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 THIRD 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 2015 THROUGH JUNE 2015, 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 3** **APPROVED:** DEC 30 2014

ORDER OF THE COMMISSION

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

On September 15, 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 September 16, 2014, I&M pre-filed the redacted (non-confidential) case-in-chief testimony and exhibits of: Q. Shane Lies, Engineering Vice President at the D.C. Cook Nuclear Plant; Jeffrey Brubaker, Director of Regulatory Accounting Services for American Electric Power Service Corporation ("AEPSC"); Christopher Halsey, a Senior Regulatory Consultant in the Company's Regulated Services Department; and Teresa Caudill, a Principal Regulatory Consultant in Regulated Pricing and Analysis for AEPSC. Also on September 16, 2014, I&M submitted testimony from the Independent Monitor James W. Galambas, Executive Director of E3 Consulting® LLC ("E3"), and Ernest Erickson, an Executive Consultant with E3.

On September 16, 2014, I&M filed its Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which the Presiding Officers granted by Docket Entry on September 26, 2014. Subsequently, on October 2, 2014, I&M filed its confidential case-in-chief testimony and exhibits. On October 8, 2014, I&M filed confidential and public versions of

the Company's Semi-Annual Progress Report ("SAPR") prepared for the Michigan Public Service Commission.

On November 20, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the direct testimony of Ronald L. Keen, Utility Analyst, and Michael D. Eckert, Senior Utility Analyst. On December 3, 2014, I&M filed a notice indicating that it was not filing rebuttal testimony in this proceeding.

An evidentiary hearing was held at 1:30 p.m. on December 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 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. Notices of the hearings in this case were 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") 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 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") 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, the associated 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 this third LCM Rider Proceeding ("LCM 3"), I&M seeks: (1) approval of its Third Ongoing Review Progress Report for the LCM Project; (2) Commission authorization to reflect actual LCM Project expenditures through June 30, 2014, (including deferred amounts, pre- and post-in-service financing costs, incremental depreciation expenses, incremental property tax expenses, study, analysis and development costs, and Independent Monitor costs), as well as forecasted LCM Project expenditures and associated costs through June 30, 2015, in its retail electric rates via the LCM Rider, consistent with the LCM Order; (3) authority to increase its authorized net operating income for fuel adjustment clause ("FAC") earnings test purposes to reflect LCM Project earnings; (4) confidential treatment for certain confidential and proprietary information submitted in this Cause; and (5) other relief as may be appropriate.

With respect to the LCM Rider, I&M specifically requests that the Commission authorize it to adjust its retail electric rates to reflect: (1) additions to the value of the property upon which the Company is authorized to earn a return representing the amount of I&M's actual and forecasted expenditures for the LCM Project incurred from July 1, 2011 through June 30, 2015, along with study, analysis and development costs; (2) amortization of the deferred carrying costs, deferred incremental depreciation expense and deferred property tax expense related to such property incurred January 1, 2012 through December 31, 2013, amortized on a straight line basis starting January 1, 2014 (commencement of the LCM Rider) through December 31, 2019 (six years); (3) recovery of carrying costs, incremental depreciation expense and property tax expense forecasted from January 1, 2015 through June 30, 2015 related to the LCM sub-projects either in-service on June 30, 2014 or forecasted to be in-service by June 30, 2015 (excluding any incremental upsizing costs); (4) recovery of carrying costs on Construction Work in Progress ("CWIP"); (5) reconciliation of the actual revenues and costs for January 1, 2014 through June 30, 2014; and (6) amortization and recovery of Independent Monitor costs and associated carrying costs.

4. <u>Ongoing Progress of the LCM Project</u>.

A. Petitioner's Case-in-Chief Evidence. Mr. Q. Shane Lies testified that he is responsible for providing overall management and oversight of the Engineering (Plant and Design) and Projects Departments at the Cook Plant.

Mr. Lies sponsored exhibits containing information that the Commission required I&M to provide in each LCM Rider filing, notably:

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. Lies provided the current status of the LCM Project as of June 30, 2014, including actual and forecasted capital project costs, explanations of significant changes in sub-project cost estimates and schedules, major scope changes, and a discussion of current challenges. He noted that as of June 30, 2014, 21 LCM sub-projects had been completed and placed in service, at a total cost of $116.6 million, compared to the original Estimate at Completion ("EAC") value for these sub-projects of $154 million. He stated that these cost reductions have been used to offset cost increases associated with other sub-projects. Mr. Lies also testified that there are 14 more sub-projects scheduled to be completed in 2014. Actual expenditures through June 30, 2014, for completed and in-progress sub-projects total approximately $373 million (excluding Allowance for Funds Used During Construction ("AFUDC")). Mr. Lies testified that the LCM Project is progressing as anticipated and on track to be completed within the 2018 timeframe. In addition, 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 ("LCM 1").

