STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF

INDIANA MICHIGAN POWER COMPANY FOR

AUTHORIZATION OF A NEW OFF-SYSTEM SALES MARGIN SHARING RIDER ADJUSTMENT (CHARGE/CREDIT) APPLICABLE FOR THE BILLING MONTHS OF JANUARY THROUGH DECEMBER 2013

CAUSE NO. 43775 OSS 3

APPROVED: DEC 19 2012

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Jeffery A. Earl, Administrative Law Judge

On August 24, 2012, Indiana Michigan Power Company ("I&M" or "Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition for a New Off-System Sales Margin Sharing Rider Adjustment (Charge/Credit) to be applicable during the January through December 2013 billing months. Also on August 24, 2012, I&M prefiled the testimony, exhibits, and supporting workpapers of Michael R. Stout, Senior Regulatory Consultant for I&M, Jeffrey L. Brubaker, Director of Regulatory Accounting Services for American Electric Power Service Corporation ("AEPSC"), Kevin T. Brady, Vice President – Commercial Operations for AEPSC, and Jason M. Stegall, Regulatory Consultant in Regulated Pricing and Analysis for AEPSC. On November 2, 2012, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Stacie R. Gruca, Senior Utility Analyst in the Electric Division of the OUCC.

Pursuant to notice published as required by law, proof of which was incorporated into the record, the Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on December 6, 2012, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC participated in the hearing. No members of the general public appeared. At the hearing, Petitioner and the OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence.

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

1. Notice and Jurisdiction. Due, legal, and timely notice of the Evidentiary Hearing in this Cause was given and published as required by law. Petitioner is a public utility as that term is defined by Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code § 8-1-2-4 and 8-1-2-42 and our Order in Cause No. 43306, the Commission has jurisdiction over I&M’s rates and charges for utility service, including its OSS Margin Sharing Rider ("OSS Rider"). Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner’s Characteristics. I&M is a public electric generating utility, organized and existing under the laws of the State of Indiana, with its principal office and place
of business at One Summit Square, Fort Wayne, Indiana. I&M renders electric service in the State of Indiana, and owns, operates, manages, and controls plant and equipment within the State of Indiana that are used for the generation, transmission, delivery, and furnishing of such service to the public.

3. Relief Requested. In Cause No. 43306, the Commission approved I&M’s OSS Rider, which tracks Indiana retail jurisdictional OSS margins above $37.5 million to be equally shared between I&M and its customers. I&M’s current OSS Rider factors were approved on December 21, 2011, in Cause No. 43775 OSS 2, and became effective the first billing cycle of January 2012. I&M seeks to reconcile actual OSS margins for the period of July 1, 2011, through June 30, 2012, and also to reflect in billing factors its projection of OSS margins for calendar year 2013. I&M seeks to make the new OSS Rider factors effective with the first billing cycle for the month of January 2013.

4. Evidence.

A. I&M’s Case-in-Chief Evidence. Mr. Stout explained that per the Commission’s Order in Cause No. 43306, I&M’s revenue requirement used to establish basic rates includes a credit of $37.5 million of OSS margins allocated to the Indiana retail jurisdiction. The OSS Rider tracks OSS margins above $37.5 million to be shared 50% to customers and 50% to I&M.1 In this case, I&M seeks to reconcile actual OSS margins for the period July 1, 2011, through June 30, 2012, and to reflect the 2013 forecast of OSS margins in its billing factors. The reconciliation of the OSS Rider adjusts for any variance between the incremental historical amount charged or credited to customers, whichever is applicable, during the tracked months in which the adjustment was in effect, and the incremental amount that should have been charged or credited, whichever is applicable, based upon actual OSS margin results.

Mr. Stout testified that I&M’s current residential OSS tracker factor is set at 0.211 mills/kWh pursuant to the Commission’s December 21, 2011 Order in Cause No. 43775 OSS 2. The Commission’s December 21, 2011 Order included recovery of a $2.8 million regulatory asset. The recovery did not include any sharing between customers and the Company because the forecasted OSS margins were below the $37.5 million included in basic rates.

Mr. Stout stated that the 2013 total company forecasted OSS margin is approximately $57.7 million and the forecasted Indiana jurisdictional OSS margin is approximately $37.6 million. The incremental OSS margin available for 50% sharing is $135,934 after subtracting the $37.5 million included in basic rates.

