

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF INDIANA)
 MICHIGAN POWER COMPANY FOR) CAUSE NO. 43774 PJM 2
 AUTHORIZATION OF A NEW PJM COST RIDER)
 ADJUSTMENT CHARGE APPLICABLE FOR THE)
 BILLING MONTHS OF JANUARY THROUGH) APPROVED: DEC 21 2011
 DECEMBER 2012)

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On August 26, 2011, Indiana Michigan Power Company (“I&M” or “Petitioner”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Verified Petition for a new PJM Cost Rider Adjustment Charge for electric service to be applicable during the January through December 2012 billing months. On August 26, 2011, Petitioner also filed the testimony and exhibits of Scott M. Krawec, Petitioner’s Director of Regulatory Services; Jeffrey L. Brubaker, Director of Regulatory Accounting Services for American Electric Power Service Corporation (“AEPSC”); Richard A. Riley, Financial Forecasting Manager for AEPSC; and Matthew W. Nollenberger, Manager of Regulated Pricing and Analysis for AEPSC. In addition, on August 26, 2011, I&M submitted supporting workpapers.

On October 28, 2011, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed a Motion for Extension of Time to File Testimony, as to which Petitioner had no objection. Thereafter, on November 2, 2011, the OUCC filed the testimony of Duane P. Jasheway, Utility Analyst in the Electric Division of the OUCC.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause on December 1, 2011 at 9:40 a.m. in Room 224 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 exhibits, which were admitted into evidence without objection.

The Commission, based upon applicable law and the evidence of record, and being duly advised in the premises, now finds as follows:

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 and, as such, is subject to the jurisdiction of the Commission in the manner and to the extent provided by the Public Service Commission Act, as amended, and other pertinent laws of the State of Indiana. 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. ("AEP") 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 One Summit Square, 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. **Relief Requested.** In Cause No. 43306, the Commission approved a PJM Cost Rider to track recovery from I&M's electric customers certain costs and revenues related to I&M's membership in PJM Interconnection, L.L.C. ("PJM"). Tracked costs billed to AEP and I&M include the variance from the forecasted administrative costs reflected in basic rates, the cost of PJM Regional Transmission Expansion Plan ("RTEP") projects, and net transmission congestion costs. I&M's current PJM Cost Rider factors were approved on December 29, 2010 in Cause No. 43774 PJM 1 and became effective the first billing cycle of January 2011. I&M seeks approval of its reconciliation of actual PJM costs for the period July 1, 2010 through June 30, 2011 and its projection of PJM charges and credits for the calendar year 2012. I&M seeks to make the new PJM Cost Rider factors effective with the first billing cycle for the billing month of January 2012.

4. **I&M's Evidence.** I&M's proposed PJM Cost Rider factors will replace those currently in effect, which were approved in Cause No. 43774 PJM 1 and became effective the first billing cycle of January 2011.

(a) **Charges Recovered Through the PJM Cost Rider.** Mr. Krawec testified that PJM is a FERC-approved regional transmission organization ("RTO"), which AEP and I&M joined to fulfill its regulatory obligation to join an RTO. Per the testimony of Mr. Krawec, PJM is a long-established organization that manages the transmission grid for numerous companies in the eastern United States and fulfills the functions defined in FERC Order 2000. PJM operates the largest centrally dispatched electric grid in the U.S. The AEP System-East Zone ("AEP Zone") integrated its operations with PJM and began participating in the PJM energy market on October 1, 2004. As a member of PJM, costs are billed to AEP and I&M for functional operation of the transmission system, management of the PJM markets, and general administration of the RTO. Krawec Direct at 4.

Mr. Krawec testified that the PJM Cost Rider results from the Settlement Agreement and final Order in Cause No. 43306, I&M's most recent electric rate case, approved by the Commission on March 4, 2009. In Cause No. 43306, the Commission authorized I&M to establish a PJM Cost Rider to track costs related to its membership in PJM. The tracked costs include the variance from the forecasted administrative costs reflected in basic rates, the cost of PJM RTEP projects, and net transmission congestion costs. PJM charges are tracked and allocated among the customer classes on a demand or energy basis as indicated on Petitioner's Exhibit JLB-2. *Id.* at 4.