Mr. Lies explained that the LCM Project's current EAC is approximately $1.137 billion, as of June 30, 2014, including Management Reserve. Mr. Lies also noted that the revised approved LCM Project cost estimate is $1,145,346,162, which is the updated value approved in LCM 1. Mr. Lies explained the variance between the current EAC and the revised LCM Project Cost estimate, and noted that the current EAC of $1.137 billion includes $22.6 million in upsizing costs; however he also testified that these upsizing costs have been removed for ratemaking purposes. This indicates a favorable variance of $31 million thus far for the LCM Project. Mr. Lies explained that, in addition to the upsizing costs, other contributing factors for this variance between the EAC and the LCM Project cost estimate include rebidding some of the sub-projects and effective cost control measures.

Mr. Lies explained that $19,111,397 in Management Reserve funds have been approved by the Company for use as of June 30, 2014. He said these funds are being used for structural steel fixes associated with the Unit 1 High Pressure Feedwater Heaters. Mr. Lies testified that the Cook Plant's turbine building floor loading calculations have minimal margin and evaluation showed that the new Feedwater Heaters are heavier than what can be supported by the turbine building without taking additional measures. Accordingly, the weight of the Feedwater Heaters requires the reinforcement of supporting beams to carry the increased load and replacement haul path, and satisfy seismic requirements. Mr. Lies testified that similar Management Reserve funds, in the amount of $19,149,178, are expected to be used for the same structural issue present on the Unit 2 High Pressure Feedwater Heaters.

Mr. Lies explained that even though the LCM Project actually has a $31 million favorable variance to date, Management Reserve funds were approved for use because the additional steel that needs to be purchased for Units 1 and 2 would have exhausted the entirety of the variance, and these structural steel fixes are precisely the type of occurrence for which Management Reserve is intended to be used. Further, Mr. Lies testified that the Company has internally required that all of the defined levels of I&M senior management approve any and all uses of Management Reserve, and that this process was utilized with respect to approval of use of Management Reserve for the Feedwater Heater Units 1 and 2 structural steel fixes.

Mr. Lies explained the changes in sub-project schedules and discussed current challenges. Mr. Lies explained there have been 33 schedule changes made since those identified in Cause No. 44182 LCM 2 ("LCM 2"). Of these changes, 23 have been pushed out, seven have been pulled forward, and three shifted between outage and online implementation in the same calendar year. For the majority, the schedule adjustment was made to minimize operational risk to the plant and levelize resources. Mr. Lies further explained there are 22 LCM sub-projects that are being deferred for various reasons, including but not limited to, showing minimal to no signs of degradation (even though end of design life is approaching).

Mr. Lies testified that while there have been a multitude of LCM Project successes, there have been project scope changes and some challenges. He cited as an example, the Units 1 and 2 Condensate Polishers; for which, after careful consideration, it was determined that the benefits of the projects would not justify the costs. Accordingly, the scope of these projects has changed in order to achieve the objective of improved secondary water chemistry. He noted another example was the determination discussed earlier that the Feedwater Heaters require more reinforcement through structural steel modifications, resulting in a substantial cost increase. Mr. Lies testified that one additional sub-project has been cancelled entirely, Unit 2 MSR Valve and Piping Optimization. He stated that evidence has shown there is no longer a need to replace the drain lines. Mr. Lies sponsored exhibits describing sub-project schedule changes and current challenges, as required by the LCM Order.

Mr. Lies concluded that the LCM Project and its associated sub-projects are progressing as anticipated. In addition, the Company is on track to complete the overall LCM Project on time and on budget.

Mr. James W. 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 Independent Monitor, conducts 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 related to the following:

1. Additions or changes in LCM Project contracts/LCM 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 a LCM Project SAPR 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 LCM 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, reviewing and tabulating the Project Change Request Forms, reviewing the cost reports for each sub-project that exceeds its LCM Original Budget to understand and evaluate the prudence of any cost increases, reviewing the cost and schedule documents, evaluating the LCM Team's management of the Project, and asking discerning questions.

Mr. Galambas sponsored and described the September 2014 SAPR that E3 prepared, which includes E3's analysis of the current situation and observations of the actual construction through the June 30, 2014 period. Mr. Galambas testified 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.

