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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED PETITION)
OF INDIANA MICHIGAN POWER COMPANY)
FOR APPROVAL OF AN ADJUSTMENT TO ITS)
RATES THROUGH ITS ENVIRONMENTAL)
COMPLIANCE COST RIDER ADJUSTMENT)
COMMENCING WITH THE BILLING MONTH OF)
APRIL 2016 PURSUANT TO THE COMMISSION'S)
ORDERS IN CAUSE NOS. 43306, 43856 AND 44075.)

CAUSE NO. 43992 ECCR 5

APPROVED: APR 20 2016

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On February 1, 2016, Indiana Michigan Power Company ("I&M" or "Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition for an Environmental Compliance Cost Rider ("ECCR") Adjustment to be effective with the first billing cycle for the billing month of April 2016 or the first full billing month following a Commission Order, pursuant to the Commission's Orders in Cause Nos. 43306, 43856, and 44075.

On February 1, 2016, Petitioner also filed the testimony and attachments of Christopher M. Halsey, Petitioner's Regulatory Consultant Principal and Todd A. March, Principal RTO Operations Support Analyst for American Electric Power Service Corporation. In addition, on February 1, 2016, I&M submitted supporting workpapers. On March 21, 2016, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Cynthia M. Armstrong, Senior Utility Analyst in the Electric Division of the OUCC.

The Commission held a public hearing in this Cause on April 7, 2016, at 10:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC participated in the hearing. No members of the general public appeared. At the hearing, Petitioner and the OUCC offered their respective prefiled testimony and attachments, which were admitted into evidence without objection.

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

- 1. Notice and Jurisdiction.** Due, legal, and timely notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public utility as that term is defined in Ind. Code § 8-1-2-1 and is subject to the Commission's jurisdiction for rates and charges under Ind. Code § 8-1-2-42. Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** I&M is a wholly-owned subsidiary of the American Electric Power Company, Inc. and 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. I&M is engaged in rendering electric service in the State of Indiana, and owns, operates, manages, and controls, 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. **Background.** In Cause No. 43306, I&M proposed, among other things, an ECCR to track net emission allowance costs for purposes of seeking cost recovery via retail rates on a periodic basis. In its March 4, 2009 Order in Cause No. 43306, the Commission approved the ECCR as set forth in the Settlement Agreement in that Cause. In I&M's last base rate case, Cause No. 44075, the Commission's February 13, 2013 Order approved the continued utilization of the ECCR. I&M's current ECCR factor was established pursuant to the Commission's March 18, 2015 Order in Cause No. 43992 ECCR 4.

4. **Relief Requested.** I&M seeks Commission approval for an ECCR Adjustment factor commencing with the billing month of April 2016 or the first full billing month following a Commission Order. This filing includes the reconciliation of actual costs for December 1, 2014 through November 30, 2015 (the "Reconciliation Period") and a projection of emission allowance costs for the period of April 1, 2016 through March 31, 2017 (the "Forecast Period"). I&M also requests approval to include a Gross Revenue Conversion Factor ("GRCF") in the calculation of the revenue requirement.

5. **I&M's Evidence.** Christopher M. Halsey provided a description of I&M's ECCR, supported the calculation of the revised ECCR factor, and sponsored I&M's standard audit packet.

Mr. Halsey testified the current ECCR is designed to recover approximately \$1.1 million of Indiana jurisdictional annual emission allowance costs. He explained the ECCR consists of two components: (1) a projection of emission allowance costs for the Forecast Period; and (2) the cumulative under-recovery of ECCR costs as of November 30, 2015, which includes the under-recovery of actual jurisdictional emission allowance costs to actual billing under the ECCR for the Reconciliation Period. Mr. Halsey stated that the reconciliation component of the ECCR adjusts for the difference between the amount recovered during the months in which the ECCR factor is in effect and the actual costs incurred during that time period.

