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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY FOR APPROVAL OF (1) CAPACITY ("CAP") ADJUSTMENT FACTORS; (2) OFF-SYSTEM SALES ("OSS") MARGIN SHARING ADJUSTMENT FACTORS FOR ELECTRIC SERVICE FOR THE BILLING MONTHS OF SEPTEMBER 2016 THROUGH MAY 2017; AND (3) IMPLEMENTATION SCHEDULE FOR SUBSEQUENT CAP AND OSS MARGIN SHARING ADJUSTMENT FILINGS	)	**CAUSE NO. 44795** **APPROVED:** AUG 24 2016

ORDER OF THE COMMISSION

Presiding Officers:
Carol A. Stephan, Commission Chair
Aaron A. Schmoll, Senior Administrative Law Judge

On May 31, 2016, Indianapolis Power & Light Company ("IPL" or "Petitioner") filed its verified petition with the Indiana Utility Regulatory Commission ("Commission") for approval of (1) a rate adjustment to be reflected in its Capacity ("CAP") Adjustment; and (2) a rate adjustment to be reflected in its Off-System Sales ("OSS") Margin Sharing Adjustment, both to be made effective commencing with the September 2016 billing cycle or the first full billing cycle following the Commission's Order. IPL also requested approval of its proposal regarding the timing of subsequent CAP and OSS Margin Sharing Adjustment filings.

Also on May 31, 2016, IPL prefiled the verified testimony and attachments of:

- Dennis C. Dininger, Director, Commercial Operations for IPL;
- Yvonna K. Steadman, Manager in the Regulatory Accounting area for IPL.

On July 21, 2016, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Stacie Gruca, Senior Utility Analyst in the Electric Division. On August 1, 2016, IPL filed the rebuttal testimony of Mr. Dininger.

The Commission conducted a hearing on August 17, 2016, at 10:00 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, IPL and the OUCC appeared by counsel and the parties offered their respective pre-filed testimony and attachments, which were admitted into evidence without objection. No members of the general public attended.

Based upon the applicable law and the evidence of record the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the public hearing in this Cause was given and published as required by law. IPL is a public utility as that term is defined by Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code § 8-1-2-42, the Commission has

jurisdiction over IPL's rates and charges for utility service, including its CAP and OSS Margin Sharing Adjustments. Therefore, the Commission has jurisdiction over IPL and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** IPL is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office and place of business at One Monument Circle, Indianapolis, Indiana. IPL renders retail electric utility service to approximately 480,000 retail customers located principally in and near the City of Indianapolis, Indiana, and in portions of the following Indiana counties: Boone, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Owen, Putnam and Shelby Counties. IPL owns, operates, manages and controls electric generating, transmission and distribution plant, property and equipment and related facilities, which are used and useful for the convenience of the public in the production, transmission, delivery and furnishing of electric energy, heat, light and power.

3. **Background and Relief Requested.** In Cause Nos. 44576/44602, the Commission approved IPL's proposed Standard Contract Rider No. 24 (CAP Adjustment). *Indianapolis Power & Light Company*, Cause Nos. 44576/44602 at 79 (IURC 3/16/2016) ("44576 Order"). The 44576 Order authorizes IPL's use of the CAP Adjustment to timely recover the excess (or deficit) of an estimate of capacity costs (greater than zero) compared to the $1.8 million of capacity expense embedded in base rates. To the extent IPL forecasts that it will sell excess capacity, such sales would be shared 50% with customers. *See* 44576 Order at 78, 80. In Cause No. 44576, the Commission also approved IPL's proposed Standard Contract Rider No. 25 (OSS Margin Sharing Adjustment) to allow 50/50 sharing of OSS margins (with a floor of $0 for includable margins) above and below the $6.324 million in OSS margins included in the determination of basic charges for service in that proceeding. *See* 44576 Order at 79-80.

In accordance with the 44576 Order, the initial CAP and OSS Margin Sharing Adjustment factors were set at zero. This is the first annual CAP and OSS Margin Sharing Adjustment petition. Petitioner requests Commission approval of revised CAP and OSS Margin Sharing Adjustment factors for the billing months of September 2016 through May 2017. The CAP Adjustment factors are based on actual contracts that IPL has already entered into for the purchase of capacity for the June 1, 2016 through May 31, 2017 MISO planning year and charges resulting from capacity purchases in the recent MISO Planning Resource Auction. The OSS Margin Sharing Adjustment factors requested to be approved in this proceeding are based on forecasted OSS margins for the timeframe of September 1, 2016 through May 31, 2017. Because this is IPL's first CAP and OSS Margin Sharing Adjustment filing, there is no reconciliation.