Mr. Krawec testified I&M seeks to update its PJM net costs to those projected for the period the rider will be in effect (calendar year 2012), and also provide the reconciliation of actual PJM net costs and PJM Cost Rider revenues for the time period of July 1, 2010 through June 30, 2011. Mr.

Krawec stated the proposed PJM Cost Rider factors will replace those currently in effect, which were approved in Cause No. 43774 PJM 1 and became effective the first billing cycle of January 2011. *Id.* at 2-3.

Petitioner's Exhibit JLB-1 sets forth the various PJM charges reflected in the PJM Cost Rider. Mr. Krawec testified that there are no new PJM charges or material modifications to any existing PJM charges or credits since the Commission approved I&M's PJM Cost Rider reconciliation in Cause No. 43774. In addition, Mr. Krawec testified that he is not aware of any anticipated new or modified PJM charges for 2012. Finally, Mr. Krawec testified that there have been no PJM charges or credits discontinued since Commission approval of the PJM Cost Rider in Cause No. 43306. *Id.* at 8.

Mr. Krawec testified that AEP has modified the manner in which the PJM Transmission Enhancement Charges (Account 5650012 and 4561060) are allocated pursuant to a Settlement Agreement approved by FERC in Docket No. ER09-1279. The PJM Transmission Enhancement Charges have changed from an allocation of costs on a MLR ("Member Load Ratio") basis to a 12 Coincident Peak ("CP") basis, effective November 2010. For this filing, the method in the forecast used by Company witness Riley is on a 12CP basis. *Id.* at 8-9.

Finally, Mr. Krawec testified that I&M has developed a standard audit packet to be provided to the OUCC as part of annual PJM cost tracker filings. According to Mr. Krawec, the audit package consists of the exhibits and workpapers supporting the calculation of I&M's PJM costs. *Id.* at 9.

(b) PJM RTEP Projects. Mr. Krawec testified regarding PJM RTEP projects. Per Mr. Krawec, PJM RTEP projects are 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. Also included are transmission projects that result from transmission customer requests for generator interconnection, merchant transmission additions, and long-term transmission service. *Id.* at 6. The agreement, signed by transmission owning utilities when they join PJM, obligates them to build transmission facilities approved by the PJM Board. PJM monitors and coordinates the construction of all new transmission facilities to ensure the required in-service dates can be met to address the identified reliability criteria violations. *Id.* at 6.

Mr. Krawec explained how the costs for RTEP projects are allocated in PJM. For RTEP projects that operate at the 500 kV level and higher, the FERC has determined that the cost of these facilities shall be allocated to all consumers across the PJM footprint. PJM allocates a load share percentage calculated as the transmission owner's annual zonal peak divided by the sum of all the non-coincident zonal peaks. The AEP Zone load share percentage for calendar year 2011 is 16.70%. *Id.* at 6-7. The costs of RTEP projects that operate below the 500 kV level and that are greater than \$5 million are allocated to consumers based on the extent to which their use of the transmission system contributes to need for the transmission upgrade or expansion ("Beneficiary pays Principle"). Mr. Krawec stated that in the event that it is determined a below 500 kV project has more than one beneficiary, PJM performs an analysis to determine the percent of the project cost that should be allocated to each beneficiary zone. In AEP, projects that are determined to benefit

only the AEP Zone (100% AEP) are included in the plant in service amount for the constructing AEP operating company, and recovered through the PJM Open Access Transmission Tariff formula rates. *Id.* at 7.

(i) I&M-Owned RTEP Projects. Mr. Krawec testified regarding the PJM RTEP projects currently owned by I&M. In particular, I&M owns RTEP Project b0839 described by PJM as “Replace existing 450 MVA transformer at Twin Branch 345 / 138 kV with a 675 MVA transformer.” This project is a beneficiary allocated project with 99.73% of the cost allocated to the AEP Zone. The revenue requirement for the Twin Branch project (excluding true-up) being collected effective July 1, 2011 through June 30, 2012 is \$1,487,355. *Id.* at 7.

