Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda			√
Veleta	√		
Ziegner	√		

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE APPLICATION OF INDIANA MICHIGAN POWER COMPANY FOR APPROVAL OF A FUEL COST ADJUSTMENT FOR ELECTRIC SERVICE APPLICABLE FOR THE BILLING MONTHS OF NOVEMBER 2022 THROUGH APRIL 2023 AND FOR APPROVAL OF RATEMAKING TREATMENT FOR COST OF WIND POWER PURCHASES PURSUANT TO CAUSE NOS. 43328, 43750, 44034, AND 44362	)	**CAUSE NO. 38702 FAC 89** **APPROVED: OCT 26 2022**

ORDER OF THE COMMISSION

Presiding Officer:
Ann Pagonis, Administrative Law Judge

On August 1, 2022, Indiana Michigan Power Company ("I&M" or "Applicant") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Application For a Fuel Cost Adjustment for electric service to be applicable during the November 2022 through April 2023 billing months, pursuant to the provisions of Ind. Code § 8-1-2-42, and for approval of I&M's ratemaking treatment of wind power purchase costs. On the same day, I&M filed its case-in-chief.

On September 6, 2022, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief.

The Commission conducted an evidentiary hearing in this Cause on October 13 2022, at 9:30 a.m. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Applicant and the OUCC participated in the hearing. At the hearing, the direct testimony and attachments of Applicant and the OUCC were admitted into evidence without objection.

The Commission, based upon the applicable law and the evidence of record, now finds as follows:

1. <u>Notice and Jurisdiction</u>. Proper notice of the public hearing in this Cause was published as provided by law. I&M is an Indiana corporation engaged in rendering electric public utility service in the State of Indiana and is a public utility within the meaning of the Public Service Commission Act, as amended. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant's fuel cost charge. Therefore, the Commission has jurisdiction over the Applicant and the subject matter of this proceeding.

2. <u>Applicant's Request</u>. In its Verified Application, Applicant seeks Commission approval to implement its proposed fuel adjustment cost during the billing months of November 2022 through April 2023 pursuant to Ind. Code § 8-1-2-42 and I&M's ratemaking treatment of wind power purchase costs. I&M's application continues the semi-annual filing process in place since 1999. Applicant also requests the Commission find that the applicable provisions of Ind. Code § 8-1-

2-42 are satisfied.

3. **Source of Fuel and Coal Increment Pricing.** As a condition of receiving its requested fuel adjustment cost, Applicant must demonstrate compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(1) by making every reasonable effort to acquire fuel and generate or purchase power, or both, so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible. Applicant's witness Jeffrey C. Dial summarized I&M's long-term coal supply agreements and described I&M's coal purchasing strategy. He discussed how Applicant utilized the Cora transloading facility during the reconciliation period because of a fire at Cook Coal Terminal. Mr. Dial explained that even though Cook Coal Terminal has returned to service, congestion at Cora and unrelated rail transportation issues have impacted the availability of coal. Mr. Dial explained coal prices have increased during the reconciliation period and how the energy market has impacted coal-fired generation for I&M. Mr. Dial stated that I&M utilized increment pricing to ensure Applicant had adequate coal available and will continue to evaluate the need for pricing strategies and that I&M will update its testimony regarding the use of such pricing in future FAC proceedings. Applicant's witness Stegall further explained how I&M utilized increment pricing in support of managing each unit's coal inventory. Applicant's witness Keith A. Steinmetz described the major nuclear fuel contracts and actions taken to minimize I&M's nuclear fuel costs.