Mr. Halsey stated that beginning on March 23, 2009, I&M has deferred monthly, as a regulatory asset, any under-recovery of ECCR costs and, as a regulatory liability, any over-recovery of ECCR costs for future recovery or refund, respectively, through the yearly true-up for the ECCR factor to actual results. He noted the under- or over-recovery is calculated by comparing revenues collected from the ECCR to actual environmental compliance costs. He further noted that if the ECCR revenues are less than the emission allowance costs, I&M records the under-recovery as a regulatory asset. If the ECCR revenues are greater than the emission allowance costs, I&M records the over-recovery as a regulatory liability.

Mr. Halsey testified that, for the Reconciliation Period, I&M over-recovered \$834,961 for the emission allowance costs. When this is netted with the \$234,560 under-recovery as of the beginning of the current Reconciliation Period, I&M has a cumulative over-recovery of \$600,401 remaining at November 30, 2015.

Mr. Halsey explained the inclusion of the GRCF used in the calculation of the ECCR revenue requirement. He then described how the ECCR factor is calculated. First, the forecast component is decreased by the reconciliation component. The net amount is then multiplied by the GRCF and added to the net amount for a total revenue requirement. Next, the total revenue requirement is divided by the projected billing energy to arrive at an ECCR rate per kilowatt hour (“kWh”). Petitioner’s Exhibit 1, Attachment CMH-3 provides the ECCR factor calculation as follows:

Projected Costs - April 1, 2016 to March 31, 2017	\$433,067
(Over)/Under Recovery Balance as of November 30, 2015	\$ (600,401)
Net Revenue Requirement	\$(167,334)
Gross Revenue Conversion Factor	1.7825%
Gross Revenue Conversion Factor Revenue	\$(3,037)
Total Revenue Requirement	\$(170,371)
Projected Billing Energy (kWh)	12,962,136,999
Per kWh Rate	\$(0.000013)

As reflected on Petitioner’s Exhibit 1, Attachment CMH-4, the factor decrease will result in an annual ECCR revenue credit of approximately \$(168,508), or a decrease of approximately \$1.3 million from the current factor. I&M is requesting to implement a decrease in the ECCR factor. Upon implementation of the new ECCR factor, as reflected on Petitioner’s Exhibit 1, Attachment CMH-6, a residential customer using 1,000 kWh of electricity per month would experience a monthly rate decrease of \$(0.10) or -0.1%.

Todd A. March supported the forecast of expenses to be included in the ECCR. Mr. March stated that the forecasted components of the ECCR include the amount of allowance consumption expense and gains and losses on the sale of emission allowances. Mr. March’s forecast provides both total I&M and Indiana jurisdictional calculations. Mr. March testified that the forecast allowance consumption expenses have been projected based upon the same forecast methodology used in I&M’s fuel adjustment clause proceedings, which has previously been found to be reasonable.

Mr. March explained that effective January 1, 2015, the U.S. Environmental Protection Agency’s (“EPA”) Cross-State Air Pollution Rule (“CSAPR”) replaced the Clean Air Interstate Rule (“CAIR”). The SO₂, Seasonal NO_x and Annual NO_x consumption expense are shown on Petitioner’s Exhibit 2, Attachment TAM-1. The forecast of SO₂ allowance expense under CSAPR is generated by the requirement that I&M remit to the EPA one CSAPR Group 1 SO₂ allowance and one Title IV allowance for each ton of SO₂ emissions. The forecast of Annual NO_x and Seasonal NO_x expenses under CSAPR are generated by the requirement that one

CSAPR Annual NO_x allowance be remitted for each ton of NO_x emitted from January through December. During the ozone season (May through September) one CSAPR Ozone Season NO_x allowance is remitted for each ton of NO_x emitted. This is in addition to the Annual NO_x allowances being remitted. Mr. March testified that I&M is expected to have sufficient Title IV and CSAPR SO₂ allowances for consumption in this forecast period. I&M is also expected to have sufficient CSAPR Annual NO_x and Seasonal NO_x allowances for consumption in this forecast period.

Regarding I&M's calculation of allowance consumption expense, Mr. March stated I&M expenses allowances based on the weighted average inventory ("WAI") price of allowances held in current inventory. The WAI price is the total dollar balance of current inventory divided by the number of allowances held. For Title IV SO₂, the inventory balance includes zero cost allowances received from the EPA, allowances purchased from affiliates through the former Interim Allowance Agreement, and allowances purchased from non-affiliates. For CSAPR NO_x, and SO₂ allowances the inventory is composed of zero cost allowances received from the EPA and purchased allowances.

