

ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	✓		
Freeman	✓		
Krevda	✓		
Ober	✓		
Ziegner	✓		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
INDIANA MICHIGAN POWER COMPANY) CAUSE NO. 43774 PJM 11
FOR AUTHORIZATION OF NEW OFF)
SYSTEM SALES MARGIN SHARING / PJM) APPROVED: FEB 3 2021
COST RIDER ADJUSTMENT FACTORS)

ORDER OF THE COMMISSION

Presiding Officers:

David L. Ober, Commissioner

Lora L. Manion, Administrative Law Judge

On August 12, 2020, Indiana Michigan Power Company ("Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") requesting an adjustment to its rates through its Off-System Sales Margin Sharing / PJM Cost Rider ("OSS/PJM Rider") beginning with the first full billing cycle following approval.

On August 12, 2020, Petitioner also prefiled the testimony and workpapers of the following:

- Michael Whitmore, Regulatory Consultant Staff in Petitioner's Regulatory Services Department;
- Malinda L. Dielman, Regulatory Accounting Case Manager, Regulatory Services for American Electric Power Service Corporation ("AEPSC");
- Jason M. Stegall, Manager of Regulatory Pricing & Analysis for AEPSC; and
- Stephen Hornyak, Regulatory Consultant Principal in the Regulated Pricing and Analysis Department for AEPSC.

On November 5, 2020, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Kaleb G. Lantrip, Utility Analyst in the Electric Division of the OUCC.

The Commission set this matter for an Evidentiary Hearing to be held at 10:00 a.m. on November 30, 2020, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. A Docket Entry was issued on November 23, 2020, advising that in accordance with Indiana Governor Holcomb's Executive Orders concerning the COVID-19 pandemic, the hearing would be conducted via teleconference and providing related participation information. Petitioner and the OUCC participated in the Evidentiary Hearing by counsel via teleconference. The testimony and exhibits of Petitioner and the OUCC were admitted without objection.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a) and as an "energy utility" under Ind. Code § 8-1-2.5-2. Under Ind. Code § 8-1-2-42(a) the Commission has jurisdiction over changes in Petitioner's schedules of rates and charges.

Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. Petitioner's Characteristics. Petitioner 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 Indiana Michigan Power Center, Fort Wayne, Indiana. Petitioner is engaged in rendering electric service in the State of Indiana, and owns and operates, among other properties, 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 and Background. Petitioner seeks approval of: (1) its reconciliation of actual OSS/PJM Rider costs during July 1, 2019 through June 30, 2020 ("Reconciliation Period"); and (2) its projection of PJM charges and credits and OSS margins for calendar year 2021 ("Forecast Period"). Petitioner seeks to make the new OSS/PJM Rider factors effective commencing with the first full billing cycle following approval.

The following is a history of the Commission's approval of and changes to the OSS/PJM Rider:

On March 4, 2009, the Commission's Order in Cause No. 43306 ("43306 Order"), approved a PJM Cost Rider to track recovery of certain Petitioner costs and revenues related to Petitioner's membership in PJM, and on February 13, 2013, the Commission's Order in Cause No. 44075 approved an OSS Margin Sharing Rider, tracking OSS margins allocated to the Indiana retail jurisdiction in Petitioner's revenue requirement, to be shared on a 50/50 basis above and below \$26.9 million, down to zero.

On October 1, 2014, the Commission's Order on rehearing in Cause No. 43774 PJM 4 approved a Settlement Agreement, which modified the scope of the PJM Cost Rider to include 43.5% of the Indiana jurisdictional share of the incremental PJM costs identified therein ("Agreed PJM Costs"), and on November 9, 2016, the Commission's Order in Cause No. 43774 PJM 4 S1 approved an Amended Settlement Agreement reached between Petitioner, Indiana Michigan Industrial Group, and the OUCC.

