

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN)
POWER COMPANY ("I&M"), AN INDIANA)
CORPORATION, FOR APPROVAL OF CLEAN)
COAL AND ENERGY PROJECTS AND)
QUALIFIED POLLUTION CONTROL)
PROPERTY AND FOR ISSUANCE OF A)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY FOR USE OF CLEAN COAL)
TECHNOLOGY ("PROJECTS"); FOR ONGOING)
REVIEW; FOR APPROVAL OF THE TIMELY)
RECOVERY OF COSTS INCURRED DURING)
CONSTRUCTION AND OPERATION OF SUCH)
PROJECTS THROUGH I&M'S CLEAN COAL)
TECHNOLOGY RIDER; FOR APPROVAL OF)
DEPRECIATION PROPOSAL FOR SUCH)
PROJECTS; FOR AUTHORITY TO DEFER)
COSTS INCURRED DURING CONSTRUCTION)
AND OPERATION, INCLUDING CARRYING)
COSTS, DEPRECIATION, AND OPERATION)
AND MAINTENANCE COSTS, UNTIL SUCH)
COSTS ARE REFLECTED IN THE CLEAN COAL)
TECHNOLOGY RIDER, FOR APPROVAL OF)
COST RECOVERY OF COSTS INCURRED FOR)
ROCKPORT ENVIRONMENTAL PROJECT, ALL)
PURSUANT TO IND. CODE §§ 8-1-2-6.1, 8-1-2-6.7,)
8-1-2-6.8, 8-1-2-42(a), 8-1-8.4-6, 8-1-8.4-7, 8-1-8.7, 8-)
1-8.8, AND 170 IAC 4-6-1 ET SEQ.)

CAUSE NO. 44331

APPROVED: NOV 13 2013

ORDER OF THE COMMISSION

Presiding Officers:
Kari A. E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On April 11, 2013, Indiana Michigan Power Company ("I&M") filed its Verified Petition in this Cause. On April 15, 2013, I&M filed the direct testimony, exhibits, and workpapers of the following in support of its Petition: Paul Chodak III, I&M's President and Chief Operating Officer; John C. Hendricks, Director – Air Quality Services within the Environmental Services Division of American Electric Power Service Corporation ("AEPSC"); Scott C. Weaver, Managing Director – Resource Planning and Operational Analysis for AEPSC; Robert L. Walton, Managing Director of Projects for AEPSC; and Scott M. Krawec, I&M's Director of Regulatory Services.

On July 2, 2013, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled the direct testimony and exhibits of the following: Cynthia M. Armstrong, Utility Analyst; Edward T. Rutter, Utility Analyst; Ray L. Snyder, Utility Analyst; and Wes R. Blakley, Senior Utility Analyst. That same day, the I&M Industrial Group filed the direct testimony and exhibits of Nicholas Phillips, Jr., Managing Principal of Brubaker & Associates, Inc. On July 11, 2013, the OUCC filed the corrected testimony of Mr. Rutter and Ms. Armstrong. On July 15, 2013, I&M filed the rebuttal testimony and exhibits of Renee Hawkins, Managing Director, Corporate Finance for AEPSC, Mr. Krawec, and Mr. Weaver.

On July 24, 2013, the parties notified the Commission that they had reached a settlement of the issues in this case. On July 31, 2013, I&M filed the Settlement Agreement, supported by the testimony and exhibits of Mr. Krawec and Marc E. Lewis, I&M’s Vice President. That same day, the OUCC filed the testimony of Mr. Blakley in support of the Settlement Agreement.

Pursuant to notice given and published as required by law, the Commission held an evidentiary hearing in this Cause on July 25, at which time the hearing was continued to August 7, 2013. On August 7, 2013, the Commission held a settlement hearing. During the hearing, the Parties presented their respective evidence and offered witnesses for cross-examination. No members of the general public attended or sought to participate in the hearing.

Based upon the applicable law and the evidence presented the Commission finds:

1. Notice and Jurisdiction. Notice of the hearings in this Cause was given and published as required by law. I&M is a public utility as defined in Ind. Code § 8-1-2-1(a) and Ind. Code § 8-1-8.7-2 and an eligible business as defined in Ind. Code § 8-1-8.8-6 and an energy utility as defined in Ind. Code § 8-1-8.4-3. Under Ind. Code chs. 8-1-8.7 and 8-1-8.8, the Commission has authority to approve the construction of and cost recovery for clean coal technology (“CCT”) projects. Under Ind. Code ch. 8-1-8.4, the Commission has jurisdiction over the issuance of a certificate of public convenience and necessity (“CPCN”) and cost recovery for federally mandated requirements. Therefore, the Commission has jurisdiction over I&M and the subject matter of this proceeding.

2. I&M’s Characteristics. I&M, a wholly owned subsidiary of American Electric Power Company, Inc. (“AEP”), 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 a member of the East Zone of the AEP System, which is operated on an integrated basis pursuant to the AEP Interconnection Agreement, a Federal Energy Regulatory Commission (“FERC”) approved agreement that defines the sharing of costs and benefits associated with certain AEP East Zone affiliates’ respective generating plants. I&M renders electric service in the State of Indiana, and owns, operates, manages, and controls, among other properties, plant and equipment within the State of Indiana that are in service and used in the generation, transmission, delivery, and furnishing of electric service to the public. In Indiana, I&M provides retail electric service to approximately 458,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells, and Whitley. I&M’s electric system is an integrated and interconnected entity that is operated within Indiana and Michigan as a single utility.

3. **Relief Requested in I&M Petition.** I&M requests approval of the Settlement Agreement entered into between I&M, the OUCC, and the Industrial Group. The Settlement Agreement proposes that I&M's Rockport CCT Project be approved and that I&M be issued a CPCN for the Rockport CCT Project. The Settlement Agreement also proposes that, under the terms of Ind. Code ch. 8-1-8.4, I&M be allowed to recover the 80% of the costs of the Rockport CCT Project, among other costs, through a federally mandated costs rider, and to defer recovery of the remaining 20% of costs until rates are established in I&M's next general rate case.

4. **I&M's Direct Evidence.**

A. **Background and Overview of I&M Compliance Project.** Mr. Chodak explained that the Rockport Plant consists of two nominally-rated 1,300 megawatt ("MW") coal-fired generating units and is a cornerstone of I&M's generation fleet. Unit 1 was placed in service in 1984 and Unit 2 in 1989. Mr. Chodak explained that the Rockport CCT Project will install a dry sorbent injection ("DSI") system on both units at the Rockport Plant and modify existing equipment as needed to operate in conjunction with the DSI System. He stated that the Rockport CCT Project will allow the Rockport Plant to comply with the U.S. Environmental Protection Agency's ("EPA") Mercury and Air Toxics Standards ("MATS") Rule by April 16, 2015. Mr. Chodak testified that the Rockport CCT Project will not include a change in the fuel source used at the Rockport Plant because the required emission reductions can only be obtained through the continued use of Powder River Basin ("PRB") coal.

Mr. Chodak discussed the federal Consent Decree that AEP entered into to resolve allegations against AEP and its affiliates (including I&M) related to the New Source Review ("NSR") provisions of the Clean Air Act ("CAA"). The Consent Decree took effect on December 10, 2007, and, in pertinent part, included an agreement to retrofit Selective Catalytic Reduction ("SCR") and Flue Gas Desulphurization ("FGD") on Rockport Unit 1 by no later than December 31, 2017, and retrofit SCR and FGD on Rockport Unit 2 by no later than December 31, 2019. Mr. Chodak explained that since entering into the Consent Decree, I&M has continued to evaluate the most cost-effective means to achieve compliance with the Consent Decree and other pending and anticipated environmental regulations. Mr. Chodak discussed I&M's petition in Cause No. 44033, which I&M subsequently withdrew. He noted that the estimated cost of the compliance plan presented in Cause No. 44033 was approximately \$1.4 billion. He stated that I&M continued to investigate other means with the potential to cost-effectively achieve compliance with the environmental regulations and Consent Decree requirements. Mr. Chodak testified that I&M's investigation included the testing of DSI technology at one of the Rockport Units to determine if it would allow I&M to meet existing environmental obligations in a more cost-effective manner. He said I&M determined that reasonable emission reductions were technologically feasible with DSI and legally permissible under the applicable environmental regulations, including the Consent Decree. Consequently, AEP and I&M approached the parties to the Consent Decree to confidentially discuss this compliance alternative. Mr. Chodak stated that the parties engaged in negotiations and ultimately agreed on modifications to the Consent Decree to allow the use of DSI as an environmental compliance measure.

Mr. Chodak explained that the modifications to the Consent Decree permit I&M to satisfy its near-term emission reduction obligations by installing and operating DSI technology on both Rockport Units by April 16, 2015. He added that I&M will secure an additional 200

MWs of wind energy, provide additional mitigation funding, and create a fund to support other energy efficiency and small scale renewable projects. He stated I&M will also change the fuel at or retire Tanners Creek Unit 4 by June 1, 2015. Witness Chodak also explained that AEP has accepted more restrictive system-wide emission caps on the AEP units subject to the Consent Decree. He testified that further emission reductions will be required at Rockport with the installation of SCR control equipment by the end of 2017 on one unit and by the end of 2019 on the other.

Mr. Walton described the DSI technology and AEP's experience with DSI technology, provided an overview of the equipment that will be installed on each unit as part of the DSI System for the Rockport CCT Project, and discussed the additional equipment that will be installed on the units, including the following: improvements to the existing Activated Carbon Injection ("ACI") system, electrostatic precipitators ("ESPs"), and ash handling systems; and expansion of the Ovation distributed controls system ("DCS") network and the existing Type II landfill. Mr. Walton also summarized the results of the DSI testing at Rockport.

Mr. Walton explained that the components of the Rockport CCT Project will directly or indirectly reduce regulated air emissions and are necessary to comply with the mandates established by the MATS Rule. More specifically, the operation of a DSI system on Rockport Units 1 & 2 will directly reduce airborne emissions of several regulated air pollutants. He stated that the DSI System is necessary to reduce hydrogen chloride ("HCl") emissions from each Rockport Plant unit to meet the MATS Rule. He testified that DSI technology is a patented product that was not in general commercial use at the same or greater scale in new or existing facilities in the United States at the time of enactment of the CAA amendments of 1990. The existing ACI System will be enhanced and used to comply with the MATS mercury emission limit while the improved ESPs will be used to control particulate matter emissions to meet the corresponding MATS limit. Mr. Walton explained that the Rockport CCT Project will allow I&M to continue using the existing and enhanced ACI System and noted that there will be an incremental increase in the O&M costs associated with the consumable to be used with the ACI System. Witness Walton testified that the Rockport CCT Project will increase the efficiency of operations required to meet MATS Rule compliance and added that this work is necessary to comply with this Rule.

Mr. Walton presented an overview of the project execution process and described the activities that will occur within each phase of this process. Mr. Walton also discussed the major benefits derived from the phased approach to construction projects. Mr. Walton also explained the process used to select a construction contractor for the Project and the project cost and schedule management process and other steps AEP takes to ensure that Project costs are reasonable and necessary. Mr. Walton explained the procurement/contract management process and described AEP's project risk, safety, and quality management processes.

Mr. Walton added that the Phase I Feasibility Studies cover the entire scope of the Rockport CCT Project and testified that the Division of Work for the project clearly defines the responsibilities of the assigned parties. He stated that AEP design criteria have been clearly communicated to the architect/engineer and the original equipment manufacturers to ensure the benefits of AEP's knowledge and experience in owning, maintaining and operating similar systems is carried forward on the Rockport CCT Project. Mr. Walton presented project

documentation defining in detail how the project will be planned, executed, monitored, controlled, and closed.

B. Federally Mandated Requirements Driving I&M's Compliance Project. Mr. Hendricks described the applicable environmental regulations and other requirements that result in the need for the Rockport CCT Project. Witness Hendricks explained that the MATS Rule creates additional federal environmental requirements that necessitate new environmental control retrofits at the Rockport Plant. Compliance is required within three years of the effective date (with the possibility of a one-year compliance extension in certain circumstances). Mr. Hendricks explained that this rule regulates emissions of hazardous air pollutants ("HAPs") from coal- and oil-fired electric generating units. He said HAPs regulated by this rule are: 1) mercury; 2) several non-mercury metals such as arsenic, lead, cadmium, and selenium; 3) various acid gases including HCl; and 4) many organic HAPs. He testified that the MATS Rule includes stringent emission rate limits for several individual HAPs, including mercury. In addition, this rule contains alternative stringent emission rate limits for surrogates representing two classes of HAPs, acid gases and non-mercury particulate metal HAPs. He stated that the surrogates for the non-mercury particulate metal and acid gas HAPs are filterable particulate matter ("PM") and HCl respectively. He said the rule regulates organic HAPs through work practice standards.