(ii) Non-I&M-owned RTEP Projects. Mr. Krawec testified regarding costs I&M incurs for any non-I&M owned PJM RTEP projects. Mr. Krawec sponsored Petitioner’s Exhibit SMK-1, which is a summary of I&M and non-I&M owned RTEP Projects. In addition, I&M’s reconciliation includes RTEP project costs of \$6,272,082, which are the Indiana jurisdictional charges for the period July 1, 2010 through June 30, 2011 as shown in Petitioner’s Exhibit JLB-1. *Id.* at 5.

Mr. Krawec stated that, as supported by I&M witness Mr. Riley, forecasted 2012 charges are based on (1) an estimated construction schedule for major projects approved by FERC to the PJM required in-service date, and (2) the required in-service date for minor projects. *Id.* at 8.

(c) Forecasted PJM Costs. I&M witness Riley testified concerning the forecast of I&M’s PJM charges and credits consistent with the Commission’s Order in Cause No. 43306. Riley Direct at 2. Mr. Riley explained that to develop I&M’s forecasted PJM charges and credits for the months of January 2012 through December 2012 he included the projected costs consisting of the forecasted activity in the accounts identified on Petitioner’s Exhibit JLB-2. *Id.* at 3. According to Mr. Riley, the Total Company PJM charges and credits computed consistent with the Commission’s Order in Cause No. 43306 are estimated to be \$54.3 million as shown in Petitioner’s Exhibit RAR-1. *Id.*

Mr. Riley compared the 2012 projected PJM costs and credits to current actual costs and credits. Per Mr. Riley, the forecasted 2012 PJM costs and credits are \$8.9 million lower than the \$63.1 million actually incurred for the twelve months ended June 2011, as shown in Petitioner’s Exhibit JLB-1. Mr. Riley explained that the primary driver for this decrease is a \$5.7 million decrease in projected PJM Operating Reserve charges, net of credits. *Id.* at 3-4. Mr. Riley explained that the projected decrease is because I&M’s operating reserve charges and credits are expected to decline in 2012 mainly due to a forecasted decline in locational market prices (“LMP”) in 2012. *Id.* at 4. Also, Load Serving Entity (“LSE”) congestion costs incurred during the actual period exceeded financial transmission right (“FTR”) revenues earned over that period by \$2.8 million. When I&M’s congestion costs exceed its FTR revenues, the Commission’s Order in Cause No. 43306 requires that the net amount should be removed from the OSS Margin Sharing Rider and be included in the PJM cost rider calculation. *Id.* at 4-5.

Finally, Mr. Riley opined that the PJM charges and credits that I&M has projected for the months of January 2012 through December 2012 are just and reasonable. *Id.* at 5.

(d) Actual PJM Costs/Actual PJM Rider Revenue. I&M witness Brubaker testified that beginning March 23, 2009, I&M has deferred monthly, as a regulatory asset, any under-recovery and, as a regulatory liability, any over-recovery of the PJM rider revenues for future recovery or refund through the yearly true-up to actual. The under-or over-recovery is calculated by comparing revenues collected from the PJM rider to actual PJM costs net of \$5,224,801 of annual Indiana jurisdictional costs related to PJM administrative fees being recovered in Indiana basic rates. If the PJM rider revenues are less than the net PJM costs, I&M records the under-recovery as a regulatory asset in Account 182.3, Other Regulatory Assets. If the PJM rider revenues are greater than the net PJM costs, I&M records the over-recovery as a regulatory liability in Account 254, Other Regulatory Liabilities. Brubaker Direct at 3.

Mr. Brubaker stated that as of June 30, 2011, I&M has an under-recovery balance of \$4,343,082 for the PJM Cost Rider as shown on Petitioner's Exhibit JLB-1. *Id.* at 3.

