ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY FOR AUTHORITY TO IMPLEMENT REVISED STEAM PRODUCTION DEPRECIATION ACCRUAL RATES APPLICABLE TO ITS ROCKPORT UNIT 1 TO REFLECT A CHANGE IN THE EXPECTED SERVICE LIFE OF THE TANNERS CREEK PLANT AND APPROVAL OF BASIC RATES ADJUSTMENT THROUGH A DEPRECIATION CREDIT	)	CAUSE NO. 44555 APPROVED: MAY 20 2015

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ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On October 31, 2014, Indiana Michigan Power Company ("I&M", "Company" or "Petitioner") filed its Verified Petition and supporting testimony with the Indiana Utility Regulatory Commission ("Commission") for accounting authority to implement revised depreciation accrual rates applicable to its Rockport Plant Unit 1 to reflect a change in the expected service life of the Tanners Creek Plant and for approval of a downward adjustment to I&M's basic rates for retail electric service through a depreciation credit rider ("Depreciation Credit").

On February 4, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Duane P. Jasheway, Utility Analyst in the OUCC's Electric Division.

The Commission conducted a public hearing at 10:00 a.m. on March 4, 2015, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. I&M and the OUCC appeared and participated at the hearing. No members of the general public attended the hearing.

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

1. **Notice and Jurisdiction.** Notices of the hearing in this Cause were given and published as required by law. Proofs of publication of the notices are contained in the official files of the Commission. I&M is a public utility as defined in Indiana Code § 8-1-2-1(a). Ind. Code § 8-1-2-19 ("Section 19") authorizes the Commission to "ascertain and determine the proper and adequate rates of depreciation of several classes of property of each public utility." Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes in I&M's schedules of rates and charges. Therefore, the Commission has jurisdiction over I&M and the subject matter of this Cause.

2. **I&M's Characteristics.** I&M, a wholly-owned subsidiary of American Electric Power ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal office at Indiana Michigan Power Center, Fort Wayne, Indiana. I&M is engaged in,

among other things, rendering electric service in the States of Indiana and Michigan. In Indiana, I&M provides retail electric service to approximately 458,000 customers.

3. **Relief Requested.** I&M is requesting accounting authority to implement revised steam plant depreciation accrual rates for Rockport Plant Unit 1 to reflect the change in the expected life of I&M's Tanners Creek Plant. More specifically, I&M seeks approval of revised steam production depreciation accrual rates for Rockport Plant Unit 1 over its expected remaining life based on a depreciation study using electric utility plant in service on December 31, 2013 ("December 2013 Depreciation Study"). The depreciation rates are intended to provide recovery of invested capital, cost of removal, and credit for salvage for both Rockport Plant Unit 1 and the Tanners Creek Plant. The requested revised depreciation accrual rates result in a reduction in I&M's total annual depreciation expense. I&M requests authority to reflect this reduction in depreciation expense as a credit to its customers' bills through the Depreciation Credit.

4. **I&M Direct Evidence.** Paul Chodak III, President and Chief Operating Officer of I&M, discussed the closure of the Tanners Creek Plant as of June 1, 2015, due to increasing environmental regulations. Mr. Chodak testified concerning the environmental challenges facing I&M, and I&M's strategy for complying with environmental regulations. Mr. Chodak testified that I&M's decision to close Tanners Creek Units 1, 2 and 3, as also outlined in Cause Nos. 44075 and 44422, remains the right choice because further investment is not economically warranted. Mr. Chodak stated that it is more efficient and consistent with the progress of the utility industry to comply with environmental mandates by closing these three units and to use other resources to meet I&M's customers' ongoing needs for electricity.