IPL also requests adjustments to the timing of the filing of the CAP and OSS Margin Sharing Adjustments. As discussed in further detail below, IPL proposes that the second CAP and OSS Margin Sharing Adjustment filing be filed by the end of February 2017 and made effective with the June 2017 billing cycle. The third and all subsequent CAP and OSS Margin Sharing Adjustment filings would then be filed annually by the end of each February and made effective for the respective June billing cycle.

4. **<u>Evidence.</u>**

A. <u>IPL's Case-in-Chief</u>. Mr. Dininger explained that in the 44576 Order, the Commission: (1) found the appropriate amount to reflect in the calculation of the revenue requirement was $1.8 million for the CAP Adjustment; (2) found the appropriate amount to reflect in the calculation of the revenue requirement was $6.324 million for the OSS Margin Sharing Adjustment; and (3) approved the CAP Adjustment as proposed by IPL and approved "a 50/50 sharing of OSS margins above and below the amount included in base rates, with a floor of $0 for includable margins".

Mr. Dininger testified that if IPL has sufficient capacity resources to cover its forecasted peak demand and Planning Reserve Margin, IPL may sell its additional capacity through bilateral transactions or may offer its additional capacity in MISO's Planning Resource Auction. The CAP Adjustment timely recovers the excess (or deficit) of a forecast of Capacity Costs (greater than zero) compared to the $1.8 million that is included in basic rate and charges for service. Where the annual Capacity Costs exceed the base amount reflected in basic rates and charges for service, that excess is recovered 100% through an adjustment to retail rates. However, where annual Capacity Costs are less than the base amount (but greater than zero dollars), 100% of that deficit is shared with the retail customer, resulting in a credit on the retail customer's monthly bill. To the extent that IPL forecasts that it will sell excess capacity, such sales are shared 50% with the customer as a credit through the CAP Adjustment with the remaining 50% retained by IPL. A true-up of the forecast to actual would occur in a subsequent annual filing.

Mr. Dininger explained that based on actual contracts entered into for the purchase of capacity for the June 1, 2016 through May 31, 2017 MISO year and for purchases in the April 2016 MISO Planning Resource Auction, IPL forecasts capacity expenses for the timeframe of September 1, 2016 through May 31, 2017 to be $5,245,409. Mr. Dininger testified the forecasted level of capacity is reasonable based on competing offers and market intelligence from potential sellers and brokers at the time when the capacity was acquired.

Ms. Steadman testified as to how IPL determined the CAP Adjustment factors. Ms. Steadman first explained that she compared the capacity expenses prepared by Mr. Dininger for the period September 1, 2016 through May 31, 2017 to the base cost of capacity purchases included in the basic rates approved by the Order in Cause Nos. 44576/44602. Ms. Steadman explained how this schedule presents total net capacity expense for the CAP Adjustment Rider after recognition of the base capacity cost; applies the tests determining the customer share of the net capacity expense/(revenue), in accordance with the table presented in Standard Contract Rider No. 24; presents the demand allocation factors from the cost-of-service study approved in Cause Nos. 44576/44602; and shows the final result of the sharing consideration allocated to customer classes.

Ms. Steadman explained IPL's methodology for its calculation of the CAP Adjustment Factors, using the final result in Line 17, and presented the proposed CAP Adjustment factors by customer classification. Ms. Steadman presented the forecasted capacity sales revenue for the nine months ended May 31, 2017 and the computation of the customer charge or credit for the forecasted revenue from capacity sales. Ms. Steadman also presented the form schedules that will be used in IPL's future CAP Adjustment filings, starting with the second CAP Adjustment filing.

With respect to the OSS Margin Sharing Adjustment, Mr. Dininger testified that for the forecast period (the nine months ending May 31, 2017), IPL forecasted the volume of OSS margins and assigns the OSS margins to generating units based on a ranking of units from highest production cost to lowest production costs to ensure that the lowest cost generation is assigned to IPL's retail load. He stated this is the same methodology that is followed in the FAC process in assigning forecasted fuel costs to OSS margins. Mr. Dininger explained that revenues are assigned to those units based on forecasted Locational Marginal Prices and that OSS margins are the revenues from those units less the fuel and production costs for those units. Mr. Dininger testified that the forecasted net OSS margins for the nine months ending May 31, 2017 are $335,545 and that the forecast was reasonable.