Witness Hendricks testified that the proposed Rockport CCT Project is necessary to reduce HCl emissions from each Rockport Plant unit to meet the MATS Rule. He said the existing ACI system will be modified to comply with the MATS Rule mercury emission limit while the existing ESPs will be upgraded to control filterable PM emissions to meet the corresponding MATS Rule limit. Mr. Hendricks testified that without the Rockport CCT Project, the Rockport plant would not be able to meet the MATS Rule emission limits for acid gases and, therefore, would not be able to operate past April 15, 2015.

Mr. Hendricks discussed the environmental permits related to the project and in particular explained that the Rockport Plant's existing Indiana Department of Environmental Management ("IDEM") operating permit regulating air emissions must be modified before construction activities can commence onsite and added that the final modification was expected to be obtained within six months of the application, which was submitted to IDEM on February 27, 2013. Witness Hendricks also discussed future environmental regulations that could result in additional cost and operational impacts to I&M's generating units, including national ambient air quality standards ("NAAQS"), section 316(b) of the Clean Water Act, steam electric effluent guidelines, the coal combustion residuals rule ("CCR"), and greenhouse gas new source performance standards ("NSPS").

C. Estimated Cost of the Rockport CCT Project. In their direct testimony Mr. Chodak, Mr. Walton, and Mr. Krawec presented the total estimated cost of the Rockport CCT Project. Mr. Chodak noted that this total includes a cost estimate of \$240.71 million for the Rockport CCT Project and approximately \$44 million incurred in pursuing the installation of a dry scrubber on one unit at the Rockport Plant under Cause No. 44033 ("Rockport Environmental Project" or "REP").

Mr. Walton presented the cost estimate details broken down across four major areas, plus project management, engineering, and construction oversight staffing costs, a risk allocation, an AEP over-head allocations cost estimate, and an estimate for the construction of the new landfill and haul road. He explained how the cost estimate was developed. He stated that because the current level of site-specific project definition is less than 15%, the cost estimate for the Rockport CCT Project would be categorized as a Class 4 cost estimate by the Association of Advancement of Cost Engineering ("AACE"). He said typical accuracy ranges for Class 4 estimates are -15% to -30% on the low side, and +20 to +50% on the high side. However, based upon AEP's experience in executing projects such as these and its utilization of actual cost data from the recent DSI projects, he believes the range of accuracy is set to favor more toward the -15% to +20% range. Mr. Walton stated that I&M would be naïve to presume that all site-specific anomalies have been both recognized and accounted for in the estimate methodology and thus I&M had chosen to apply approximately 20% risk allocation to the estimated cost of the DSI and associated projects, excluding AEP Overheads - Allocations costs. He presented a formal risk assessment in Exhibit RLW-4. Mr. Walton discussed the overhead allocations and explained how I&M has accounted for escalation of labor and materials in the cost estimate. Mr. Walton also discussed the methods I&M employs to mitigate the risk of cost escalations that may affect the construction of the Rockport CCT Project.

D. Preconstruction Costs. Mr. Chodak and Mr. Walton discussed I&M's request to recover the costs of the dry flue gas desulfurization ("DFGD") portion of the REP project presented in Cause No. 44033. Mr. Walton explained that the total project cost spent to date as of February 28, 2013 is \$44 million. He said I&M's 50% or total company share of the cost of the DFGD portion of the REP total project cost is \$22 million.

Mr. Chodak explained that it was reasonable for I&M to incur these costs to assure that it would be in position to timely comply with environmental regulations and maintain the availability of generation from the designated unit. He pointed out that while I&M diligently pursued the alternative compliance strategy of using a lower-cost DSI System instead of the dry scrubber proposed in Cause No. 44033, it was not certain that DSI would be found to be an acceptable compliance measure under the Consent Decree. He testified that it was critically important for I&M to continue to move forward with the REP so that the Rockport Plant would be available for its customers in the event that DSI was not a cost-effective, technologically feasible, or a legally allowed environmental compliance measure.

E. I&M's Compliance Planning Process and Consideration of Alternative Compliance Plans. Mr. Weaver described the available options to fulfill the requirements of the MATS Rule, including an evaluation of the cost and feasibility of an option to retrofit and the option to retire and replace the Rockport Units. He also described the modeling process undertaken to evaluate the resulting relative economics of the alternative Rockport Unit 1 and 2 disposition options, including a discussion around the major input parameters and key drivers; chief among them the anticipated long-term price of natural gas and energy as well as CO₂/carbon that could impact the Rockport generating unit's dispatch priority.

This included a detailed overview of the resource planning-related criteria considered in his analysis, presentation of the key long-term fundamental commodity pricing projections used in this analysis, and a summary of the Rockport Units 1 and 2 unit disposition alternative

analyses. Finally, Mr. Weaver discussed the results of these economic modeling analyses and the determination that a decision in the near-term to retrofit both Rockport Units 1 and 2 by April 16, 2015, with DSI technology and associated equipment would initiate a course of action around those units that could ultimately save I&M and its customers in excess of \$2 billion versus alternative (replacement) approaches.

Mr. Weaver explained that two alternative options – with one of those alternatives posing two sub-options – were modeled surrounding an I&M disposition decision associated with Rockport Units 1 and 2. Succinctly, Option 1 was:

Retrofit both Rockport units with DSI technology and associated equipment (Rockport CCT Project) by April 16, 2015; Option 1 also included, solely for purposes of the long-term modeling, the retrofit of the Rockport units with SCR technology for NO_x removal by December 31, 2017 (Unit 1), and December 31, 2019 (Unit 2); add ash pond, effluent guideline waste-water treatment, and clean water act related equipment and investments by approximately 2019; and retrofit the Rockport units with NID™ DFGD technology by December 31, 2025 (Unit 1), and December 31, 2028 (Unit 2).

Option 2A was:

Shorter-Term PJM Purchases: Retire both Rockport units by April 16, 2015, and Replace each with similar-sized, new-build Natural Gas Combined Cycle (“CC”) and/or Natural Gas Simple-Cycle Combustion Turbine (“CT”) units by approximately January 1, 2018, relying upon capacity and energy purchases from the PJM market in the interim period.

Option 2B was:

Longer-Term PJM Purchases: same as Option #2A, except assume replacement new-build CC and/or CT units by approximately January 1, 2026.

Mr. Weaver explained that the inclusion of future investments in Option 1 simply offers – for current modeling purposes only – a potential unit disposition line-of-sight. He stated that under no circumstances does this option constitute a formal plan or recommendation by I&M for either Rockport unit beyond the “nearer-term” Rockport CCT Project. He clarified that the analysis merely identifies the “down-stream” retrofit requirements/terms of the Modified Consent Decree as well as additional emerging EPA requirements such as the CCR rule and 316(b). He reiterated Mr. Chodak’s testimony that it would be the intent of I&M to approach this Commission at such point prior to the construction of the next critical-path Rockport unit retrofit – the SCRs – with another formal CPCN filing.

Mr. Weaver explained why the “staged” Rockport Unit retrofit plan represents a reasonable approach even if it were determined later this decade that the installation of an SCR and subsequent DFGD do not represent an appropriate Rockport Unit disposition path. He explained that the modeled cost-recovery period for the relatively lower (versus the down-stream costs of the SCR and DFGD) capital cost Rockport CCT Project to be completed in April 2015, as proposed in this filing, was assumed to be 10 years. He stated that a sensitivity analysis was also performed that would effectively proxy the costs associated with full recovery of this initial (DSI-related) retrofit investment by the end-of-2017 for Unit 1 (approximately 3-year recovery)

and end-of-2019 for Unit 2 (approximately 5-year recovery), so as to fully understand the implications of such future disposition options around potential coinciding SCR-related retrofit versus retire dates later this decade. He added, in short, on a cumulative present worth basis, there was only a minor difference in the life-cycle costs of the 2015 Rockport CCT Project if all such costs were recovered over these shorter periods (versus 10 years). Therefore, he concluded the impact of any such potential for accelerated DSI retrofit cost recovery recognition would not have any significant impact on the base modeled option results to be discussed.

Mr. Weaver clarified that the assumption in the modeling that Rockport Unit 1 would be the earlier of the Unit retrofits for DFGD in the next decade was merely a modeling assumption. He said the Modified Consent Decree simply identifies that one Rockport unit would retrofit, retire, re-power or refuel by December 31, 2025, and the other by December 31, 2028. It is not specific as to the ultimate unit order. He explained that other options, such as coal-to-gas refuel and CC repower options were not modeled as out-year alternatives because I&M believes at this point that the future retrofitting of the Rockport units with DFGD would be a more reasonable and viable option – based on currently available cost estimates as well as engineering and design factors – versus re-fueling either of the units to burn natural gas or repowering the units as natural gas CC facilities. He clarified that any formal assessment of Rockport disposition options to be performed in the future could more-fully examine those alternatives.

Mr. Weaver discussed the base assumptions used in the economic modeling, including an assumption that Tanners Creek Unit 4 was to be re-fueled and Tanners Creek Units 1-3 were retired by June 1, 2015, and the assumption that the operating lease shares of Rockport Unit 2 would continue beyond the current 2022 lease term date. He noted that as with the other assumptions, the future lease disposition of Rockport Unit 2 is one that is independent of the nearer-term decision regarding the installation of the Rockport CCT Project posed in this Cause.

Mr. Weaver discussed how the Strategist model was used to perform the unit disposition alternatives analysis and identified the primary model outputs and inputs. Mr. Weaver also discussed the additional cost and performance risk. Mr. Weaver also explained why natural gas pricing is one of the key drivers for this analytical process and discussed the forecasted fundamental commodity pricing, including natural gas, which were used in the analyses.

Mr. Weaver presented the results of the Rockport Unit Disposition Analyses and explained the modeling results represent relative cost analyses, meaning each are compared to one another in the determination of the least-cost alternative outcome. He explained that the modeling results indicate that Option 2A would be more costly than Option 1 by \$2.202 billion over the study period. He explained that the sensitivity pricing scenarios showed that Option 2A is more costly by amounts ranging from \$2.012 billion to \$2.932 billion. He testified that analysis showed that Option 2B would be more costly than Option 1 by \$2.069 billion under the base pricing scenario and by amounts ranging from \$1.795 billion to \$2.891 billion under the sensitivity scenarios. Mr. Weaver explained that economic modeling shows that the Rockport CCT Project is clearly economically-favored across the full range of long-term commodity pricing scenarios modeled. He added that this suggests that this Rockport CCT Project solution has effectively preserved an option for I&M and its customers to consider, in the future, additional possible retrofitting of both Rockport Units 1 and 2 with, first, SCRs and, subsequently, DFGD technology as set forth under the Modified Consent Decree.

Mr. Weaver further discussed the economic results for the two market-based options (Option 2A and 2B) and concluded that both of the market-replacement options remain significantly more costly than I&M's proposed solution and are subject to additional market pricing and performance risks.

Finally, Mr. Weaver explained how price risk around natural gas, construction costs, and performance risk was assessed in the economic modeling.

F. Accounting and Ratemaking and Rate Impacts. Mr. Krawec explained I&M's requested accounting and ratemaking treatment related to the Rockport CCT Project, including I&M's request to include its share of the Rockport CCT Project costs in the CCTR. Mr. Krawec explained that I&M's proposal will provide for the timely ratemaking recognition of all costs incurred in the construction and operation of the Rockport CCT Project, including the ability to add to the value of I&M's property eligible for a return, the value of I&M's share of the Rockport CCT Project under construction and in service until such time as the Commission determines the Rockport CCT Project is used and useful in a proceeding that establishes new basic rates and charges for I&M.

Mr. Krawec explained how costs of the project are tracked and recorded on I&M's books and discussed how I&M would record construction work in progress ("CWIP") rate treatment to the Rockport CCT Project costs. Mr. Krawec explained that allowance for funds used during construction ("AFUDC") will accrue until the Rockport CCT Project has been under construction for at least six months, in accordance with 170 IAC 4-6-13. Mr. Krawec explained that I&M proposes to include related incremental O&M costs, including the cost of consumables used, in its CCTR. He added that I&M requests the Commission authorize I&M to defer incremental O&M costs incurred during the operation of the Rockport CCT Project until such time as such costs are reflected in the CCTR.

