

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANAPOLIS POWER)
& LIGHT COMPANY FOR APPROVAL OF A)
FUEL COST CHARGE FOR ELECTRIC)
SERVICE DURING THE MONTHS OF JUNE,)
JULY AND AUGUST 2015, IN ACCORDANCE)
WITH THE PROVISIONS OF I.C. 8-1-2-42)
AND CONTINUED USE OF RATEMAKING)
TREATMENT FOR COSTS OF WIND)
POWER PURCHASES PURSUANT TO)
CAUSE NOS. 43485 AND 43740.)

CAUSE NO. 38703 FAC 107

APPROVED: MAY 27 2015

ORDER OF THE COMMISSION

Presiding Officer:
Lorraine L. Seyfried, Chief Administrative Law Judge

On March 16, 2015, Indianapolis Power & Light Company (“IPL” or “Applicant”) filed its Verified Application with the Indiana Utility Regulatory Commission (“Commission”) for approval of a fuel cost adjustment to be applicable during the billing cycles of June through August 2015 and for continued use of ratemaking treatment for the cost of wind power purchases. Also on March 16, 2015, Applicant filed its direct testimony and attachments. On March 30, 2015, the IPL Industrial Group (“IIG”) filed a Petition to Intervene, which was subsequently granted by docket entry on April 14, 2015. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report and direct testimony on April 20, 2015. On May 11, 2015, IPL and the OUCC responded to a May 4, 2015 docket entry.

An evidentiary hearing in this Cause was held on May 13, 2015, at 1:30 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant, IIG, and the OUCC appeared and participated by counsel. No members of the public appeared.

Based upon applicable law and the evidence of record, the Commission finds as follows:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant’s fuel cost charge and the ratemaking treatment of its wind power purchase costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. **Applicant’s Characteristics.** IPL is an electric generating utility and a corporation organized and existing under the laws of the State of Indiana, having its principal office in Indianapolis, Indiana. IPL is engaged in rendering electric public utility service in the

State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery, and furnishing of such service to the public.

3. Source of Fuel. IPL must comply with the statutory requirements of Ind. Code § 8-1-2-42(d)(1) by making every reasonable effort to acquire fuel and generate or purchase power, or both, so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible. According to IPL witness Nicholas M. Grimmer, approximately 99% of IPL's internally generated kilowatt-hours on an annual basis are generated by coal-fired capacity. IPL currently has long-term contracts with four coal producers and receives coal from ten different mines. The remainder of IPL's coal requirement is met through spot purchases. Mr. Grimmer stated that IPL uses a formal competitive bidding process to award its coal contracts. He said that for some spot purchases when a formal competitive bid process might not be feasible, an informal survey of local coal providers is performed to assure that the agreed-upon price is at or below IPL's next best alternative.

Mr. Grimmer explained that IPL uses spot purchases of coal to: (1) provide the differential requirement between IPL's long-term contracts and its projected burn for the year; (2) test the quality and reliability of a producer to see if IPL may want to utilize the company as a long-term supplier; and (3) take advantage of one-off low price market opportunities when IPL's projected inventory levels allow. Mr. Grimmer explained that IPL strives to keep a 25 – 50 day supply of coal in inventory across its coal-fired generation fleet and that, through working closely with IPL's coal suppliers and transportation vendors, IPL has managed to keep inventories within the target levels. He said IPL manages its coal inventory levels in a number of ways. He said all of IPL's long-term coal contracts contain some variability in the quantity of coal that IPL can take under that particular contract. However, transportation disruptions due to weather, road or track repairs, train delays, or truck shortages provide on-going challenges. He said IPL has addressed these challenges through extending delivery hours at times to maximize truck deliveries and worked with railroads to shorten turnaround times to cycle trains more frequently. Mr. Grimmer also testified that natural gas is purchased on a daily basis and that natural gas transportation services are provided under long-term agreements.

Based upon the evidence presented, as discussed here and further below, the Commission finds that IPL is endeavoring to acquire fuel and generate or purchase power so as to provide electricity at the lowest fuel cost reasonably possible.

4. Midcontinent Independent System Operator, Inc. ("MISO") Market Related Activity. IPL witness Dennis Dininger testified that, consistent with the Commission's Order in Cause No. 38703 FAC 97 ("FAC97 Order"), IPL has included Demand Response Resource Uplift charges from MISO into its cost of fuel in this proceeding. According to Mr. Dininger, Day Ahead and Real Time market clearing prices for Regulation, Spinning, and Supplemental Reserves appear to be at reasonable levels consistent with market conditions.

OUCG witness Michael D. Eckert stated IPL's proposed ratemaking treatment for the Ancillary Services Market ("ASM") Charge types follows the treatment ordered in the Commission's June 30, 2009 Phase II Order in Cause No. 43426 ("Phase II Order").

