

ORIGINAL



STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN)
POWER COMPANY (I&M), AN INDIANA) CAUSE NO. 44331 ECR 4
CORPORATION, FOR APPROVAL OF AN)
ADJUSTMENT TO ITS RATES THROUGH ITS) APPROVED: SEP 14 2016
FEDERAL MANDATE RIDER (FMR).)

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On June 21, 2016, Indiana Michigan Power Company (“I&M”) filed a Verified Petition initiating this Cause. Also on June 21, 2016, I&M filed the direct testimony and attachments of the following witnesses:

- Christopher M. Halsey, Regulatory Consultant Principal at I&M;
- Franklin R. Pifer, Managing Director of Projects at American Electric Power Service Corporation (“AEPSC”); and
- Jason M. Stegall, Regulatory Consultant Staff in Regulated Pricing and Analysis at AEPSC.

On August 4, 2016, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Wes R. Blakley, Senior Utility Analyst in the OUCC’s Electric Division.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on August 30, 2016 in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. I&M and the OUCC appeared at and participated in the hearing. No members of the general public attended the hearing.

Based on the applicable law and the evidence presented, the Commission finds:

1. Notice and Jurisdiction. Notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. I&M is a public utility as defined in Ind. Code § 8-1-2-1(a) and an energy utility under Ind. Code § 8-1-8.4-3. The Commission’s November 13, 2013 Order in Cause No. 44331 (“44331 Order”) granted I&M a certificate of public convenience and necessity under Ind. Code ch. 8-1-8.4 (“Chapter 8.4”) for I&M’s Rockport Clean Coal Technology (“CCT”) Project to install a Dry Sorbent Injection (“DSI”) system (“Rockport CCT Project”). The Commission also authorized the recovery of the Rockport CCT Project costs as Federally Mandated Costs under Chapter 8.4 and the terms of the Settlement Agreement approved in Cause No. 44331. Therefore, the Commission has jurisdiction over I&M and the subject matter of this Cause.

2. **I&M's Organization and Business.** I&M, a wholly owned subsidiary of American Electric Power Company, Inc., is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M renders 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 electric utility service to the public.

3. **Relief Requested.** I&M seeks Commission approval of an adjustment to its rates through its Federal Mandate Rider ("FMR"), effective with the first full billing month following a Commission order. The proposed FMR factors include reconciliation of the over- or under-collection of actual costs and revenues, along with a forecasted projection of costs, associated with the Indiana Retail Jurisdictional Share of Federally Mandated Costs for the Rockport CCT Project.

4. **Ongoing Reporting and Implementation.** The 44331 Order, as modified by the April 20, 2016 Order in Cause No. 44331 ECR 3, allows I&M to request updates to its FMR on an annual basis. Mr. Pifer testified that both of the DSI systems on Rockport Unit 1 and Unit 2 have been constructed and were placed in service in June and May 2015, respectively. The current total project cost estimate is \$201.5 million, which is an approximate 5.87% reduction from the \$214 million cost estimate approved in the 44331 Order. While some items remain to be completed, the current estimated total project cost is below the cost originally approved for the project.

5. **Amount of Rockport CCT Construction Costs.** I&M's Exhibit 2, Attachment FRP-1 shows the construction costs for which I&M seeks ratemaking treatment in this Cause. We have reviewed the proposed costs, and we find that they are appropriately included in the calculation of the FMR factors.

6. **Rate of Return on Approved Qualified Pollution Control Property Construction Costs.** I&M's Exhibit 1, Attachment CMH-6, provides the calculation of I&M's rate of return utilizing a return on equity of 9.95% effective October 1, 2015. We have reviewed the calculation and we find I&M has properly reflected the Settlement Agreement approved in Cause No. 43774 PJM 4 in its proposed factors.

