

ORIGINAL

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

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE APPLICATION OF)
INDIANA MICHIGAN POWER COMPANY FOR)
AUTHORIZATION OF A FUEL COST ADJUSTMENT)
FOR ELECTRIC SERVICE APPLICABLE FOR THE)
BILLING MONTHS OF MAY 2024 THROUGH)
OCTOBER 2024 AND FOR APPROVAL OF)
RATEMAKING TREATMENT FOR COST OF WIND)
POWER PURCHASES PURSUANT TO CAUSE NOS.)
43328, 43750, 44034 AND 44362; FOR APPROVAL OF)
RATEMAKING TREATMENT FOR EXCESS)
DISTRIBUTED GENERATION COSTS PURSUANT)
TO CAUSE NO. 45506; FOR AUTHORITY TO)
RECOVER AND APPROVAL OF RECOVERY FOR)
ENERGY-RELATED COSTS ASSOCIATED WITH)
COGENERATION PROJECTS AND DEMAND)
RESPONSE PROGRAMS; AND FOR APPROVAL OF)
A NEW HEDGING POLICY)

CAUSE NO. 38702 FAC 92

APPROVED: APR 24 2024

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Ann S. Pagonis, Administrative Law Judge

On January 31, 2024, 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 May 2024 through October 2024 billing months, pursuant to the provisions of Ind. Code § 8-1-2-42; for approval of I&M’s ratemaking treatment of wind power purchase costs; for approval of ratemaking treatment for excess distributed generation costs pursuant to Cause No. 45506; for approval of ratemaking treatment for energy-related costs associated with cogeneration and demand response programs; and for approval of I&M’s new hedging policy. I&M filed its case-in-chief on the same day.

The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its case-in-chief on March 6, 2024.

The Commission issued a docket entry on March 25, 2024 requesting additional information from I&M and the OUCC regarding the difference between the OUCC’s and I&M’s calculations. I&M filed its response to the docket entry on March 26, 2024, explaining how it made the calculation. The OUCC filed its response and corrected testimony of Gregory T. Guerrettaz on March 28, 2024 conforming to I&M’s calculation.

The Commission conducted an evidentiary hearing in this Cause on April 3, 2024 at 9:00 a.m. in Room 222 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 and their respective answers to the Presiding Officers docket entry were admitted into evidence without objection. No members of the general public appeared.

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

1. Notice and Jurisdiction. 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. Applicant's Request. In its Verified Application, Applicant seeks Commission approval to implement its proposed fuel adjustment cost during the billing months of May 2024 through October 2024 pursuant to Ind. Code § 8-1-2-42 and I&M's ratemaking treatment of wind power purchase costs. Applicant also requests approval of ratemaking treatment for excess distributed generation costs pursuant to Cause No. 45506, approval of ratemaking treatment for energy-related costs associated with cogeneration and demand response programs, and approval of a credit resulting from hedging activity. Finally, Applicant also requests approval of a new hedging policy, replacing the one approved in Cause No. 44696. 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 Market Strategy 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 Kimberly K. Chilcote summarized Applicant's long-term coal supply agreements and described I&M's coal purchasing strategy. She discussed the delivery of actual tons delivered from the Powder River Basin and the Central Appalachian coal during the reconciliation period of June 2023 through November 2023 and how it affected the actual cost of coal delivered to the Rockport Plant as compared to forecasted. Ms. Chilcote explained how Central Appalachian and Powder River Basin coal prices have decreased during the reconciliation period. Ms. Chilcote explained that the cause of the lower than anticipated delivered coal costs was a decrease in transportation costs during the reconciliation period. She explained that Applicant utilized various strategies to address inventory concerns. Applicant's witness Todd A. Johnston testified about the variability in the PJM regional transmission organization market, including the fall in energy prices following Winter Storm Elliott. He said that the price of energy remained low during the reconciliation period. Witness Johnston further explained how I&M utilized commitment strategies in support of testing, managing the coal inventory, and for near-term economics. Applicant's witness Keith A. Steinmetz described the major nuclear fuel contracts and actions taken to minimize I&M's nuclear fuel costs.

OUCG witness Gregory T. Guerrettaz testified about the cost of nuclear fuel and coal and explained that projected transloading costs and transportation costs of coal decreased during the actual period. Witness Guerrettaz also described pricing strategies I&M used to continue to address inventory issues. Witness Guerrettaz recommended that Applicant provide any communications regarding future events impacting coal inventory and suggested that Applicant continue to provide all new Nuclear Fuel Leases, bid results, and invoices related to the next fuel batches when workpapers are provided. OUCG witness Michael D. Eckert testified that I&M was actively managing its coal purchases and coal inventory. Witness Eckert explained how I&M has altered its Day Ahead Offer price to address the coal inventory level. Witness Eckert recommended: (1) approval of I&M's proposed fuel cost factor as recalculated and confirmed by Mr. Guerrettaz; (2) that Applicant provide the Commission with information on how it proposes to address its coal inventory; (3) and that I&M provide the calculation inputs of coal decrement or increment pricing.

Applicant's evidence demonstrates that it has made every reasonable effort to obtain available fuel or power as economically as possible. No party presented 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, to provide electricity at the lowest fuel cost reasonably possible.

4. Other Activities Impacting the Fuel Adjustment Charge Factor. Applicant's witness Bryan S. Owens testified that the Fuel Adjustment Clause ("FAC") factor presented in this proceeding reflected cogeneration, distributed generation, demand response, and hedging activity, as previously authorized by the Commission in Cause Nos. 38702 FAC 91, 45506, and 44696.

