

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. 44812; (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:

DEC 30 2013

INTERIM 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," "Company," 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, Director of Nuclear Projects at the Cook Nuclear Plant; Jeffrey L. Brubaker, Director of Regulatory Accounting Services at American Electric Power Service Corporation ("AEPSC"); Scott M. Krawec (which was adopted in its entirety by Christopher M. Halsey, a Senior Regulatory Consultant for I&M, on November 8, 2013); Daniel E. High, Senior Regulatory Consultant for AEPSC; and the Independent Monitor, James W. Galambas, the executive director of E3 Consulting LLC.

Pursuant to notice and as provided for in 170 IAC 1-1.1-15, a prehearing conference in this Cause was held at 9:30 a.m. on October 28, 2013 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Proofs of publication of the notice of the prehearing conference have been incorporated into the record and placed in the official files of the Commission. Counsel for Petitioner, the Indiana Office of Utility Consumer Counselor

("OUCC") and Counsel for the Citizens Action Coalition of Indiana, Inc. ("CAC") appeared and participated at the prehearing conference.

Based upon the agreement of the parties, the Commission found that bifurcating the proceeding would best serve I&M and its customers. The first phase of this proceeding is to address the proposed Life Cycle Management ("LCM") Rider rates (on an interim basis), while the second phase of this proceeding is to address the ongoing review of the life cycle management construction project and approve the final LCM 1 Rider rates. The evidentiary hearing on Interim Rates and this Interim Order solely address Petitioner's request to adjust its retail electric rates through its Life Cycle Management Rider ("LCM Rider") on an interim basis, subject to future reconciliation as a result of our final order in this Cause, if necessary. Any issues with respect to Petitioner's Ongoing Review Progress Report (as well as the ratemaking issues raised by the OUCC in the first phase of the proceeding) will be determined in a final order to be issued after an evidentiary hearing scheduled to commence at 9:30 a.m. on February 27, 2014.

On November 21, 2013, the OUCC prefiled the direct testimony of Michael D. Eckert, Senior Utility Analyst in the Electric Division. On December 3, 2013, I&M filed its rebuttal testimony of Christopher Halsey.

On December 2, 2013, the CAC filed its Petition to Intervene, which was granted on December 11, 2013.

Pursuant to notice given and published as required by law, the Commission held an evidentiary hearing at 1:30 p.m. on December 13, 2013 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner, the OUCC and the CAC all appeared and participated in the hearing. At the hearing, the prefiled testimony of Petitioner's witnesses Brubaker, High, and Halsey were admitted into evidence, as was the prefiled testimony of OUCC witness Eckert. Mr. Halsey and Mr. Eckert were both cross-examined. No member of the public appeared or participated at the hearing.

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

**1. Notice and Jurisdiction.** Notice of the hearings in this Cause 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 is undergoing a Life Cycle Management Project ("LCM Project") and is a "nuclear energy production or generating facility" within the meaning of Ind. Code § 8-1-8.8-8.5; the LCM Project is a "clean energy project" within the meaning of Ind. Code § 8-1-8.8-2.

Petitioner seeks approval of, and other relief associated with, its LCM Project pursuant to Ind. Code ch. 8-1-8.8, Ind. Code §§ 8-1-2-23, -42, -10, -12, -14, and Ind. Code §§ 5-14-3-4 and 8-1-2-29. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"). Petitioner 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 D.C. Cook Nuclear Plant.

3. **Background and Relief Requested.** The Commission issued an Order in Cause No. 44182 on July 17, 2013 (herein referred to as the "LCM Order"), that approved I&M's request for timely recovery of its LCM Project costs at its D.C. Cook Nuclear Plant (which includes pre- and post-in-service financing costs, incremental depreciation and property tax expenses, and LCM study and analysis costs).

The Commission approved the Company's proposed LCM Rider rate adjustment mechanism, finding that the form of the Company's proposed LCM Rider complied with the requirements of Ind. Code § 8-1-2-12. LCM Order at 60-61. However, the Commission declined to approve I&M's initial LCM Rider rates at the time of the LCM Order based upon the complexity of the issues underlying the LCM Project approval itself and the first time application of the statute to such a project. *Id.* The Commission was concerned that a sufficient level of scrutiny needed to be afforded to the specific costs for which recovery was sought. 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. *Id.* The Commission further ordered I&M to file LCM Rider proceedings semi-annually.

