

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANAPOLIS POWER & )  
 LIGHT COMPANY FOR APPROVAL OF A FUEL )  
 COST CHARGE FOR ELECTRIC SERVICE )  
 DURING THE MONTHS OF DECEMBER 2015 ) CAUSE NO. 38703 FAC 109  
 AND JANUARY AND FEBRUARY 2016, IN )  
 ACCORDANCE WITH THE PROVISIONS OF I.C. )  
 8-1-2-42 AND CONTINUED USE OF ) APPROVED: NOV 24 2015  
 RATEMAKING TREATMENT FOR COSTS OF )  
 WIND POWER PURCHASES PURSUANT TO )  
 CAUSE NOS. 43485 AND 43740. )

ORDER OF THE COMMISSION

**Presiding Officer:**  
**Lorraine L. Seyfried, Chief Administrative Law Judge**

On September 17, 2015, Indianapolis Power & Light Company (“IPL” or “Applicant”) filed its Verified Application with the Indiana Utility Regulatory Commission (“Commission”) for approval of a fuel adjustment charge (“FAC”) to be applicable during the billing cycles of December 2015 through February 2016 and for continued use of ratemaking treatment for the cost of wind power purchases. Also on September 17, 2015, IPL filed its direct testimony and attachments. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and direct testimony on October 22, 2015. On October 28, 2015, the Commission issued a docket entry, to which the OUCC and IPL responded on November 2, 2015. Also on November 2, 2015, IPL filed corrections to its direct testimony.

An evidentiary hearing in this Cause was held on November 4, 2015, at 1:30 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, IPL and the OUCC appeared and participated by counsel. No members of the public appeared.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. IPL is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to IPL’s fuel cost charge and the ratemaking treatment of its wind power purchase costs. Therefore, the Commission has jurisdiction over IPL and the subject matter of this Cause.
2. **IPL’s Characteristics.** IPL is an electric generating utility and a corporation organized and existing under the laws of the State of Indiana, having its principal office in Indianapolis, Indiana. IPL is engaged in rendering electric public utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment

within the State of Indiana used for the production, transmission, delivery, and furnishing of such service to the public.

**3. Source of Fuel.** IPL must comply 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.

According to IPL witness Nicholas M. Grimmer, Director, Fuel Supply, Logistics and Coal Combustion Product Management, approximately 98% of IPL's internally generated kilowatt-hours ("kWh") on an annual basis are generated by coal-fired capacity. IPL currently has long-term contracts with four coal producers and receives coal from ten different mines. The remainder of IPL's coal requirement is met through spot purchases. Mr. Grimmer stated that IPL uses a formal competitive bidding process to award its coal contracts. He said that for some spot purchases when a formal competitive bid process might not be feasible, an informal survey of local coal providers is performed to assure that the agreed-upon price is at or below IPL's next best alternative. Mr. Grimmer explained that IPL uses spot purchases of coal to: (1) provide the differential requirement between IPL's long-term contracts and its projected burn for the year; (2) test the quality and reliability of a producer to see if IPL may want to utilize the company as a long-term supplier; and (3) take advantage of one-off low price market opportunities when IPL's projected inventory levels allow.

Mr. Grimmer explained that IPL strives to keep a 25-50 day supply of coal in inventory across its coal-fired generation fleet. He explained that although IPL has been working closely with its coal suppliers and transportation vendors, IPL's system-wide inventory is currently beyond the 50-day maximum inventory target. He said mild weather, soft markets, and extended outages have all combined to reduce IPL's coal burn below expectations. He said IPL is actively managing its inventory levels and expects to bring the coal inventory back into IPL's target range in the near future.

IPL witness Dennis Dininger, Director, Commercial Operations, testified regarding the operating changes occurring at IPL's Harding Street location and discussed the amount of firm natural gas transportation required for the winter of 2015-2016. He explained that securing firm transportation from interstate pipelines safeguards the delivery of natural gas while protecting IPL customers from market price volatility due to transportation constraints. He identified the demand charge, estimated at \$850,000 for the period of December 2015 through February 2016, as the majority of the cost structure for firm transportation. He discussed the total estimated costs for the firm transportation and indicated that the charges are included on line 19 of Applicant's Exhibit 1, Attachment CAF-1, Schedule 1.<sup>1</sup>

Based upon the evidence presented, as discussed here and further below, the Commission finds that IPL is endeavoring to acquire fuel and generate or purchase power so as to provide electricity at the lowest fuel cost reasonably possible.