Mr. Chodak further explained I&M's decision to close Tanners Creek Unit 4. Mr. Chodak stated that I&M decided to close the coal-fueled Tanners Creek Unit 4 rather than refuel it to operate on natural gas based on an analysis of resource needs and environmental compliance costs as part of I&M's disciplined approach to capital investment. Further, based on relatively flat electricity demand and I&M's ability to meet the needs of its customers without the Tanners Creek Plant, I&M determined that the cost of refueling Tanners Creek Unit 4 is not an economic means of compliance with the Environmental Protection Agency's ("EPA") Mercury and Air Toxics Standard ("MATS Rule") and other pending or anticipated federal mandates. Last, Mr. Chodak stated the age of Tanners Creek Unit 4, combined with new environmental mandates, energy efficiency programs, and low market prices further combined to make closure the best decision I&M could make for its customers.

Mr. Chodak also described I&M's plans for the Rockport Plant. Mr. Chodak stated that the two units of the Rockport Plant provide relatively low cost, coal-fired energy to I&M's customers and are strong performers in I&M's generating fleet. He said I&M's current plans for the Rockport Plant include moving forward with Dry Sorbent Injection systems and Selective Catalytic Reduction technology. However, he explained I&M recognizes that there are still risks and uncertainties facing coal-fired power plants and I&M is working hard on managing the policies and regulations creating the risks and on the operational changes needed to manage those risks.

Mr. Chodak testified that the Tanners Creek Plant closure will be prior to the end of the units' current depreciable service lives and therefore there are plant reserve balances remaining to be depreciated. Mr. Chodak explained that I&M seeks approval of revised depreciation rates that will allow I&M to combine the undepreciated reserve balances of the Tanners Creek Plant with the depreciation reserve balances of Rockport Plant Unit 1. Mr. Chodak stated that revising I&M's

depreciation rates will benefit customers by gradually recovering the remaining balances over the depreciable life of Rockport Plant Unit 1 rather than seeking immediate recovery of the investment in rates charged to customers. According to Mr. Chodak, approval of I&M's request will permit I&M to recover its investment in the Tanners Creek Plant without the need to increase the current rates for service paid by I&M's customers.

Mr. Chodak stated that consistent with the Settlement Agreement approved by the Commission in Cause No. 43774 PJM 4, I&M is proposing that if I&M's request is approved and I&M receives a reduction to its Indiana jurisdictional depreciation expense, the expense reduction will be implemented in rates when the depreciation rate change is effective or as otherwise approved by the Commission. More specifically, I&M proposes to submit a Depreciation Credit tariff sheet to flow through the reduction in depreciation expense to customers in the form of a credit to their monthly bill.

Finally, Mr. Chodak explained the importance of I&M's request to revise the depreciation rates applicable to its steam generating plants. Mr. Chodak testified that the December 2013 Depreciation Study shows that changes in circumstances and the passage of time have caused I&M's existing steam generating depreciation rates to be in need of revision. Mr. Chodak stated that the proposed depreciation rate changes are reasonable and necessary to provide I&M with a more appropriate and accurate depreciation accrual based upon current regulatory circumstances, which better matches the cost of I&M's plant in service with the periods expected to benefit.

David A. Davis, Manager-Property Accounting Policy and Research for American Electric Power Service Corporation ("AEPSC"), provided the methodology and calculations used to determine the updated depreciation accrual rates for Tanners Creek Plant and Rockport Plant Unit 1 before and after the retirement of the Tanners Creek Plant. As shown in Table 1 (before the retirement of Tanners Creek Plant), Mr. Davis compared I&M's existing depreciation rates and accruals to rates and accruals based upon the December 2013 Depreciation Study.

Table 1 - Composite Rates and Accruals Based on Plant In-Service at December 31, 2013

	Existing		Study		Difference
	Rates	Accruals	Rates	Accruals	
Steam Production Plant					
Rockport Unit 1	2.09%	$14,199,012	1.38%	$9,394,734	($4,804,278)
Tanners Creek Plant	3.74%	$23,729,805	1.38%	$8,764,043	($14,965,762)
Total Rockport Unit 1 and Tanners Creek Plant	2.88%	$37,928,817	1.38%	$18,158,777	($19,770,040)

Next, Mr. Davis calculated depreciation rates for Rockport Plant Unit 1 after the retirement of the Tanners Creek Plant and compared those rates and accruals using existing and study rates. Mr. Davis testified that I&M requests that the Commission approve the revised depreciation rates for Rockport Plant Unit 1 after the retirement of Tanners Creek. The revised steam plant depreciation rates are provided in the December 2013 Depreciation Study, Attachment DAD-2, and shown on Table 2.