7. **Recovery of Depreciation, Carrying Costs, Operation and Maintenance Expenses, and Taxes.** The 44331 Order authorizes the timely recovery of depreciation, carrying costs, operation and maintenance ("O&M") expenses (including consumables), and taxes. I&M's Exhibit 1, Attachments CMH-1 shows I&M's reconciliation of actual Rockport CCT Project costs with actual FMR revenue collections for October 2015 through April 2016. I&M's Exhibit 1, Attachment CMH-2 shows the calculation of FMR jurisdictional depreciation expense, the investment balances and post in-service carrying costs on the Rockport CCT Project, construction work in progress carrying costs, O&M expenses and consumables, and property tax expense for the forecasted period. I&M's Exhibit 1, Attachment CMH-3 shows the calculation of the Indiana Jurisdictional Pre-Construction Capital Depreciation Expense and Pre-Construction Capital Post in Service Carrying Costs. We accept I&M's calculations.

8. **Revenue Requirement.** I&M’s Exhibit 1, Attachment CMH-1, Page 1, shows the jurisdictional forecasted revenue requirement of \$17,106,415 for the period of October 2016 through September 2017. Mr. Halsey discussed the inclusion of the gross revenue conversion factor used in the calculation of the revenue requirement. The record shows the gross revenue conversion factor calculation is consistent with that approved in Cause No. 44331 ECR 3, and that no party challenged I&M’s calculated revenue requirement. Accordingly, we find I&M’s forecasted revenue requirement to be reasonable.

9. **Net Operating Income for Fuel Adjustment Charge Proceedings.** The 44331 Order requires I&M to add the approved return on its Rockport CCT Project to its net operating income authorized by the Commission for the purposes of Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3) in all subsequent fuel adjustment charge (“FAC”) proceedings. For purposes of computing authorized net operating income for Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3), we find that the jurisdictional portion of the increased return shall be phased-in over the appropriate period of time that I&M’s net operating income is affected by the earnings modification resulting from the Commission’s approval of this FMR adjustment.

10. **Allocation of Jurisdictional Revenue Requirement.** Mr. Stegall discussed the allocation of the revenue requirement among I&M’s customer classes. I&M’s Exhibit 3, Attachment JMS-1 shows the allocation of the FMR revenue requirement among the utility’s customer classes appropriately using the allocation factors from I&M’s most recent electric rate case in Cause No. 44075. We accept I&M’s calculation. Mr. Stegall calculated the adjustment factors on I&M’s Exhibit 3, Attachment JMS-2 using \$16,501,240 of Indiana jurisdictional revenue requirement that had been netted with jurisdictional interruptible power revenue credits.

11. **Approval of Rider Factors.** I&M’s Exhibit 3, Attachment JMS-3 sets forth the proposed FMR factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.1600
GS, GS-TOD and GS-TOD2	0.1572
LGS and LGS-TOD	0.0956
IP and CS-IRP2	0.1003
MS	0.1537
WSS	0.1064
IS	0.1143
EHG	0.2334
OL	0.0776
SLS, ECLS, SLC, SLCM AND FW-SL	0.0742

Mr. Blakley testified that nothing came to his attention that would indicate I&M’s calculation of estimated ECR adjustment factors for the relevant period are unreasonable.

Based on the evidence presented and our discussion above, we find that the proposed FMR factors are properly calculated. Therefore, we approve the FMR factors contained in

I&M's Exhibit 3, Attachment JMS-3 effective for first full billing month of October 2016 (i.e., September 28, 2016). Using currently effective rates, as shown on I&M's Exhibit 3, Attachment JMS-4, the bill of a typical residential customer using 1,000 kWh per month will decrease by approximately \$0.47 or (0.4)%.

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

1. I&M's proposed Federal Mandate Rider factors as set out in this Order are approved.
2. I&M shall add the approved return on its Rockport CCT Project to its net operating income authorized by the Commission for the purposes of Ind. Code §§ 8-1-2-42(d)(2) and 8-1-2-42(d)(3) in all subsequent FAC proceedings. For purposes of computing the authorized net operating income, the jurisdictional portion of the increased return shall be phased-in over the appropriate period of time that I&M's net operating income is affected by the earnings modification authorized herein.
3. Prior to implementing the authorized rates, I&M shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.
4. This Order shall be effective on and after the date of its approval.

STEPHAN, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: SEP 14 2016

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



Mary M. Becerra
Secretary of the Commission