OUCC witness Gregory T. Guerrettaz discussed I&M's cost of nuclear and coal and how an increase in generation affected the coal inventory. Witness Guerrettaz recommended that Applicant explain to the Commission the generation strategy and coal inventory management being used for Rockport Unit 1 with Rockport Unit 2 becoming a merchant plant as well as require I&M to provide all new Nuclear Fuel Leases and bid results at the time when workpapers are provided. OUCC witness Michael D. Eckert discussed how high-cost natural gas has resulted in an increase in demand for coal-fired electricity. Witness Eckert explained how the lack of available of coal has resulted in I&M's modifying its Day-Ahead Offer Price to manage the coal inventory and recommended that Applicant provide the Commission with information on how it proposes to address its the coal inventory, the calculation inputs of coal decrement or increment pricing, and testimony on barging and transloading costs.

Applicant's evidence demonstrates that it has made every reasonable effort to obtain available fuel or power as economically as possible. No party presented any evidence to the contrary. Based on the evidence presented, as indicated here and further below, the Commission finds that Applicant is endeavoring to acquire fuel for its internal generation, or purchase power, so as to provide electricity at the lowest fuel cost reasonably possible.

4. **Operating Expenses.** Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that increases in a utility's fuel cost have not been offset by decreases in other expenses. Applicant's fuel expenses for the 12-month period ended May 31, 2022 in the amount of $204,427,000, as reflected on Applicant's Attachment 1-F, Schedule 1, Column 9, Line 38, of Applicant's Exhibit 1, are more than the corresponding amount determined in Applicant's last base rate order (Cause No. 45235) of $185,803,000, by an amount of $18,624,000. Applicant's filing demonstrates that I&M's actual fuel costs are higher than the fuel cost included in Cause No. 45235. Accordingly, any increases in fuel costs must be offset by decreases in other non-fuel costs, we find that I&M is in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(2).

5. **Return Earned.** Ms. Seger-Lawson explained that pursuant to the Order in Cause No. 45235, I&M is authorized to earn an electric operating income of $296,735,000. That amount (when adjusted for Cause Nos. 44182 and 45245) results in an authorized level for the 12 months ended May 31, 2022 of $274,113,000. According to Applicant's Attachment 1-F, Schedule 1, attached to Applicant's Exhibit 1**,** for the 12 months ended May 31, 2022, I&M earned an actual jurisdictional net operating income of $295,176,000. This results in I&M's actual return being more than its authorized return for the most recent 12-month period and the sum of the differentials for the relevant period is also greater than zero, meaning that the Commission should find that the "return" test of Ind. Code § 8-1-2-42(d)(3) is not satisfied. Therefore, in accordance with Ind. Code § 8-1-2-42(d)(3) a reduction to I&M's FAC factor is necessary. This amount is to be the lower of the 12-month over earnings and the sum of the differentials for the relevant period. The over-earnings amount for the 12-month period was $21,063,000 and the sum for the differential period is $63,558,000. For this reason, I&M will base its credit on the 12-month period amount and divide it in half due to I&M filing semi-annual FAC proceedings. This results in a total FAC credit of $10,531,000, or $14,107,000 grossed up for taxes.

OUCC witness Guerrettaz affirmed Applicant's conformity with the requirements of Cause No. 38702 FAC 86.

Upon our consideration of the record evidence, the Commission finds I&M has properly determined the authorized operating income for the 12 months ended May 31, 2022, and properly reflected the return authorized in Cause Nos. 44182 and 45245. Thus, by the mechanics of the applicable statute, the Commission finds I&M appropriately calculated and applied the reduction amount to its proposed fuel factor in light of the return earned by I&M during the 12 months ending May 31, 2022.

6. **Estimating Techniques.** I&M's overall weighted average fuel cost estimating error during the months of the reconciliation period of December 2021 through May 2022 was an underestimation of approximately 9%. I&M's witness Jason E. Walcutt noted that the primary driver of the higher than forecasted costs during the reconciliation period was the lower than forecasted nuclear generation in the month of May. I&M projected its fuel costs for the billing months of November 2022 through April 2023. I&M's filing demonstrates that the estimates of I&M's prospective average fuel costs for the projected period are reasonable after taking into consideration the difference between I&M's projected and actual fuel cost for the reconciliation period of December 2021 through May 2022. No party presented any evidence to the contrary. Based on the evidence, we find that Applicant's estimating techniques are reasonable and its estimate of fuel costs for November 2022 through April 2023 should be accepted.

