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 SECOND 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 JULY 2014 THROUGH DECEMBER 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 2 APPROVED: JUN 30 2014

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On March 11, 2014, Indiana Michigan Power Company ("Petitioner", "Company" or "I&M") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") initiating this Cause. On March 14, 2014, I&M pre-filed its redacted (non-confidential) case-in-chief, consisting of the direct testimony and exhibits of Paul G. Schoepf, Christopher Halsey, and Daniel E. High. On March 20, 2014, I&M submitted the testimony of Independent Monitor, James W. Galambas, as well as the Independent Monitor's Semi-Annual Progress Report. On April 7, 2014, I&M submitted a supplemental exhibit of Paul Schoepf.

On March 18, 2014, I&M filed its Motion for Protection and Nondisclosure of Confidential and Proprietary Information; by Docket Entry on March 20, 2014, the Presiding Officers determined that the Confidential Information should be held as confidential by the Commission on a preliminary basis. Subsequently, on April 8, 2014, I&M filed its confidential case-in-chief testimony and exhibits.

On May 12, 2014, the OUCC prefiled the direct testimony of Michael D. Eckert. On May 22, 2014, I&M filed its rebuttal testimony. On June 3, 2014 the Commission issued a Docket Entry

with questions to the OUCC and Petitioner; Petitioner filed its response to the Docket Entry on June 5, 2014, and the OUCC responded on June 6, 2014.

The Commission held an evidentiary hearing at 1:30 p.m. on June 9, 2014 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated in the hearing. At the hearing, the prefiled testimony and exhibits of Petitioner and the OUCC were admitted into evidence without objection. No member of the public appeared or sought to participate 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 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") and 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. Petitioner seeks relief 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 the 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 and cost estimate (with the exception of the approximately $23 million in incremental upsizing costs), and the proposed implementation schedule, are 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 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 §8-1-8.8-12. 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 LCM Rider proceeding ("LCM 1") the Commission bifurcated the proceeding. In the first phase of the LCM 1 proceeding, the Commission granted interim approval of I&M's proposed LCM 1 Rider rates and charges in its December 30, 2013 Order in 44182 LCM 1. In the second phase of the LCM 1 proceeding, the Commission granted approval of I&M's First Ongoing Review Progress Report, as well as final approval of I&M's proposed LCM 1 Rider rates and charges, in the Commission's May 28, 2014 Order in 44182 LCM 1 ("LCM 1 Order").

In this second LCM Rider proceeding ("LCM 2"), Petitioner seeks approval of its Second Ongoing Review Progress Report, approval of its proposed LCM 2 Rider rates and charges, and other related relief associated with its LCM Project.

4. <u>Ongoing Progress of the LCM Project</u>. 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® LLC ("E3"), concerning the LCM Project ongoing review progress report.

Mr. Schoepf noted 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 sponsored sub-exhibits containing the following information that the Commission required I&M provide in each LCM Rider filing:

1. Updated sub-project phase designations;
2. Updated sub-project cost estimates;
3. Updated risk reserve registers showing identified and quantified risks for any sub-project;
4. Transfers of any "savings" from one sub-project to another;
5. Use of any "management reserve" dollars for any sub-project;
6. Expenditures to date, by sub-project;
7. Percent complete to date, by sub-project;
8. LCM Project timeline showing major tasks and major milestones;
9. Schedule changes;
10. Copies of major contracts entered into relating to the LCM Project;
11. Discussion of any major scope changes determined to be necessary; and
12. Discussion of major issues, problems, challenges.

Mr. Schoepf provided the current status of the LCM Project as of December 31, 2013, including actual and forecasted capital project costs. He noted that as of December 31, 2013, seventeen (17) LCM sub-projects had been completed and placed in service, at a total cost of $98 million, which was a cost variance of $32.2 million (24.7 percent) compared to the Estimate at Completion ("EAC") value of $130.2 million. He noted that I&M will utilize this variance to offset cost increases on other sub-projects. The LCM Project expenditures through December 31, 2013, totaled $317.6 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 on time and on

budget. Mr. Schoepf stated I&M's project management process is functioning as intended and the LCM Project is within the total EAC filed in Cause No. 44182 (and as revised in Cause No. 44182 LCM 1). He 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. Therefore, the current variance will be held in accordance with the contingency process approved by the Commission as capital funding within the overall LCM Project. He testified that allowing I&M to do so has allowed the Company not to use any of its approved Management Reserve at this time. The current revised LCM Project cost estimate is $1,145,346,162 (upon removing all upsizing costs and Allowance for Funds Used During Construction ("AFUDC")). Therefore, with the upsizing costs removed, the current EAC is $1.124 billion.