Mr. Stout explained the impact of I&M’s share of OSS margins on the earnings test pursuant to Ind. Code ch. 8-1-2. Pursuant to the Commission’s Order in Cause No. 43306, I&M’s 50% share of OSS margins above the basic credit of $37.5 million and net Financial

1 Mr. Stout testified that I&M made a proposal in its current base rate case, Cause No. 44075, to share all OSS margins 50% to customers and 50% to the Company. However, I&M’s filing in this matter does not reflect the proposed sharing treatment of OSS margins because the Commission has not issued its final Order in Cause No. 44075.
Transmission Right ("FTR") revenues are excluded from the earnings test in determining I&M’s compliance with the provisions of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42.3 for a period of four years.

Mr. Brubaker testified that the OSS rider includes the revenues I&M is allocated from certain non-firm wholesale sales and other transactions made by the Commercial Operations business unit of AEP. Petitioner’s Exhibit JLB-2 is a detailed list of I&M’s subaccounts of FERC account numbers 447 (Sales for Resale), 456 (Other Electric Revenues), 555 (Purchased Power), 561 (Load Dispatching), 565 (Transmission of Electricity by Others), and 575.7 (Market Facilitation, Monitoring and Compliance Services). Mr. Brubaker explained that the list indicates the accounts that are included in the PJM Cost Rider, which are also included in the OSS Rider and the jurisdictional allocation basis. According to Mr. Brubaker, the accounts included in the list that are not included in either the PJM Cost Rider or the OSS Rider are used in the determination of I&M’s Indiana basic rates.

Mr. Brubaker testified that in accordance with the OSS Rider approved in Cause No. 43306, I&M has deferred monthly, as a regulatory asset, any under-recovery and, as a regulatory liability, any over-recovery of the OSS rider revenue credits for future recovery or refund through the yearly true up. For the period of July 1, 2011, through June 30, 2012, the Indiana jurisdictional OSS margins were $32,841,993 as shown on Petitioner’s Exhibit JLB-1. The actual OSS Margin Sharing Rider revenues for the period July 1, 2011, through June 30, 2012, were $9,034,471 as shown on Petitioner’s Exhibit JLB-1. The Indiana jurisdictional over-recovery balance of the OSS Rider as of June 30, 2012, was $6,203,424 for the OSS Rider as shown on Petitioner’s Exhibit JLB-1.

Mr. Brady provided a general description of the methodologies used in the development of I&M’s forecasted OSS margins for the months of January 2013 through December 2013. The projected OSS margins consist of the forecasted activity in the accounts identified by Mr. Brubaker on Petitioner’s Exhibit JLB-2. The Total Company OSS margins for the period of January through December 2013 are projected to be $57.7 million as shown in Petitioner’s Exhibit KTB-1. Mr. Brady compared the projected 2013 OSS margins to current actual margins. The forecasted 2013 OSS margins are $7.4 million higher than the $50.3 million actually recorded for the twelve months ended June 2012 as shown on Petitioner’s Exhibit JLB-1. This increase is driven by a projected increase in OSS volume and slightly higher market price projections for energy in 2013. The increase in forecasted OSS margins for 2013 was moderated in part by other components of OSS margins. In addition, I&M expects to receive lower capacity sales revenue as a result of the PJM Reliability Pricing Model capacity auction for 2013. Mr. Brady concluded that in his opinion the OSS margins that I&M has projected for the months of January through December 2013 are reasonable.

Mr. Stegall supported I&M’s calculation of the updated OSS Rider, explained the methodology for updating the OSS Rider annually and provided the resulting rate impacts on I&M’s customers. Consistent with the calculations performed in Cause No. 43306 and Cause No. 43775, each component of the total I&M OSS margin is classified as either demand- or energy-related. The appropriate jurisdictional demand and energy allocation factors are then applied to determine the Indiana retail jurisdictional portion of OSS margins. This amount is then compared to the level of OSS margins included in basic rates in Cause No. 43306 of
$37,500,000. To the extent that forecast Indiana retail jurisdictional OSS margins exceed $37,500,000, 50% of the margins that exceed $37,500,000 will be included as a credit to customers in the OSS Rider. If, on the other hand, forecast Indiana retail jurisdictional off-system sales margins are less than $37,500,000, then no credit will be included in the OSS Rider.