In the Commission's Order in Cause No. 38703 FAC 85 ("FAC85 Order"), the Commission authorized IPL to include credits or charges for Contingency Reserve Deployment Failure Charge Uplift Amounts for purposes of review in FAC proceedings. Mr. Dininger explained that as a result of the FAC85 Order, IPL included the credits and charges for Contingency Reserve Deployment Failure Charge Uplift Amounts into its cost of fuel in this proceeding.

In the Commission's Order in Cause No. 38703 FAC 105 ("FAC105 Order"), the Commission authorized IPL to defer Real Time Multi-Value Project ("RT MVP") Distribution charges alongside Schedule 26A charges. Mr. Dininger testified that as a result of the FAC105 Order, IPL has deferred the charges for RT MVP Distribution alongside Schedule 26A charges.

Based upon the evidence, the Commission finds that IPL's treatment of the ASM charge types, Demand Response Resource Uplift charges, Contingency Reserve Deployment Failure Charge Uplift amounts, and RT MVP Distribution charges are consistent with the Commission's Phase II, FAC85, FAC97, and FAC105 Orders and should be approved.

5. Purchased Power Costs Above Benchmark. In its April 23, 2008 Order in Cause No. 43414 ("Purchased Power Order"), the Commission approved a "Benchmark" triggering mechanism for the judgment of the reasonableness of purchased power costs. Mr. Dininger explained that each day, a Benchmark is established based upon a generic Gas Turbine ("GT"), using a generic GT heat rate of 12,500 btu/kWh and the day ahead natural gas prices for the NYMEX Henry Hub, plus \$0.60/mmBtu gas transport charge for a generic gas-fired GT (the "Purchased Power Daily Benchmark" or "Benchmark"). Mr. Dininger explained that the Purchased Power Daily Benchmark is applicable to purchases beginning May 1, 2008, and ending April 30, 2016, with automatic two-year renewals. He stated that purchases made in the course of MISO's economic dispatch regime to meet jurisdictional retail load are a cost of fuel and are recoverable in the utility's FAC up to the actual cost or the Purchased Power Daily Benchmark, whichever is lower. Mr. Dininger sponsored Attachment DD-1 to Applicant's Exhibit 3 showing the applicable Purchased Power Daily Benchmarks for the applicable accounting period.

Mr. Dininger stated IPL incurred a total of \$499,905 of purchased power costs over the applicable Purchased Power Daily Benchmarks during November 2014 through January 2015. He said IPL makes power purchases when economical, or because of unit unavailability. Mr. Dininger testified that consistent with the Commission's Purchased Power Order, IPL has an opportunity to request recovery and justify the reasonableness of purchased power costs above the applicable Purchased Power Daily Benchmark. IPL provided Attachment DD-2 to Applicant's Exhibit 3, which summarizes the purchased power volumes, costs, total of hourly purchased power costs above the applicable Purchased Power Daily Benchmarks for November 2014 through January 2015, and the reasons for the purchases at-risk after consideration of MISO economic dispatch. Mr. Dininger testified that utilizing the methodology approved in the Purchased Power Order, \$8,881 of the purchased power is non-recoverable during the applicable accounting period. Therefore, IPL seeks to recover \$491,024 of purchased power costs in excess of the applicable Purchased Power Daily Benchmarks for November 2014 through January 2015.

He opined that the purchased power costs are reasonable and added that IPL is providing its jurisdictional retail customers with the lowest fuel cost reasonably possible while maintaining a reliable supply.

OUCG witness Mr. Eckert explained that the purchased power over the benchmark treatment is controlled by the Purchased Power Order, and that Applicant followed the guidelines and procedures established in the Purchased Power Order. He stated that according to his calculations, \$8,881 of the purchased power cost that exceeded the Benchmark is non-recoverable and that Applicant should be allowed to recover \$491,024.

Based upon the evidence, the Commission finds that IPL's request for recovery of its purchased power over the Benchmark is consistent with the Commission's Purchased Power Order and should be approved.

6. Contestable Revenue Sufficiency Guarantee ("RSG") Charges. Mr. Dininger testified that IPL's recovery of Contestable Real-Time RSG ("RT RSG") Charges proposed in this proceeding is consistent with the Commission's June 3, 2009 Order in Cause No. 43664 ("RSG Order"), in which the Commission approved a "Benchmark" calculation to be used to determine the RSG Benchmark. Each day, a Benchmark is established based upon a generic GT, using a generic GT heat rate of 12,500 btu/kWh and the day ahead natural gas prices for the NYMEX Henry Hub, plus \$0.60/mmBtu gas transport charge for a generic GT (the "RSG Daily Benchmark"). Mr. Dininger explained any RSG First Pass Distribution amounts in excess of the RSG Daily Benchmarks are termed "Contestable RT RSG Charges." Mr. Dininger stated the RSG Daily Benchmark calculations for the period of November 2014 through January 2015 have been done in conformity with the RSG Order as shown in Applicant's Exhibit 3, Attachment DD-1.