Mr. Krawec explained that the depreciation period for each unit CCT Project will commence once the scope of work associated with the operation of that unit is placed in service. He said I&M requests that the Commission authorize I&M to defer any depreciation expense incurred during the operation of the Rockport CCT Project until such time as such costs are reflected in the CCTR or are otherwise reflected in base rates.

With regard to I&M's requested accounting and ratemaking treatment regarding the cost incurred for the REP presented in Cause No. 44033, Mr. Krawec explained that I&M proposes to capitalize these costs as part of the Rockport CCT Project and recover these via the CCTR over the same period (10 years) as the Rockport CCT Project. He clarified that the \$44 million includes the \$10 million of costs approved for recovery in Cause No. 44033.

Mr. Krawec explained that I&M will use the same methodology for calculation of I&M's weighted cost of capital that I&M currently uses in its CCTR filings, Cause Nos. 43636 ECR X. Mr. Krawec testified the request for authority to defer depreciation expense, carrying costs, and incremental O&M costs until such costs are reflected in the CCTR is reasonable and necessary to insure timely recovery of the Rockport CCT Project as allowed by statute. He added that it would be virtually impossible and inefficient for I&M to perfectly time rate cases with the in-service dates of the Rockport CCT Project.

G. Alternative Request Pursuant to Ind. Code ch. 8-1-8.4. Mr. Krawec explained that if the Commission does not approve the request under the CCTR, then I&M seeks to implement a periodic retail rate adjustment mechanism that allows for the timely recovery of part of the approved federally mandated costs and a deferral to recover the rest in the next basic rate case. He stated that the periodic charge would recover eighty percent (80%) of the costs. He testified that under Ind. Code ch. 8-1-8.4, I&M requests an adjustment by the Commission of I&M's authorized net operating income to reflect any approved earnings for purposes of Ind. Code § 8-1-2-42(d)(3). He said the other 20% of the approved costs, including depreciation, AFUDC, and post-in-service carrying costs, based on the overall cost of capital approved by the Commission in Cause 44075, will be deferred and recovered by I&M as part of the next general rate case filed with the Commission.

H. Ongoing Review. With regard to the request for ongoing review included in I&M's case-in-chief, Mr. Krawec proposed that an ongoing review process would be conducted as part of I&M's semiannual CCTR proceedings in Cause No. 43636 ECR X.

5. OUCC's Direct Evidence. Mr. Rutter concluded that the Rockport CCT Project is a reasonable balance of costs, risks, and policy based on a retrofit approach to meeting the requirements of the MATS Rule. He testified that while there may be significant future expenditures required, uncertainty around the extension of the lease for Unit 2, and evolving environmental rules and requirements associated with coal-fired generation, the OUCC recommends that the Commission approve the Rockport CCT Project. He added that the OUCC also recommends that I&M provide updated estimates through the ECR proceedings, including any additional costs to comply with the Consent Decree and any revised costs as a result of any change to environmental rules and regulations.

Ms. Armstrong discussed the Project in light of existing or expected environmental regulations and supported the OUCC's overall recommendation that the Rockport CCT Project is reasonable and should be approved by the Commission.

Mr. Snyder presented an analysis of the Rockport CCT Project, and confirmed I&M's choice of technology and cost estimates. Mr. Snyder testified that the OUCC agreed the ACI and ESP system modifications are necessary and I&M's proposals for upgrading the ESP and ACI Systems appear reasonable. He concluded that the Rockport Units currently have in place air pollution control devices ("APCD") that could reasonably be modified, along with the addition of DSI for acid emissions, in order to comply with the current MATS regulations. He added that the OUCC has reviewed I&M's documents and preliminary cost estimates for potential future APCD projects. He concluded that I&M's plans for the future addition of SCRs and DFGDs are technically appropriate for meeting the anticipated future regulations. He clarified that even though they provide a reasonable path forward, the details and economics of future projects are not included in this proceeding and therefore cannot be assessed. Echoing the other OUCC witnesses, Mr. Snyder stated the OUCC recommends the Commission approve the I&M CPCN for the Rockport CCT Project.

6. Disputed Issues.

A. Pre-Construction Costs. Mr. Blakley testified that the \$44 million that I&M spent on Preconstruction Costs for the REP proposed in Cause No. 44033 appear to be reasonable. He stated however, the OUCC proposes an alternative ratemaking treatment for these costs and does not agree that I&M should earn a return on these costs because they are not “used and useful” rate base assets and not CWIP that is eligible for a return. He noted that the OUCC questions whether I&M can earn a return on these costs, because they relate to a project that was never approved by the Commission and did not receive a CPCN under Ind. Code ch. 8-1-8.7. He added that while the REP still might be constructed in the future, it is not at all certain if I&M will actually carry through with its request for these projects by 2025. He concluded therefore, that the OUCC recommends that the costs of the projects be recovered through amortization over the remaining expected useful life of the Rockport facility.

Mr. Krawec explained that the Preconstruction Costs were undertaken as part of I&M’s obligation to assure reasonably adequate electric service and facilities to meet its customers’ need for service. He explained that Mr. Blakley’s contention conflicts with the Uniform System of Accounts (“USOA”) and Generally Accepted Accounting Principles (“GAAP”) and testified that under USOA and GAAP, the Preconstruction Costs are eligible for AFUDC until a cash return on CWIP is recovered. He testified that these costs are appropriately capitalized to the Rockport CCT Projects and included in Electric Plant in Service (“EPIS”) and that EPIS is allowed to earn a return. Mr. Krawec also explained that the ratemaking for \$10 million of these capital costs approved in Cause No. 44033 infers that the Preconstruction Costs would be treated as any other cost charged to EPIS, which would be allowed a recovery of depreciation and a return.

Mr. Krawec reconciled his analysis with Mr. Weaver’s analysis. He explained that the direct testimony cited by Mr. Snyder focused on the portion of the Preconstruction Costs that will be recorded on I&M’s books. He explained that there is no conflict. Mr. Weaver considered the 85% of the total plant costs in his economic analysis and Mr. Krawec included the 85% of the total plant costs in his rate impact analysis.

B. Double Recovery. Ms. Armstrong stated that the OUCC is concerned that there may be double recovery issues because components of the existing ACI System that are currently included in rate base may be retired and replaced as part of the Rockport CCT Project. She also noted that there is already a level of O&M associated with operating the Rockport ACI Systems embedded in I&M’s rates.

Mr. Krawec disagreed with the suggestion that costs reflected in the revenue requirement used to establish I&M’s basic rates for electric service should be tracked as Ms. Armstrong suggests. He commented that many costs have changed since the adjusted test period used to establish I&M’s retail rates. He explained that the premise underlying Ms. Armstrong’s concern is inaccurate because I&M does not expect any retirements associated with the ACI Systems. He testified that the recovery of depreciation expense on new components installed as part of the Rockport CCT Project through the CCTR would not constitute double recovery, but would recognize a distinct and separate cost. He also explained that I&M is only requesting recovery through the CCTR of the incremental activated carbon expense over the activated carbon

expense embedded in base rates. Therefore, there is no potential for double recovery of O&M associated with the ACI System that will occur through the rider recovery mechanism.

C. Post In-Service Accounting. Mr. Blakley disagreed with I&M's conclusion that post in-service (deferred accounting) treatment for the CCT is reasonable and necessary. He stated that as the OUCC has testified on several occasions, the OUCC believes that post in-service accounting treatment is not warranted in CWIP trackers. Mr. Blakley stated that it is the OUCC's position that the benefits of the CWIP tracking, which includes a cash return during construction (including equity), more than compensates the utility for any immaterial deferred accounting costs that may be incurred. He testified that the Commission has ruled against post-in-service accounting treatment deferrals unless there is a showing of materiality. He added that in order to show materiality, the utility must show earnings erosion. He said that I&M has not shown that it would suffer material financial earnings erosion without the deferred accounting treatment. Mr. Blakley noted that the Commission denied post in-service AFUDC and deferred depreciation requests in Cause Nos. 43874 and 43956. He recommended the Commission do so here.

Mr. Krawec disagreed with Mr. Blakley. Mr. Krawec explained that the deferral is specifically provided for by the statutes under which I&M sought approval and pointed out that the cases Mr. Blakley relied on involved other statutes. Mr. Krawec explained that the accounting relief I&M seeks has been granted by the Commission for similar CCT projects and is necessary to facilitate full and timely recovery of eligible project costs by I&M. Mr. Krawec disagreed with Mr. Blakley's contention that earnings erosion must be shown and testified that he was not aware of any instance where the Commission imposed this test in a CPCN proceeding for Clean Energy Project or QPCP. Mr. Krawec explained that the post in-service AFUDC proposal is consistent with 170 IAC 4-6-21(b). He also pointed out that Ind. Code ch. 8-1-8.4, the statute under which the OUCC urged the Commission to act in this proceeding, expressly recognizes that post-in-service carrying costs are properly included in the cost recovery.

D. Ind. Code ch. 8-1-8.4. Ms. Armstrong agreed that the Rockport CCT Project will significantly reduce Rockport's regulated emissions and assist in meeting new environmental requirements. She stated that the DSI Systems are necessary for I&M to comply with MATS, Clean Air Interstate Rule ("CAIR"), Cross-State Air Pollution Rule ("CSAPR"), and the NSR Consent Decree. She added that the DSI Systems will also reduce fine particulate emissions from the Rockport units and may prevent the facility from having to take additional measures to comply with the new PM_{2.5} NAAQS. Mr. Blakley testified that I&M's Rockport CCT Project falls under the definition of "federally mandated project" in Ind. Code ch. 8-1-8.4 and the OUCC recommended cost recovery for the entire project under this statute. He explained that under this statute, I&M's Rockport CCT Project costs (which includes capital, operating maintenance, depreciation, tax, or financing costs) would be subject to the statute's recovery provision, which allows for recovery of 80% of all approved federally mandated costs through a periodic rate adjustment mechanism. He explained that the remaining 20% of the federally mandated costs should be deferred and recovered by the energy utility as part of its next general rate case. He added that actual costs that exceed the federally mandated costs of the approved project by more than 25% would require specific justification and approval by the Commission before being authorized in the next general rate case filed by the utility.

Mr. Krawec explained his understanding that I&M is permitted to elect which statutory framework to utilize and discussed why I&M's inclusion of an alternative request for relief under Ind. Code ch. 8-1-8.4 was administratively efficient. He pointed out that the OUCC and Industrial Group witnesses did not challenge I&M's testimony showing that the Rockport CCT Project constitutes a Clean Energy Project, CCT, QPCP, and Air Pollution Control Devices. He testified that the Commission has used the statutory framework I&M elected for other environmental compliance proceedings and stated that he was not aware of any reason for I&M to be treated differently for purposes of cost recovery. Mr. Krawec explained that the procedures I&M proposed are known practices already in use and approved by the Commission. He explained why the existing ECR process is better for the utility and customers as compared to initiating a new process. He pointed out differences in the statutory frameworks, including his view that the 20% deferral under Ind. Code ch. 8-1-8.4 includes carrying costs on the complete regulatory asset, including deferred depreciation expense and incremental O&M and the fact that Ind. Code ch. 8-1-8.4 does not expressly provide for ongoing review. Finally, Mr. Krawec described how cost recovery under Ind. Code ch. 8-1-8.4 would occur if this statutory framework were used.

E. Cost Allocation. According to Mr. Phillips the appropriate method to allocate fixed costs to the customer classes in the CCTR is the 6 CP method used to allocate fixed production costs to classes approved by the Commission in I&M's most recent base rate case (Cause No. 44075). He testified that use of the 6 CP method reflects the method specified in the 170 I.A.C. 4-6-15 and also reflects the method that the Commission approved to allocate fixed production cost responsibility including QPCP costs to customer classes.

Mr. Krawec agreed with Mr. Phillips and explained that I&M intends to allocate the CCTR costs using the allocation methods approved in Cause No. 44075, which includes the 6 CP method for determining the demand allocation.