(e) LSE Congestion Costs. I&M witness Nollenberger testified that LSE congestion costs are included in the PJM Cost Rider. Per Mr. Nollenberger, in accordance with the Settlement Agreement and Commission Order in Cause No. 43306, I&M is to compare total FTR revenues to LSE congestion costs for both the actual and forecast periods. If LSE congestion costs exceed total FTR revenues then the net amount is included in the PJM Cost Rider calculation. If total FTR revenues exceed LSE congestion costs, then the net amount is included in the Off-System Sales Margin Sharing Rider calculation. For the time period of July 1, 2010 through June 30, 2011, LSE congestion costs exceeded total FTR revenues. Therefore, LSE net congestion costs are included in the PJM Cost Rider and the net FTR revenues were excluded from the Off-System Sales Margin Sharing Rider calculation. This calculation is shown at the bottom of Petitioner's Exhibit MWN-1. Nollenberger Direct at 3.

(f) Resulting PJM Cost Rider Adjustment Factors. Mr. Nollenberger testified that the PJM Cost Rider consists of two components. *Id.* at 2. The first component is a projection of PJM costs for the next calendar year. The second component is a reconciliation of actual PJM costs to actual billing under the PJM Cost Rider. *Id.* at 2-3. Mr. Nollenberger further testified that the Indiana retail jurisdictional PJM costs are determined consistent with the calculations performed in Cause No. 43306 and Cause No. 43774. In particular, each component of total I&M PJM costs is classified as either demand- or energy-related. The appropriate jurisdictional demand and energy allocation factors are then applied to determine the Indiana retail jurisdictional portion of PJM costs. *Id.* at 3.

Mr. Nollenberger explained how the amounts to be included in the PJM Cost Rider were calculated. According to Mr. Nollenberger, as shown in Petitioner's Exhibit MWN-1, the first step is to calculate the Indiana retail jurisdictional portion of forecast PJM costs. This amount is then reduced by the level of PJM administrative costs included in basic rates in Cause No. 43306 of \$5,224,801. The final step is to include any actual (over)/under recovery balance remaining at the end of the prior year in the PJM Cost Rider. *Id.* at 3.

Mr. Nollenberger explained how the proposed PJM Cost Rider rates were calculated. Mr. Nollenberger stated that consistent with the formulas established in the PJM Cost Rider in Cause

No. 43306, the Company allocated the demand- and energy-related components as developed in Petitioner's Exhibit MWN-1 to the tariff classes based upon demand and energy allocation factors developed using forecast 2012 billing energy. Once the amounts were allocated to each tariff class, an energy rate was calculated using the forecast 2012 billing energy for that class. This calculation is shown on Petitioner's Exhibit MWN-2. *Id.* at 4. Mr. Nollenberger prepared a comparison of current and proposed PJM Cost Rider rates. Petitioner's Exhibit MWN-3 summarizes projected 2012 billing under current PJM Rider rates and under proposed PJM Rider rates. According to Mr. Nollenberger, the proposed rider rates have also been incorporated in the Company's existing PJM Cost Rider in both redline format and clean format as shown in Petitioner's Exhibit MWN-4. *Id.*

Mr. Nollenberger testified that I&M seeks to make the new PJM Cost Rider rates effective for all bills rendered for electric services beginning with the first billing cycle for January 2012. Last, Mr. Nollenberger stated that upon implementation, residential customers using 1,000 kWh of electricity per month would see a monthly rate increase of \$1.90 or 2.2%. Petitioner's Exhibit MWN-5 shows the percentage increases at various "typical" usage levels for I&M's major tariff schedules. *Id.* at 4-5.

5. **OUC's Evidence.** OUC witness Jasheway testified regarding I&M's request to recover certain costs and revenues related to I&M's membership in PJM through its PJM Cost Rider. Mr. Jasheway testified that he reviewed the books and records of I&M and participated in discussions with I&M staff. Jasheway Direct at 2. Mr. Jasheway testified that nothing came to his attention that would indicate that I&M's calculation of estimated PJM costs for the relevant period is unreasonable. He explained that the tracked costs include the variance from the forecasted administrative cost reflected in base rates, the cost of PJM RTEP projects, and net transmission congestion costs. *Id.* at 5. Mr. Jasheway stated that Petitioner offered an explanation of the variances between actual results and the estimate used in the prior period. He explained that Petitioner, through informal discovery, stated the variances were due to lower FTR revenue caused by a revenue deficiency in PJM. PJM attributed the revenue shortage to unplanned transmission outages. *Id.* at 4. Mr. Jasheway testified that he agrees with I&M's prior period under/(over) recovery calculation based upon his review of I&M's books and records. *Id.* at 4.