In this interim proceeding, I&M is solely requesting to put its LCM Rider rates into effect, on an interim basis, subject to reconciliation in future LCM Rider proceedings. Specifically, I&M is requesting authority to reflect actual LCM Project expenditures through June 30, 2013, (including deferred amounts, pre- and post-in-service financing costs, incremental depreciation expenses, incremental property tax expenses, and study, analysis and development costs), as well as forecasted LCM Project expenditures and associated costs through June 30, 2014, in its retail electric rates via the LCM Rider; as well as authority to increase its authorized net operating income for fuel adjustment clause ("FAC") earnings test purposes, to reflect LCM Project earnings. I&M proposes that the LCM Rider rates be implemented effective as the first billing cycle for the billing month of January 2014 (December 31, 2013) or the first full billing month following a Commission Order in this proceeding. I&M further proposes that deferred amounts be amortized on a straight line basis beginning in January 2014 (or the first full month following a Commission Order) over a six-year period (through approximately December 2019). The LCM Rider rates are proposed to remain in effect until replaced by different LCM Rider factors that are approved in a subsequent filing or until such rate adjustment is reflected in new base rates and charges.

I&M, the OUCC, and the CAC have agreed to defer other issues raised in this part of the proceeding until a final order is issued in this Cause, after the evidentiary hearing on February 27, 2014.

#### 4. Petitioner's Case in Chief Evidence.

A. **Jeffrey L. Brubaker, Director of Regulatory Accounting Services for AEPSC.** Mr. Brubaker testified to the deferred incurred costs for the period January 1, 2012 through June 30, 2013, which I&M is requesting to include in the LCM Rider. Mr. Brubaker testified that he believes it is appropriate for I&M to request recovery of these incurred costs because the LCM Order authorized I&M to timely recover its: pre- and post-in-service construction and financing costs; incremental depreciation and property tax costs; expenses associated with the LCM Project incurred on and after January 1, 2012 through the LCM Rider; and I&M's study, analysis, and development costs associated with the LCM Project through the LCM Rider. Mr. Brubaker further noted that the LCM Order further allows I&M 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). Pet.'s Ex. 1 at 3-4.

Mr. Brubaker testified that I&M has an under-recovery balance of \$2,953,443 for the period January 2012 through June 2013 for the LCM costs. Mr. Brubaker testified that I&M calculated the LCM cumulative under-recovery balance by adding \$767,434 of incremental depreciation expense, \$2,068,995 for post-in-service carrying costs, and \$117,014 in incremental property tax expense. *Id.* at 4-5; *see also* Pet.'s Ex. JLB-1. Mr. Brubaker then explained in detail how all of these numbers were calculated.

Mr. Brubaker testified that the I&M Indiana jurisdiction incremental depreciation expense of \$767,434 was calculated on a monthly basis for January 2012 through June 2013, using the prior month-end incremental depreciable plant balances, then adjusted for any related retirements and any removal or salvage incurred. The Company then allocated Indiana's jurisdictional portion and calculated the monthly Indiana jurisdiction incremental depreciation expense using the remaining license life of the particular unit based upon the ending date of the unit license. *Id.* at 5-7; *see also* Pet.'s Ex. JLB-2.

Mr. Brubaker further explained that I&M's post-in-service carrying costs of \$2,068,995 were also calculated on a monthly basis for January 2012 through June 2013, by first determining the incremental plant in-service balance since June 30, 2011; then adjusting for the net removal costs/salvage charged to Account 108 since June 30, 2011, in order to calculate the total company incremental plant in-service balance eligible for carrying costs; then allocating Indiana's jurisdictional portion; and finally, calculating the monthly Indiana jurisdiction post-in service carrying costs using a pre-tax weighted average cost of capital ("WACC") based upon the overall rate of return approved in I&M's last Indiana rate case with the equity return grossed up for taxes using the gross revenue conversion factor methodology as approved in I&M's last Indiana base rate case. *Id.* at 7-9; *see also* Pet.'s Ex. JLB-2.

Mr. Brubaker explained I&M's incremental property tax expense of \$117,014 was also calculated on a monthly basis for the period January 2013 through June 2013, first by calculating the 2012 incremental LCM plant in-service; second, subtracting 2012 retirements from the incremental plant in-service 2012 balances; third, applying the depreciation rates used for

Michigan property tax calculations, by utility account, to the 2012 incremental net plant balances with the sum multiplied by 50% to get the Michigan Assessed Value; then multiplied by the local tax rates to calculate the 2013 annual total company incremental property tax expense on the balances incurred in 2012. The 2013 monthly Indiana jurisdiction portion of incremental property tax expense was then calculated and multiplied by the appropriate Indiana jurisdiction demand allocation factor. Finally, the Company summed the monthly Indiana jurisdiction incremental property tax expense from January to June 2013. *Id.* at 9-11; *see also* Pet.'s Ex. JLB-2.

**B. Daniel High, Senior Regulatory Consultant for AEPSC.** Mr. High testified that the LCM Rider cost calculation consists of the actual project costs through June 2013, and the projected LCM costs for the period January 2014 through June 2014, with the jurisdictional costs allocated to the classes based upon the demand allocation parameters in I&M's last approved general rate case proceeding, Cause No. 44075.

