

**ORIGINAL**

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

VERIFIED PETITION OF INDIANA MICHIGAN )  
 POWER COMPANY ("I&M"), AN INDIANA )  
 CORPORATION, FOR APPROVAL OF AN )  
 ADJUSTMENT TO ITS RATES THROUGH ITS ) CAUSE NO. 44331 ECR 3  
 FEDERAL MANDATE RIDER ("FMR"), )  
 APPROVAL TO INCLUDE A GROSS REVENUE )  
 CONVERSION FACTOR IN THE CALCULATION ) APPROVED: APR 20 2016  
 OF THE REVENUE REQUIREMENT, AND FOR )  
 APPROVAL TO FILE ONGOING REVIEW AND )  
 RIDER PROCEEDINGS ANNUALLY. )

**ORDER OF THE COMMISSION**

**Presiding Officers:**

**Angela Rapp Weber, Commissioner**  
**Jeffery A. Earl, Administrative Law Judge**

On December 18, 2015, Indiana Michigan Power Company ("I&M") filed a Verified Petition initiating this Cause. Also on December 18, 2015, I&M filed the direct testimony and attachments of the following witnesses:

- Christopher M. Halsey, Regulatory Consultant Principal at I&M;
- Franklin R. Pifer, Managing Director of Projects at American Electric Power Service Corporation ("AEPSC"); and
- Jason M. Stegall, Regulatory Consultant Principal in Regulated Pricing and Analysis at AEPSC.

On March 4, 2016 the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Wes R. Blakley, Senior Utility Analyst in the OUCC's Electric Division.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on April 7, 2016, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. I&M and the OUCC appeared at and participated in the hearing. No members of the general public attended the hearing.

Based on the applicable law and the evidence presented the Commission finds:

**1. Notice and Jurisdiction.** Notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. I&M is a *public utility* as defined in Ind. Code § 8-1-2-1(a) and an energy utility under Ind. Code § 8-1-8.4-3. The Commission's November 13, 2013 Order in Cause No. 44331 (the "44331 Order") granted I&M a certificate of public convenience and necessity ("CPCN") under Ind. Code ch. 8-1-8.4 ("Chapter 8.4") for I&M's Rockport Clean Coal Technology ("CCT") Project to install a Dry Sorbent Injection ("DSI") system ("Rockport CCT Project"). The Commission also authorized the recovery of the Rockport CCT Project costs as Federally Mandated Costs under Chapter 8.4 and the terms of the Settlement Agreement approved in Cause No. 44331. Therefore, the Commission has jurisdiction over I&M and the subject matter of this Cause.

2. **I&M's Organization and Business.** I&M, a wholly owned subsidiary of American Electric Power Company, Inc., is a corporation organized and existing under the laws of the State of Indiana, with its principal offices at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M renders electric utility service in the States of Indiana and Michigan. I&M owns, operates, manages, and controls plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the generation, transmission, distribution, and furnishing of electric utility service to the public.

3. **Relief Requested.** I&M seeks Commission approval of an adjustment to its rates through its Federal Mandate Rider ("FMR"), effective with the first full billing month following a Commission order. The proposed FMR factors include reconciliation of the over- or under-collection of actual costs and revenues, along with a forecasted projection of costs, associated with the Indiana Retail Jurisdictional Share of Federally Mandated Costs for the Rockport CCT Project. I&M also requests to include a gross revenue conversion factor in the calculation of the revenue requirement. Further, I&M seeks Commission approval to file future FMR ongoing review and rider proceedings on an annual rather than a semi-annual basis.

4. **Ongoing Reporting and Implementation.** The 44331 Order allows I&M to request updates to its FMR on a semi-annual basis. I&M requests that the FMR implementation schedule move to an annual basis. Mr. Halsey explained that due to the Rockport DSI project being substantially complete it is administratively efficient to process FMR filings on an annual basis. Mr. Pifer testified that the current total project cost estimate is \$199 million, which is a 6.95% reduction from the \$214 cost estimate approved in Cause No. 44331.

Mr. Blakley testified he has no concern regarding I&M's request to change the filing of I&M's FMR from every six months to annual filings starting with ECR 4.

The evidence shows that both of the DSI systems on Rockport Unit 1 and Unit 2 have been constructed and were placed in-service in June and May of 2015, respectively. While some items remain to be completed, the current estimated total project cost is below the cost originally approved for the project. Therefore, we approve I&M's request to make future FMR ongoing review and rider proceedings on an annual basis, commencing with the filing of ECR 4.