Mr. Schoepf explained changes in sub-project schedules and discussed current challenges. There have been seventeen (17) schedule changes made since those identified in the LCM 1 proceeding. Of these seventeen, twelve (12) sub-projects have been pushed out and five (5) have been pulled forward. I&M is managing the revised schedules so that the LCM sub-projects will be completed by the end of 2018. Mr. Schoepf explained that while there have been project successes, there have also been project challenges and major scope changes, including two sub-projects that have experienced cost increases, namely: (1) the Ice Machine, Glycol Chillers and Ice Condenser System, which was rescheduled to another outage schedule because there was a concern about the time needed for installation, and the cost estimates rose because of installation charges based on final design; and (2) U1 and U2 Seismic Monitoring System, because of the necessary installation of two additional seismic monitors, deemed necessary after the Fukushima seismic event. Mr. Schoepf further noted that at this time, no additional LCM sub-projects have been cancelled since the three sub-projects previously identified in LCM 1.

Mr. Schoepf further noted that additional LCM Project changes are being tracked. Changes in project scope, schedule, or cost are facilitated through completion of a Project Change Request Form ("PCRF"), and I&M maintains a PCRF log which contains a substantial amount of information in summary form. He said this information is reviewed by the Independent Monitor for the LCM Project.

Mr. Schoepf noted that the Independent Monitor had given positive reviews in relation to the LCM Project's performance; he also noted, however, that the Independent Monitor expressed an area of concern regarding a lack of sufficient details for cost variances on each completed sub-project where costs have exceeded their original, as-filed estimates. In response to this concern, I&M has worked with E3 to develop a LCM Sub-Project Cost Variance Report which provides additional details on costs, and the first such report was given to E3 in March 2014.

Mr. Schoepf concluded that the LCM Project and its associated sub-projects are progressing as anticipated. The Company is on track to complete the remaining sub-projects on time and on budget.

Mr. Galambas described E3's role as the Independent Monitor for the LCM Project. E3, serving as I&M's, the Commission's, and the Michigan Public Service Commission's ("MPSC") Independent Monitor, will conduct a multi-task Independent Monitor review that focuses on the cost and scheduling aspects of the LCM 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:

1. Additions or changes in Project contracts/Project scope;
2. Delays and or suspensions of work;
3. Labor rates;
4. Labor productivity;
5. Commodity material costs;
6. Performance of the contractors; and
7. Any other changes that impact the costs of the LCM Project.

Mr. Galambas explained that as an Independent Monitor, one of E3's major roles is to prepare LCM Project Semi-Annual Progress Reports ("SAPRs"), describing the status of the cost and schedule for the LCM Project. The Independent Monitor Agreement also requires E3 to participate in regulatory proceedings, communicate regularly, and provide oral and written reports as required by I&M. Over the course of the Project, E3 will continue the current methodology consisting of monthly meetings, issuing monthly reports and SAPRs, making bi-monthly visits to the Cook Plant to observe construction progress, review and tabulate the PCRFs, review the cost reports for each sub-project that exceeds its original LCM budget, and understand and evaluate the prudence of any cost increases, review the cost and schedule documents, evaluate the LCM Team's management of the Project, and ask discerning questions.

