independent third party monitor. I&M was directed to provide the following information with respect to the LCM Project to the Commission and the parties at six-month intervals in ongoing review reports in conjunction with Petitioner's LCM Rider filings:

- Updated sub-project phase designations;

- Updated sub-project cost estimates;
- Updated risk reserve registers showing identified and quantified risks for any sub-project;
- Transfers of any “savings” from one sub-project to another;
- Use of any “management reserve” dollars for any sub-project;
- Expenditures to date, by sub-project;
- Percent complete to date, by sub-project;
- LCM Project timeline showing major tasks and major milestones;
- Schedule changes;
- Copies of major contracts entered into relating to the LCM Project;
- Discussion of any major scope changes determined to be necessary; and
- Discussion of major issues, problems, and challenges.

In conjunction with the above information, the Commission determined that an independent expert monitor should be engaged by I&M and file update reports in the six-month ongoing review proceedings. Our goal in approving this process was to remain apprised of changes and events in the LCM Project so we could take action if necessary due to major changes or events. LCM Order at 62.

In this proceeding, I&M filed its first ongoing review progress report related to the LCM Project. Mr. Schoepf, the Director of Nuclear Projects, responsible for the execution of construction and implementation for LCM Project, submitted several exhibits and data related to sub-project updates as requested by the Commission in the LCM Order. The Independent Monitor, Mr. Galambas, testified that I&M has been cooperative in providing the information it needs to make its assessments, and that I&M’s Project Team appears to have strong managerial control over the LCM Project. The Independent Monitor also provided an overall briefing of the LCM Project phases and the methodology used to advance a sub-project from feasibility study, to CI, to construction, and closeout.

It is important to note that in Petitioner’s Corrected Exhibit PGS-16, Mr. Schoepf recalculated the Calculation of Approved LCM Project Costs per the LCM Order from \$1,168,842,000 to \$1,145,346,162, by removing the incremental upsizing costs and correcting an inadvertent inclusion of AFUDC. This calculation is as shown below:

* Subtotal LCM Cost Estimate (excluding Management Reserve)	\$	948,842,000
* Addition of LCM Management Reserve	\$	220,000,000
* Total LCM Cost Estimate	\$	1,168,842,000
Removal of Upsizing Costs per LCM Order	\$	22,649,361
Removal of AFUDC from Q3/Q4 2011 Actuals	\$	846,477
Approved LCM Project Cost per LCM Order	\$	1,145,346,162
* As shown in Petitioner’s Confidential Exhibit TJB-5 in Cause No. 44182.		

This adjusted LCM Project Cost is consistent with the LCM Order and should be used as the approved LCM Project cost estimate for LCM Rider ratemaking purposes, and we so find.

Based on the evidence presented, including the information provided by Mr. Schoepf and the Independent Monitor, we find that I&M has adequately satisfied the information reporting requirements to the Commission for purposes of this review proceeding as specified in the LCM Order. Importantly, at the February 27, 2014 evidentiary hearing, Mr. Galambas provided an update to the September 2013 SAPR that enhanced the understanding of activities his team had undertaken in the interim period between the initial SAPR filing and the hearing date. Although Mr. Galambas indicated that he currently lacked sufficient information concerning completed sub-project cost overruns, he indicated he was working with I&M to obtain this information and expressed confidence that it would be provided. We fully expect this cooperative effort to continue. However, in order to ensure that issues are resolved in a timely manner and that the Commission has the most up to date information, the Commission finds that the Independent Monitor is authorized to file in any pending LCM proceeding, or any prior LCM proceeding if none is currently pending, any information considered necessary to apprise the Commission of unresolved issues or upon the occurrence of significant events with the LCM Project. Accordingly, we approve Petitioner's first ongoing review progress report and authorize the Independent Monitor, when he deems reasonable or necessary, to notify the Commission of any unresolved issues, the occurrence of significant events, or any Project updates.

**B. LCM 1 Rider Rates.** As noted in our Interim Order in this Cause, the OUCC raised several ratemaking concerns, and we deferred ruling on these issues until this final order. The OUCC's ratemaking concerns are as follows:

- (1) I&M's use of forecasted rather than actual investments and costs in the LCM Rider.
- (2) I&M's calculation of the LCM Project carrying charges.

