ORIGINAL

CM
ASB
[illegible]
[illegible]

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF INDIANA MICHIGAN POWER COMPANY FOR AUTHORIZATION OF A NEW OFF-SYSTEM SALES MARGIN SHARING RIDER ADJUSTMENT (CHARGE/CREDIT) APPLICABLE FOR THE BILLING MONTHS OF JANUARY THROUGH DECEMBER 2012	CAUSE NO. 43775 OSS 2 APPROVED: DEC 21 2011

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Jeffery A. Earl, Administrative Law Judge

On August 26, 2011, Indiana Michigan Power Company ("I&M" or "Petitioner") filed its Petition with the Indiana Utility Regulatory Commission ("Commission") for approval of a new Off-System Sales ("OSS") Margin Sharing Rider Adjustment charge for electric service to be applicable during the January through December, 2012, billing months. On August 26, 2011, I&M also prefiled the testimony and exhibits of Michael R. Stout, Senior Regulatory Consultant for I&M, 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 the testimony of Stacie R. Gruca, 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 9:30 a.m., in Hearing Room 224, 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 is 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 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 an OSS Margin Sharing Rider ("OSS Rider"), which tracks Indiana retail jurisdictional OSS margins above $37.5 million to be equally shared between Petitioner's customers and Petitioner. I&M's current OSS Rider factors were approved on December 29, 2010, in Cause No. 43775 OSS 1 and became effective with the first billing cycle of January, 2011. I&M seeks to reconcile actual OSS margins for the period of July 1, 2010, through June 30, 2011, and also to reflect in billing factors its projection of OSS margins for calendar year, 2012. I&M seeks to make the new OSS Rider factors effective with the first billing cycle for the month of January, 2012.

4. **Evidence.**

(a) **I&M's Case-in-Chief.** Mr. Stout testified that the OSS Rider results from the final Order in Cause No. 43306, which was approved by the Commission on March 4, 2009. Mr. Stout further testified the OSS Rider factors are expected to be established annually based upon a projected level of I&M's OSS margins and include a reconciliation of actual OSS margins and rider revenues from jurisdictional kilowatt hour sales for a prior period. Mr. Stout explained that per the Commission's Order in Cause No. 43306, I&M's revenue requirement used to establish basic rates includes a credit of $37.5 million of OSS margins allocated to the Indiana retail jurisdiction. The OSS Rider tracks OSS margins above $37.5 million, which are shared 50% to customers and 50% to I&M.

Mr. Stout testified I&M seeks to reconcile actual OSS margins for the period July 1, 2010, through June 30, 2011, and also to reflect in its billing factors the 2012 forecast of OSS margins. Mr. Stout explained that the reconciliation of the OSS Rider adjusts for any variance between the incremental historical amount charged or credited to customers, whichever is applicable, during the tracked months in which the adjustment was in effect, and the incremental amount that should have been charged or credited, whichever is applicable, based upon actual OSS margin results.

Mr. Stout testified that I&M's current OSS tracker factor is set at 1.178 mills/kWh pursuant to the Commission's December 29, 2010 Order in Cause No. 43775 OSS 1. The Commission's December 29, 2010 Order included recovery of a $16.4 million regulatory asset and a credit of $141,487 for the 50% sharing of forecasted OSS margins above the $37.5 million included in basic rates.

Mr. Stout explained the impact of I&M's share of OSS margins on the earnings test pursuant to Ind. Code ch. 8-1-2. Mr. Stout stated that pursuant to the Commission's Order in Cause No. 43306, I&M's 50% share of OSS margins above the basic credit of $37.5 million and net FTR revenues are excluded from the earnings test in determining I&M's compliance with the provisions of Ind. Code § 8-1-2-42(d)(3) and Ind. Code § 8-1-2-42.3 for a period of four years.

Finally, Mr. Stout testified that I&M developed a standard audit packet to be provided to the OUCC as part of annual OSS Rider filings. The standard audit package consists of the exhibits and workpapers supporting the calculation of I&M's OSS margins.

Mr. Brubaker testified that in accordance with the OSS Rider approved in Cause No. 43306 that was effective on 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 OSS rider revenue credits for future recovery or refund through the yearly true-up to actual. The under or over-recovery is calculated by comparing revenues credited to customers from the OSS rider to actual OSS margins less the basic rate credit of $37.5 million annually. Mr. Brubaker further explained what is included in the OSS Rider. The OSS rider includes the revenues I&M is allocated from certain non-firm wholesale sales and other transactions made by the Commercial Operations business unit of AEP. Mr. Brubaker sponsored Petitioner's Exhibit JLB-2, which is a detailed list of I&M's subaccounts of FERC account numbers 447 (Sales for Resale), 456 (Other Electric Revenues), 555 (Purchased Power), 561 (Load Dispatching), 565 (Transmission of Electricity by Others), and 575.7 (Market Facilitation, Monitoring and Compliance Services). Mr. Brubaker explained that the list indicates the accounts that are included in the PJM Cost Rider, which are also included in the OSS Rider and the jurisdictional allocation basis. According to Mr. Brubaker, the accounts included in the list that are not included in either the PJM Cost Rider or the OSS Rider are used in the determination of I&M's Indiana basic rates.