Mr. High explained how the Company's LCM Rider was calculated. He explained that after allocating the cost to each tariff class, an energy rate is calculated using the forecast billing energy for that class. Pet.'s Ex. 2 at 3; *see also* Pet.'s Ex. DEH-1. The billing energy is a forecast for the six (6) months of January through June 2014, the period during which the factors are anticipated to be in effect. *Id.* at 3-4; *see also* Pet.'s Ex. DEH-2. I&M also included a revenue credit in its rate design for incremental demand revenue associated with the Steel Dynamics, Inc. ("SDI") special contract, consistent with the Commission's direction in its LCM Order. Mr. High explained that, as proposed, the initial LCM Rider rates would be effective no later than the first billing cycle of January 2014 (December 31, 2013), and remain in place until the approval of a new or revised LCM Rider rate in a subsequent filing. Mr. High also explained that the Company plans to make semi-annual LCM Rider filings on or about March and September each year, beginning in 2014. Mr. High also noted that the projected impact on Indiana residential customers would be 2.5%. *Id.* at 5.

**C. Christopher Halsey, Senior Regulatory Consultant in the Regulatory Services Department.** Mr. Halsey's adopted testimony explained the ratemaking relief that I&M is requesting in this proceeding. In particular, he noted that I&M is requesting that 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. Pet.'s Ex. 3 at 3-4.

Mr. Halsey explained that the forecast period is presented in two segments: (1), a "Bridge Period" forecast of LCM expenditures for July 1, 2013 through December 31, 2013; and (2) a "Rider Forecast Period" of January 1, 2014 through June 30, 2014 (when the proposed Rider LCM 1 rates are anticipated to be in effect). Mr. Halsey explained that the Bridge Period is necessary because it allows 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 into the amortization of deferred costs incurred prior to the LCM Rider factor going into effect. *Id.* at 4-5.

Mr. Halsey also noted that I&M is not seeking to recover all of the costs I&M has actually incurred through June 30, 2013, or is forecasted to incur during the Bridge Period in this initial rider. He noted that 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 6 months portion of the January 2014 through June 30, 2014 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 January 1, 2014 through June 30, 2014 Rider Forecast Period to determine the total revenue requirement.

Mr. Halsey explained that none of the LCM Project costs, which I&M is requesting to recover in the LCM Rider, are currently recovered in I&M's base rates. He also confirmed that none of the "upsizing" costs are included in the Company's requested LCM 1 Rider rates. He further explained that I&M's actual LCM Project costs reported for the July 2011 through December 2011 period included an amount of AFUDC that should have been excluded, therefore I&M updated the total forecasted projected costs. After excluding AFUDC, the revised cost estimate, and updating the total forecasted project costs excluding the \$23 million in uprate costs, the revised LCM Project forecast is \$1.145 billion (direct costs). *Id.* at 9-10; *see also* Pet.'s Ex. SMK-2.

Mr. Halsey explained in detail the calculations of the forecasted depreciation expense, post-in-service carrying costs, and property tax expense, for both the Bridge Period and the Rider Forecast Period, with all such calculations made in a manner consistent with Mr. Brubaker's testimony with respect to incurred costs. Mr. Halsey also described the calculation of the carrying cost rates reflected in the proposed LCM 1 Rider rates.

Mr. Halsey noted that I&M is requesting to implement initial LCM Rider factors as set forth on Exhibit DEH-3. These factors will result in semi-annual LCM Rider revenues of \$12,014,676<sup>1</sup> as shown on Exhibit DEH-2 beginning with the first billing cycles for the January 2014 billing month, and reconciling the Bridge Period forecasted depreciation expense, property tax expense, and carrying cost deferrals with actual amounts incurred and reflect the difference in the future amortization of that deferred balance. Further, I&M will reconcile the LCM 1 Rider Forecast Period in the LCM 3 Rider filing, and any over or under recovery of LCM 1 actual costs will be included with a forecast of LCM Rider costs in the revenue requirement for the LCM 3 Rider period of January 1, 2015 through June 30, 2015. Mr. Halsey also noted that I&M worked with the OUCC, the CAC and the Indiana Michigan Power Industrial Group to develop an audit package prior to this filing. *Id.* at 15-18.