Mr. Stegall testified that the second step is to include any actual over/under recovery balance remaining at the end of the prior year in the OSS Rider. To the extent that customers received credits under the OSS Rider that were greater than the actual customer share of OSS margins, that under recovery would reduce the credit provided under the OSS Rider in the next year. As is the circumstance in this filing, it is possible for such under recovery to result in the OSS Rider being a charge to customers instead of a credit to customers. This can only occur when customers were provided too much credit through the OSS Rider in a prior period. In no event will this ever diminish the $37,500,000 customer share of margins included in basic rates.

Mr. Stegall testified that FTR revenues are not included in OSS margins. Rather, in accordance with the Settlement Agreement and Commission Order in Cause No. 43306, I&M compares total FTR revenues to Load Serving Entity ("LSE") congestion costs for both the actual and forecast periods. If LSE congestion costs exceed total FTR revenues then the net amount is included in the PJM Cost Rider calculation. If total FTR revenues exceed LSE congestion costs, then the net amount is included in the OSS Margin Sharing Rider calculation. For the time period of July 1, 2011, through June 30, 2012, LSE congestion costs exceeded total FTR revenues.

Mr. Stegall further testified how the proposed OSS Rider rates were calculated. Consistent with the formulas established for the OSS Rider in Cause No. 43306, I&M allocated the demand- and energy-related components as developed in Petitioner’s Exhibit JMS-1 to the tariff classes based upon demand and energy allocation factors developed using forecast 2013 billing energy. Once the amounts were allocated to each tariff class, an energy rate was calculated using the forecast 2013 billing energy for that class. This calculation is shown on Petitioner’s Exhibit JMS-2. Mr. Stegall prepared a comparison of current and proposed OSS Margin Sharing Rider rates. Petitioner’s Exhibit JMS-3 summarizes projected 2013 billing under current OSS Rider rates and under proposed OSS Rider rates. Residential customers using 1,000 kWh of electricity per month would see a monthly rate decrease of $0.71 or 0.8%. Petitioner’s Exhibit JMS-5 shows the percentage decreases at various “typical” usage levels for I&M’s major tariff schedules.

B. **OUCC’s Case-in-Chief Evidence.** Ms. Gruca stated that Petitioner provided work papers showing the calculation of the actual OSS Margins for the 12-month period of July 2011, through June 2012 and the individual months for the same period. In addition, Petitioner provided documentation supporting the calculation of the OSS Margin under-recovery amount in this proceeding.

Ms. Gruca explained that I&M did not achieve the OSS Margin base rate amount of $37,500,000, approved in Cause No. 43306, in this proceeding. For the period July 1, 2011, through June 30, 2012, Petitioner achieved Indiana jurisdiction OSS Margins of $32,841,993. The annual base rate amount of $37,500,000 was subtracted from the actual amount for a total
variance below the base level of $4,658,007. OSS Margins did not exceed the base level of $37,500,000, and therefore 50/50 sharing does not apply.

Ms. Gruca explained that Petitioner estimated total I&M OSS Margins for the period of January through December 2013 of $57,728,400 and Indiana jurisdictional OSS Margins of $37,635,934. Subtracting the OSS Margin base rate amount of $37,500,000 from the projected $37,635,934 results in a credit of $135,934. Because projected OSS Margins exceed the base rate credit amount, there would be 50/50 sharing between I&M and ratepayers. The projected customer share estimate is $67,967.

Ms. Gruca testified that I&M’s calculation of the OSS Margin variance, which reconciles the actual OSS Margins booked and the OSS Margin Sharing Rider Revenue, was supported by I&M’s prefiling testimony, exhibits, and supporting workpapers. Ms. Gruca reviewed these materials and was able to use workpapers and supporting documentation to verify I&M’s exhibits that illustrate the under/over recovery of the OSS margin variance for July 2011 through June 2012. I&M’s calculated OSS Margin under/over recovery for July 2011 through June 2012 is an over-recovery or credit to customers of $6,203,424.

Additionally, Ms. Gruca sponsored Exhibit SRG-3, which illustrated how I&M’s OSS Rider rates have been calculated from the initial OSS tracker filing through the current OSS-3 filing. Ms. Gruca testified that the flow through of the initial $25.055 million credit, which resulted from a settlement in Cause No. 43306, is complete. Customers received a credit of $5,889,467 during the billing period March through June 2009 and a credit of $10,557,123 during the billing period July through December 2009. Because OSS margins did not exceed the $37.5 million base rate amount during the reconciliation periods, the total “over credit” of $16,446,590 was to be returned to Petitioner. In the initial OSS tracker proceeding, the Commission’s Order approving the settlement agreement set the OSS Margin Sharing Rider factor to $0.00 mills/kWh for the billing period of January through December 2010. The setting of the OSS Margin Sharing Rider factor to $0.00 mills/kWh effectively terminated or stopped any additional credit to customers. Customers were billed $16,446,590 during the billing period January through December 2011 to return the “over credit” received from Petitioner.