On May 30, 2018, the Commission's rate case Order in Cause No. 44967 ("44967 Order"): (1) approved combining Petitioner's OSS and PJM rider mechanisms; (2) approved the sharing of 95% of OSS margins above zero dollars (on an annual basis) with customers; (3) established that Petitioner's revenue requirement (used to establish basic rates) did not include any embedded OSS margins; (4) approved tracking recovery from retail electric customers, on an annual basis, charges and credits related to membership in PJM, including PJM administrative costs, the cost of PJM Regional Transmission Expansion Plan ("RTEP") projects, net transmission congestion costs, and Agreed PJM Costs; (5) approved recovery of 100% of Indiana jurisdictional Network Integration Transmission Services ("NITS") costs through the OSS/PJM Rider, with none of those expenses included in base rates; and (6) approved a rolling cumulative cap on PJM NITS cost recovery based upon the Indiana jurisdictional forecasted PJM NITS expense.

On March 11, 2020, the Commission's Order in Cause No. 45235 ("45235 Order") directed Petitioner to: (1) credit its customers 100% of its Indiana jurisdictional OSS margins above zero; (2) reduce Petitioner's Indiana jurisdictional OSS margins by \$17.4 million annually to account for capacity excluded from base rates; (3) track Account 4470099, Capacity Credit Net Sales, in the

Resource Adequacy Rider instead of the OSS/PJM Rider; (4) end the NITS cost cap established in Cause No. 44967; (5) recover 100% of NITS expenses in the OSS/PJM Cost Rider; (6) revise the embedded cost of non-NITS accounts in base rates from approximately \$34 million to just over \$48 million; and (7) revise the energy and demand jurisdictional allocation factors used in the OSS/PJM Cost Rider. Petitioner's current OSS/PJM Rider factors were approved by the 45235 Order and became effective for electric service rendered on and after June 1, 2020.

4. Petitioner Evidence. Michael Whitmore testified Petitioner is seeking to update the OSS and PJM forecasted costs for the Forecast Period. He said the filing also reconciles actual OSS and PJM margins for the Reconciliation Period.

Mr. Whitmore explained the modifications to the OSS and PJM components of the OSS/PJM Cost Rider that were authorized as part of the 45235 Order. He testified that Petitioner complied with each of the changes that were ordered by the Commission. He added that Petitioner's share of net OSS margins is excluded from Petitioner's earnings test in determining its compliance with Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42.2.

Mr. Whitmore described "PJM RTEP" projects as transmission expansions or enhancements that are required to achieve compliance with respect to PJM's system reliability, operational performance, or market efficiency as determined by PJM's Office of the Interconnection and approved by the PJM Board of Managers. Also included are transmission projects that result from transmission customer requests for generator interconnection, merchant transmission additions, and long-term transmission service. Mr. Whitmore further testified how the costs for RTEP projects are allocated in PJM. Mr. Whitmore identified the PJM RTEP projects Petitioner currently owns. Finally, Mr. Whitmore identified the gross revenue conversion factor ("GRCF") to be used in the revenue requirement and stated the formula is identical to that used in Petitioner's previous PJM filings.

Malinda L. Dielman compared the revenues Petitioner has collected from its OSS/PJM Cost Rider to actual OSS margins and PJM costs Petitioner has incurred during the Reconciliation Period. She testified that the OSS/PJM Rider includes OSS Margins allocated from certain non-firm wholesale sales and other transactions made by American Electric Power's Commercial Operations. She testified regarding the costs and revenues that are included in the OSS/PJM Rider.

Ms. Dielman described the impacts of the 45235 Order on this filing. Ms. Dielman testified that Petitioner did not exceed the annual NITS cap during July 1, 2018 through June 30, 2019; nor did Petitioner exceed the annual NITS cap for the Reconciliation Period. Ms. Dielman also explained how the annual cumulative cap of approximately \$153 million during the Reconciliation Period was calculated based on forecasted NITS levels. Ms. Dielman discussed the changes implemented by Petitioner for jurisdictional allocation factors based on the 45235 Order. She also discussed the changes made to reduce OSS margins associated with excluded capacity.

Ms. Dielman testified Petitioner has continued to defer monthly as a regulatory asset any under-recovery and as a regulatory liability any over-recovery of the OSS/PJM Cost Rider. She testified that these are deferred for future recovery or refund through the yearly true-up to actual. She said the under or over-recovery is calculated by comparing revenues collected from the OSS/PJM Rider to actual net OSS/PJM costs (PJM costs less OSS margins). She explained that if the OSS/PJM Cost Rider revenues are less than the net OSS/PJM costs, Petitioner records the

under-recovery as a regulatory asset in Account 182.3, Other Regulatory Assets. She added that if the OSS/PJM Cost Rider revenues are greater than the net OSS/PJM costs, Petitioner records the over-recovery as a regulatory liability in Account 254, Other Regulatory Liabilities. Ms. Dielman stated that as of June 30, 2020, Petitioner has an over-recovery balance of approximately \$19.2 million for the OSS/PJM Cost Rider.