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<sup>1</sup> Line 19 of Applicant's Exhibit 1, Attachment CAF-1, Schedule 1, is labeled as "Gas Combustion Turbine." The inclusion of fuel costs related to the gas-fired steam boiler units at Harding Street in this line item appears to be inconsistent with that label. For purposes of facilitating a better understanding of the impact of the fuel source conversion of steam boilers, we encourage IPL to consider providing a distinct line item for such costs.

4. **Midcontinent Independent System Operator, Inc. (“MISO”) Market Related Activity.** Mr. Dininger testified that consistent with the Commission’s Order in Cause No. 38703 FAC 97 (“FAC97 Order”), IPL has included Demand Response Resource Uplift charges from MISO into its cost of fuel in this proceeding. According to Mr. Dininger, Day Ahead and Real Time market clearing prices for Regulation, Spinning, and Supplemental Reserves appear to be at reasonable levels consistent with market conditions.

OUCC witness Michael D. Eckert, Senior Utility Analyst, stated IPL’s proposed ratemaking treatment for the Ancillary Services Market (“ASM”) Charge types follows the treatment ordered in the Commission’s June 30, 2009 Phase II Order in Cause No. 43426 (“Phase II Order”).

In the Commission’s Order in Cause No. 38703 FAC 85 (“FAC85 Order”), the Commission authorized IPL to include credits or charges for Contingency Reserve Deployment Failure Charge Uplift Amounts for purposes of review in FAC proceedings. Mr. Dininger explained that as a result of the FAC85 Order, IPL included the credits and charges for Contingency Reserve Deployment Failure Charge Uplift Amounts into its cost of fuel in this proceeding.

In the Commission’s Order in Cause No. 38703 FAC 105 (“FAC105 Order”), the Commission authorized IPL to defer Real Time Multi-Value Project (“RT MVP”) Distribution charges alongside Schedule 26A charges. Mr. Dininger testified that as a result of the FAC105 Order, IPL has deferred the charges for RT MVP Distribution alongside Schedule 26A charges.

Based upon the evidence, the Commission finds that IPL’s treatment of the ASM charge types, Demand Response Resource Uplift charges, Contingency Reserve Deployment Failure Charge Uplift amounts, and RT MVP Distribution charges are consistent with the Commission’s Phase II, FAC85, FAC97 and FAC105 Orders and should be approved.

5. **Purchased Power Costs Above Benchmark.** In its April 23, 2008 Order in Cause No. 43414 (“Purchased Power Order”), the Commission approved a “Benchmark” triggering mechanism for the judgment of the reasonableness of purchased power costs. Mr. Dininger explained that each day, a Benchmark is established based upon a generic Gas Turbine (“GT”), using a generic GT heat rate of 12,500 btu/kWh and the day ahead natural gas prices for the NYMEX Henry Hub, plus \$0.60/mmbtu gas transport charge for a generic gas-fired GT (the “Purchased Power Daily Benchmark” or “Benchmark”). Mr. Dininger explained that the Purchased Power Daily Benchmark is applicable to purchases beginning May 1, 2008 and ending April 30, 2016, with automatic two-year renewals. He stated that purchases made in the course of MISO’s economic dispatch regime to meet jurisdictional retail load are a cost of fuel and are recoverable in the utility’s FAC up to the actual cost or the Purchased Power Daily Benchmark, whichever is lower. Mr. Dininger sponsored Attachment DD-1 to Applicant’s Exhibit 3 showing the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Dininger stated IPL incurred a total of \$375,573 of purchased power costs over the applicable Purchased Power Daily Benchmarks during May through July 2015. He said IPL makes power purchases when economical or because of unit unavailability. Mr. Dininger testified that consistent with the Commission’s Purchased Power Order, IPL has an opportunity

to request recovery and justify the reasonableness of purchased power costs above the applicable Purchased Power Daily Benchmark. IPL provided Attachment DD-2 to Applicant's Exhibit 3, which summarizes the purchased power volumes, costs, total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for May through July 2015, and the reasons for the purchases at-risk after consideration of MISO economic dispatch. Mr. Dininger testified that utilizing the methodology approved in the Purchased Power Order, \$1,098 of the purchased power is non-recoverable during the applicable accounting period. Therefore, IPL seeks to recover \$374,474 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for May through July 2015. He opined that the purchased power costs are reasonable.

Mr. Eckert explained that the purchased power over the benchmark treatment is controlled by the Purchased Power Order, and that IPL followed the guidelines and procedures established in the Purchased Power Order. He stated that according to his calculations, \$1,098 of the purchased power cost that exceeded the Benchmark is non-recoverable. He therefore recommended IPL be allowed to recover \$374,474 in purchased power costs that exceeded the benchmark.