7. **Wind Power Purchases.** Applicant's witness Shelli A. Sloan testified in support of I&M's request for approval of ratemaking treatment for costs related to I&M's wind power purchases. Ms. Sloan testified that I&M is projected to receive energy from the Fowler Ridge phase one and phase two wind farms, the Wildcat wind farm, and the Headwaters wind farm. OUCC witness Eckert testified that he reviewed the settlement agreement and subsequent Order in Cause No. 43328 and that I&M has forecasted the costs of wind power that it will be incurring in the future by using the cost per MWh from the Wind Power Purchase Agreements and has identified the wind power MWhs and costs on separate line items. Pub. Ex. No. 2 at 2. I&M's wind purchases are shown consistent with the Commission's Order in Cause No. 38702 FAC 63 and inclusion of these costs conforms to the Commission's November 28, 2007 Order in Cause No. 43328, the January 6, 2010

Order in Cause No. 43750, the September 21, 2011 Order in Cause No. 44034, and the November 25, 2013 Order in Cause No. 44362. Accordingly, the record supports, and the Commission so finds, that the wind power purchase costs reflected in I&M's filing are reasonable and the Commission therefore approves the ratemaking treatment of such costs.

8. Fuel Cost Adjustment Charges. Attachment 1-C, attached to Pet. Ex. 1, sets forth I&M's actual incurred fuel costs for the reconciliation period. I&M's fuel costs for the reconciliation period were under-recovered, in the amount of $10,903,282, based upon projected fuel costs for those months previously approved by the Commission.

Applicant's total estimated cost of fuel for the billing months November 2022 through April 2023 is $145,501,538 and its total estimated sales are 10,372,403 MWhs. I&M's estimated cost of fuel, as indicated on Applicant's Attachment 1-B, Schedule 1, line 23 of Applicant's Exhibit 1, is therefore 14.028 mills per kWh. Combining the variance factor with the estimated per kWh cost of fuel, the per kWh reduction amount resulting from Ind. Code § 8-1-2-42(d)(3), subtracting the base cost of fuel in Cause No. 45235, and adjusting for Indiana Utility Receipts Tax, results in a proposed total fuel factor of 0.497 mills per kWh.

In accordance with the basing point approved by the Commission in Cause No. 45235 and the evidence presented in this proceeding, we find Applicant is authorized to apply a fuel cost adjustment of 0.497 mills per kWh to Applicant's Indiana retail tariffs for the billing months of November 2022 through April 2023. The typical residential bill for a customer using 1,000 kWh per month will decrease by $0.91 or 0.58% compared to the factor approved in Cause No. 38702 FAC 88 (excluding taxes).

9. Required Reporting. I&M's FAC filing continues to utilize the semi-annual filing practice and such practice was unopposed; accordingly, the Commission has approved a fuel cost factor for a six-month period. However, as required by Ind. Code § 8-1-2-42(c), the OUCC should perform a quarterly review of I&M's books and records pertaining to the cost of fuel and report to the Commission by November 25, 2022. Applicant has agreed to cooperate and provide reasonable support in the OUCC's fulfillment of this requirement.

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

1. In accordance with Ind. Code § 8-1-2-42, the fuel cost adjustment charge set forth in Finding No. 8 above for the billing months of November 2022 through April 2023 is approved.

2. I&M's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause Nos. 43328, 43750, 44034, and 44362 is approved.

3. Prior to implementing the rate, Applicant shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division.

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

<u>HUSTON, FREEMAN, VELETA, AND ZIEGNER CONCUR; KREVDA ABSENT</u>:

APPROVED: OCT 26 2022

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

Regina K. Joyner Digitally signed by Regina K. Joyner Date: 2022.10.26 10:52:50 -04'00' on behalf of

Dana Kosco
Secretary of the Commission