Mr. March further testified that I&M's forecasted consumption expense for the year ending March 2017 is expected to be lower than its actual consumption expense for the year ended November 30, 2015 by approximately \$975,000 on an Indiana jurisdictional basis. He stated this decrease can be attributed to fewer environmental emissions and a projected decrease in the weighted average price of SO₂ allowances.

Mr. March concluded that I&M's forecast of allowance consumption costs, net of gains or losses on the sales of allowances, for the year ending March 2017 is fair and reasonable.

6. OUCC's Evidence. Cynthia M. Armstrong testified concerning her review of I&M's reconciliation and calculation of the ECCR rate. She testified that OUCC accounting staff reviewed I&M's calculation of the GRCF and the OUCC did not take issue with I&M's calculation of the GRCF. With respect to emission allowance costs, she noted the OUCC observed that the consumption expenses for CAIR NO_x Ozone Season and CAIR Annual NO_x inventories were greater than they should be based on the NO_x emissions for the month and the effective period of the NO_x Ozone Season. Both inventories were fully expensed at the end of the year. The CAIR program ended in 2014 and was replaced by CSAPR beginning in 2015. CAIR allowances were not allowed to be carried forward into the CSAPR program. Therefore, I&M wrote off the remaining allowances at the end of December 2014. The total value of the allowances written off was \$7,489.

Ms. Armstrong testified that since these allowances were never used to cover generation costs for providing electric service to I&M's customers, the OUCC might have, under other circumstances, challenged their recovery. However, in this case, the number of allowances remaining in inventory and their respective value is small, so the OUCC does not take issue with I&M's method of recovering them. Ms. Armstrong noted that in reviewing I&M's allowance procurements over the past two years, I&M appears to have made reasonable NO_x allowance purchases when necessary, and that it was important for I&M to ensure that it possessed enough allowances to cover all of its emissions as there were major penalties under CAIR for failure to do so. She said while the OUCC is not opposing I&M's requested recovery of these allowance

costs, other utilities may also incur similar costs due to the sunset of CAIR. She said the OUCC will review and assess the recovery of such costs on a case-by-case basis in the future. She recommended approval of I&M's proposed ECCR factor.

7. **Commission Findings.** Based on the evidence presented, the Commission finds that I&M's request is reasonable and should be approved. The OUCC found the figures used by I&M in the calculation of the ECCR rate for the relevant period were generally supported by I&M's books, records, and source documentation for the period reviewed. Further, the OUCC took no issue with I&M's calculation of the GRCF or I&M's recovery of emission allowance costs. Accordingly, we accept I&M's calculation and approve the inclusion of the GRCF in the calculation of the revenue requirement. As shown in Petitioner's Exhibit 1, Attachment CMH-3, the Indiana retail jurisdictional portion of forecast ECCR costs of \$433,067 plus the over-recovery of \$(600,401), and application of a GRCF of \$(3,037), results in an ECCR revenue credit of \$(170,371). As shown on Petitioner's Exhibit 1, Attachment CMH-4, this amounts to a decrease of approximately \$1.3 million from current ECCR levels. In accordance with the methodology approved by the Commission in Cause No. 43306, we find Petitioner should be authorized to apply its requested ECCR Adjustment factor to its Indiana retail tariffs and I&M's proposed ECCR factor of \$(0.000013) as shown on Petitioner's Exhibit 1, Attachment CMH-5 is approved.

8. **Effect on Customers.** The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of \$(0.10) or -0.1% on his or her electric bill effective the first full billing cycle following this Order as shown on Petitioner's Exhibit 1, Attachment CMH-6.

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

1. I&M is authorized to implement its requested ECCR factor.
2. Prior to implementing the authorized rates, I&M shall file the applicable rate schedules as shown in Petitioner's Exhibit 1, Attachment CMH-5 under this Cause for approval by the Commission's Energy Division.
3. 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 Becerra
Secretary of the Commission