Table 2 - Composite Rates and Accruals Based on Plant In-Service at December 31, 2013 beginning June 1, 2015

Rockport Unit 1

		Existing		Study		Difference
		Rates	Accruals	Rates	Accruals	Amount
311.0	Structures & Improvements	1.93%	1,842,037	2.17%	2,073,411	231,374
312.0	Boiler Plant Equipment	2.08%	8,792,770	2.86%	12,102,517	3,309,747
314.0	Turbogenerator Units	2.35%	2,113,798	2.77%	2,493,997	380,199
315.0	Accessory Electrical Equipment	1.92%	1,111,925	1.97%	1,139,333	27,408
316.0	Miscellaneous Power Plant Equip.	2.28%	338,482	2.35%	349,525	11,043
	Total Rockport Unit 1	2.09%	14,199,012	2.67%	18,158,783	3,959,771

(1) The investment in Rockport Plant Unit 1 excludes the cost associated with the activated carbon injection system.

As explained by Mr. Davis, when compared to current rates and accruals, the recommended depreciation study's steam plant depreciation rate changes for Rockport Plant Unit 1 and Tanners Creek Plant result in an annual amount of depreciation expense equal to $18,158,777 based on plant in service at December 31, 2013, which is a decrease in annual depreciation expense. The overall decrease in depreciation expense is due to depreciation rates being calculated using the combined values for Rockport Plant Unit 1 and Tanners Creek and recovering these amounts over the remaining life of Rockport Plant Unit 1. The Table 1 and Table 2 depreciation study rate calculations provide a level amount of depreciation expense before and after the Tanners Creek Plant retirement ($18,158,777 on Table 1, and $18,158,783 on Table 2). The Table 2 calculation of depreciation rates results in a $3,959,771 increase in Rockport Plant Unit 1's depreciation expense after the Tanners Creek Plant's retirement (see Table 2, above) while maintaining the same overall annual depreciation accrual. The depreciation study accruals and rates allow for recovery of the remaining value of both plants including final demolition costs over the remaining life of Rockport Plant Unit 1.

Lastly, Mr. Davis sponsored Attachment DAD-5 which provides a calculation of the $20,586,083 Total Company ($13,309,971 Indiana jurisdictional based on the production demand allocation factor from Cause No. 44075) decrease in depreciation expense due to the recommended change in depreciation rates when compared to the amount included in the revenue requirement used to establish I&M's basic customer rates in Cause No. 44075.

Nancy A. Heimberger, Principal Regulatory Consultant in Regulated Pricing and Analysis at AEPSC, supported I&M's calculation of the Depreciation Credit factors and provided the resulting rate impact on I&M's Indiana customers. Ms. Heimberger testified the Depreciation Credit factors were calculated by taking the Indiana jurisdictional depreciation credit of $13,309,971 from

Attachment DAD-5 and allocating it across the classes using a demand allocator. Next, Ms. Heimberger determined the factors by using the same kWh billing determinants used to develop I&M's basic rates in Cause No. 44075. Ms. Heimberger stated that the Depreciation Credit will result in an overall bill decrease of approximately $1.24 or 1.3% for a residential customer using 1,000 kWh per month.

Ms. Heimberger further testified that upon Commission approval, I&M will implement the Depreciation Credit rider effective on a service rendered basis with the retirement of the Tanners Creek Plant. The Depreciation Credit will be in effect until a revised depreciation expense is reflected in I&M's basic rates.