IPL witness Craig Forestal stated that during the applicable accounting period IPL incurred a total of \$3,822.26 of Contestable RT RSG Charges. He stated IPL was not seeking recovery of any Contestable RT RSG Charges in this proceeding. In accordance with the RSG Order, Mr. Forestal testified that IPL deferred \$1,197.51 of Contestable RT RSG Charges in November 2014, \$1,299.58 of Contestable RT RSG Charges in December 2014, and \$1,325.17 of Contestable RT RSG Charges in January 2015.

OUCG witness Mr. Eckert recommended that Applicant be allowed to defer its Contestable RT RSG Charges. Based on the evidence presented and given that no party objected to the deferral of its Contestable RT RSG Charges, the Commission finds that IPL's deferral should be approved.

7. Operating Expenses. Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that the utility's actual increases in fuel cost through the latest month for which actual fuel costs are available since the last Commission order approving basic rates and charges of the utility have not been offset by actual decreases in other operating expenses. Applicant's Exhibit 1, Attachment CAF-2 calculates the (d)(2) test (comparing the twelve-month period ending January 31, 2015, with the Commission's August 24, 1995 Order in Cause No. 39938), and shows that total jurisdictional operating expenses excluding fuel costs have increased. Therefore, the Commission finds that IPL's actual increases in fuel cost have not been offset by actual

decreases in other operating expenses in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(2).

8. Return Earned. Ind. Code § 8-1-2-42(d)(3) requires the Commission to find that the fuel adjustment charge applied for will not result in the electric utility earning a return in excess of the return authorized by the Commission in the last proceeding in which the basic rates and charges of the utility were approved. In Cause No. 39938, the Commission established an authorized return of \$163,000,000 for Step 2 of a two-step increase in IPL's basic rates and charges. In accordance with 170 IAC 4-6-21 and the Commission's Order in Cause No. 42170, IPL added \$39,747,000 to its authorized operating income representing the return on its Qualified Pollution Control Property. Thus, as reflected in Attachment CAF-3 to Applicant's Exhibit 1, IPL has an authorized return of \$202,747,000 for purposes of this proceeding. Attachment CAF-2 to Applicant's Exhibit 1 calculates the (d)(3) test, which shows that IPL's actual return for the twelve-month period ended January 31, 2015 was \$164,010,000. Therefore, the Commission finds that during the twelve month period ending January 31, 2015, IPL did not earn a return in excess of its authorized return in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(3).

9. Estimating Techniques. Ind. Code § 8-1-2-42(d)(4) requires the Commission to find that a utility's estimate of its prospective average fuel costs for each month of the estimated three calendar months is reasonable after taking into consideration the actual fuel costs experienced and the estimated fuel costs for the three calendar months for which actual fuel costs are available. According to Applicant's Exhibit 1, Attachment CAF-1, Schedule 5, page 4 of 4, IPL's weighted average deviation between forecast and actual fuel cost was -0.07%. IPL projected its fuel costs for the billing months of June through August 2015 after taking into consideration its estimated and actual fuel cost for the reconciliation period.

OUCC witness Mr. Guerrettaz testified that IPL has reflected the projected costs going forward. Mr. Guerrettaz stated the OUCC reviewed each input in detail and had a good discussion with IPL personnel regarding the estimates.

Based upon the evidence, we find that IPL's estimating techniques are reasonably accurate and that its estimate of fuel costs for June through August 2015 should be accepted.

10. Wind Power Purchase Agreements. Mr. Dininger testified that purchases from the Hoosier Wind Park ("Hoosier") and Lakefield Wind Park ("Lakefield") are included in IPL's actual and projected fuel costs. He discussed the amount of power received from Hoosier and Lakefield for the months of November 2014, December 2014, and January 2015. Pursuant to the Order in Cause No. 43740, IPL is reflecting credits to jurisdictional fuel costs for off-system sales profits made possible because of the energy received from the Lakefield purchased power agreement ("PPA").