Mr. Ernest A. Erickson also provided testimony on behalf of the Independent Monitor. He indicated that he is E3's nuclear consultant for the independent monitoring services provided with respect to the LCM Project and is responsible for evaluation of project schedule and actual progress. Mr. Erickson noted that some of his roles with respect to LCM Project oversight include: providing input in the SAPRs, monthly progress reports, and weekly project management reports; attending the monthly progress meetings and touring the site to observe first-hand the progress that has occurred; asking discerning questions during the monthly progress meeting; and providing written and oral reports.

B. OUCC's Case-in-Chief Evidence. Mr. Michael D. Eckert provided an overview of the relief requested by I&M in this proceeding as well as applicable requirements from the LCM Order. Mr. Eckert noted that I&M included a schedule for the completion of the LCM Project and provided the amount of capital investment in the facility. He further noted that I&M is not seeking Commission approval for expected LCM Project cost increases in this proceeding. Mr. Eckert testified that, based upon Mr. Lies' testimony, I&M is currently projecting a total LCM Project cost at completion of $1.137 billion, including Management Reserve and incremental upsizing costs. After removing the approximately $23 million in upsizing costs, the current estimate at completion is $1.114 billion, compared to the total LCM Project cost of $1.146 billion approved by the Commission. Mr. Eckert further testified that I&M has engaged an Independent Monitor to assist the Commission and the parties with the ongoing review process. He concluded that, based upon his review, I&M's filing has been prepared in accordance with the LCM Order.

Mr. Ronald L. Keen explained his analysis of the total project and the individual sub-project costs. He testified that the current status of the LCM Project, as of September 2014, includes: 43 sub-projects in Phase I; three in Phase IIa; eight in Phase IIb; 11 in Phase II; and 21 sub-projects in Phase IV. He noted that 23 sub-projects were not designated by a specific phase due to their relative minor size and total cost. Eight sub-projects were shown as having $0 budgeted toward completion of the project, indicating they were cancelled or rolled into another sub-project for various reasons.

Mr. Keen testified that one sub-project – Unit 2 Heater Drain Pump Discharge valves – called for special attention, as it showed a significant increase in forecasted costs between 2013 and 2014. He testified that, in technical discussions with the Company, it was satisfactorily explained to the OUCC that once inspections were conducted and the project package reviewed, additional and significant infrastructure work was necessary to complete the project, accounting for the increase.

Mr. Keen testified that the OUCC does not have any concerns regarding the progress of the sub-projects at this point. He stated his overall analysis shows that the Company's total LCM Project cost (not including Management Reserve) has increased approximately 1% above what was projected as of the Company's 2012 "snapshot" of sub-project costs. Mr. Keen further testified that the OUCC is not concerned about the Company's deferral and review of sub-projects; however, the OUCC will continue to monitor the progress of each sub-project as well as the overall portfolio. He emphasized that, as I&M reviews the deferred sub-projects, the OUCC expects continued transparency about the movement of funds between and among the sub-projects, including describing any cost savings from sub-project cancellations or combinations.

Mr. Keen concluded by stating that, upon examining the 2012 through 2014 sub-project cost data, he continues to believe that I&M is adequately managing the overall project portfolio, and that the OUCC will continue to monitor individual sub-project costs and conduct further investigation as additional data is received for the next reporting period.

5. <u>Ratemaking and Accounting Issues</u>.

A. Petitioner's Case-in-Chief Evidence. Mr. Christopher M. Halsey testified concerning the LCM 3 revenue requirements, providing an overview of the ratemaking relief I&M is seeking in this Cause and total LCM 3 revenue requirements, and specifically supporting the revenue requirement for the costs that I&M is forecasted to incur from January 1, 2015 through June 30, 2015 for the LCM Project.

Mr. Halsey explained the specific ratemaking relief that I&M seeks. He said I&M requests authorization to add the amount of I&M's actual capital expenditures for the LCM Project Actual Period, from January 1, 2014 through June 30, 2014, to the value of the property upon which I&M is authorized to earn a return. I&M also requests that its retail electric rates be adjusted, via the LCM Rider, to include the revenue effect of such additional investment. Further, I&M seeks to reflect the forecast of capital investment costs from January 1, 2015 through June 30, 2015 (which is the period the LCM 3 Rider will be in effect) in its LCM Rider rates. In particular, I&M requests approval of 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 includes carrying costs associated with the LCM Project's CWIP investment starting in January 2014, when the initial LCM Rider factor went into effect and I&M ceased recording AFUDC on the LCM Project CWIP.

Mr. Halsey explained that I&M is not seeking in this proceeding to recover all LCM Rider costs that have been deferred, noting that costs incurred prior to 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 that the total revenue requirement is used to establish the LCM Rider rates that are expected to be in effect from approximately January 1, 2015 through June 30, 2015, or until replaced by subsequent factors.