Based upon the evidence, the Commission finds that IPL's request for recovery of its purchased power over the benchmark is consistent with the Commission's Purchased Power Order and should be approved.

**6. Contestable Revenue Sufficiency Guarantee ("RSG") Charges.** Mr. Dininger testified that IPL's recovery of Contestable Real-Time RSG ("RT RSG") Charges proposed in this proceeding is consistent with the Commission's June 3, 2009 Order in Cause No. 43664 ("RSG Order"), in which the Commission approved a "Benchmark" calculation to be used to determine the RSG Benchmark. Each day, a Benchmark is established based upon a generic GT, using a generic GT heat rate of 12,500 btu/kWh and the day ahead natural gas prices for the NYMEX Henry Hub, plus \$0.60/mmbtu gas transport charge for a generic GT (the "RSG Daily Benchmark"). Mr. Dininger explained any RSG First Pass Distribution amounts in excess of the RSG Daily Benchmarks are termed "Contestable RT RSG Charges." Mr. Dininger stated the RSG Daily Benchmark calculations for the period of May through July 2015 have been done in conformity with the RSG Order as shown in Applicant's Exhibit 3, Attachment DD-1.

IPL witness Craig Forestal, Director of Regulatory Accounting, stated that during the applicable accounting period IPL incurred a total of \$11,184.00 of Contestable RT RSG Charges. He stated IPL was not seeking recovery of any Contestable RT RSG Charges in this proceeding. Mr. Forestal testified that in accordance with the RSG Order, IPL deferred \$954.42 of Contestable RT RSG Charges in May 2015, \$3,800.53 of Contestable RT RSG Charges in June 2015 and \$6,429.05 of Contestable RT RSG Charges in July 2015. OUCC witness Mr. Eckert recommended that IPL be allowed to defer its Contestable RT RSG Charges.

Based on the evidence presented the Commission finds that IPL's deferral of its Contestable RT RSG Charges should be approved.

**7. Operating Expenses.** Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that the utility's actual increases in fuel cost through the latest month for which actual fuel costs

are available since the last Commission order approving basic rates and charges of the utility have not been offset by actual decreases in other operating expenses. Applicant's Exhibit 1, Attachment CAF-2 calculates the (d)(2) test (comparing the 12-month period ending July 31, 2015 with the Commission's August 24, 1995 Order in Cause No. 39938), and shows that total jurisdictional operating expenses excluding fuel costs have increased. Therefore, the Commission finds that IPL's actual increases in fuel cost have not been offset by actual decreases in other operating expenses in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(2).

**8. Return Earned.** Ind. Code § 8-1-2-42(d)(3) requires the Commission to find that the fuel adjustment charge applied for will not result in the electric utility earning a return in excess of the return authorized by the Commission in the last proceeding in which the basic rates and charges of the utility were approved. In Cause No. 39938, the Commission established an authorized return of \$163,000,000 for Step 2 of a two-step increase in IPL's basic rates and charges. In accordance with 170 IAC 4-6-21 and the Commission's Order in Cause No. 42170, IPL added \$44,498,000 to its authorized operating income representing the return on its Qualified Pollution Control Property. Thus, as reflected in Attachment CAF-3 to Applicant's Exhibit 1, IPL has an authorized return of \$207,498,000 for purposes of this proceeding. Attachment CAF-2 to Applicant's Exhibit 1 calculates the (d)(3) test, which shows that IPL's actual return for the 12-month period ended July 31, 2015 was \$152,022,000. Therefore, the Commission finds that during the 12-month period ending July 31, 2015, IPL did not earn a return in excess of its authorized return in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(3).

**9. Estimating Techniques.** Ind. Code § 8-1-2-42(d)(4) requires the Commission to find that a utility's estimate of its prospective average fuel costs for each month of the estimated three calendar months is reasonable after taking into consideration the actual fuel costs experienced and the estimated fuel costs for the three calendar months for which actual fuel costs are available. According to Applicant's Exhibit 1, Attachment CAF-1, Schedule 5, page 4 of 4, IPL's weighted average deviation between forecast and actual fuel cost was 2.59% for the months of May through July 2015. IPL projected its fuel costs for the billing months of December 2015 through February 2016 after taking into consideration its estimated and actual fuel cost for the reconciliation period.

OUCG witness Mr. Gregory T. Guerrettaz, President of Financial Solutions Group, Inc., testified that IPL has reflected the projected costs going forward. Mr. Guerrettaz stated the OUCG reviewed each input in detail and had a good discussion with IPL personnel regarding the estimates.