F. Unit 2 Lease. Mr. Phillips raised a concern regarding the Rockport Unit 2 lease related amounts included in Petitioner's Exhibit SMK-1 Column 1, titled "Indiana Michigan Power Share." He said the Rockport Unit 2 is not owned by I&M and the lease expires in 2022. He said he is not aware of any updates regarding the Rockport Unit 2 lease. Mr. Phillips testified that ratepayers are being asked to pay "up-front" through the CCTR for equipment that may not provide service to them after 2022. He stated that if I&M does not extend the lease on its share of Unit 2, then Indiana ratepayers could end up paying for plant that is not used and useful for the provision of service. Pointing to I&M's proposed 10-year depreciation period, Mr. Phillips testified that if the DSI on Unit 2 has a useful life from 2015 to 2028, then almost half of its useful life may not ever benefit Indiana ratepayers but Indiana ratepayers would pay the full cost of the DSI. He said that without knowing I&M's plans regarding Unit 2, and without having any opportunity to test the reasonableness of I&M's plans for Unit 2, it does not seem reasonable to permit the recovery of Unit 2 costs through the CCTR at this time. He stated that Indiana's share of the I&M lease portion of Unit 2 is about 65% of \$70 million (about \$46 million). He concluded that the issues regarding Rockport Unit 2 are complex and not adequately explained by I&M. He contended that ratemaking for Rockport Unit 2 is beyond the scope of a tracker proceeding and requires a separate proceeding or a base rate case similar to the ratemaking associated with the purchases from AEP Generating Company ("AEG"). He recommended that the Commission require that I&M present for approval its plans

for Unit 2, and to demonstrate that the costs of the proposed project for Unit 2 are reasonable in light of that plan if approved, prior to allowing the inclusion of the associated cost in the CCTR. He said it may well be that the Commission would find that the project and cost are not reasonable, or that only a portion of the costs are recoverable if the project life exceeds the time I&M will receive power from the facility.

Ms. Hawkins discussed the lease renewal options and treatment of environmental capital under the Rockport Unit 2 lease agreement. Ms. Hawkins acknowledged the prior testimony in Cause No. 44033 stating that I&M and AEG were actively evaluating the options of renewing, terminating, or buying out the Rockport Unit 2 lease and had then expected to reach a decision by the end of 2011. She indicated that thereafter the discussions with the lessors were held in abeyance while discussions took place regarding the use of DSI at Unit 2. She said the lessors are aware of the modification of the NSR Consent Decree. She said discussions will likely resume at a later time. She explained that while I&M's economic analysis reflected the highest renewal cost, I&M has the ability to select the lower of either continuing its current rental rate or paying a fair market value rate. So if I&M is able to renew at a lower fair market value rate, the benefits of the plan will only be higher than what is currently presented in this case. She noted that I&M cannot give notice under a fixed rate option until December 2017 and notice is not required until 2021. She commented that although I&M may desire to negotiate with the lessors prior to these dates, I&M cannot compel the lessors to execute a renewal term prior to these dates. She said the required dates for the renewal are far past when the DSI equipment must be added to the units. Ms. Hawkins also discussed the lease provisions that would require the lessors to purchase the DSI equipment at fair market value if the lease is not renewed and the lessors continue to operate Unit 2. Ms. Hawkins clarified that I&M is not requesting that the full cost of these assets be depreciated over the remaining life of the lease. Rather, I&M proposes the equipment to be depreciated over 10 years. She said this proposal reasonably balances the possibility that the lease will not be extended with the potential that the lease will be renewed for the balance of the ten-year period, if not beyond that point in time.

Mr. Weaver explained how the analysis set forth in his direct testimony permits us to better understand the implications of future disposition options, including the possibility that the Unit 2 lease would not be renewed beyond the current 2022 term. He explained that the economic analysis shows that the decision to install the Rockport CCT Project on Unit 2 is reasonable and cost effective even under the possible scenario where the lease is not renewed beyond the end of the current term in 2022. He noted that if the Rockport CCT Project is not installed on Unit 2, the unit could not continue to operate under the MATS Rule. Mr. Weaver added that the alternative to performing the DSI project on Rockport Unit 2 is to retire the unit. He stated that the incremental cost for the period 2015 through 2022 to replace the capacity and energy from Rockport Unit 2 far exceeds the incremental fixed, variable and carrying cost of installing and operating the unit with DSI.

Mr. Krawec testified that while the future of the Unit 2 lease beyond 2022 may be dependent on events that have yet to occur, he disagreed that the ratemaking issues are complex. He also disagreed that I&M's capital investment should be denied the ratemaking and accounting treatment applicable to other Clean Energy Projects and QPCP during the period the projects are under construction and in service. He explained that I&M's environmentally related capital investment in Rockport Unit 2 has been reflected in rate base and depreciation expense.

Therefore, I&M earns a return on and of such investment. He explained that the Rockport Plant is currently used and useful and is expected to remain so until the end of the original lease term, if not beyond. He said the Rockport CCT Unit 2 Project will also be part of this used and useful facility at least until the end of the lease term, if not beyond. He stated that there is no need to speculate in this proceeding about possible future lease issues, including the possible return of Rockport Unit 2 to the lessors and the future of the installed DSI Systems. He added that these future issues are more appropriately addressed at the time a decision is made regarding Rockport Unit 2. He testified that for purposes of I&M's requested relief in this matter, I&M should not be penalized from earning a return on its capital investment, incremental O&M and depreciation for used and useful property via the CCTR.

Mr. Krawec discussed the possibility that the lease would not be renewed and indicated that I&M would advise the Commission of such matters and make a proposal to address issues regarding the remaining undepreciated balance of the Rockport CCT Project equipment. Mr. Krawec also explained I&M's proposed treatment if the lease is not extended and the lessors choose to purchase the Rockport DSI equipment. He explained that to the extent the fair market value paid to I&M exceeds I&M's net book value for the DSI equipment, I&M would record a regulatory liability for the difference to be returned to Indiana jurisdictional customers in a future rate proceeding. Conversely, to the extent the fair market value paid I&M is less than I&M's net book value for the DSI equipment, I&M would record a regulatory asset for the difference to be recovered from Indiana jurisdictional customers in a future rate proceeding.

G. New Cause Number. To help eliminate possible confusion, Mr. Blakley recommended a new Cause number for the new ECR tracker for the Rockport CCT project. The new tracker should be Cause No. 44331 ECR X.

Mr. Krawec testified that I&M has no objection to using a new cause number.

7. Testimony in Support of Settlement Agreement.

A. I&M's Evidence. Mr. Lewis explained that the other parties did not challenge the need for or the estimated cost of the Rockport CCT Project. He explained that the OUCC and Industrial Group raised concerns in this docket primarily regarding ratemaking treatment. The Parties discussed the issues and negotiated a resolution of these concerns in the Settlement Agreement and that from I&M's perspective the proposed resolution is a reasonable part of the comprehensive settlement package. He said that the cost of the Rockport CCT Project, while significant, is substantially less than the cost of the DFGD project proposed in Cause No. 44033. He stated that the construction schedule is also shorter.

Mr. Lewis explained why the estimated capital cost in the Settlement Agreement differs from that presented in I&M's case-in-chief. He testified that the total estimated capital cost presented in I&M's case-in-chief reflected the Phase I cost estimate and the Preconstruction Costs which I&M included in the Rockport CCT Project capital costs in accordance with GAAP and the USOA. He said the Settlement Agreement reflects the Phase II capital cost estimate and Preconstruction Costs, which are more refined and certain and \$26.7 million lower than the Phase I cost estimate.

Mr. Lewis further testified that there are four components of the estimate that have been updated. He said the updates include a \$4,923,000 reduction in the direct cost of the modifications needed on the dry sorbent injection and activated carbon injection system, an increase of \$1,074,000 in internal labor costs, a reduction of \$4,585,000 in the amount allocated for AEP overheads, and a reduction of \$18,250,000 in the amount allotted for risk allocation. He explained that these updated components have reduced the overall cost estimate for the Rockport CCT Project (excluding Preconstruction Costs) from a total cost of \$240,710,000 to \$214,026,000. He stated that the changes to the first three components were based on the receipt of updated information from external and internal sources as time and the percentage of the project complete has progressed. He also discussed the updated risk analysis that resulted in the reduction in the amount allotted for risk allocation.

He explained that the Range Estimate Risks and Risk Events evaluate issues the Project might encounter and the probability of occurrence and cost associated with them. He explained that in the updated exhibit, the amount of the project cost subject to risk that the Project has mitigated during the Phase II design evolution and contracting processes performed since I&M's original filing date on April 15, 2013 has increased by approximately \$58,500,000 (from \$56,112,169 to \$114,675,940). He explained that with the additional information, I&M and AEPSC have reduced the probability and values associated with the occurrence of specific events, which further mitigated a portion of the initial project risk. Mr. Lewis explained that I&M considered the Phase II cost estimate to be closer to the +/- 10% range. He clarified that significant engineering and other work remains. He said the Phase II cost estimate is the latest information derived from I&M's phased approach to construction projects. He stated that I&M will strive to construct the Rockport CCT Project within this updated cost estimate. He added that as provided in Paragraph 6(i) of the Settlement Agreement Terms and Conditions, should construction costs exceed this amount by more than 25%, the costs above the 25% will be presented by I&M with specific justification and considered for ratemaking treatment by the Commission in I&M's next applicable general base rate case(s).

Mr. Lewis also addressed the concerns about the Unit 2 lease. He stated that Mr. Phillips challenged I&M's cost recovery proposal for the Rockport Unit 2 costs on the grounds that it is possible that the Rockport 2 lease may not be renewed after the end of its current term in 2022. He added that Ms. Hawkins, Mr. Krawec, and Mr. Weaver addressed this issue in their rebuttal. Mr. Lewis testified that Paragraph 6(j) sets forth the Parties' agreed resolution of this matter. He said this Paragraph provides that except for Preconstruction Costs, I&M will be authorized to depreciate the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the Rockport CCT Project utilizing a 10-year life. He explained that the balance of Paragraph 6(j) addresses the ratemaking treatment of the Rockport CCT Project costs attributable to Unit 2 if the Rockport Unit 2 lease is not renewed beyond the end of its current term in 2022. He stated that this Paragraph provides that notwithstanding the provision regarding the agreed depreciation period, in the event the Rockport Unit 2 lease is not renewed beyond the end of its current term in 2022 and I&M is no longer using the asset, then no later than six months prior to the expiration of the lease, I&M will file a petition with the Commission for approval of I&M's proposal regarding any accounting and ratemaking issues associated with wrapping up the Rockport CCT Project costs and attributes attached to Unit 2 and the ongoing nature of the prospective cost recovery. He noted that the Settlement Agreement further provides that this provision is without waiver of each Party's respective rights to make arguments in such

subsequent proceeding regarding the recoverability, accounting and ratemaking for such Unit 2 costs, including the right to propose or oppose the recovery of such costs through the Federal Mandate Rider on a subject to refund basis pending the outcome of such proceeding.

Mr. Lewis explained that from I&M's perspective, the Unit 2 Rockport CCT Project is reasonable even if the lease is not renewed beyond the end of its current term. He noted that this view was discussed in I&M's rebuttal testimony. He stated that while I&M's witnesses explained why I&M disagreed with Mr. Phillips' recommendation, the negotiated compromise reasonably resolves this issue. He stated that the Settlement Agreement permits the CCT Project to be constructed and used on Rockport Unit 2 within the time frame needed to comply with the MATS Rule and avoids the need for the Commission to decide today a matter that may be easier to resolve once the future of the lease is known.

Mr. Lewis testified that the Rockport CCT Project is a cost-effective means of maintaining the availability of relatively low cost, coal-fired generation that complies with environmental regulations, allows the plant to continue to serve customer needs, provides jobs and tax revenues to the community, and does so in a manner that mitigates the rate impact on customers. He concluded that approval of the Settlement Agreement will allow I&M to continue to have economic generation from the Rockport Plant available to serve I&M's customers while complying with Federal environmental regulations at a significantly lower cost than previously contemplated, which is, in his opinion, in the best interest of the public.

Mr. Krawec explained that Exhibit SMK-1 (Updated) attached to the Settlement Agreement depicts how the total estimated cost of the capital investment for Units 1 and 2 flows through the ownership and capacity obligation structure of the Units to I&M on a Total Company basis and on an Indiana Retail Jurisdictional basis.

Mr. Krawec discussed Paragraph 3 of the Settlement Agreement, which provides that the total estimated capital cost (excluding AFUDC) for the Rockport CCT Project in the amount of \$258,052,000. He stated that Paragraph 3(a) clarifies that the Rockport CCT Project updated capital cost estimate in the amount of \$258,052,000 is a total cost. As also shown on Exhibit SMK-1 (Updated), he said this cost is shared by I&M, AEG, and I&M's sister company, Kentucky Power. He testified that this Paragraph recognizes that the costs allocated to Kentucky Power are not part of this proceeding. Rather, this proceeding and the Settlement Agreement concern I&M's "Direct Ownership Share" and "I&M's Allocated Share" of the total estimated capital costs allocated to I&M via I&M's purchases from AEG. He said these terms, which line up with the columns shown on Exhibit SMK-1 (Updated), are used to facilitate an understanding of the agreement regarding the ratemaking for the project costs.