Ms. Steadman testified about the methodology IPL used to determine the OSS Margin Sharing Adjustment. Ms. Steadman explained that the OSS Margin Sharing Adjustment takes into consideration the off-system sales margins. She testified that consistent with the Commission's Order in Cause No. 43740, the Lakefield Wind Production ("LWP") margin will be credited to the customers through the Fuel Cost Adjustment Factor (Standard Contract Rider No. 6), and accordingly is excluded from the OSS Margin Sharing Adjustment computation.

Ms. Steadman stated this amount is then compared to nine months of the $6,324,000 OSS margin included in the basic rates approved in the 44576 Order. She explained lines 33 through 35 apply the tests determining the customer share of the net OSS margin, in accordance with the table presented in Standard Contract Rider No. 25 and Line 36 is the net customer share charge/credit for the forecast period. She said line 37 presents the demand allocation factors from the cost-of-service study approved in the 44576 Order and Line 38 is the final result of the net customer sharing, Line 36, allocated to customer classes based upon the demand allocation factors, Line 37. She stated he resulting amounts are carried to Petitioner's Attachment YKS-2, Schedule 1 (Revised), Line 1. *Id.* at 9-10.

Ms. Steadman discussed the calculation of the proposed OSS Margin Sharing Adjustment factors by customer classification. Ms. Steadman also presented the form schedules that will be used in IPL's future OSS Margin Sharing Adjustment filings, starting with the second OSS Margin Sharing Adjustment.

Ms. Steadman testified how the State income tax rate used in the calculation of the URT adjustments applied to the proposed factors, and also how the State income tax rate applied to the historical revenues for the respective factors.

Ms. Steadman provided a forecast of the MWh sales by customer classification for the period during which the factors proposed in this filing would be in effect and provided clean and redline versions of Standard Contract Rider Nos. 24 and 25, depicting the updated the CAP Adjustment and OSS Margin Sharing Adjustment tariffs to reflect the proposed factors, respectively.

Ms. Steadman testified that upon implementation of the proposed CAP Adjustment and OSS Margin Sharing Adjustment factors, residential customers using 1,000 kWh of electricity per month would see a monthly increase of $0.68 or 0.70%, which is inclusive of both the CAP Adjustment and the OSS Margin Sharing Adjustment factors. Separately, the impact of the CAP Adjustment factor is $0.44 or 0.45% and the impact of the OSS Margin Sharing Adjustment factor is $0.25 or 0.26%.

Mr. Dininger testified that this first CAP and OSS Margin Sharing Adjustment filing should be approved commencing with the September 2016 billing cycle. He testified that, as explained in IPL Witness Cutshaw's direct testimony in Cause No. 44576, the CAP Adjustment factor was proposed to cover an annual period from June through May to align with the MISO Planning Year, and the OSS Margin Sharing Adjustment was proposed to cover the calendar year. IPL believes it is administratively efficient to file both the CAP and OSS Margin Sharing Adjustments together using an annual period from June through May.

Accordingly, Mr. Dininger proposed that the second CAP and OSS Margin Sharing Adjustment filing be filed by the end of February 2017 and approved for the June 2017 billing cycle. He explained the reconciliation period for the second filing would be April 2016 through December 2016, which includes the period between the start of the factors approved in the 44576 Order (April 2016) and the start of the proposed factors in this proceeding (September 2016). IPL proposes that the third and all subsequent CAP and OSS Margin Sharing Adjustment filings be filed annually by the end of February and approved for the June billing cycle. The forecast period for both the CAP and OSS Margin Sharing Adjustment mechanisms would be for the twelve month period from June through May while the reconciliation period would be for the prior January through December.

B. OUCC's Case-in-Chief. Ms. Gruca discussed IPL's information and results for its CAP and OSS Margin Sharing Adjustment Factor and concluded that IPL's proposed factors appear to be in compliance with the ratemaking and accounting treatment authorized by the Commission in Cause No. 44576.

Ms. Gruca testified that the OUCC does not oppose IPL's proposal to file the two rate adjustment mechanisms together with separate tariffs in one filing using an annual period from June through May. As with similar annual CAP and OSS Margin Sharing Adjustment filings of investor-owned utilities, she said the OUCC recommends 8-10 weeks to review such filings. Ms. Gruca explained that the reasonableness of IPL's proposed timetable depends on when in February IPL will file its CAP and OSS Margin Sharing Adjustment filing. Ms. Gruca testified that the OUCC is willing to work with IPL on a schedule that would accommodate the OUCC's 8-10 week review period and enable Petitioner to receive an Order by its proposed June billing cycle. Ms. Gruca further testified that the OUCC recommends that should the MISO Resource Adequacy ("RA") construct change prior to IPL's next rate case, IPL's timing of its CAP Adjustment be re-evaluated to determine whether any the change affects the netting of capacity purchases expense with capacity sales revenue and ultimately the 50/50 sharing of any capacity sales profits.