Jason M. Stegall presented the forecast of Petitioner's OSS margins and PJM charges and credits, consistent with the 45235 Order, and discussed the variances between the prior year's forecast of PJM charges and credits and the actual PJM charges. Mr. Stegall provided a general description of the methodologies used in the development of Petitioner's forecasted OSS margins for calendar year 2021.

Mr. Stegall testified the projected OSS margins for the Forecast Period are estimated to be \$41.2 million. Mr. Stegall compared the 2021 projected OSS margin costs to current actual costs for the Reconciliation Period and explained the forecasted increase of \$24.8 million is being driven primarily by lower volumes of OSS and lower market prices in the Reconciliation Period. Mr. Stegall opined that the OSS margins that Petitioner has projected for 2021 are reasonable.

Mr. Stegall presented the forecast of PJM charges and credits consistent with the 45235 Order. Mr. Stegall explained to develop Petitioner's forecasted PJM charges and credits, he included the projected costs consisting of the forecasted activity. Mr. Stegall testified the forecasted PJM costs and credits for 2021 are \$373.6 million, and he opined that the projected PJM charges and credits are reasonable.

Stephen Hornyak testified regarding the proposed OSS/PJM Rider adjustment factors and the resulting rate impacts on Petitioner's Indiana customers. He testified that the OSS/PJM Rider consists of three components. The first two components are forecasts of OSS margins and PJM costs for 2021. The remaining component is a reconciliation of actual OSS margins and PJM costs to actual billing under the OSS/PJM Rider. Mr. Hornyak stated that consistent with the calculations approved in the 45235 Order, each component of total OSS margin and total PJM costs is classified as either: retail demand, retail energy, demand, or energy related. He said the appropriate jurisdictional demand and energy allocation factors are then applied to determine the Indiana retail jurisdictional portion of OSS margins and PJM costs.

Mr. Hornyak calculated the amounts to be included in the OSS/PJM Rider. Mr. Hornyak stated the first step is to calculate the Indiana retail jurisdictional portion of forecasted PJM costs. He said the retail jurisdictional factors applied here exclude Michigan Electric Choice customers and properly allocate the power supply costs related to service provided to Indiana and non-Choice Michigan customers. He said this amount is then reduced by the level of PJM Non-NITS and Administrative costs included in basic rates of approximately \$48.6 million per the 45235 Order. He said the second step is to calculate the Indiana retail jurisdictional portion of forecast OSS margin. He explained the third step is to exclude the jurisdictional OSS Margins from Capacity excluded from Base Rates in Cause No. 45235. He testified in accordance with the 45235 Order, the requested amount is then multiplied by the customer share of the OSS Margins (100%). He said the final step is to include any cumulative actual (over)/under recovery balance remaining on June 30, 2020, in the OSS/PJM Rider.

Mr. Hornyak discussed the Financial Transmission Right ("FTR") revenues and Load

Serving Entity (“LSE”) congestion costs included in the OSS/PJM Rider. Mr. Hornyak stated in accordance with the 43306 Order, Petitioner compares total FTR revenues to LSE congestion costs for both the actual and forecast periods. He said if LSE congestion costs exceed total FTR revenues, then the net amount is included in the PJM Cost calculation portion of the OSS/PJM Cost Rider. He added that if total FTR revenues exceed LSE congestion costs, then the net amount is included in the OSS Margin Sharing calculation portion of the OSS/PJM Cost Rider. For this filing, Mr. Hornyak explained both Actual Period and Forecasted LSE congestion costs exceed total FTR revenues; therefore, they are included in the PJM Cost calculations of the OSS/PJM Cost Rider.