Mr. Brubaker also testified regarding the actual Indiana jurisdictional OSS margins for the period of July 1, 2010, through June 30, 2011. For that period, the Indiana jurisdictional OSS margins were $47,344,022 as shown on Petitioner's Exhibit JLB-1. Mr. Brubaker stated the actual OSS Margin Sharing Rider revenues for the period July 1, 2010, through June 30, 2011, were $8,700,337 as shown on Petitioner's Exhibit JLB-1. Mr. Brubaker further testified that the Indiana jurisdictional under-recovery balance of the OSS Rider as of June 30, 2010 was $2,824,242 for the OSS rider as shown on Petitioner's Exhibit JLB-1.

Mr. Riley provided a general description of the methodologies used in the development of I&M's forecasted OSS margins for the months of January through December, 2012. As testified to by Mr. Riley, the projected OSS margins consist of the forecasted activity in the accounts identified as includable by Company witness Brubaker in the OSS Margin Rider on Petitioner's Exhibit JLB-2.

Mr. Riley testified in support of the projected January through December, 2012, OSS margins. Mr. Riley stated that the Total Company OSS margins, computed in a manner consistent with the Commission's Order in Cause No. 43306, are estimated to be $43.9 million, as shown in Petitioner's Exhibit RAR-1. Mr. Riley also compared the projected 2012 OSS margins to current actual margins. The forecasted 2012 OSS margins are $28.7 million lower than the $72.6 million in OSS margins actually recorded for the twelve months ended June, 2011, as shown on Petitioner's Exhibit JLB-1. Mr. Riley explained that this decrease is driven by lower market price projections for energy in 2012 while sales levels are expected to remain flat. In addition, I&M is expected to receive lower capacity sales revenue as a result of the PJM Reliability Pricing Model capacity auction for 2012. Mr. Riley concluded that, in his opinion, the OSS margins that I&M has projected for the months of January through December, 2012, are reasonable.

Mr. Nollenberger supported I&M's calculation of the updated OSS Rider, explained the methodology for updating the OSS Rider annually, and provided the resulting rate impacts on I&M's customers. Mr. Nollenberger testified about the components of the OSS Rider. Per Mr. Nollenberger, the OSS Rider consists of two components: (1) a projection of OSS margins for the next calendar year; and (2) a reconciliation of actual OSS margins to actual billing under the OSS Rider.

Mr. Nollenberger explained how the Indiana retail jurisdictional OSS margins are determined. According to Mr. Nollenberger, consistent with the calculations performed in Cause No. 43306 and Cause No. 43775, each component of the total I&M OSS margin 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 OSS margins.

Next, Mr. Nollenberger explained how the amounts to be included in the OSS Rider were calculated. Mr. Nollenberger explained that as shown in Petitioner's Exhibit MWN-1, the first step is to calculate the Indiana retail jurisdictional portion of forecast OSS margin. This amount is then compared to the level of OSS margins included in basic rates in Cause No. 43306 of $37,500,000. According to Mr. Nollenberger, to the extent that forecast Indiana retail jurisdictional OSS margins exceed $37,500,000, then 50% of the margins that exceed $37,500,000 will be included as a credit to customers in the OSS Rider. If forecast Indiana retail jurisdictional OSS margins are less than $37,500,000 then no credit will be included in the OSS Rider.

Mr. Nollenberger further testified that the second step is to include any actual over/under recovery balance remaining at the end of the prior year in the OSS Rider. To the extent that customers received credits under the OSS Rider that were greater than the actual customer share of OSS margins, that under recovery would reduce the credit provided under the OSS Rider in the next year. As is the circumstance in this filing, it is possible for such under recovery to result in the OSS Rider being a charge to customers instead of a credit to customers. This can only occur when customers were provided too much credit through the OSS Rider in a prior period. In no event will this ever diminish the $37,500,000 customer share of margins included in basic rates.