C. IPL Rebuttal. Mr. Dininger stated that IPL recognizes that the OUCC and intervenors need sufficient time to review and provide testimony on future CAP and OSS Margin

Sharing Adjustment filings. He noted that IPL's proposed timing of future filings is intended to align with the MISO Planning Year, and a filing date in late February will help ensure IPL is able to provide a forecast based on the best information available to IPL at that time. He said that assuming IPL were to file at the end of February, the OUCC and intervenors would have over seven weeks to file their testimony. He said IPL will meet with the OUCC prior to its next CAP and OSS Margin Sharing Adjustment filing to discuss an earlier filing date that would balance the OUCC's desire for additional review time and IPL's desire to provide CAP and OSS margin forecasts based on the latest information available. Mr. Dininger further testified that it is premature to project the effect of possible MISO RA construct changes on the CAP filing. He said if MISO and the Federal Energy Regulatory Commission ("FERC") approve changes to the RA construct before IPL's next rate case, IPL will re-evaluate the timing of its CAP filing.

Mr. Dininger next addressed a footnote in Ms. Gruca's testimony, which stated her understanding that if annual capacity sales occur, then sales revenues would first be netted against annual capacity purchase costs before any net profits (revenues) would be shared 50% with retail customers and 50% retained by IPL. He testified that Ms. Gruca's netting description, as reflected in Ms. Gruca's Attachment SRG-1, did not appear to him to be consistent with the 44576 Order. He explained that pursuant to his understanding of the 44576 Order, IPL is allowed to recover 100% of the excess capacity costs over the amount in base rates through the CAP Adjustment and that capacity sales would be shared 50% with customers. He testified the netting as described by Ms. Gruca would allow IPL to recover only 50% of annual capacity costs offset in the netting process, rather than the 100% recovery of annual capacity costs approved in the 44576 Order. He noted that although he disagreed with Ms. Gruca's testimony on this issue, there was no impact on the CAP Adjustment factors in this proceeding because there are no forecasted capacity sales revenues for the forecast period. However, he testified that the netting issue would impact subsequent reconciliations.

5. **<u>Commission Discussion and Findings</u>.** As discussed in greater detail below, the evidence supports the conclusion that IPL's requested rate adjustments reflected in its Capacity Adjustment and its OSS Margin Sharing Adjustment were properly calculated and should be approved.

A. <u>CAP Adjustment Factors</u>. As shown in Pet. Att. YKS-1, Sch. 2, IPL has forecasted capacity purchase expense of $5,245,409 for the nine months ended May 31, 2017. After taking into consideration the level of capacity expense embedded in base rates, IPL's resulting customer share of its forecasted capacity purchase expense is $3,895,409. As shown in Pet. Att. YKS-1, Sch. 3, IPL has not forecasted any capacity sales revenue for the nine months ended May 31, 2017. We find IPL's forecasted capacity expenses and sales reasonable based on IPL's evidence that its forecast was based on competing offers and market intelligence from potential sellers and brokers at the time when the capacity was acquired.

Ms. Gruca testified that IPL's proposed CAP Adjustment factors appear to be in compliance with the ratemaking and accounting treatment authorized by the Commission in Cause No. 44576, and she also discussed her understanding of how future reconciliations would be performed with regards to netting in future filings. Mr. Dininger's rebuttal testimony responded to Ms. Gruca's netting testimony. At the hearing, the parties indicated that they will continue to discuss this issue and provide an update as part of IPL's next CAP Adjustment filing.

Because there are no forecasted capacity sales revenues for the forecast period, the netting issue does not need to be resolved in this Order. Accordingly, the Commission finds it unnecessary to address netting with respect to CAP Adjustment reconciliations at this time.

Because this is the first CAP Adjustment filing, there is no reconciliation to perform. In accordance with the Order approved by the Commission in Cause No. 44576, we find IPL should be authorized to apply its requested CAP Adjustment Rider factors for all bills rendered for electric service beginning with the first billing cycle of the September 2016 billing month. Such factors shall remain in effect until superseded by subsequent factors.