Mr. Krawec also explained that the Preconstruction Costs, *i.e.*, the costs incurred in pursuing the installation of a DFGD on one unit at the Rockport Plant, are included in the total estimated capital cost of the Rockport CCT Project. Mr. Krawec explained that Paragraph 3(c) identifies I&M's Direct Ownership Share of the total estimated capital costs to be \$129,026,000 (Total Company and excluding AFUDC) and stated that this amount includes an estimated \$22,013,000 in Preconstruction Costs. He stated that Paragraph 3(d) identifies I&M's Allocated Share of the total estimated capital costs of the Rockport CCT Project is estimated to be \$90,318,000 (Total Company).

Mr. Krawec explained that in this case the OUCC and I&M witnesses filed testimony proposing different approaches to timely cost recovery. He said I&M proposed to utilize the cost recovery currently in place in I&M's ECR proceedings and Mr. Blakley recommended the Commission utilize the cost recovery provisions set forth in Ind. Code ch. 8-1-8.4. Mr. Krawec stated that Ind. Code ch. 8-1-8.4 provides for timely recovery of 80% of costs through a tracker while 20% of costs are deferred and recovered in a subsequent base rate case. Mr. Krawec noted that in his rebuttal testimony he explained why I&M disagreed with the OUCC proposal to use this 80/20 cost recovery. He added that the Settlement Agreement resolves the issue by accepting the OUCC proposal to utilize Ind. Code ch. 8-1-8.4 for 80/20 recovery as set forth in the Settlement Agreement.

Mr. Krawec explained that Paragraph 3(f) spells out the agreement regarding I&M's Allocated Share of the Rockport CCT Project costs. He stated that this Paragraph provides that these costs will be recovered in subsequent I&M general rate cases. He added that to the extent I&M's Allocated Share is no more than the estimated costs described herein, then the prudence of such expenditures shall not be subject to challenge other than as contemplated by Paragraph 6(j). He stated that I&M's Allocated Share represents 70% of AEG's share of the total cost of the Rockport CCT Project, which AEG will bill monthly to I&M through the Rockport Unit Power Agreement.

Mr. Krawec explained that Paragraph 3(g) of the Settlement Agreement quantifies the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share (including the Preconstruction Costs). He said this Paragraph provides that the Indiana Retail Jurisdictional Share of such costs will be determined using the jurisdictional demand allocation factor approved by the Commission in I&M's general rate cases. He noted that to facilitate a better understanding of this provision, the Settlement Agreement sets forth an illustrative calculation based on the jurisdictional demand allocation factor approved in I&M's most recent general rate case (Cause No. 44075). He noted that the Indiana Retail Jurisdictional allocation factors may be reviewed and updated in I&M's subsequent general rate cases, and correspondingly the Indiana Retail Jurisdictional share of I&M's Direct Ownership Share will also be updated.

Mr. Krawec explained that Paragraph 3(h) is similar to Paragraph 3(g) in that Paragraph 3(h) quantifies the Indiana Retail Jurisdictional Share of the Preconstruction Costs reflected in I&M's Direct Ownership Share. He explained that while there was no dispute among the Parties regarding the quantification of this amount, OUCC witness Blakley raised a challenge to I&M's proposal to earn a return on this amount as it is being recovered. He said Paragraph 3(h) sets forth the Parties' negotiated resolution of this issue. He stated that this Paragraph provides that without waiver of the Parties' positions regarding the eligibility of said Preconstruction Costs for cost recovery and solely for purposes of compromise, the Parties agree that the Indiana Retail Jurisdictional Share of the Preconstruction Costs will be amortized and recovered under Ind. Code ch. 8-1-8.4 over the remaining life of the Rockport facility and that the Preconstruction Costs, along with the remaining Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share will earn a return based on I&M's weighted average cost of capital as provided in the Settlement Agreement. He stated that the expected retirement date for Rockport Unit 1 and common facilities used to determine the depreciation rates approved in I&M's most recent base rate case (Cause No. 44075) is December 2044, which equates to a 29-year recovery period for the Preconstruction Costs (2015-2044).

Mr. Krawec noted that the Settlement Agreement also addresses the concern raised by Ms. Armstrong regarding the possibility that certain activated carbon expense embedded in the revenue requirement used to establish I&M's base rates would be "double recovered" through the timely recovery through the tracker of the Rockport CCT Project O&M costs, depreciation, and tax expense. He stated that Paragraph 4 of the Settlement Agreement recognizes that I&M may incur incremental O&M costs (including consumables), depreciation, and tax expense over and above the amount embedded in I&M's base rates. He said this Paragraph provides that such costs will be recovered under Ind. Code ch. 8-1-8.4 as provided for in this Settlement Agreement if reasonable and necessary.

Mr. Krawec testified that Paragraph 6 sets forth how cost recovery under Ind. Code ch. 8-1-8.4 will be implemented. He explained that this provision discusses the 80% timely cost recovery and the 20% deferred cost recovery consistent with Ind. Code ch. 8-1-8.4. He stated that in Paragraph 6(a), the Settlement Agreement provides that eighty percent (80%) of the Federally Mandated Costs shall be recovered in a timely manner through a Federal Mandate Rider including: a carrying charge at the overall weighted average cost of capital (weighted average rate of return) on capital costs/expenditures and Preconstruction Costs during construction and after a project is placed in service, operating and maintenance (including consumables), depreciation, tax, financing costs, and post in-service AFUDC on capital costs and Preconstruction Costs. He said that consistent with Paragraphs 6 and 6(f) of the Settlement Agreement, during construction, I&M will continue to accrue AFUDC on its share of the entire project cost until such time as the Federal Mandate Rider is authorized to recover a carrying charge at the overall weighted average cost of capital on CWIP and Preconstruction Costs. He stated that at that time, AFUDC will cease on 80% of the CWIP amount and 80% of the Preconstruction Costs, and the carrying charge above will be recovered through the Federal Mandate Rider until the Rockport CCT Project amounts are in-service.

Mr. Krawec also discussed the new Federal Mandate Rider included with his settlement testimony. He explained that I&M may file its first Federal Mandate Rider proceeding within three months of a final Commission Order approving this Settlement Agreement. He stated that while Ind. Code ch. 8-1-8.4 is silent regarding the requirement of a six-month construction period to precede the rate recovery through a rider, I&M is confident that the Rockport CCT Project will be under construction for more than six months at the time the initial rider factors are approved, and I&M will reflect this in its forecast used to derive its first set of proposed rider factors. Mr. Krawec explained that I&M will request updates to its Federal Mandate Rider in six-month intervals with the factors established under the Rider remaining in place until superseded by updated factors. I&M will be authorized to defer and record as a regulatory asset 80% of its post-in-service depreciation, incremental O&M expense (including consumables), property tax, and post-in-service AFUDC on capital costs related to the Rockport CCT Project until the Commission approves ratemaking treatment through the Federal Mandate Rider with any resulting variances reconciled in subsequent Rider filings. Mr. Krawec testified that the proposed treatment of the 80% recovery of the federally mandated costs is nearly identical to the treatment afforded for timely recovery of costs and expenses through I&M's CCTR.

Mr. Krawec explained that Paragraph 6(b) provides that the twenty percent (20%) of the Federally Mandated Costs that will be deferred until rates are established in subsequent I&M general rate cases includes: AFUDC on capital costs during construction and Preconstruction

Cost, post in-service AFUDC on capital costs and Preconstruction Costs, and, after the project is placed in service, operating and maintenance (including consumables), depreciation, and taxes. He added that as stated in Paragraph 6(h) the 20% cost recovery allowed under the Ind. Code ch. 8-1-8.4 will be deferred for recovery in I&M's next general rate case. I&M will continue to accrue AFUDC on 20% of the CWIP amount and 20% of the Preconstruction Costs until the Rockport CCT Project is in service. He noted that after the Rockport CCT Project is placed in service, normal AFUDC will cease and I&M will defer post in-service AFUDC on 20% of the capital costs and Preconstruction Costs, and 20% of the depreciation, incremental O&M (including consumables), and property tax expense, until rates are established in a subsequent I&M general rate case. He stated that the deferred amounts will be charged to FERC Account 182.3, Other Regulatory Assets, and will be amortized over the remaining life of the Rockport CCT Project when reflected in a subsequent general rate case.

Mr. Krawec explained that consistent with the Settlement Agreement, the 80% recovery through the Federal Mandate Rider uses the same structure currently in place for timely recovery of costs and expenses through I&M's CCTR. He testified that through the CCTR, I&M received timely cost recovery of its QPCP at its Rockport and Tanners Creek Plants in the form of a carrying charge at the overall weighted cost of capital on CWIP amounts and post-in-service AFUDC until the CCTR provided a carrying charge on the in-service investment, depreciation expense, and operation and maintenance (including consumables) expense. He added that consistent with the CCTR, the Federal Mandate Rider will calculate the monthly carrying charge on 80% of the net amount in service. He said this will automatically reduce net in-service amounts by the monthly depreciation amounts recovered through the Federal Mandate Rider, resulting in a reduced monthly carrying charge on the Rockport CCT Project capital costs. Mr. Krawec noted that the resolution of the implementation details in the Settlement Agreement was important to I&M's decision to accept cost recovery under Ind. Code ch. 8-1-8.4. He explained that mirroring the cost recovery of the 80% of Federally Mandated costs with the CCTR recovery avoids potential disputes about how such cost recovery will occur. He added that I&M did not want to resolve the cost recovery issues in this case by simply deferring all the details to the future rider proceedings.

Mr. Krawec testified that consistent with Mr. Blakley's recommendation and Mr. Krawec's rebuttal testimony, the Settlement Agreement provides that the Federal Mandate Rider will be established as a new case number, such as Cause No. 44331 ECR X. He contemplates that the exhibits, schedules, and workpapers associated with the tracking of the 80% of federally mandated costs will follow the same structure currently used for ECR proceedings under I&M's CCTR. He added that by using a structure that is consistent with that already in place, the Settlement Agreement should permit the timely cost recovery under Ind. Code ch. 8-1-8.4 to be implemented in an efficient manner.

Mr. Krawec testified that as is the case with I&M's existing ECR proceedings, the Settlement Agreement provides that I&M will be authorized to add to the value of I&M's property for ratemaking purposes 80% of the value of the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the total Rockport CCT Project capital costs (including Preconstruction Costs) in accordance with the Commission's construction work in progress ratemaking rules. He stated that pursuant to 170 IAC 4-6-21, I&M shall add the approved return to its net operating income authorized by the Commission for purposes of Ind. Code § 8-1-2-

42(d)(3) in all subsequent fuel adjustment charge proceedings, prorated for the effective period of the approved rates.

Mr. Krawec stated that the Federal Mandate Rider will have a reconciliation process. He stated that the Settlement Agreement provides that I&M will be authorized to defer and record as a regulatory asset post-in-service depreciation, incremental O&M expense (including consumables), tax and post-in-service AFUDC on capital costs until the Commission approves ratemaking treatment through the Federal Mandate Rider with any resulting variances reconciled in subsequent Rider filings. He said I&M expects to file its first reconciliation along with its third rider update request filing. Subsequently, reconciliation will be included in every rider update request filing. He said this reconciliation schedule will allow the first reconciliation to include a full term (*i.e.* 6 months) where the initial rider rates were in effect.

Mr. Krawec explained that Paragraph 6(i) relates to a provision in Ind. Code ch. 8-1-8.4, namely Ind. Code § 8-1-8.4-7(c)(3). He said, this Paragraph provides that in the event the actual construction costs (excluding AFUDC) exceed the projected federally mandated costs of the Rockport CCT Project by more than twenty-five percent (25%), then the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the Rockport CCT Project costs above the 25% will be presented by I&M with specific justification and considered for rate recovery by the Commission in I&M's next applicable general rate case. He added that the total Rockport CCT Project cost (excluding AFUDC) would have to exceed \$322,565,000 ($\$258,052,000 \times 125\%$) to trigger the "25%" rule. In response to the Commission's Docket Entry dated August 2, 2013, I&M explained that the phrase "Federally Mandated costs" was used in Section 6(i) to incorporate statutory language from Ind. Code § 8-1-8.4-7(c)(3). I&M added that the words "actual construction costs" were used in this provision of the Settlement Agreement to clarify what cost would be reflected in the comparison. Further, later in Paragraph 6(i) the Federally Mandated costs used for this comparison are defined as "Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the Rockport CCT Project costs", which limits the Federally Mandated costs for this purpose to just the construction costs and Preconstruction Costs.