Mr. Nollenberger testified that Financial Transmission Right ("FTR") revenues are not included in OSS margins. Per Mr. Nollenberger, in accordance with the Settlement Agreement and Commission Order in Cause No. 43306, I&M shall compare total FTR revenues to Load Serving Entity ("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 OSS Margin Sharing Rider calculation. For the time period of July 1, 2010, through June 30, 2011, LSE congestion costs exceeded total FTR revenues. This calculation is shown at the bottom of Petitioner's Exhibit MWN-1.

Mr. Nollenberger further testified how the proposed OSS Rider rates were calculated. Consistent with the formulas established for the OSS Rider in Cause No. 43306, I&M 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. Mr. Nollenberger stated that 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.

Mr. Nollenberger testified he prepared a comparison of current and proposed OSS Margin Sharing Rider rates. Petitioner's Exhibit MWN-3 summarizes projected 2012 billing under current OSS Rider rates and under proposed OSS Rider rates. The proposed rider rates have also been incorporated in I&M's existing OSS Rider in both redline format and clean format as shown in Petitioner's Exhibit MWN-4.

Mr. Nollenberger testified that I&M seeks to make the new OSS Rider rates requested herein effective for all bills rendered for electric services beginning with the first billing cycle for January, 2012. Finally, Mr. Nollenberger testified that upon implementation, residential customers using 1,000 kWh of electricity per month would see a monthly rate decrease of $0.97 or 1.1%. Petitioner's Exhibit MWN-5 shows the percentage decreases at various "typical" usage levels for I&M's major tariff schedules.

(b) **<u>OUCC's Case-in-Chief.</u>** Ms. Gruca testified that Petitioner is requesting to: (1) adjust its OSS Margin Sharing Rider factors approved in Cause No. 43775 OSS 1; (2) update its OSS levels included in the rider to those projected for the period the rider will be in effect which is for the calendar year 2012; and (3) provide for the reconciliation of actual OSS margins for the time period of July 1, 2010 through June 30, 2011. Ms. Gruca stated that I&M provided evidence of its OSS margin under/over recovery of balances for the actual historical reconciliation period of July, 2010, through June, 2011, OSS margin forecasted amounts for the estimated period of January through December, 2012, and OSS margin ongoing rider rate (including among other things, jurisdictional allocations, rate design, and average residential bill impact), in the prefiled testimony of various I&M witnesses.

Ms. Gruca explained that I&M did achieve the OSS margin base rate amount of $37,500,000, approved in Cause No. 43306, in this proceeding. She stated that for the period July 1, 2010, through June 30, 2011, Petitioner achieved OSS margins of $47,344,022. She testified that the annual base rate amount of $37,500,000 was subtracted from the actual amount for a total variance above the base level of $9,844,022. According to Ms. Gruca, OSS margins exceeded the base level of $37,500,000; therefore, 50/50 sharing applies, and $4,922,011 is applicable for sharing with retail customers.

Ms. Gruca stated that Petitioner provided work papers showing the calculation of the actual OSS margins for the 12 month period of July, 2010, through June, 2011, as well as the individual months for the same period. In addition, Petitioner provided documentation supporting the calculation of the OSS margin under-recovery amount in this proceeding.

Ms. Gruca explained that Petitioner estimated total I&M OSS margins for the period of January through December, 2012, to be $43,917,684. When applying the jurisdictional allocation factors, the Indiana jurisdictional amount is estimated to be $28,644,161. She further explained that when subtracting the OSS Margin base rate amount of $37,500,000, the incremental OSS margins projected results in a charge of $8,855,839. Since the incremental OSS Margins are projected to be below the base rate credit amount, there would be no 50/50 sharing between I&M and ratepayers. The projected customer share estimate results in $0. Ms. Gruca testified that I&M's calculation of the OSS Margin variance, which reconciles the actual OSS margins booked and the OSS Margin Sharing Rider Revenue (credit on customer's bill) was supported by Petitioner's prefiled testimony, exhibits, and supporting work papers.

Ms. Gruca also explained the OSS Margin Sharing Rider Revenue is the portion of the approximately $25.055 million credit to customers for their share of projected OSS margins (approved in Cause No. 43306 as the initial factor set under the OSS margins sharing mechanism). Of the approximate $25.1 million credit, $16.4 million was included as a credit on customer bills for the reconciliation periods of March through June, 2009, (approximately $5.889 million) and July, 2009, through June, 2010, (approximately $10.557 million). In Cause No. 43775 OSS 1 Petitioner requested, and the Commission approved, recovery of $16.4 million of excess OSS margins or "over credit" given to its customers since the actual Indiana jurisdictional OSS margins for the reconciliation period were less than the $37.5 million credit built into basic rates. I&M included the $16.4 million on its books as a cumulative under-recovery, which was included in customer rates as part of the current rate factor approved in Cause No. 43775 OSS 1 for the billing period of January through December, 2011. Therefore, in order to remove this amount from the current rate factor, I&M included a credit of approximately $8.7 million in the current proceeding for the reconciliation period of July, 2010, through June, 2011. The remaining credit amount will be included in the next OSS proceeding, in which the months of July, 2011, through June, 2012, will be reconciled.