Mr. Galambas sponsored and described the March 2014 SAPR that E3 prepared, which includes E3's analysis of the current situation and observations of the actual construction through the December 31, 2013 period. Mr. Galambas noted that E3 has had access to sufficient information to support its responsibilities as Independent Monitor, and noted that whenever E3 lacked sufficient information on any specific issue, E3 requested this information from I&M and it was provided in sufficient detail to meet the needs of its inquiry. E3 raised a concern with I&M regarding documenting the specific reasons why a sub-project had exceeded its original cost estimate, then E3 worked with the LCM Team to set up a form that documents the details and major reasons for cost variances on each sub-project. The first LCM Sub-Project Cost Variance Report was provided to E3 in March 2014. E3 plans to use these cost variance reports throughout the LCM Project for sub-projects that exceed their estimated cost. Mr. Galambas noted that only six (6) of the seventeen (17) completed sub-projects exceeded their original budget as of December 31, 2013. Mr. Galambas concluded that the LCM Team appears to have strong managerial control over all aspects of the LCM Project. E3's review of the cost information that is available for each of the LCM sub-projects revealed that the costs are well documented and includes most of the necessary details, and that the LCM sub-project scheduling process reflects the level of detail expected in the nuclear industry.

B. OUCC's Evidence. OUCC witness, Michael D. Eckert, a Senior Utility Analyst in the Electric Division at the OUCC, noted that I&M was directed in the LCM Order to provide to the Commission and the parties certain information with respect to the LCM Project in ongoing review reports in conjunction with the Company's LCM Rider filings, and that I&M has fulfilled that obligation. Mr. Eckert also noted that I&M had fulfilled its requirement to address the current status of the LCM Project, and particularly any problems, changes, or material changes in the LCM Project cost estimate. However, Mr. Eckert stated that the OUCC was not able to conduct any further analysis using E3's SAPR due to the data provided by E3 in this proceeding being nearly identical to the data provided in Cause No. 44182 LCM 1. Mr. Eckert recommended that the Commission consider shifting the reporting cycle currently followed by the LCM Project's Independent Monitor.

C. Petitioner's Rebuttal Evidence. I&M witness Schoepf addressed OUCC witness Eckert's assertion that the same data was submitted in this Cause as in LCM 1, stating that while the format and some of the report details were similar in nature, different project data was in fact reviewed and submitted. Furthermore, the time periods covered were completely different in the two reports submitted thus far by E3. Mr. Schoepf further explained that the LCM 1 proceeding was longer than I&M initially anticipated and was processed in two phases. As a result, the final evidentiary hearing in the LCM 1 case was held almost 5 months after the Company's LCM 1 petition and testimony (including the Independent Monitor's report) were filed with the Commission. In addition, at that hearing in late February 2014, the Independent Monitor witness, James Galambas, was granted permission to orally update the Commission on E3's project review – and he did not limit his update to the LCM 1 review period (which ended June 2013).

Mr. Schoepf further disagreed with the OUCC's recommendation to shift the Independent Monitor's reporting cycle, noting that it is beneficial to maintain I&M's and E3's reporting on the same cycle. He stated that E3 was purposefully requested to prepare and submit their SAPR's in conjunction with the on-going six-month LCM Project filing updates. By maintaining the same reporting cycle, the Commission and other parties to this proceeding are able to more clearly perform a side-by-side comparison of data as submitted by I&M and further reviewed by E3. He stated that the six-month updates already provided by both I&M and E3 keep the Commission abreast of any project concerns within a timely manner.

5. <u>Ratemaking and Accounting Issues</u>. I&M requests that the Commission approve adjustments to its retail electric rates to reflect both actual incurred and future projected LCM Project-related costs, via its LCM Rider, consistent with Indiana Code §§ 8-1-8.8-11 and -12 and the LCM Order. With respect to the LCM Rider, I&M specifically requests that the Commission authorize it to include in its retail electric rates: (a) I&M's actual costs, including pre- and post-in-service financing costs, post-in-service incremental depreciation expense, and incremental property tax expenses, incurred with respect to the LCM Project, from July 1, 2013 through December 31, 2013; (b) I&M's forecasted costs, including pre- and post-in-service financing costs, post-in-service incremental depreciation expense, and incremental property tax expenses, to be incurred with respect to the LCM Project, for the period July 1, 2014 through December 31, 2014; and (c) associated study, analysis, and development costs related to the LCM Project, as approved in the LCM Order. I&M proposes that such LCM Rider rates be implemented effective as of the first billing cycle for the billing month of July 2014 or the first full billing month following a Commission Order in this proceeding. I&M further proposes that deferred amounts, as described above, be amortized on a straight line basis beginning in July 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.