5. **Amount of Rockport CCT Construction Costs.** Pet. Exh. 2, Attachment FRP-1 shows the construction costs for which I&M seeks ratemaking treatment in this Cause. No party challenged these costs. We have reviewed the proposed costs, and we find that they are appropriately included in the calculation of the FMR factors.

6. **Rate of Return on Approved QPCP Construction Costs.** Pet. Exh. 1, Attachment CMH-7, provides the calculation of I&M's rate of return utilizing a ROE of 9.95% effective January 1, 2015. We have reviewed the calculation and we find I&M has properly reflected the Settlement Agreement approved in Cause No. 43774 PJM 4 in its proposed factors.

7. **Recovery of Depreciation, Carrying Costs, O&M Expenses and Taxes.** The 44331 Order authorizes the timely recovery of depreciation, carrying costs, O&M expenses (including consumables), and taxes. Pet. Exh. 1, Attachments CMH-1 through CMH-3 show I&M's reconciliation of actual Rockport CCT Project costs with actual FMR revenue collections for April through September 2015. Pet. Exh. 1, Attachment CMH-2 shows the calculation of FMR jurisdictional depreciation expense,

the investment balances and post in-service carrying costs on the Rockport CCT Project, construction work in progress carrying costs, O&M expenses and consumables, and property tax expense for the forecasted period. We accept I&M's calculation.

**8. Revenue Requirement.** Pet. Exh 1, Attachment CMH-1 shows the jurisdictional forecasted revenue requirement of \$10,902,947 for the period of April 2016 through September 2016. Mr. Halsey discussed the inclusion of the gross revenue conversion factor used in the calculation of the revenue requirement. We accept I&M's calculation and approve the inclusion of the gross revenue conversion factor in the calculation of the revenue requirement.

**9. Net Operating Income for FAC Proceedings.** The 44331 Order requires I&M to add the approved return on its Rockport CCT Project to its net operating income authorized by the Commission for the purposes of Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3) in all subsequent FAC proceedings. For purposes of computing authorized net operating income for Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3), we find that the jurisdictional portion of the increased return shall be phased-in over the appropriate period of time that I&M's net operating income is affected by the earnings modification resulting from the Commission's approval of this FMR adjustment.

**10. Allocation of Jurisdictional Revenue Requirement.** Mr. Stegall discussed the allocation of the revenue requirement among I&M's customer classes. Pet. Exh. 3, Attachment JMS-1 shows the allocation of the FMR revenue requirement among I&M's customer classes using the allocation factors from I&M's most recent electric rate case in Cause No. 44075. We accept I&M's calculation. Mr. Stegall calculated the adjustment factors on Pet. Exh. 3, Attachment JMS-2 using \$10,514,852 of Indiana jurisdictional revenue requirement that had been netted with jurisdictional interruptible power revenue credits.

**11. Approval of Rider Factors.** Pet. Exh. 3, Attachment JMS-3 sets forth the proposed FMR factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.2067
GS, GS-TOD and GS-TOD2	0.1742
LGS and LGS-TOD	0.1397
IP and CS-IRP2	0.1344
MS	0.1924
WSS	0.1422
IS	0.0888
EHG	0.3077
OL	0.1361
SLS, ECLS, SLC, SLCM AND FW-SL	0.1270

Based on the evidence presented and our discussion above, we find that the proposed FMR factors are properly calculated. Therefore, we approve the FMR factors contained in I&M's Attachment JMS-3 effective for the first full billing month following this Order. Using currently effective rates, as shown on Attachment JMS-4, the bill of a typical residential customer using 1,000 kWh per month will

increase by approximately \$0.64 or 0.6%.

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

1. I&M's proposed Federal Mandate Rider factors as set out in this Order are approved.
2. I&M shall add the approved return on its Rockport CCT Project to its net operating income authorized by the Commission for the purposes of Indiana Code §§ 8-1-2-42(d)(2) and 8-1-2-42(d)(3) in all subsequent FAC proceedings. For purposes of computing the authorized net operating income, the jurisdictional portion of the increased return shall be phased-in over the appropriate period of time that I&M's net operating income is affected by the earnings modification authorized herein.
3. Prior to implementing the authorized rates, I&M shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.
4. I&M is authorized to file its Federal Mandate Rider ongoing review and rider proceedings to an annual basis commencing with 44331 ECR 4.
5. This Order shall be effective on and after the date of its approval.

**STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:**

**APPROVED:**

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



**Mary M. Becerra**  
**Secretary of the Commission**