Based upon the evidence, we find that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for December 2015 through February 2016 should be accepted.

**10. Wind Power Purchase Agreements.** Mr. Dininger testified that purchases from the Hoosier Wind Park ("Hoosier") and Lakefield Wind Park ("Lakefield") are included in IPL's actual and projected fuel costs. He discussed the amount of power received from Hoosier and Lakefield for the months of May through July 2015. Pursuant to the Order in Cause No. 43740,

IPL is reflecting credits to jurisdictional fuel costs for off-system sales profits made possible because of the energy received from the Lakefield purchased power agreement (“PPA”).

Mr. Dininger said Hoosier and Lakefield are both Dispatchable Intermittent Resources in the MISO market and can ramp quickly, largely avoiding negative Locational Marginal Prices; however, the curtailed power is billable when certain criteria are met.

The PPA with Hoosier obligates IPL to pay Hoosier for certain curtailments and IPL disputed through arbitration a portion of the curtailment invoices received from Hoosier beginning in March 2013. Mr. Dininger testified the arbitrator issued his initial decision in July 2014 and, subsequently, IPL and Hoosier agreed on a methodology to implement the decision and executed a Settlement Agreement to document this methodology. The Settlement Agreement was presented to and approved by the Commission in its FAC105 Order. He said IPL received an invoice from Hoosier for the “Interim Period” as detailed in the Settlement Agreement and will pay it in September 2015. He said consistent with the FAC105 Order, the payment resulting from this reconciliation will be included in Cause No. 38703 FAC 110. Mr. Dininger added that this invoice is the last FAC adjustment item remaining from the Settlement Agreement and closes all outstanding issues from the arbitration.

In Cause Nos. 43485 and 43740, the Commission approved IPL’s request to recover the purchased power costs incurred under the Hoosier and Lakefield PPAs over their respective full 20-year terms. Based on the evidence presented, the Commission finds that the requested costs are reasonable and approves the ratemaking treatment of the wind PPA costs.

**11. Reconciliation and Resulting Fuel Cost Factor for Electric Service.** According to Applicant’s Exhibit 1, Attachment CAF-1, Schedule 1, IPL’s total estimated cost of fuel for December 2015 through February 2016 is \$125,410,020 and its total estimated sales are 3,770,205 MWh. IPL’s estimated cost of fuel is \$0.033263 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for May through July 2015. As shown on Applicant’s Exhibit 1, Attachment CAF-1, Schedule 1, reconciliation of actual fuel costs and revenues results in a total variance of \$(2,020,165). Dividing this amount by the total estimated jurisdictional sales of 3,770,205 MWh results in a variance factor of \$(0.000536) per kWh. Combining the variance factor with the estimated per kWh cost of fuel, subtracting the base cost of fuel and adjusting for Indiana Utility Receipts Tax, results in a proposed fuel factor of \$0.020579 per kWh for the December 2015 through February 2016 billing cycles.

Pursuant to Ind. Code § 8-1-2-42(a), the Commission finds the factor approved herein should become effective for all bills rendered for electric services during the first full billing month following the issuance of this Order. As a result of the fuel cost factor approved herein, the typical residential customer using 1,000 kWh per month will experience a decrease of \$1.19 or 1.35% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 108 (excluding various tracking mechanisms and sales tax).

**12. Confidentiality.** IPL filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information on October 30, 2015, which was supported by the affidavit of Mr. Dininger showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and Ind. Code § 24-2-3-2. In

a Docket Entry issued on November 2, 2015, the Presiding Administrative Law Judge found such information to be preliminarily confidential and IPL subsequently submitted such information under seal. There was no disagreement among the parties as to the confidential and proprietary nature of the information submitted under seal in this proceeding. We find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. The fuel cost factor set forth at Finding Paragraph No. 11 herein is approved.
2. IPL shall file with the Electricity Division of the Commission prior to placing in effect the fuel cost factor approved in this Order, a separate amendment to its rate schedules clearly reflecting that such factor is applicable to the rate schedules reflected on the amendment, as shown in Attachment CAF-1-A to Applicant's Exhibit 1.
3. IPL's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause No. 43485 and Cause No. 43740 is approved as set forth herein.
4. The information filed in this Cause pursuant to IPL's motion for protective order is deemed confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.
5. This Order shall be effective on and after the date of its approval.

**STEPHAN, MAYS-MEDLEY, HUSTON AND ZIEGNER CONCUR; WEBER ASBENT:**

**APPROVED: NOV 24 2015**

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



**Brenda A. Howe,  
Secretary to the Commission**