Mr. Krawec stated that Mr. Phillips recommended that the allocation method approved in I&M's most recent base rate case, Cause No. 44075, be used as the allocation of the CCTR costs to the customer classes. Mr. Krawec noted that he agreed with this recommendation in his rebuttal testimony. He said the Settlement Agreement accepts Mr. Phillips's recommendation by providing that the allocation of costs in the Federal Mandate Rider will be based on the allocation methods approved by the Commission in I&M's base rate case (Cause No. 44075), which includes the 6 CP method for determining the demand allocation.

Mr. Krawec testified that Paragraph 6(j) provides that except for Preconstruction Costs, I&M will be authorized to depreciate the Rockport CCT Project utilizing a 10-year life. He said Paragraph 3(h) explains that Preconstruction Costs will be amortized and recovered under Ind. Code ch. 8-1-8.4 over the remaining life of the Rockport facility. He explained that Exhibit SMK-1 was revised to reflect that the depreciation period for Preconstruction Costs in the Settlement Agreement is 29 years (estimated remaining life of Rockport when DSI is placed in service) and not the 10-year period applicable to the rest of the Rockport CCT Project. He said this exhibit is otherwise the same as the one originally attached to the Settlement Agreement.

Mr. Krawec concluded that the Settlement Agreement including Exhibit SMK-1 (Updated Revised) reduces the estimated impact of the Rockport CCT Project on Indiana retail jurisdictional revenues at the end of the project from approximately 3% to approximately 2.6%.

B. OUC's Evidence. Mr. Blakley explained that the total estimated cost for the Rockport CCT Project in the settlement, excluding AFUDC, is \$258,052,000. He said I&M's Direct ownership of the Rockport CCT project is 50%, making its allocated share of the Project \$129,026,000. He added that applying the Indiana Retail Jurisdictional factor of 64.65519% (approved in I&M's last general rate case in Cause No. 44075) results in an Indiana Retail Jurisdictional share of the Rockport CCT investment of \$83,422,005. He noted that the amount is less than I&M originally requested but added that the reduced amount is not as a result of the settlement. He stated that after I&M received more detailed engineering and construction information, it was able to reduce the amount of risk contingency it was requesting for the Rockport CCT Project. He said this resulted in a reduction to the cost estimate, which represents a savings benefit to Indiana consumers.

Mr. Blakley explained that the Parties have agreed to the method of cost recovery for the Rockport CCT Project. He said the Rockport CCT Project is defined as a CCT project under Ind. Code chs. 8-1-8.7 and 8-1-8.8 and §§ 8-1-2-6.7 and 8-1-2-6.8. He said the Parties have also agreed that the Rockport CCT Project, including O&M and depreciation costs, also qualifies for cost recovery as a federally mandated project under Ind. Code ch. 8-1-8.4. He added that the Parties have agreed that the calculation of a CWIP return for the Rockport CCT Project will be governed under the Commission's rules in 170 IAC 4-6, which spells out the treatment of construction investment and the calculation of the weighted cost of capital. He said the Rockport CCT Project fits the definition of a "federally mandated" project because I&M has to complete this Project in order to for it to be in compliance with the MATS Rule.

Mr. Blakley explained that a primary feature of Ind. Code § 8-1-8.4 is the 80/20 split for cost recovery. He testified that I&M will be able to recover 80% of all approved federally mandated costs through a periodic retail rate adjustment mechanism, which will be a CWIP tracker. He stated that during the Rockport CCT Project construction, I&M will request an update to this tracker every six (6) months with 80% of the current construction costs. He stated that a return will be calculated on this and together with other costs as set forth in the Settlement Agreement will be billed out to the customers through the tracker. Mr. Blakley stated that the other 20% of these costs will be deferred, accrue AFUDC, and be recovered as part of I&M's next general rate case. He added that when the Project is completed, 80% of the construction costs net of accumulated depreciation will have a return calculated and tracked, and also 80% of related depreciation expense and O&M expenses will flow through this CWIP tracker. He said the 20% deferred will include post-in-service AFUDC on the construction costs. He stated depreciation expense and operation and maintenance expenses will be deferred for 20% of the costs without carrying charges until the time of the next rate case.

He explained that the 80% limitation on cost recovery in the CWIP trackers that falls under the federally mandated requirement statute gives immediate rate relief to customers because 80% of the costs, not 100%, are tracked to customers. He testified that the customers have the benefit of lower bills, while I&M benefits from the cash return before the Project is used and useful, plus the recovery of 80% of its other costs once the Project is used and useful.

I&M also benefits from the ability to defer 20% of costs until the next rate case. He said customers will eventually pay for these deferrals when they are included for recovery in I&M's next rate case.

Mr. Blakley testified that if the Rockport Unit 2 lease is not renewed beyond the end of its current term in 2022 and I&M is no longer using an asset, then I&M must file a petition with the Commission no later than six months prior to its expiration. He said this petition will address the accounting and ratemaking issues associated with the Rockport CCT Project costs attached to Unit 2 and the treatment of any future cost recovery. In his view, this term will help ensure the ratepayers do not continue to pay for an asset that may no longer be used for the benefit of I&M customers.

Mr. Blakley concluded that he believes the Settlement Agreement is in the public interest. He said the agreement addresses the OUCC's concerns with revenue requirements issues and it will result in reduced overall ratepayer financial impact.

8. Commission Discussion and Findings.

A. Settlement Policy. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition of Ind., Inc. v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order – including the approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition of Ind., Inc. v. Public Service Co. of Ind., Inc.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code ch. 8-1-2, and that such agreement serves the public interest.

B. Ind. Code ch. 8-1-8.4. The parties agreed that I&M would seek approval of the CPCN and cost recovery for the Rockport CCT Project under Ind. Code ch. 8-1-8.4. Prior to issuing a CPCN under Ind. Code § 8-1-8.4-6, we must consider the following factors: (1) the federally mandated requirements, including any consent decrees related to the federally mandated requirements, that the proposed project will allow the utility to comply with; (2) the costs associated with the proposed project; (3) whether the proposed project will allow the utility to comply with the federally mandated requirements; (4) alternative plans that demonstrate that the proposed project is reasonable and necessary; (5) whether the proposed project will extend the useful life of an existing utility facility and the value of that extension; and (6) any other factors we consider relevant. Ind. Code § 8-1-8.4-7(b)(3). In addition, we must make a finding

that public convenience and necessity will be served by the proposed project, Ind. Code § 8-1-2-8.4-7(b)(1), and approve the projected federally mandated costs associated with the project, Ind. Code § 8-1-2-8.4-7(b)(2).

1. Federally Mandated Requirements. Mr. Chodak presented evidence about the NSR Consent Decree. On December 10, 2007, AEP entered into the Consent Decree with the EPA related to the NSR provisions of the CAA. The Consent Decree included an agreement that I&M would retrofit SCR and FGD on Rockport Units 1 and 2. I&M later discovered a more cost-effective solution for compliance with the Consent Decree and negotiated a modification to the Consent Decree to allow I&M to construct the Rockport CCT Project as an alternative to the required SCR and FGD projects. In addition, Mr. Hendricks presented testimony about the MATS Rule. The MATS Rule contains stringent emission rate limitations for several HAPs, including HCl.

Based on the evidence presented, we find that the MATS Rule represents a federally mandated requirement as that term is defined in Ind. Code § 8-1-8.4-5. Therefore, we find that I&M has complied with the requirements of Ind. Code § 8-1-8.4-6(b)(1)(A). Because we find that the MATS Rule is sufficient to allow I&M to seek cost recovery under Ind. Code ch. 8-1-8.4, we do not address whether the Consent Decree or its underlying environmental compliance obligations qualify as a federally mandated requirement as defined in Ind. Code § 8-1-8.4-5.

2. Projected Costs. Mr. Chodak, Mr. Walton, and Mr. Krawec presented testimony and exhibits regarding the project costs and explained how the total costs of the Rockport CCT Project flowed through the ownership structure, lease and purchase agreement between I&M and AEG. Mr. Snyder testified that he reviewed the cost estimate and recommended approval of the Project.

The estimated capital cost for the Rockport CCT Project reflected in the Settlement Agreement is \$258,052,000 of which I&M's Direct Ownership Share is \$129,026,000 (excluding AFUDC but including \$22,013,000 in Preconstruction Costs). The Settlement Agreement reflects the Phase II capital cost estimate and Preconstruction Costs, which are more certain and \$26.7 million less than the Phase I cost estimate that I&M proposed in its case-in-chief evidence. The Settlement Agreement and supporting evidence delineate I&M's Direct Ownership Share and I&M's Allocated Share of the total estimated capital costs of the Rockport CCT Project. The Project does not involve regional transmission expansion costs.

Based on the evidence presented, we find that I&M has adequately described the projected federally mandated costs associated with the Rockport CCT Project, including costs that are allocated to the energy utility in compliance with Ind. Code § 8-1-8.4-6(b)(1)(B).

In the Settlement Agreement, the parties agreed that the total estimated capital cost of the Rockport CCT Project is reasonable. The evidence presented shows that the Rockport CCT Project is a cost-effective means of complying with the MATS Rule, and that the estimated cost of the project is significantly less expensive than other considered alternatives. The parties also agreed to include the Preconstruction Costs from the REP in the estimated capital costs of the Rockport CCT Project. Mr. Chodak testified that the Preconstruction Costs are reasonable because I&M had to move forward with a plan to ensure the Rockport Plant would be available

for generation because it was not yet sure whether DSI would be cost effective, technologically feasible, or a legally allowed environmental compliance measure. Based on the evidence, we find that I&M took reasonable steps to insure it could achieve MATS compliance through the REP while it explored the possibility of alternative solutions. We find that the estimated capital costs of the Rockport CCT Project, including the Preconstruction Costs, are reasonable. Therefore, we approve the projected federally mandated costs associated with the Rockport CCT project as required by Ind. Code § 8-1-8.4-7(b)(2).

3. Compliance with Federally Mandated Requirements. Mr. Hendricks presented evidence that the Rockport CCT project will limit the emission of SO₂ and HCl, which will enable Rockport Units 1 and 2 to be operated in compliance with the MATS Rule. Both the OUCC and the Industrial Group presented evidence agreeing that the Rockport CCT project will allow I&M to comply with the MATS Rule.

Based on the evidence presented, we find that the Rockport CCT project will allow I&M to comply with the MATS Rule as required by Ind. Code § 8-1-8.4-6(b)(1)(C).

4. Alternative Plans for Compliance. Mr. Chodak discussed the efforts undertaken by I&M to explore alternatives and identify a cost-effective means to comply with the MATS Rule. Mr. Walton discussed AEP's experience with DSI technology through pioneering and developing and then patenting the use of a dry sorbent for removal of sulfur trioxide, an acid gas. I&M performed analyses showing that the Rockport CCT Project is the most cost effective option for compliance with the MATS Rule.

Mr. Weaver's analysis set forth the relative cost and feasibility of a Rockport Unit 1 and 2 retirement option and demonstrated that the cost of that alternative would likely significantly exceed that of the proposed Rockport CCT Project. Mr. Weaver's analysis in his direct testimony also showed that the dispatch priority of the proposed environmentally-controlled Rockport units will not be adversely impacted based on the resulting variable cost profiles within the economic analyses described above. It would be anticipated that the units' annual capacity factor will not be significantly different from historical levels after these retrofits are installed. Accordingly, the record shows that the Rockport CCT Project is not expected to significantly change the dispatching order of the units.

Mr. Rutter also investigated whether there are viable alternatives to the Rockport CCT Project and concluded that the Rockport CCT Project is a reasonable balance of costs, risks and policy based on a retrofit approach to meeting the requirements of the MATS Rule.

Based on the evidence presented, we find that I&M considered several alternative plans for compliance with the federally mandated requirements, in addition to the SCR and FGD projects originally required by the Consent Decree. The evidence demonstrates that the Rockport CCT Project is a cost-effective method to achieve compliance with the MATS Rule. Therefore, we find that the alternative plans demonstrate that the project is reasonable and necessary as required by Ind. Code § 8-1-8.4-6(b)(1)(D).

5. Useful Life of the Facility. The record reflects that due to the need to comply with the MATS Rule emission limits, I&M would be forced to shut down both

Rockport Units absent the proposed retrofit. The record reflects that the installation of the Rockport CCT Project will preserve, if not extend, the remaining lives of the Rockport Units. Therefore, based on the evidence we find that I&M has demonstrated that the Rockport CCT Project will extend the useful life of Rockport Units 1 and 2, as required by Ind. Code § 8-1-8.4-6(b)(1)(E).