Ms. Gruca testified that Petitioner calculated the over/under recovery of the OSS margin variance for July, 2010, through June, 2011, to be an under-recovery or charge to customers of $2,824,242. She stated that she was able to use work papers and supporting documentation to verify all numbers included on Petitioner's Exhibits that illustrate the over/under recovery of the OSS margin variance for July, 2010, through June, 2011.

Ms. Gruca testified that the impact of the change in the OSS Margin Sharing Rider factor on a typical residential customer's bill using 1,000 kWh per month results in a decrease of approximately $0.000967 per kWh, or approximately $0.97 per month.

Ms. Gruca stated that FTR revenues were not included as part of the OSS Margin Sharing Rider calculation for the actual period of July, 2010, through June, 2011, however FTR revenues were included for the forecast period of January through December, 2012. She stated that this was appropriate based on the Settlement Agreement and Commission Order in Cause No. 43306.

Ms. Gruca testified that the figures used in the OSS Margin Sharing Rider, for the period July, 2010, through June, 2011, were supported by the books, records, and source documentation of the Petitioner. She therefore recommended that the Commission approve Petitioner's requested OSS Margin factors.

5. <u>Commission Discussion and Findings</u>. The evidence supports the conclusion that I&M's requested OSS Rider factors were properly calculated and should be approved. Per the Commission's Order in Cause No. 43306, I&M's revenue requirement used to establish basic rates includes a credit of $37.5 million of OSS margins allocated to the Indiana retail jurisdiction. As a fixed component of current basic rates, the $37.5 million OSS margins credit is not subject to true up or sharing. The OSS Rider tracks OSS margins above $37.5 million to be shared 50% to customers and 50% to Petitioner.

The total I&M OSS margins computed consistent with the Commission's Order in Cause No. 43306 for the forecast period of January through December, 2012, are shown in Petitioner's Exhibit RAR-1. When the appropriate jurisdictional allocation factors are applied, the Indiana retail jurisdictional portion of forecasted OSS margins totals $28,644,161, as shown on Petitioner's Exhibit MWN-1. As shown on Petitioner's Exhibit JLB-1, for the period July 1, 2010, through June 30, 2011, Petitioner has an under-recovery balance of $2,824,242 for the OSS Margin Sharing Rider, which Petitioner has recorded as a regulatory asset.

In accordance with the Commission's Order in Cause No. 43306, Petitioner has compared total FTR revenues to LSE congestion costs for both the actual and forecast periods. As shown in Petitioner's Exhibit MWN-1, total LSE congestion costs exceeded FTR revenues for the July 1, 2010, through June 30, 2011, period. Therefore, the FTR revenues were not included as part of the OSS Margin Sharing Rider calculation.

Petitioner's Exhibit MWN-1 demonstrates that a total amount of $2,824,242 in OSS margins should be recovered through the OSS Rider. As shown on Petitioner's Exhibit MWN-3, this results in a decrease of $13,433,050 from current OSS Rider levels. In accordance with the methodology approved by the Commission in Cause Nos. 43306 and 43775, we find Petitioner should be authorized to apply its requested OSS Rider factors to its Indiana retail tariffs for the billing months of January through December, 2012. Witness Nollenberger sponsored Petitioner's Exhibit MWN-4, which sets forth the proposed OSS Rider factors for each customer class as follows:

Tariff Class	¢/kWh
RS, RS-TOD, RS-TOD2 and RS-OPES	0.0211
SGS and SGS-TOD	0.0211
MGS and MGS-TOD	0.0208
LGS and LGS-TOD	0.0206
IP, CS-IRP and CS-IRP2	0.0202
MS	0.0206
WSS	0.0210
IS	0.0199
EHS	0.0221
EHG	0.0215
OL	0.0189
SLS, ECLS, SLC, SLCM and FW-SL	0.0189

6. **Effect on Customers.** The average residential customer using 1,000 kWh per month will experience a monthly rate decrease of $0.97 or 1.1 % on his or her electric bill for the period of January 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 OSS Margin Sharing Rider Adjustment factors.

2. Petitioner shall place into effect the OSS Margin Sharing 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. 52 consistent with the findings set forth herein and 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

Brenda A. Howe
Secretary to the Commission