A. Petitioner's Case-in-Chief Evidence. Petitioner presented testimony of Christopher M. Halsey and Daniel E. High in support of its proposed LCM 2 Rider rates and charges.

Christopher M. Halsey, Senior Regulatory Consultant for I&M, testified concerning the revenue requirement for costs that I&M has incurred through December 31, 2013, and is forecasted

to incur from July 1, 2014 through December 31, 2014 for the LCM Project. Mr. Halsey explained that I&M is not seeking to recover all LCM Rider costs that have been deferred through December 31, 2013, noting 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 incurred incremental depreciation, income taxes, and carrying cost expenses from January 1, 2012 through December 31, 2013.

Mr. Halsey explained in further detail that I&M is requesting the following specific ratemaking treatment that is consistent with the LCM Order:

1) authority to add the amount of I&M's actual and forecasted expenditures for the LCM Project incurred from July 1, 2011 through December 31, 2014, and study, analysis and development costs to the value of the property upon which the Company is authorized to earn a return;

2) authority to recover through the LCM Rider the amortization of the deferred carrying costs, deferred incremental depreciation expense and deferred property tax expense related to such property incurred during the Actual Period, amortized on a straight line basis starting January 1, 2014 (commencement of the LCM Rider) through December 31, 2019 (six years);

3) authority to recover through the LCM Rider the carrying costs, incremental depreciation expense and property tax expense forecasted from July 1, 2014 through December 31, 2014 related to the LCM sub-projects either in service on December 31, 2013 or forecasted to be in service by December 31, 2014 (excluding any upsizing costs);

4) authority to recover through the LCM Rider the carrying costs on construction work in progress ("CWIP").

Mr. Halsey explained the process to calculate incremental Indiana jurisdictional LCM depreciation expense, carrying costs, and property taxes for the period July 1, 2014 through December 31, 2014. Mr. Halsey explained that I&M's incremental depreciation expense of $1,486,291 was calculated on a monthly basis for January 2012 through December 2013, using the prior month-end incremental depreciable plant balances since June 30, 2011. Mr. Halsey also explained that I&M's post-in-service carrying costs of $3,873,400 were also calculated on a monthly basis for January 2012 through December 2013. The calculation of I&M's carrying cost factor is consistent with Cause No. 44075, and uses actual cost of capital elements as of December 31, 2013 and the return on equity cost rate of 10.2% approved in Cause No. 44075, as shown in Petitioner's Exhibit CMH-7, and the amortization calculation from the LCM 1 filing has been updated to be 72 months instead of 60 months, as shown on Petitioner's Exhibit CMH-4, p.4. Mr. Halsey also explained that I&M's incremental property tax expense of $233,546 was calculated on a monthly basis for the period January 2013 through December 2013. Mr. Halsey noted that I&M updated the forecasted depreciation expense, property tax expense and carrying cost deferrals with actual amounts incurred and reflected the difference in the amortization schedule in Petitioner's Exhibit CMH-5.

Mr. Halsey explained that all of the sub-projects in service prior to January 1, 2014 include an AFUDC amount on CWIP until the time the sub-project was placed in service. Starting January

1, 2014, I&M began collecting a return on CWIP and therefore I&M ceased accruing AFUDC. Mr. Halsey also explained that the Bridge Period from LCM 1 (July 1, 2013 through December 31, 2013) will be trued-up in the next LCM filing. The six-month amortization amount has been updated for the LCM 2 filing to reflect the actual accounting records in the LCM 1 filing. He stated the six-month amortization costs were calculated to be $481,744 and after updating to the accounting actual, the LCM 2 filing six-month amortization costs are $466,103, which will be the set amount in future LCM Rider proceedings. Mr. Halsey also explained that I&M did not include any upsizing related costs in plant in-service and thus there is no incremental depreciation expense, post-in-service carrying costs or incremental property tax expense related to the upsizing included in the Indiana jurisdictional under recovery balance.

Mr. Halsey explained that I&M is seeking to implement the LCM 2 Rider factors set forth in Petitioner's Exhibit DEH-3, which result in semi-annual LCM Rider revenues of $14,432,354 as shown on Petitioner's Exhibit DEH-2. I&M seeks to make the LCM 2 Rider factors effective for all bills rendered for electric services beginning with the first billing cycles for July 2014 (June 30, 2014). Such adjustment factors, upon becoming effective, shall remain in effect for approximately six (6) months or until replaced by different adjustment factors that are approved in a subsequent filing.