Mr. Hornyak testified he calculated the OSS/PJM Cost Rider consistent with the rate design methodologies established in the 45235 Order. He said once the rider costs were allocated among the tariff classes, an energy factor was calculated using the Forecast Period billing energy for that class. In addition, he explained demand charges were calculated for the LGS, IP, and EHG tariff classes based on the projected class’s billing demand for the Forecast Period. Mr. Hornyak said the demand charges are designed to recover only the demand-related rider costs allocated to the LGS, IP, and EHG tariff classes. He said energy-related rider costs are designed to be collected through the LGS, IP, and EHG class’s energy charges.

Finally, Mr. Hornyak stated Petitioner seeks to make the new OSS/PJM Rider factors effective for all bills rendered for electric service beginning with the first billing cycle following a Commission Order. He said upon implementation, residential customers using 1,000 kWh of electricity per month would see a monthly rate increase of \$1.54 or 1.1%.

5. OUCC Evidence. Kaleb G. Lantrip testified Petitioner seeks to update its current OSS/PJM Cost Rider Factors based on: (1) the forecasted OSS and PJM costs and revenues for the Forecast Period; (2) reconciliation of actual OSS and PJM costs and revenues for the Reconciliation Period; and (3) inclusion of a GRCF, which includes Indiana Utility Receipts Tax, Public Utility Fee, and an adjustment for uncollectable revenue. Mr. Lantrip described Petitioner’s forecasted OSS and PJM costs and noted that nothing came to his attention that Petitioner’s projections were unreasonable. Mr. Lantrip further testified regarding the OSS margin and PJM cost variance calculation. Mr. Lantrip testified he determined Petitioner’s calculations conformed with his calculations and he accepted Petitioner’s calculation of FTR revenues. Concluding, Mr. Lantrip stated that the OUCC recommends that the Commission approve Petitioner’s requested OSS/PJM Rider factors for 2021.

6. Discussion and Findings. Under the OSS/PJM Cost Rider, Petitioner tracks recovery through its retail rates of charges and credits related to OSS margins allocated to the Indiana retail jurisdiction and tracks recovery from certain Petitioner costs and revenues related to its membership in PJM. Petitioner’s proposed PJM 11 factors reflect the reconciliation of its OSS margins and PJM costs during the Reconciliation Period. The PJM 11 factors also include a forecast of OSS margins and PJM costs for the Forecast Period. The OUCC recommends approval of the proposed PJM 11 factors.

Based on the evidence presented, the Commission finds that the PJM 11 factors are reasonable and are therefore approved. As shown in Petitioner Exhibit 4, the net total of Indiana retail jurisdictional portion of forecast PJM costs is approximately \$253.5 million. Petitioner’s customer share of incremental OSS margins is a credit of approximately \$11.3 million; and the total cumulative (over)/under recovery balance as of June 30, 2020 is a credit of \$19.2 million. This

results in a total OSS margin and PJM cost net revenue requirement for calendar year 2020 of \$223.0 million, to which Petitioner applied a Gross Revenue Conversion Factor of 1.989% for a total of \$227.5 million of costs to be recovered through the OSS/PJM Rider. We find Petitioner should be authorized to apply its requested PJM 11 factors to its Indiana retail tariffs until modified by the Commission. The PJM 11 factors for each customer class are as follows:

Tariff Class	¢/kWh	\$/kW or \$/kVa
RS, RS-TOD, RS-TOD2, and RS-OPES	2.3283	--
GS, GS-TOD, and GS-TOD2	2.3263	--
LGS and LGS-TOD	-0.0002	5.418
LGS-LM-TOD	1.7576	--
IP and CS-IRP2	-0.0002	6.807
MS	2.1293	--
WSS	1.3049	--
IS	1.2767	--
EHG	-0.0002	3.519
OL	0.1055	--
SLS, ECLS, SLC, SLCM and FW-SL	0.1096	--

Upon implementation, the bill of a typical residential customer using 1,000 kWh per month will increase by approximately \$1.54 or 1.1%.

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

1. Petitioner Indiana Michigan Power Company is authorized to implement its requested OSS/PJM Cost Rider Adjustment factors.
2. Prior to implementing the OSS/PJM Rider adjustment factors, Petitioner shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall become effective on or after the Order date, subject to Division review and agreement with the amounts reflected.
3. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:

APPROVED: FEB 3 2021

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

Dana Kosco
Secretary of the Commission