With regard to I&M's use of forecasted costs, Ind. Code ch. 8-1-8.8 explicitly provides for rate adjustment mechanisms under this statute to be based on forecasted (and reconciled) costs, as approved in the LCM Order. The OUCC argues that the use of forecasted CWIP is a departure from the usual CWIP treatment that occurs in clean coal technology capital investment trackers. While recognizing this position, we do not find it controlling because the Commission's CWIP rules at 170 IAC 4-6 relate to qualified pollution control property under Ind. Code ch. 8-1-6.8, rather than projects approved under Ind. Code ch. 8-1-8.8. *See also Duke Energy Indiana, Inc.*, Cause No. 43114, p. 59 (IURC Nov. 20, 2007). The methodology used by I&M seeks to more timely match the investment to its related cost recovery in rates and in doing so to minimize the accumulation of AFUDC that would eventually be included in rates. The efficiency of this methodology will likely be a function of the accuracy of the underlying forecast. Based upon the evidence in this proceeding, we do not have sufficient support to make a finding that I&M lacks the ability to forecast such investment timing reasonably. Accordingly, we see no reason to depart from our previous Order and find that I&M's use of forecasted costs is reasonable.

With regard to the calculation of carrying charges, the OUCC argues that I&M's use of gross investment to calculate the carrying charge amount is inconsistent with its use of the net investment (gross investment less retirements) for its calculation of depreciation and property tax expense. The OUCC recommends that I&M be required to use a net investment calculation for post-in-service carrying costs, which removes retired plant. This issue was raised and addressed in the LCM Order and the calculations presented by I&M herein are not inconsistent with that Order. In addition, the governing statute in this case, Ind. Code ch. 8-1-8.8, makes no provision for such a netting of carrying costs (or any other costs).<sup>2</sup> Therefore, we see no reason to depart from our decision in the LCM Order.

Having approved Petitioner's first ongoing review progress report, and having rejected the ratemaking changes proposed by the OUCC, we conclude that Petitioner's proposed LCM 1 Rider rates should be approved on a final basis, and the interim designation of these rates should be removed. However, Petitioner shall still reconcile its forecasted costs to actual costs in future LCM rate adjustment proceedings, as contemplated by the LCM Rider and Ind. Code ch. 8-1-8.8.

**8. Petitioner's Request for Confidential Treatment.** On October 3, 2013, Petitioner filed a Motion for Protection of Confidential and Proprietary Information, supported by affidavits. The affidavits set forth facts demonstrating the information to be submitted ("Confidential Information") constitutes a trade secret and the steps taken by Petitioner to protect the Confidential Information from disclosure. On October 16, 2013, the Presiding Officers issued a Docket Entry granting confidential treatment to the Confidential Information on a preliminary basis.

Based on the foregoing, pursuant to Ind. Code §§ 8-1-2-29 and 5-14-3-4(a)(4), we find that the detailed LCM Project cost and cost estimate information, fuel and power price forecasts, the outage schedule information, and contracts with third party vendors, as set forth in confidential testimony and exhibits presented in this proceeding, constitute trade secrets and should continue to be afforded confidential treatment. Accordingly, this information is exempted from public disclosure and will be held as confidential by the Commission.

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

1. The contents of Petitioner's ongoing review progress report, as well as Petitioner's retention of the Independent Monitor, are found to be in compliance with the LCM Order. The Independent Monitor is authorized to file in any pending LCM proceeding, or any prior LCM proceeding if none is currently pending, any information considered necessary to apprise the Commission of unresolved issues or upon the occurrence of significant events with the LCM Project.
2. Petitioner's first LCM Project ongoing review progress report is approved.

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<sup>2</sup> Although the OUCC cites to our October 16, 2013 Order in Cause No. 42150 ECR 21, the governing statute in that case was Ind. Code ch. 8-1-8.7. Likewise, the Commission's decision in *Indiana-American Water Co.*, Cause No. 42351 DSIC 1 (IURC Feb. 27, 2003) involved the application of Ind. Code ch. 8-1-31.

3. The adjusted estimate of \$1,145,346,162 of LCM Project construction costs (excluding both AFUDC and approximately \$23 million in incremental upsizing costs), as well as the current estimated construction schedule for the LCM Project are hereby approved.

4. Petitioner is authorized to continue to charge its proposed LCM 1 Rider rates, using the factors shown on Petitioner's Exhibit DEH-3, until such rates are adjusted in a future LCM Rider proceeding, consistent with Indiana Code §§ 8-1-8.8-11 and -12 and the LCM Order. The interim designation of such rates, as required by our December 30, 2013 Interim Order, is hereby removed.

5. Petitioner is authorized to increase its authorized net operating income for FAC earnings test purposes to reflect LCM Project earnings.

6. The confidential information presented in this proceeding is found to be confidential and trade secret, excepted from public access, and will continue to be held as confidential by the Commission.

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

**STEPHAN, MAYS, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:**

**APPROVED:      MAY 28 2014**

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



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