Mr. Halsey concluded that upon implementation, residential customers using 1,000 kWh of electricity per month would experience a monthly rate increase of $0.39 or 0.4%. I&M will true-up the LCM 1 Rider forecast period in the next LCM Rider filing. 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.

Daniel E. High, Senior Regulatory Consultant for AESPC, testified concerning the Company's calculation of the LCM Rider and explained the methodology for updating the LCM Rider semi-annually. Mr. High explained that the LCM Rider cost calculation consists of two components. The first component is the actual cost through December 2013. The second component is the projected LCM costs for the period July 2014 through December 2014. He noted these actual and forecasted costs were supported by Mr. Halsey. Mr. High stated that 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 expected in September 2014. This is expected to incorporate the reconciliation of actual costs to actual billing under the LCM Rider through June 2014.

Mr. High noted that in his Exhibit DEH-1, 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 LCM 2 Rider filing are demand related. He stated once the costs are allocated to each tariff class an energy rate is calculated using the forecast billing energy for that class. The billing energy is a forecast for the six (6) months of July through December 2014, the period during which the factors are anticipated to be in effect. He sponsored the rate calculation shown in Petitioner's Exhibit DEH-2. Mr. High testified that his calculations also reflect the rate design and incremental demand revenue credits associated with the special contract with Steel Dynamics, Inc. ("SDI"), which was determined using the credit derivation methodology used in the Company's previous LCM 1 filing approved by the Commission, and is consistent with the Commission's Order in Cause No. 44256.

B. The OUCC's Evidence. OUCC witness Eckert took issue with Petitioner's calculation of carrying costs for the LCM Project, stating that if Petitioner did not net retirements against gross additions, Petitioner would recover through the LCM Rider carrying costs on new plant additions and, through base rates, the retired equipment. Mr. Eckert argued that this calculation was not consistent with the calculation of depreciation and property tax expense. Mr. Eckert argued that Petitioner should not be allowed to recover a return on both the new plant and the retired plant, and recommended that the Petitioner use a net investment figure for the calculation of post-in-service carrying costs like it used in the calculation of depreciation expense.

Mr. Eckert also noted that two issues came to his attention during the review of Petitioner's LCM Rider calculation. The first was in response to a discovery request about the SDI Revenue Credit. Petitioner stated that an error was discovered that resulted in an immaterial reduction in the surcharge factors shown in Petitioner's Exhibit DEH-2, but that the Company's filing in Cause No. 44182 LCM 4 will reflect the necessary corrections. The second concerned the LCM-tracker-eligible CWIP balance as of December 31, 2013. The CWIP balance for Cook Unit 1 and Cook Unit 2 included removal costs instead of AFUDC. Thus, the rates filed in this Cause were based on an understated CWIP balance ($205,593,325). He stated Petitioner indicated the correct CWIP balance ($219,638,678) will be utilized during the over/under reconciliation process. The difference will impact customer rates when the over/under balance is first included in the development of LCM Rider rates.

Mr. Eckert noted that ultimately the OUCC recommends that the Commission: require Petitioner to use a net investment figure in the calculation of the LCM post-in-service carrying costs, and approve Petitioner's LCM Rider.

C. Petitioner's Rebuttal Testimony. Mr. Halsey responded to 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 stated that I&M is following proper accounting and rate-making procedures by requesting a return on its gross investment in the LCM investments. Mr. Halsey claimed that Mr. Eckert's testimony provides an incomplete portrayal of the accounting and regulatory processes used by I&M and other utilities to accrue depreciation and book retirements and the effect of those processes on customer rates. In Mr. Halsey's opinion, it would be improper rate-making to reduce the value of the new equipment by the original cost of the replaced equipment because that approach fails to recognize proper accounting for retirements of depreciable property and would cause I&M financial harm by the disallowance of a return on the gross LCM investment before it is included in the next base rate case.

Mr. Halsey also emphasized that this issue was addressed in I&M's request for approval of the LCM Project in Cause No. 44182. He stated it would be inappropriate and unwarranted for the Commission to reverse its previous findings.