5. **OUCC's Evidence.** Mr. Jasheway discussed I&M's request to change its steam production depreciation rates. Mr. Jasheway noted that a request to change depreciation rates should be evaluated on a case-by-case basis and that considering the specific circumstances in this particular Cause, the OUCC has no objection to I&M adjusting its depreciation rates outside of a rate proceeding. Mr. Jasheway testified that I&M's decision to include the remaining Tanners Creek Plant cost in accumulated depreciation and recover the same over the remaining 30 year life of Rockport Plant Unit 1 provides benefits to I&M's customers and allows I&M to recoup the remaining cost for the Tanners Creek Plant.

6. **Commission Discussion and Findings.** I&M seeks Commission approval of, and authority to implement, revised steam plant depreciation accounting rates applicable to its electric utility plant in service. Section 19 provides that the Commission shall ascertain and determine the proper and adequate rates of depreciation of each public utility. Significant changes in a utility's system can create conditions which, as presented by I&M in this proceeding, drive material changes in the proper and adequate rates of depreciation to be included in retail rates. Accordingly, because the resulting proposed depreciation expense is less than what is currently reflected in its base rates, I&M also proposed to implement a Depreciation Credit to customer bills.

I&M's current depreciation rates for its electric utility plant were established by the Commission in its February 13, 2013 Order in Cause No. 44075 ("44075 Order"), I&M's most recent general basic rate case, and were based on a depreciation study using plant balances as of December 31, 2010. The depreciation study from Cause No. 44075 used a 2015 retirement date for Tanners Creek Units 1-3 and a 2030 retirement date for Tanners Creek Unit 4. Following the 44075 Order, I&M made the decision to retire Tanners Creek Unit 4 as of June 1, 2015, considering the costs of refueling, the current demand for electricity, the capacity markets in which I&M operates, and existing and potential federal environmental mandates.

The December 2013 Depreciation Study and the revised depreciation accrual rates proposed by I&M reflect the change in the expected service life of Tanners Creek Plant and allow I&M to recover the remaining net book value of the Tanners Creek Plant (at retirement) over the expected remaining life of Rockport Plant Unit 1. The depreciation rates determined by the December 2013 Depreciation Study will provide recovery of invested capital, cost of removal, and credit for salvage for both Rockport Plant Unit 1 and the Tanners Creek Plant. The record reflects that including the remaining Tanners Creek cost in accumulated depreciation and recovering the cost over the remaining life of Rockport Plant Unit 1 spreads the cost over 30 years, benefitting customers by using an extended recovery period and permitting I&M to recover the remaining investment in Tanners Creek. Further, the revised depreciation rates will better match the cost of I&M's steam plant in service with the estimated remaining life of these assets, which is consistent with FERC accounting rules. We note the OUCC recommended approval of I&M's requested revised steam production depreciation accrual rates.

The resulting depreciation expense based on the revised steam plant depreciation accrual rates will be lower than the current depreciation expense reflected in its base rates. I&M proposed that this reduction be recognized as an adjustment to I&M's rate schedules through its proposed Depreciation Credit. The bill of a typical residential customer using 1000 kWh per month will decrease by $1.24 or 1.3% once the Depreciation Credit is implemented.

Based on the specific evidence presented in this Cause, we find that the proposed steam plant depreciation accrual rate changes are appropriate. Accordingly, we find that I&M's revised steam plant depreciation accrual rates applicable to I&M's Rockport Plant Unit 1 as set forth in the December 2013 Depreciation Study should be approved and I&M is authorized to place such rates into effect for accounting purposes upon retirement of the Tanners Creek Plant. The Commission also finds I&M's proposed Depreciation Credit is reasonable and should be approved. The Depreciation Credit factors will be implemented upon approval by the Electricity Division, and the factors will remain in effect until further order of the Commission.

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

1. I&M is hereby authorized to place into effect for accrual accounting purposes the revised steam plant depreciation accrual rates applicable to I&M's Rockport Plant Unit 1 as provided in the December 2013 Depreciation Study, upon retirement of the Tanners Creek Plant.

2. Petitioner's proposed Depreciation Credit is approved.

3. Petitioner shall file with the Commission's Electricity Division, prior to placing in effect the Depreciation Credit approved herein, a revised tariff page as shown in Attachment NAH-2.

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

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: MAY 20 2015

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