5. I&M's New Load and Energy Hedging Policy. Applicant's witness Christopher G. Leopold testified in support of I&M's new Load and Hedging Policy. Witness Leopold began by explaining the role of American Electric Power Service Corporation's Commercial Operations team and changes in the PJM energy market. He explained why it is advantageous to use a financial hedge in an uncertain market. Applicant's witness Leopold also described the changes to the Load and Energy Hedging Policy and why this new policy is preferable to the previous policy. The OUCG did not oppose Applicant's request for approval of its new Load and Hedging Policy.

The evidence shows that Applicant's new hedging policy meets the criteria we outlined in our Order in Cause No. 44696. Accordingly, we approve Applicant's new Load and Hedging Policy.

6. Operating Expenses. Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that increases in a utility's fuel cost have been offset by decreases in other operating expenses. Applicant's operating expenses excluding fuel costs for the 12-month period ended November 30, 2023, in the amount of \$1,164,724,000, as reflected on Applicant's Attachment 1-F, Schedule 1, Column 9, Line 37, of Attachment 1-F, are more than the corresponding amount determined in Applicant's last base rate order (Cause No. 45576) of \$944,749,000 by an amount of \$219,975,000. Applicant's filing demonstrates that I&M's increase in fuel costs has not been offset by decreases in other operating expenses. We find that I&M is in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(2).

7. Return Earned. Applicant's witness Dona Seger-Lawson explained that pursuant to the Order in Cause No. 45576, I&M is authorized to earn an electric operating income of \$296,735,000. That amount (when adjusted for Cause Nos. 44182, 45245, and 45576) results in

an authorized level for the 12 months ended November 30, 2023 of \$298,086,000. According to Applicant's Attachment 1-F, Schedule 1, attached to Exhibit 1, for the 12 months ended November 30, 2023, I&M earned an actual jurisdictional net operating income of \$309,183,000. 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 overearnings and the sum of the differentials for the relevant period. The overearnings amount for the 12-month period was \$11,097,000 and the sum for the differential period is \$92,633,000. 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 \$5,549,000 or \$7,388,000 when grossed up for taxes.

OUCG witness Guerrettaz affirmed Applicant's conformity with the requirements of Cause No. 38702 FAC 90.

Upon our consideration of the record evidence, the Commission finds I&M has properly determined the authorized operating income for the 12 months ended November 30, 2023, and properly reflected the return authorized in Cause Nos. 44182, 45245, and 45576. 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 November 30, 2023.

8. Estimating Techniques. I&M's overall weighted average fuel cost estimating error during the months of the reconciliation period of June 2023 through November 2023 was an overestimation of approximately 7%. I&M's witness Owens noted that the primary driver of the lower than forecasted costs during the reconciliation period were lower than forecasted fossil and nuclear generation costs, and third-party purchases. I&M projected its fuel costs for the billing months of May 2024 through October 2024. 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 June 2023 through November 2023. 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 May 2024 through October 2024 should be accepted.

9. 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. OUCG 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. Public's Exhibit 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 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.

10. Fuel Cost Adjustment Charges. Attachment 1-C to Petitioner's Exhibit 1, sets forth I&M's actual incurred fuel costs for the reconciliation period. I&M's fuel costs for the reconciliation period were over-recovered, in the amount of \$7,167,610, based upon projected fuel costs for those months previously approved by the Commission.

Applicant's total estimated cost of fuel for the billing months May 2024 through October 2024 is \$134,551,874 and its total estimated sales are 10,534,908 MWhs. I&M's estimated cost of fuel, as indicated on Applicant's Attachment 1-B, Schedule 1, line 23 of Exhibit 1, is therefore 12.772 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) and subtracting the base cost of fuel in Cause No. 45576, results in a proposed total fuel factor of (2.228) mills per kWh.

In accordance with the base cost of fuel approved by the Commission in Cause No. 45576 and the evidence presented in this proceeding, we find Applicant is authorized to apply a fuel cost adjustment of (2.228) mills per kWh to Applicant's Indiana retail tariffs for the billing months of May 2024 through October 2024. The typical residential bill for a customer using 1,000 kWh per month will decrease by \$2.04 or 1.29% compared to the factor approved in Cause No. 38702 FAC 91 (excluding taxes).

11. Required Reporting. I&M's FAC filing continues to utilize the semi-annual filing practice and such practice was unopposed; accordingly, the Commission approves 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 May 31, 2024. Applicant has agreed to cooperate and provide reasonable support in the OUCC's fulfillment of this requirement.

In addition, consistent with the OUCC's recommendations, Applicant should provide any communications regarding events going forward impacting coal inventory, and Applicant continue to provide all new Nuclear Fuel Leases, bid results, and invoices related to the next fuel batches at the time when workpapers are provided. Further, Applicant should provide the Commission with information on how it proposes to address its coal inventory and should also provide the calculation inputs of coal decrement or increment pricing.

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. 10 above for the billing months of May 2024 through October 2024 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. I&M's ratemaking treatment for cogeneration, distributed generation, demand response, and hedging activity pursuant to the Commission's Orders in 44696, 45506, and 38702 FAC 91 is approved.

4. I&M's new Load and Energy Hedging Policy is approved.
5. 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.
6. This Order shall be effective on and after the date of its approval.

HUSTON, BENNETT, VELETA, AND ZIEGNER CONCUR; FREEMAN ABSENT:

APPROVED: APR 24 2024

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

**Dana Kosco
Secretary of the Commission**