6. <u>Commission Discussion and Findings</u>.

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

to the Commission and the parties the following information with respect to LCM Project at six-month intervals in ongoing review reports in conjunction with the Company's LCM Rider filings:

1. Updated sub-project phase designations;
2. Updated sub-project cost estimates;
3. Updated risk reserve registers showing identified and quantified risks for any sub-project;
4. Transfers of any "savings" from one sub-project to another;
5. Use of any "management reserve" dollars for any sub-project;
6. Expenditures to date, by sub-project;
7. Percent complete to date, by sub-project;
8. LCM Project timeline showing major tasks and major milestones;
9. Schedule changes;
10. Copies of major contracts entered into relating to the LCM Project;
11. Discussion of any major scope changes determined to be necessary; and
12. 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 second semi-annual LCM Rider and ongoing review progress report proceeding related to the LCM Project. As noted above, 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 required by the LCM Order. The third party Independent Monitor presented testimony that I&M is being 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 all aspects of the LCM Project. The Independent Monitor also provided an overall briefing of the LCM Project and an update on the process for obtaining and reviewing information related to sub-project cost variances. In addition, the Independent Monitor provided clarification and updates prior to the hearing in response to the Commission's June 3, 2014, Docket Entry. The response addressed his subsequent reviews of LCM Sub-Project Cost Variance Reports for six completed projects which exceeded their original budgets. The response indicated that the Independent Monitor had no issue with the explanations provided.[1]

Based on the evidence presented, including the information provided by Mr. Schoepf and the third party Independent Monitor, we find that the Company has adequately satisfied the information reporting requirements to the Commission for purposes of these review proceedings as specified in the LCM Order. Accordingly, we approve Petitioner's second ongoing review progress report.

As to the OUCC's concern regarding Commission consideration of shifting the reporting cycle currently followed by the LCM Project's Independent Monitor, the Commission finds that the current reporting cycle should remain the same at this time. Rather than recommend a new

[1] Petitioner's Exhibit DE.

reporting cycle, the OUCC merely indicated that the Commission should "narrow the lag between I&M's LCM cost and project management data cycle and E3's SAPR cycle to provide the parties with more up-to-date data and information for review."[2] Absent a more developed and supported alternative schedule, the Commission does not see sufficient basis at this time to change the reporting cycle that was proposed and utilized in the initial LCM proceeding. Based on the current record, it appears helpful to maintain I&M's and E3's reporting on the same cycle and finds the present schedule reasonably accomplishes this. By keeping the same reporting cycle, the Commission and other parties to this proceeding are able to more clearly perform a side-by-side comparison of data as submitted by I&M and further reviewed by E3. Separate reporting cycles may lead to confusion. The Commission believes that the current six-month updates provided by both I&M and E3 keep the Commission abreast of any project concerns within a timely manner. Further, as we noted in LCM 1 Order (at 14), the Independent Monitor is authorized "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 2 Rider Rates. Petitioner's proposed rate adjustment factors are presented on Exhibit DEH-3. The OUCC appears to have only one concern regarding the proposed LCM Rider rates in this proceeding, and otherwise agreed that the Commission should approve the LCM 2 Rider as proposed. The OUCC took issue with I&M's calculation of LCM Project carrying charges on a gross rather than a net investment basis. This issue was previously addressed in the LCM Order and again in the LCM 1 Order. Lacking any new evidence concerning this issue, we see no reason to depart from our prior rulings.

Having approved the Company's first ongoing review progress report, and having rejected the ratemaking changes proposed by the OUCC, we find that the evidence supports approval of Petitioner's proposed LCM Rider rates. As a condition of this approval, Petitioner shall 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.

7. <u>Petitioner's Request for Confidential Treatment</u>. On March 18, 2014, Petitioner filed a Motion for Protection of Confidential and Proprietary Information ("Motion"), 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 March 20, 2014, 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:

---

[2] OUCC Exhibit 2.

1. Petitioner's second LCM Project ongoing review progress report is approved.

2. Petitioner is authorized to charge its proposed LCM 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.

3. 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.

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

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

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

APPROVED: JUN 30 2014

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

Brenda Howe

Brenda Howe
Secretary to the Commission