The proposed CAP Adjustment Factors for each customer class are as follows:

Table 1 – CAP Adjustment Factors

	Residential	**C&I - Small**	**C&I - Large**	**C&I - Large**	**Lighting**
	RS, CW, EVX	SS, SH, OES, UW, CW	HL	SL, PL, PH	MU-1, APL
CAP Adjustment Factor per kWh Adjusted for URT	$0.000437	$0.000396	$0.000310	$0.000372	$0.000101

B. OSS Margin Sharing Adjustment Factors. IPL has forecasted OSS margins (net of LWP Margin) of $335,545 for the nine months ended May 31, 2017. After taking into consideration the level of OSS margin embedded in base rates, the resulting customer charge is $2,203,728. The record shows that IPL forecasts the volume of OSS margins and assigns the OSS margins to generating units based on a ranking of units from highest production cost to lowest production costs to ensure that the lowest cost generation is assigned to IPL's retail load. The record further shows this is the same methodology that is followed in the FAC process in assigning forecasted fuel costs to OSS margin. We find IPL's forecasted OSS margins to be reasonable.

Because this is the first OSS Margin Sharing Adjustment filing, there is no reconciliation to perform. The OUCC reviewed IPL's calculations and concluded that IPL's proposed OSS Margin Sharing Adjustment factors appear to be in compliance with the ratemaking and accounting treatment authorized by the Commission in Cause No. 44576. In accordance with the methodology approved by the Commission in the 44576 Order, we find IPL should be authorized to apply its requested OSS Margin Sharing Adjustment Rider factors for all bills rendered for electric service beginning with the first billing cycle of the September 2016 billing month. Such factors shall remain in effect until superseded by subsequent factors.

The proposed OSS Margin Sharing Adjustment Factors for each customer class are as follows:

Table 2 – OSS Margin Sharing Adjustment Factors

	Residential	C&I - Small	C&I - Large	C&I - Large	Lighting
	RS, CW, EVX	SS, SH, OES, UW, CW	HL	SL, PL, PH	MU-1, APL
OSS Adjustment Factor per kWh Adjusted for URT	$0.000247	$0.000224	$0.000175	$0.000210	$0.000057

C. Future Implementation Schedule. The Commission further finds reasonable IPL's request regarding the timing for future CAP and OSS Margin Sharing Adjustment filings. The record shows that IPL's proposal would promote administrative efficiency. The record further shows that IPL will meet with the OUCC prior to the next filing and discuss an earlier filing date that would balance the OUCC's desire for additional review time and IPL's desire to provide CAP and OSS margin forecasts based on the latest information available. Accordingly, we find that IPL shall discuss the timing of future filings with the OUCC prior to its next CAP and OSS Margin Sharing Adjustment filing. We further find IPL's proposal to re-evaluate the timing of its CAP filing in the event that MISO and FERC approve changes to the RA construct before IPL's next rate case to be reasonable.

Consistent with our current docketing convention for other tracker filings, we direct IPL to make its next annual CAP and OSS Margin Sharing Adjustment filings under Cause No. 44795 OSS 1.

6. **Effect on Customers.** The average residential customer using 1,000 kWh per month will experience a monthly rate increase of $0.68 or 0.70% on his or her electric bill for the period of September 1, 2016 through May 31, 2016, which is inclusive of both the CAP Adjustment and the OSS Margin Sharing Adjustment factors.

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

1. IPL is authorized to implement its requested CAP Adjustment and the OSS Margin Sharing Adjustment factors, as set forth in Finding Paragraph No. 5, to be effective with the first billing cycle of the September 2016 billing month for Regular Billing District 41 and Special Billing District 01. The CAP and OSS Margin Sharing Adjustment factors approved herein, upon becoming effective, shall remain in effect until new revised rates are approved.

2. IPL shall file with the Energy Division of the Commission under this Cause the revised tariff sheets of IPL's Tariff for Electric Service reflecting the changes to the CAP and OSS Margin Sharing Adjustments and may place the revised rates into effect upon approval by the Energy Division.

3. IPL's proposed timing for future CAP and OSS Margin Sharing Adjustment filings is approved. IPL shall discuss the timing of future filings with the OUCC prior to its next CAP and OSS Margin Sharing Adjustment filing. IPL shall also provide an update regarding the use of a netting methodology in its next CAP Adjustment filing.

4. IPL shall use the docketing convention described in Finding Paragraph No. 5 for future CAP and OSS Margin Sharing Adjustment filings.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: AUG 2 4 2016

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

Mary M Becerra

Mary M. Becerra
Secretary of the Commission