Mr. Jasheway explained that on an annual basis, I&M's PJM Cost Rider tracks recovery from its retail electric customers of certain charges and credits related to its membership in PJM, including the variance from the forecasted administrative costs reflected in base rates, the cost of RTEP projects, and net transmission congestion costs. *Id.* at 2-3.

Mr. Jasheway stated that Petitioner seeks approval of a new PJM Cost Rider Adjustment charge for electric service to be applicable for the billing months of January through December 2012, based on its projections of PJM costs and revenues. He added that Petitioner is also requesting a reconciliation of actual PJM costs and recoveries for the period July 1, 2010 through June 30, 2011. The proposed PJM Cost Rider factors will replace those currently in effect, which were approved in Cause No. 43774. *Id.* at 3.

Mr. Jasheway testified that according to Petitioner, there are no material modifications to the existing PJM charges or credits or to the cost allocation for any such modification since the Commission approved I&M's PJM Cost Rider reconciliation in Cause No. 43774. *Id.* at 3. He also

testified that according to Petitioner, there are no new PJM charges or credits that I&M has started to incur or will incur since the Commission approved I&M's PJM Cost Rider reconciliation in Cause No. 43774. *Id.* at 3. He stated that according to Petitioner, there have been no charges or credits discontinued by PJM since the Commission approved I&M's PJM Cost Rider in Cause No. 43306. *Id.* at 4.

Mr. Jasheway stated that Petitioner has identified an allocation method change that impacts this procedure. He explained that PJM Transmission Enhancement Charges (Account 5650012 and Account 4561060) have changed based on a settlement agreement approved by FERC in Docket No. ER09-1279. Effective November 2010, the PJM Enhancement charges have changed from an allocation of costs on a MLR basis to a 12CP basis. *Id.* at 4.

Mr. Jasheway recommended that the Commission approve Petitioner's requested PJM factors in this Cause. *Id.* at 5.

6. Commission Discussion and Findings. Based on the evidence presented, the Commission finds that I&M's request is reasonable and should be approved. As shown in Petitioner's Exhibit MWN-1, the Indiana retail jurisdictional portion of forecast PJM costs of \$35,425,007, less the PJM administrative costs included in basic rates of \$5,224,801 plus the variance of \$4,343,082, results in a total amount of \$34,543,288 in PJM costs to be recovered through the PJM Cost Rider. As shown on Petitioner's Exhibit MWN-3, this amounts to an increase of \$24,508,176 from current PJM Cost Rider levels. In accordance with the methodology approved by the Commission in Cause No. 43306, we find Petitioner should be authorized to apply its requested PJM Cost Rider Adjustment factors to its Indiana retail tariffs for the billing months of January through December 2012. Mr. Nollenberger sponsored Petitioner's Exhibit MWN-4, which sets forth the proposed PJM Cost Rider factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.2648
SGS and SGS-TOD	0.2627
MGS and MGS-TOD	0.2574
LGS and LGS-TOD	0.2504
IP, CS-IRP and CS-IRP2	0.2391
MS	0.2484
WSS	0.2337
IS	0.2332
EHS	0.2648
EHG	0.2754
OL	0.2028
SLS, ECLS, SLC, SLCM and FW-SL	0.2036

The average residential customer using 1,000 kWh per month will experience a monthly rate increase of \$1.90 or 2.2% on his or her electric bill for the period of January 2012 through December 2012.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY

COMMISSION that:

1. Indiana Michigan Power Company is authorized to implement its requested PJM Cost Rider Adjustment factors.

2. Petitioner shall place into effect the PJM Cost Rider Adjustment factors approved herein, applicable to bills rendered beginning with the later of the first billing cycle for the billing month of January 2012, or upon filing with the Electricity Division of this Commission, Tariff Sheet No. 53 consistent with the findings set forth herein amendment, as shown in Petitioner's Exhibit MWN-4.

3. This Order shall be effective on and after the date of its approval.

BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR; ATTERHOLT ABSENT:

APPROVED: DEC 21 2011

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


Brenda A. Howe
Secretary to the Commission