Mr. Halsey explained the inclusion of the Independent Monitor's fees in the LCM Rider rates. Mr. Halsey noted that the LCM Order provides that reasonable costs associated an Independent Monitor may be recovered via the LCM Rider. Accordingly, I&M has deferred the Independent Monitor costs incurred each month along with carrying costs on the outstanding deferred balance. Mr. Halsey stated that I&M has included the amortization of the deferred Independent Monitor costs balance as of August 2014 plus related carrying costs in the LCM Rider rates. He stated these costs were amortized over the six-month LCM 3 rate period. In each subsequent LCM filing, I&M will amortize Independent Monitor costs incurred during the applicable six-month period, including carrying costs, over the six-month LCM Rider rate period.

Mr. Halsey explained the process to calculate incremental Indiana jurisdictional LCM Project depreciation expense, carrying costs, and property taxes for the period January 1, 2015 through June 30, 2015. He explained that I&M's carrying cost factor was calculated using the return on equity cost rate of 9.95% pending Commission approval in the settlement of Cause No. 43774 PJM 4.[1] He also explained that I&M has not included any incremental upsizing costs in plant in-service and thus there are no depreciation expenses, post-in-service carrying costs, or incremental property taxes related to the upsizing included in the Indiana jurisdictional under/(over) recovery balance.

Mr. Halsey noted that I&M is requesting to implement LCM Rider rates as set forth in Petitioner's Exhibit 4, Attachment TAC-2. These factors will result in semi-annual LCM Rider revenues of $18,857,226. Mr. Halsey noted that I&M provided the OUCC with the standard audit package for the OUCC.

Mr. Jeffrey L. Brubaker testified in support of I&M's Indiana jurisdictional LCM Project "true-up" or reconciliation of the actual revenues and costs incurred during the period January 1, 2014 through June 30, 2014 ("the reconciliation period") which I&M is requesting to include in the LCM Rider. He said I&M's LCM Project costs requested to be reconciled in the LCM Rider

[1] The Commission approved the settlement in Cause No. 43774 PJM 4 on October 1, 2014. A term of the settlement reduces the return on equity component of the weighted average cost of capital from 10.2% to 9.95% in I&M's capital riders for January 1, 2015 through December 31, 2107.

include incremental depreciation expense, incremental property tax expense, post-in-service financing costs, CWIP financing costs, and carrying costs on E3 Independent Monitor costs incurred during the reconciliation period. I&M's LCM Project costs during the reconciliation period also include the amortization of the December 31, 2013 Indiana jurisdictional LCM Project deferred balances for carrying charges, depreciation and property tax over a six-year period as approved in the Commission's December 30, 2013 Order in LCM 1.

Mr. Brubaker testified that I&M is requesting to reflect in the LCM Rider a $958,048 over recovery of LCM Project costs during the reconciliation period. Mr. Brubaker explained the methodology I&M used to calculate the over recovery by comparing the total incremental costs of $13,595,120 to the LCM Rider revenues of $14,553,168. With respect to the methodology for calculating the Indiana jurisdictional carrying costs, Mr. Brubaker explained that the methodology used was not the same method as was used in LCM 1 and LCM 2. He noted that when the Commission approved I&M's requested rates in LCM 1 and LCM 2, I&M inadvertently calculated carrying costs based only on the prior month ending electric plant in service ("EPIS") and CWIP balances. In this filing, I&M has corrected its carrying costs calculation to correctly recognize the effect current month capital additions and current month depreciation expense have on I&M's actual carrying costs. The carrying costs calculations are based upon the prior month ending EPIS and CWIP balances plus one half of the current month capital additions and current month depreciation expense. He stated this method is consistent with I&M's carrying costs calculations filed in Cause No. 44331 ECR 1, correctly recognizes that I&M incurs financing costs associated with current month capital additions and depreciation, and allows I&M to reflect in rates and recover all approved LCM Project costs. Mr. Brubaker testified that I&M began including current month capital additions and current month depreciation expense in the carrying costs calculations as of January 2014, but did not make any changes to the carrying costs calculations through December 2013 because those deferred carrying costs were approved for recovery in the LCM Order.

Ms. Teresa Caudill testified concerning the Company's calculation of the LCM Rider factors and explained the methodology for updating the LCM Rider semi-annually. She testified that once the costs are allocated to each tariff class, as reflected in Petitioner's Exhibit 4, Attachment TAC-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 January through June 2015, the period during which the factors are anticipated to be in effect. Ms. Caudill sponsored the rate calculation shown in Petitioner's Exhibit 4, Attachment TAC-2. She noted that this exhibit also reflects the incremental demand revenue credit associated with the Company's special contract customer, Steel Dynamics, Inc. ("SDI"), which was derived using the same methodology that was used in previous LCM Rider filings. She stated a portion of SDI's revenues is a credit towards the LCM Project costs, which reduces rider rates for all other customers.