**5. OUCC's Evidence.** The OUCC presented the pre-filed testimony of Michael Eckert, Senior Utility Analyst in the Electric Division. Mr. Eckert testified that he reviewed I&M's prefiled testimony, exhibits, and workpapers, as well as prior Commission orders, I&M's responses to OUCC data requests, and the relevant law to prepare his testimony. He also

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<sup>1</sup> At the evidentiary hearing, Mr. Halsey testified the correct revenue requirement calculation is actually \$12,014,653.

participated in meetings with other OUCC staff and I&M concerning identified issues. In his testimony, Mr. Eckert raised several issues, including:

- a. concern that I&M's LCM Rider uses forecasted capital costs or investment rather than actual costs or investment. Pub.'s Ex. 1 at 5-6.
- b. disagreement with I&M's calculation of its total LCM Project investment upon which a carrying charge is applied. Mr. Eckert explained that I&M calculated the LCM investment for carrying charge purposes by using gross expenditures and not the net investment (gross additions less retirements). He noted this method is inconsistent with I&M's calculation of depreciation and property tax expense. For carrying charge purposes, he indicated that I&M should also reduce the total LCM investment to reflect the full retirement value of the replaced equipment. *Id.* at 6-9.
- c. concern that the LCM 1 Rider rates that are put into effect should be placed into an effect on an interim basis, subject to refund, until completion of the second phase of this proceeding. *Id.* at 10.

But for these issues, for purposes of interim rates, the OUCC did not dispute the Company's calculations of its LCM 1 Rider rates or the proposed LCM Rider factors.

**6. Petitioner's Rebuttal Evidence.** I&M presented the pre-filed rebuttal testimony of Christopher Halsey, which addressed and rebutted the OUCC's issues raised in its pre-filed testimony. I&M agreed that the interim rates should be placed in effect promptly, subject to reconciliation. He noted that should the interim rates be reduced as a result of the Commission's order in the second phase of this proceeding, I&M would return any over collections to customers through a reduction in the revenue requirement in the next LCM Rider reconciliation process instead of issuing actual refunds to customers. Pet.'s Ex. 5 at 6.

**7. Testimony at the Evidentiary Hearing.** At the evidentiary hearing on Interim Rates, Company witness Mr. Halsey noted that in preparing for the hearings, I&M discovered two minor miscalculations in the revenue requirement calculation for the LCM 1 Rider rates, having a net impact on the revenue requirement of \$24.00. Mr. Halsey explained that this small net revenue requirement change would have no impact on the LCM Rider factors. All parties agreed that the \$24.00 correction could be made in a subsequent LCM Rider reconciliation process.

**8. Commission Discussion and Findings Regarding LCM 1 Rider Rates.** The Commission notes that at the evidentiary hearing, except for the issues described above, the OUCC did not take issue with either the calculation or the documentation presented in support of the LCM Rider 1 rates, and agreed that they could be put into effect on an interim basis, subject to the Commission's final order in this Cause. Accordingly, the Commission will defer its final ruling on those issues until its order subsequent to the final evidentiary hearing in this Cause on February 27, 2014.

Therefore, the sole issue addressed in this Order is whether to allow I&M to place its LCM 1 Rider rates into effect, on an interim basis subject to the Commission's final order in this Cause. Based on our review of the evidence presented on this issue, we find that I&M should be allowed to implement its proposed LCM 1 Rider factors that are designed to result in semi-annual LCM Rider revenues of \$12,014,676 beginning with the first billing cycles for the January 2014 billing month. Allowing the LCM Rider rates to go into effect immediately, on an interim basis, and subject to reconciliation in accordance with the Commission's final order in this Cause if necessary, is consistent with Indiana Code §§ 8-1-8.8-11 and -12 and the Commission's July 17, 2013 LCM Order in Cause No. 44182.

The average residential customer using 1,000 kWh will experience a charge of \$2.50 per month on his or her electric bill while the factors approved herein are in place.

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

1. I&M is authorized to place its proposed LCM 1 Rider rates into effect, using the factors shown on Petitioner's Exhibit DEH-3, on an interim basis, subject to reconciliation in accordance with the Commission's final order in this Cause, if necessary, consistent with Indiana Code §§ 8-1-8.8-11 and -12 and the Commission's July 17, 2013 Order in Cause No. 44182 ("July 17 Order").

2. I&M is authorized to increase its authorized net operating income for FAC earnings test purposes to reflect LCM Project earning.

3. Our resolution of the issues raised by the OUCC in its prefiled testimony and further addressed at the evidentiary hearing on Interim Rates will be deferred until the final order is issued in this Cause, after the evidentiary hearing on February 27, 2014, and the parties are directed to address these issues in their post-hearing filings following the February 27, 2014 hearing.

4. Prior to placing in effect the LCM 1 Rider adjustment factors approved herein, I&M shall file with the Electricity Division of this Commission a separate amendment to its rate schedules, with clear reference therein that such LCM 1 Rider adjustment factors are applicable to the rate schedules reflected on the amendment.

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

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

**APPROVED:**

**DEC 30 2013**

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



**Brenda Howe**

**Secretary to the Commission**