Mr. Dininger said Hoosier and Lakefield are both Dispatchable Intermittent Resources in the MISO market and can ramp quickly, largely avoiding negative Locational Marginal Prices; however, the curtailed power is billable when certain criteria are met. Mr. Dininger explained that the PPA with Hoosier obligates IPL to pay Hoosier for certain curtailments and IPL disputed through arbitration a portion of the curtailment invoices received from Hoosier beginning in

March 2013. Mr. Dininger testified the arbitrator issued his initial decision on July 1, 2014. Subsequently, IPL and Hoosier agreed on a methodology to implement the arbitrator's decision and executed a Settlement Agreement to document this methodology. The Settlement Agreement was presented to and approved by the Commission in its FAC105 Order. He said IPL received notice of the approval of the Settlement Agreement from Hoosier's lenders and Board of Directors on January 9, 2015, and February 4, 2015, respectively. He said IPL subsequently made a true-up payment to Hoosier (referred to in the Settlement Agreement as the "June 30 Payment"), satisfying the conditions of Section 1(i) of the Settlement Agreement. He said this payment is part of fuel costs ("Wind Purchase Power Agreement Purchases") for January 2015 (line 20 of Schedule 5, page 3 of 4, in Attachment CAF-1 to Applicant's Exhibit 1). He said Hoosier is now in the process of calculating curtailment amounts for the "Interim Period" as detailed in the Settlement Agreement, and that IPL expects the reconciliation of Interim Period curtailments will be finalized and any payment or credit included in a subsequent FAC. He said the "Automated Forecast Process" as described in Section 3 of the Settlement Agreement began on November 3, 2014.

In Cause Nos. 43485 and 43740, the Commission approved IPL's request to recover the purchased power costs incurred under the Hoosier and Lakefield PPAs over their respective full 20-year terms. We find IPL's treatment of the Hoosier wind invoices and the true-up payment is consistent with our determinations in Cause Nos. 38703 FAC 100 and 38703 FAC 105. Based on the evidence presented in this Cause, the Commission finds that the requested costs are reasonable and approves the ratemaking treatment of the wind PPA costs and true-up payment described above. IPL shall include a true-up in a subsequent FAC factor to reflect any true-up payments related to the recalculation of the Hoosier invoices from July 2014 through January 2015.

11. Reconciliation and Resulting Fuel Cost Factor for Electric Service. According to Applicant's Exhibit 1, Attachment CAF-1, Schedule 1, IPL's total estimated cost of fuel for June through August 2015 is \$118,220,483 and its total estimated sales are 3,789,199 MWh. IPL's estimated cost of fuel is \$0.031199 per kWh. The evidence of record indicates that IPL reconciled the actual fuel costs and revenues for November 2014 through January 2015. As shown on Applicant's Exhibit 1, Attachment CAF-1, Schedule 1, reconciliation of actual fuel costs and revenues results in a total variance of (\$1,098,143). Dividing this amount by the total estimated jurisdictional sales of 3,789,199 MWh results in a variance factor of (\$0.000290) per kWh. Combining the variance factor with the estimated per kWh cost of fuel, subtracting the base cost of fuel and adjusting for Indiana Utility Receipts Tax, results in a proposed fuel factor of \$0.018734 per kWh for the June through August 2015 billing cycles.

Pursuant to Ind. Code § 8-1-2-42(a), the Commission finds the factor approved herein should become effective for all bills rendered for electric services during the first full billing month following the issuance of this Order. As a result of the fuel cost factor approved herein, the typical residential customer using 1,000 kWh per month will experience a decrease of \$1.10 or 1.27% on his or her base electric bill compared to the factor approved in Cause No. 38703 FAC 106 (excluding various tracking mechanisms and sales tax).

12. Documentation provided to the OUCC. OUCC witness Mr. Guerrettaz testified that IPL went through an internal paper reduction process, and as a result initially

provided less information to the OUCC regarding MISO charges. Mr. Guerrettaz emphasized that MISO charges are one of the major cost components of the FAC, and the MISO Daily Summary Statements are one of the major support components for this cost. He indicated these MISO documents must be provided to the OUCC for it to complete its audit and provide the Commission with an opinion regarding the FAC filing and IPL's meeting of its statutory obligations.

The OUCC's statutory obligations in the FAC process and the overall administrative efficiency of the process are enhanced by IPL, as well as other similarly situated utilities, providing the OUCC with a reasonable initial package of supporting documents. The Commission recognizes that technological advances in internal processes are desirable, but to the extent these changes impact external auditors, such as the OUCC, we encourage communication to ensure the needs of regulatory processes are not hindered.

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

1. The fuel cost factor set forth at Finding Paragraph No. 11 herein is approved.
2. IPL shall file with the Electricity Division of the Commission prior to placing in effect the fuel cost factor approved in this Order, a separate amendment to its rate schedules clearly reflecting that such factor is applicable to the rate schedules reflected on the amendment, as shown in Attachment CAF-1-A to Applicant's Exhibit 1.
3. IPL's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause No. 43485 and Cause No. 43740 and the true-up payment made per the Settlement Agreement is approved as set forth herein. IPL shall include a true-up in a subsequent FAC factor to reflect any true-up payment resulting from the recalculation of the Hoosier invoices from July 2014 through January 2015.
4. This Order shall be effective on and after the date of its approval.

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

APPROVED: **MAY 27 2015**

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



**Brenda A. Howe,
Secretary to the Commission**