Ms. Gruca testified that the figures used in the OSS Margin Sharing Rider, for the period July 2011 through June 2012 were supported by the books, records, and source documentation of the Petitioner. I&M appropriately excluded FTR revenues from the OSS Margin Sharing Rider Calculation for the actual period of July 2011 through June 2012 and the forecast period of January through December 2013. She therefore recommended that the Commission approve Petitioner’s requested OSS Margin factors. Ms. Gruca testified that change in the OSS Margin Sharing Rider factor will result in a decrease of approximately $0.71 per month in the bill of an average residential customer using 1000 kWh per month.

5. **Commission Discussion and Findings.** The evidence supports the conclusion that I&M’s requested OSS Rider factors were properly calculated and should be approved. Per the Commission’s Order in Cause No. 43306, I&M’s revenue requirement used to establish basic rates includes a credit of $37.5 million of OSS margins allocated to the Indiana retail jurisdiction. As a fixed component of current basic rates, the $37.5 million OSS margins credit is not subject to true up or sharing. The OSS Rider tracks OSS margins above $37.5 million to be
shared 50% to customers and 50% to Petitioner.

The total I&M OSS margins computed consistent with the Commission’s Order in Cause No. 43306 for the forecast period of January through December 2013 are shown in Petitioner’s Exhibit KTB-1. When the appropriate jurisdictional allocation factors are applied, the Indiana retail jurisdictional portion of forecasted OSS margins totals $37,635,934 as shown on Petitioner’s Exhibit JMS-1. As shown on Petitioner’s Exhibit JLB-1, for the period July 1, 2011, through June 30, 2012, Petitioner has an over-recovery balance of $6,203,424 for the OSS Margin Sharing Rider, which Petitioner has recorded as a regulatory liability.

In accordance with the Commission’s Order in Cause No. 43306, Petitioner has compared total FTR revenues to LSE congestion costs for both the actual and forecast periods. As shown in Petitioner’s Exhibit JMS-1, total LSE congestion costs exceeded FTR revenues for the July 1, 2011, through June 30, 2012, period. Therefore, the FTR revenues were not included as part of the OSS Margin Sharing Rider calculation.

Petitioner’s Exhibit JMS-1 demonstrates that a total amount of $6,271,391 in OSS margins should be credited through the OSS Rider. As shown on Petitioner’s Exhibit JMS-3, this results in an increase of $8,929,221 from current OSS Rider levels. In accordance with the methodology approved by the Commission in Cause Nos. 43306 and 43775, we find Petitioner should be authorized to apply its requested OSS Rider factors to its Indiana retail tariffs for the billing months of January through December 2013. Witness Stegall sponsored Petitioner’s Exhibit JMS-4, which sets forth the proposed OSS Rider factors for each customer class as follows:

<table>
<thead>
<tr>
<th>Tariff Class</th>
<th>$/kWh</th>
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<tbody>
<tr>
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</tr>
<tr>
<td>SGS and SGS-TOD</td>
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</tr>
<tr>
<td>MGS and MGS-TOD</td>
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<tr>
<td>LGS and LGS-TOD</td>
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<tr>
<td>IP, CS-IRP and CS-IRP2</td>
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<tr>
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</tr>
<tr>
<td>WSS</td>
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</tr>
<tr>
<td>IS</td>
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<tr>
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<tr>
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<tr>
<td>OL</td>
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</tr>
<tr>
<td>SLS, ECLS, SLC, SLCM and FW-SL</td>
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</tr>
</tbody>
</table>

6. **Effect on Customers.** The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of $0.71 or 0.8% on his or her electric bill for the period of January through December 2013.

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

1. Indiana Michigan Power Company is authorized to implement its requested OSS
Margin Sharing Rider Adjustment factors.

2. Petitioner shall place into effect the OSS Margin Sharing Rider Adjustment factors approved herein, applicable to bills rendered beginning with the later of the first billing cycle for the billing month of January, 2013, or upon filing with the Electricity Division of this Commission, Tariff Sheet No. 52 consistent with the findings set forth herein and as shown in Petitioner’s Exhibit JMS-4.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: DEC 19 2012

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

[Signature]
Brenda A. Howe
Secretary to the Commission