6. Public Convenience and Necessity. As our discussion above demonstrates, I&M put significant work into identifying a cost-efficient method of complying with the MATS Rule and the Consent Decree. Since the filing of its case-in-chief, I&M undertook further work on the project and was able to complete the Phase II cost estimate, which further reduced the projected costs being sought for recovery in this Cause. The cost estimate set forth in the Settlement Agreement reflects the Phase II cost estimate and the Preconstruction Costs. The record reflects that the updated Phase II cost estimate would be categorized as a Class 1 estimate by the AACE. Mr. Lewis testified that the Phase II cost estimate is based upon 60% of the engineering having been completed and approximately 40% of the overall project now under contract.

Based upon the findings made by the Commission above regarding the analysis provided in support of the issuance of the CPCN in accordance with the Settlement Agreement and as required by Ind. Code § 8-1-8.4-7(b)(1), we find that the public convenience and necessity will be served by the construction, implementation and use of the Rockport CCT Project when the total capital cost as defined in Section A.3 of the Settlement Agreement is considered.

7. Cost Recovery. If we approve a compliance project and the associated federally mandated costs, Ind. Code § 8-1-8.4-7(c) sets forth the ratemaking that applies. This ratemaking has been referred to as an 80/20 cost recovery.¹ The Settlement Agreement sets forth how the accounting ratemaking and the new Federal Mandate Rider will be implemented. The Settlement Agreement also expressly incorporates the 25% cap on I&M's projected federally mandated costs set forth in Ind. Code § 8-1-8.4-7(c)(3). Should I&M's actual costs exceed the 25% cap, the statute requires I&M to provide specific justification for and seek recovery of those additional costs in its next general rate case. These provisions were supported by the testimony in support of the Settlement Agreement offered by I&M and the OUCC. We find the accounting and ratemaking provisions of the Settlement Agreement to be reasonable and consistent with Ind. Code § 8-1-8.4-7. We further find these provisions should be approved and the Federal Mandate Rider proceedings should be docketed as Cause No. 44331 ECR X.

C. Settlement Agreement. Based upon the findings above, we find that the Settlement Agreement is reasonable and consistent with the governing regulatory framework. The Rockport CCT Project is a cost-effective means of maintaining the availability of the Rockport Units that complies with environmental regulations, allows the plant to continue to serve customer needs, and does so in a manner that mitigates the rate impact on customers. We find the Rockport CCT Project is the best option to permit Rockport to continue to provide generation needed to serve I&M's customers' needs. We further find and conclude that the

¹ Ind. Code § 8-1-8.4-7(c) allows for recovery of 80% of the approved costs, including up to 80% of the capital cost identified in Paragraph 9.B.6 above, via a periodic rate adjustment mechanism and for deferral treatment of the remaining 20% of the approved costs. Any amounts above the approved costs would be addressed in a future base rate case.

Settlement Agreement terms regarding accounting, depreciation, and ratemaking provide a reasonable and cost effective means of addressing and resolving the OUCC and Industrial Group concerns while recognizing I&M's operational needs. Therefore, we conclude that the Settlement Agreement is reasonable and in the public interest and should be and is approved.

The parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459, at *19-22 (IURC March 19, 1997).

D. Confidentiality Findings. I&M filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information on July 15, 2013, which Motion was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and (9) and Ind. Code § 24-2-3-2. The Presiding Officers issued a Docket Entry on July 19, 2013 finding such information to be preliminarily confidential, after which such information was submitted under seal. There was no disagreement among the Parties as to the confidential and proprietary nature of the information submitted under seal in this proceeding. We find all such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. The Settlement Agreement is approved in its entirety.
2. I&M's Rockport CCT Project is approved, including the construction and use of emission reduction technologies.
3. I&M is issued a Certificate of Public Convenience and Necessity under Ind. Code § 8-1-8.4-7(b) for the Rockport CCT Project. This Order constitutes the Certificate.
4. The projected federally mandated costs set forth in the Settlement Agreement for the Rockport CCT Project are approved.
5. The Rockport CCT Project costs are federally mandated costs and cost recovery shall be implemented in accordance with Ind. Code ch. 8-1-8.4 as provided in the Settlement Agreement.
6. I&M is authorized to add to the value of I&M's property for ratemaking purposes the value of the Rockport CCT Project in accordance with the Commission's CWIP ratemaking rules and the Settlement Agreement. Pursuant to 170 I.A.C. 4-6-21 and as provided in the Settlement Agreement, I&M shall add the approved return to its net operating income authorized by the Commission for purposes of Ind. Code § 8-1-2-42(d)(3) in all subsequent fuel adjustment charge proceedings.

7. I&M is authorized to depreciate the Rockport CCT Project utilizing a 10-year life, except for the Preconstruction Costs which shall be amortized over the remaining life of the Rockport facility as provided in the Settlement Agreement.

8. The proposed Federal Mandate Rider is approved and rider filings shall be docketed as Cause No. 44331 ECR X.

9. Eighty percent (80%) of the approved federally mandated costs shall be recovered by I&M through the Federal Mandate Rider in accordance with Ind. Code § 8-1-8.4-7(c) and the Settlement Agreement.

10. I&M is authorized to defer and record as a regulatory asset post-in-service depreciation and O&M expense associated with the Rockport CCT Project, with any resulting variances reconciled in subsequent Federal Mandate Rider filings as provided in the Settlement Agreement.

11. As provided in the Settlement Agreement, I&M is authorized to accrue and recover AFUDC on the cost of the Rockport CCT Project, and the accrual of AFUDC shall continue on any unrecovered value of the Rockport CCT Project until ratemaking treatment for the value of the property is effective, including post-in-service AFUDC, on costs not yet recognized in the Federal Mandate Rider from the in-service date until ratemaking treatment reflecting the value of that Property is effective.

12. I&M is authorized to defer and record as a regulatory asset twenty percent (20%) of the federally mandated costs in accordance with Ind. Code § 8-1-8.4-7(c) and the Settlement Agreement.

13. The information filed in this Cause pursuant to motion for protective order is deemed confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

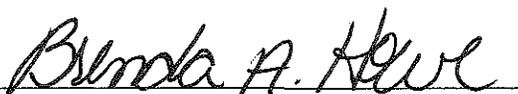
14. This Order shall be effective on and after the date of its approval.

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

APPROVED:

NOV 13 2013

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


Brenda A. Howe
Secretary to the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN)
POWER COMPANY ("I&M"), AN INDIANA)
CORPORATION, FOR APPROVAL OF CLEAN)
COAL AND ENERGY PROJECTS AND)
QUALIFIED POLLUTION CONTROL)
PROPERTY AND FOR ISSUANCE OF A)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY FOR USE OF CLEAN COAL)
TECHNOLOGY ("PROJECTS"); FOR ONGOING)
REVIEW; FOR APPROVAL OF THE TIMELY)
RECOVERY OF COSTS INCURRED DURING)
CONSTRUCTION AND OPERATION OF SUCH)
PROJECTS THROUGH I&M'S CLEAN COAL)
TECHNOLOGY RIDER; FOR APPROVAL OF)
DEPRECIATION PROPOSAL FOR SUCH)
PROJECTS; FOR AUTHORITY TO DEFER)
COSTS INCURRED DURING CONSTRUCTION)
AND OPERATION, INCLUDING CARRYING)
COSTS, DEPRECIATION, AND OPERATION)
AND MAINTENANCE COSTS, UNTIL SUCH)
COSTS ARE REFLECTED IN THE CLEAN)
COAL TECHNOLOGY RIDER, FOR APPROVAL)
OF COST RECOVERY OF COSTS INCURRED)
FOR ROCKPORT ENVIRONMENTAL)
PROJECT, , ALL PURSUANT TO IND. CODE §§)
8-1-2-6.1, 8-1-2-6.7, 8-1-2-6.8, 8-1-2-42(a), 8-1-8.4-6,)
8-1-8.4-7, 8-1-8.7, 8-1-8.8, AND 170 IAC 4-6-1 ET)
SEQ.)

CAUSE NO. 44331

STIPULATION AND SETTLEMENT AGREEMENT

Indiana Michigan Power Company ("I&M" or "Company"), Intervenor Industrial Group ("Industrials"), and the Indiana Office of Utility Consumer Counselor ("OUCC"), (collectively the "Parties" and individually "Party") solely for purposes of compromise and settlement and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of all

matters pending before the Commission in this Cause, subject to their incorporation by the Indiana Utility Regulatory Commission (“Commission”) into a final, non-appealable order (“Final Order”) without modification or further condition that may be unacceptable to any Party. If the Commission does not approve this Stipulation and Settlement Agreement (“Settlement Agreement”), in its entirety, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties.

A. TERMS AND CONDITIONS

The Settling Parties stipulate and agree as follows:

- 1) I&M’s Rockport CCT Project will be approved, including the construction and use of emission reduction technologies and associated facilities.
- 2) I&M is issued a Certificate of Public Convenience and Necessity for the Rockport CCT Project.
- 3) The total estimated capital cost (excluding Allowance for Funds Used During Construction (AFUDC)) provided by I&M in this Cause for the Rockport CCT Project in the amount of \$258,052,000 set forth on Petitioner’s Exhibit SMK-1 (Updated) attached hereto is reasonable and will be approved consistent with the clarification set forth below:
 - a) As shown on Petitioner’s Exhibit SMK-1 (Updated), the total estimated capital cost of the Rockport CCT Project ((\$258,052,000 excluding AFUDC) is allocated to I&M through two components as follows:
 - i. “I&M’s Direct Ownership Share”; and
 - ii. “I&M’s Allocated Share” of the total estimated capital costs allocated to I&M via I&M’s purchases from AEP Generating Company.

As shown on Petitioner’s Exhibit SMK-1 (Updated), Kentucky Power is also allocated a share of the total estimated capital costs of the Rockport CCT Project (the “Kentucky Costs”). This proceeding and this Settlement Agreement do not involve the Kentucky Costs.

- b) The total estimated capital cost of the Rockport CCT Project includes the “Preconstruction Costs” incurred in pursuing the installation of a dry flue gas desulfurization system on one unit at the Rockport Plant (Cause No. 44033).
- c) As shown on Petitioner’s Exhibit SMK-1 (Updated), I&M’s Direct Ownership Share of the total estimated capital costs (\$258,052,000 excluding AFUDC) is estimated to

be \$129,026,000 (Total Company). I&M's Direct Ownership Share includes an estimated \$22,013,000 in Preconstruction Costs.

- d) As shown on Petitioner's Exhibit SMK-1 (Updated), I&M's Allocated Share of the total estimated capital costs of the Rockport CCT Project is estimated to be \$90,318,000 (Total Company).
 - e) While the total estimated capital cost of the Rockport CCT Project is reasonable and should be approved, only the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share (including Preconstruction Costs) will be recovered under Ind. Code §8-1-8.4 (the Federal Mandated Requirements Statute) as provided below.
 - f) I&M's Allocated Share of the Rockport CCT Project will be recovered in subsequent I&M general rate case(s). To the extent I&M's Allocated Share is no more than the estimated costs described herein, then the prudence of such expenditures shall not be subject to challenge other than as contemplated by paragraph 6(j) below.
 - g) The Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share (including the Preconstruction Costs) will be determined using the jurisdictional demand allocation factor approved by the Commission in I&M's general rate cases. By way of illustration, as shown on Petitioner's Exhibit SMK-1 (Updated), the jurisdictional demand allocation factor approved in I&M's most recent general rate case (Cause No. 44075) is 64.65519%. Applied to I&M's Direct Ownership Share (Total Company), the resulting capital cost using the current jurisdictional demand allocation factor is \$83,422,005. The Indiana Retail Jurisdictional allocation factors may be reviewed and updated in I&M's subsequent general rate cases.
 - h) Also by way of illustration, using the current allocation factor, the Indiana Retail Jurisdictional Share of the Preconstruction Costs reflected in I&M's Direct Ownership Share is estimated to be \$14,232,547 ($\$44,026,000 * 50% * 64.65519%$). Without waiver of the Parties' position regarding the eligibility of said Preconstruction Costs for cost recovery and solely for purposes of compromise, the Parties agree that the Indiana Retail Jurisdictional Share of the Preconstruction Costs will be amortized and recovered under Ind. Code §8-1-8.4 over the remaining life of the Rockport facility and that the Preconstruction Costs, along with the remaining Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share will earn a return based on I&M's weighted average cost of capital as provided below.
- 4) The Rockport CCT Project may have incremental O&M costs (including consumables), depreciation, and tax expense over and above the amount embedded in I&M's base rates. Such costs will be recovered under Ind. Code §8-1-8.4 as provided for in this Settlement Agreement if reasonable and necessary.
 - 5) I&M's Rockport CCT Project constitutes Clean Coal Technology, a Clean Energy Project and Qualified Pollution Control Property and is eligible for the ratemaking treatment described in Ind. Code §§8-1-8.7, 8-1-8.8, 8-1-2-6.7 and 8-1-2-6.8. The cost of the Rockport CCT Project, including capital, operating and maintenance (including

consumables), depreciation, tax and financing costs are also Federally Mandated Costs under Ind. Code §8-1-8.4-4.