Ms. Caudill explained that an average residential customer using 1,000 kWh of electricity per month would see a monthly rate increase of $0.92 or 0.9%. She stated I&M designed the 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 2015 (December 31, 2014), following Commission approval.

B. OUCC's Case-in-Chief Evidence. Mr. Eckert testified that I&M proposes to credit customers with a $958,048 variance representing the difference between actual LCM Project costs and LCM Rider revenues collected in LCM 1. Mr. Eckert also testified that he reviewed a sample of a September 2014 bill to ensure that I&M correctly implemented the LCM 2 Rider rate. He further testified that I&M's proposed LCM Rider is calculated using actual and forecasted data, including a reconciliation mechanism. In addition, he stated Petitioner calculated its depreciation and property tax expense amounts by multiplying its net investment (gross additions less retirements) by the depreciation rate and the property tax rate. Mr. Eckert stated that if I&M did not net retirements against gross additions, the Company would recover through the LCM Rider, depreciation expense and property tax expense on plant that has been retired because base rates are not adjusted in the LCM proceedings. He testified that generally, base rates are adjusted in a base rate case.

Mr. Eckert also testified that the OUCC does not oppose I&M's proposed change in methodology for calculating Indiana jurisdictional carrying costs or the inclusion of reasonable Independent Monitor costs. Mr. Eckert explained that he reviewed I&M's calculations, including supporting documents, for the proposed LCM Rider rates. He confirmed that I&M provided testimony, as required by the Commission's Orders in Cause Nos. 44256 and 44182, that the investment being recovered from SDI is not being recovered from other jurisdictional customers. He concluded by stating that the proposed change to the LCM Rider factor complies with the Rider approved in the LCM Order.

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 specific LCM Project information to the Commission and parties at six-month intervals in ongoing review reports in conjunction with the Company's LCM Rider filings. The Commission also determined that an independent expert monitor should be engaged by I&M and file update reports in the six-month ongoing review proceedings. The Commission's goal in approving this process was to remain apprised of changes and events in the LCM Project to allow for proactive action if necessary due to any major changes or problems. *See* LCM Order at 62.

In this proceeding, I&M filed its third semi-annual LCM ongoing review progress report related to the LCM Project. Mr. Lies, as the Engineering Vice President responsible for providing overall management and oversight of the Engineering (Plant and Design) and Projects Departments at the Cook Plant, submitted several exhibits and data related to sub-project updates as required by the Commission in 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 on the LCM Project and an update on sub-project cost variances. Specifically, the Independent Monitor

testified that the sub-projects were well managed and that any cost variances were justified and clearly documented.

Based on the evidence presented, we find that I&M 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 Third Ongoing Review Progress Report.

B. LCM 3 Rider Rates. I&M requests 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. Petitioner's proposed rate adjustment factors were presented in Petitioner's Exhibit 4, Attachments TAC-2 and TAC-3, and were explained and supported by I&M's witnesses Halsey, Brubaker, and Caudill. The evidence presented by the Company shows that the proposed rate adjustment factors were calculated in accordance with the LCM Order and accurately reflect actual costs through June 30, 2014, forecasted costs through June 30, 2015, and a reconciliation of actual costs with actual collected revenues. The OUCC agreed that the proposed rate adjustment factors were calculated in compliance with the LCM Order and that the Commission should approve the proposed LCM Rider rates. Based on the evidence presented, we approve Petitioner's proposed LCM Rider rates. As a condition of this approval, Petitioner shall reconcile its forecasted costs to actual costs in future LCM Rider proceedings, as contemplated by the LCM Order and Ind. Code ch. 8-1-8.8. Further, pursuant to the LCM Order, I&M is authorized to adjust its authorized net operating income for purposes of the FAC earnings test to reflect earnings derived from the approval of the LCM Rider rates herein.

7. <u>Petitioner's Request for Confidential Treatment</u>. On September 16, 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 September 26, 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:

1. Petitioner's third 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 4, Attachment TAC-3, until such rates are adjusted in a future LCM Rider proceeding, consistent with Ind. 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, exempted 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, ZIEGNER AND HUSTON CONCUR; MAYS-MEDLEY ABSENT; WEBER NOT PARTICIPATING:

APPROVED: DEC 30 2014

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

Brenda A. Howe

Brenda Howe
Secretary to the Commission