- 6) Without waiver of I&M's position regarding the eligibility of the Rockport CCT Project for cost recovery under Ind. Code §§8-1-8.7, 8-1-8.8, 8-1-2-6.7 and 8-1-2-6.8, and solely for purposes of compromise, the cost recovery for the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share (including Preconstruction Costs) and associated operating and maintenance (including consumables), depreciation, tax and financing costs (referred to below as the Federally Mandated Costs) will be implemented under Ind. Code §8-1-8.4 as set forth below.
 - a) Eighty percent (80%) of the Federally Mandated Costs shall be recovered in a timely manner through a Federal Mandate Rider including: a carrying charge at the overall weighted average cost of capital (weighted average rate of return) on capital costs/expenditures and Preconstruction Costs during construction and after a project is placed in service; operating and maintenance (including consumables), depreciation, tax, financing costs and post in service AFUDC on capital costs and Preconstruction Costs. The Federal Mandate Rider will be established in this docket. I&M may file its first Federal Mandate Rider proceeding within three (3) months of a final Commission Order approving this Settlement Agreement. I&M will request updates to its Federal Mandate Rider in six month intervals with the factors established under the Rider remaining in place until superseded by updated factors. I&M will be authorized to defer and record as a regulatory asset post in-service depreciation, incremental operations and maintenance expense (including consumables), tax and post in service AFUDC on capital costs until the Commission approves ratemaking treatment through the Federal Mandate Rider with any resulting variances reconciled in subsequent Rider filings.
 - b) Twenty percent (20%) of the Federally Mandated Costs, including: AFUDC on capital costs during construction and Preconstruction Cost, post in service AFUDC on capital costs and Preconstruction Costs; after project is placed in service, and operating and maintenance (including consumables), depreciation, and taxes will be deferred until rates are established in subsequent I&M general rate case(s).
 - c) While approved as a Federally Mandated Project under Ind. Code §8-1-8.4, the 80% recovery through the Federal Mandate Rider will be set up to use the same structure currently in place for timely recovery of costs and expenses through I&M's Clean Coal Technology Rider (CCTR).
 - d) Timely cost recovery of the Rockport CCT Project Federally Mandated capital costs provided for herein will be subject to subsection (j) below.
 - e) I&M will be authorized to add to the value of I&M's property for ratemaking purposes the value of the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the total Rockport CCT Project capital costs (including Preconstruction Costs) in accordance with the Commission's construction work in progress ratemaking rules. Pursuant to 170 IAC 4-6-21, I&M shall add the approved

return to its net operating income authorized by the Commission for purposes of Ind. Code §8-1-2-42(d)(3) in all subsequent fuel adjustment charge proceedings, pro-rated for the effective period of the approved rates.

- f) I&M will be authorized to accrue and recover AFUDC on the capital cost of the Rockport CCT Project, and the accrual of AFUDC shall continue on any unrecovered value of a particular Project until ratemaking treatment for the value of the property is effective, including post-in-service AFUDC on costs not yet recognized in the Federal Mandate Rider for the period following the in-service date of a particular project until ratemaking treatment reflecting the value of that property is effective.
 - g) The 80% recovery through the Federal Mandate Rider will be established as a new case number, such as Cause No. 44331 ECR-X.
 - h) The 20% cost recovery allowed under the Federally Mandated Requirements Statute will be deferred with all attributable costs allowed under §8-1-8.4 for recovery in I&M next applicable general base rate case(s).
 - i) In the event the actual construction costs (excluding AFUDC) exceed the Federally Mandated costs of the Rockport CCT Project by more than twenty-five percent (25%), then the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the Rockport CCT Project costs above the 25% will be presented by I&M with specific justification and considered for rate recovery by the Commission in I&M's next applicable general base rate case(s).
 - j) Except as provided above for Preconstruction Costs, I&M will be authorized to depreciate the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the Rockport CCT Project utilizing a 10 year life. Notwithstanding the foregoing provision, in the event the Rockport Unit 2 lease is not renewed beyond the end of its current term in 2022 and I&M is no longer using the asset, then no later than six (6) months prior to the expiration of the lease, I&M will file a petition with the Commission for approval of the Company's proposal regarding any accounting and ratemaking issues associated with wrapping up the Rockport CCT Project costs and attributes attached to Unit 2 and the ongoing nature of the prospective cost recovery. This provision is without waiver of each Party's respective rights to make arguments in such subsequent proceeding regarding the recoverability, accounting and ratemaking for such Unit 2 costs, including the right to propose or oppose the recovery of such costs through the Federal Mandate Rider be continued on a subject to refund basis pending the outcome of such proceeding.
- 7) The allocation of costs in the Federal Mandate Rider will be based on the allocation methods approved by the Commission in I&M's base rate case (Cause No. 44075), which includes the 6 coincident peak (CP) method for determining the demand allocation.
- 8) The information filed in this Cause pursuant to motion for protective order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from

public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

- 9) Any settlement agreement will be formalized using standard form of settlement and associated boilerplate consistent with past agreements between I&M, the OUCC and Industrial Group.
- 10) The Settling Parties will file a Motion for Leave to File Settlement Agreement and request the Commission to conduct a settlement hearing on August 8, 2013. The Settling Parties will file testimony in support of the Settlement Agreement at least five (5) business days prior to the settlement hearing.

B. PRESENTATION OF THE SETTLEMENT TO THE COMMISSION

1. The Parties shall support this Settlement Agreement before the Commission and request that the Commission expeditiously accept and approve the Settlement Agreement. The concurrence of the Parties with the terms of this Settlement Agreement is expressly predicated upon the Commission's approval of the Settlement Agreement in its entirety without any modification or any condition that may be unacceptable by any Party. If the Commission does not approve the Settlement Agreement in its entirety and without change, the Settlement Agreement shall be null and void and deemed withdrawn, upon notice in writing by any Settling Party within fifteen (15) business days after the date of the Final Order that any modifications made by the Commission are unacceptable to it.

2. The Parties shall jointly move for leave to file this Settlement Agreement and supporting evidence. Such evidence together with the evidence previously prefiled by the Parties in this Cause will be offered into evidence without objection and the Parties hereby waive cross-examination. The Parties propose to submit this Settlement Agreement and evidence conditionally, and that, if the Commission fails to approve this Settlement Agreement in its entirety without any change or with condition(s) unacceptable to any Party, the Settlement and supporting evidence shall be withdrawn and the Commission will continue to hear Cause No.

44331 with the proceedings resuming at the point they were suspended by the filing of this Settlement Agreement.

3. A Final Order approving this Settlement Agreement shall be effective immediately, and the agreements contained herein shall be unconditional, effective and binding on all Parties as an Order of the Commission.

4. The Parties shall jointly agree on the form, wording and timing of public/media announcement (if any) of this Settlement Agreement and the terms thereof. No Party will release any information to the public or media prior to the aforementioned announcement. The Parties may respond individually without prior approval of the other Parties to questions from the public or media, provided that such responses are consistent with such announcement and do not disparage any of the Parties. Nothing in this Settlement Agreement shall limit or restrict the Commission's ability to publicly comment regarding this Settlement Agreement or any Order affecting this Settlement Agreement.

C. EFFECT AND USE OF SETTLEMENT

1. It is understood that this Settlement Agreement is reflective of a negotiated settlement and neither the making of this Settlement Agreement nor any of its provisions shall constitute an admission by any Party to this Settlement Agreement in this or any other litigation or proceeding. It is also understood that each and every term of this Settlement Agreement is in consideration and support of each and every other term.

2. This Settlement Agreement shall not constitute and shall not be used as precedent by any person in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce the terms of this Settlement Agreement.

3. This Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.

4. The Parties agree that the evidence in support of this Settlement Agreement constitutes substantial evidence sufficient to support this Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Settlement Agreement, as filed. The Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible.

5. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Settlement Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Party, and are not to be used in any manner in connection with any other proceeding or otherwise.

6. The undersigned Parties have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of their designated clients, and their successors and assigns, who will be bound thereby.

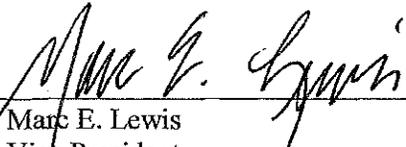
7. The Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Settlement Agreement in its entirety and without change or condition(s) unacceptable to any Party (or related orders to the extent such orders are specifically implementing the provisions of this Settlement Agreement). The Parties shall support or not oppose this Settlement Agreement in the event of any appeal or a request for a stay by a person not a party to this Settlement Agreement or if this Settlement Agreement is the subject matter of any other state or federal proceeding.

8. The provisions of this Settlement Agreement shall be enforceable by any Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

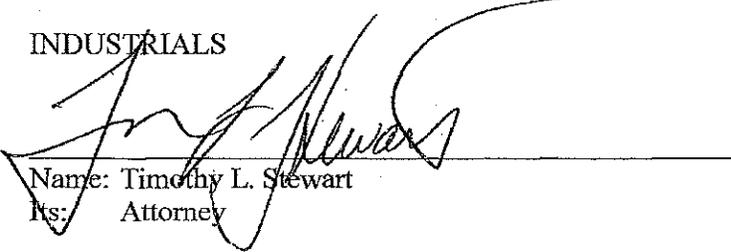
9. This Settlement Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ACCEPTED and AGREED as of the 24th day of July, 2013.

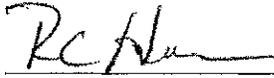
INDIANA MICHIGAN POWER COMPANY


Name: Marc E. Lewis
Its: Vice President

INDUSTRIALS


Name: Timothy L. Stewart
Its: Attorney

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



Name: Randall C. Helmen

Its: Chief Deputy Consumer Counselor

INDIANA MICHIGAN POWER COMPANY
ESTIMATED RATE IMPACT - UPDATED
ROCKPORT CLEAN COAL TECHNOLOGY (CCT) PROJECT

LINE	ITEM	(DOLLARS IN THOUSANDS)			TOTAL
		INDIANA MICHIGAN POWER SHARE	AEP GENERATING COMPANY I&M SHARE	AEP GENERATING COMPANY KENTUCKY POWER SHARE	
1	TOTAL CAPITAL INVESTMENT UNITS 1&2 DSI (\$000) - UPDATED	\$ 214,026	\$ 214,026	\$ 214,026	
2	ROCKPORT ENVIRONMENTAL PROJ COSTS CAUSE NO. 44033	44,026	44,026	44,026	
3	TOTAL CAPITAL COSTS	\$ 258,052	\$ 258,052	\$ 258,052	
4	INVESTMENT ALLOCATION	50%	50%	50%	
5	COST RESPONSIBILITY BETWEEN I&M AND KENTUCKY POWER	100%	70%	30%	
6	ALLOCATED INVESTMENT	\$ 129,026	\$ 90,318	\$ 38,708	
7	WEIGHTED AVERAGE COST OF CAPITAL CAUSE NO. 44075 *	6.97%	6.97%		
8	NET OPERATING INCOME REQUIREMENT	\$ 8,993	\$ 6,295		
9	GROSS REVENUE CONVERSION FACTOR - CAUSE NO. 44075	1.6655	1.6655		
10	REVENUES FOR INCOME REQUIREMENT	\$ 14,978	\$ 10,485		
11	ALLOCATED INVESTMENT FROM LINE 6	\$ 129,026	\$ 90,318		
12	RECOVERY PERIOD - 10 YEARS	10	10		
13	ANNUAL DEPRECIATION	\$ 12,903	\$ 9,032		
14	ANNUAL INCREMENTAL O&M (APPROX \$2.7 MILLION TOTAL PLANT)	\$ 1,350	\$ 945		
15	TOTAL REVENUE REQUIREMENT (LINES 10 + 13 + 14)	\$ 29,231	\$ 20,461		
16	INDIANA JURIS DEMAND ALLOC FACTOR	64.65519%	64.65519%		
17	INDIANA RETAIL REVENUE REQUIREMENT	\$ 18,899	\$ 13,229	\$ 32,129	
18	TOTAL INDIANA RETAIL REVENUES CAUSE NO 44075			\$ 1,160,068	
19	APPROXIMATE OVERALL % INCREASE IN RATES			3%	

* ASSUMES THAT AEP GENERATING'S ROR IS APPROXIMATE TO I&M'S