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INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANAPOLIS POWER & LIGHT COMPANY FOR APPROVAL OF (1) CAPACITY ("CAP") ADJUSTMENT FACTORS; AND (2) OFF-SYSTEM SALES ("OSS") MARGIN ADJUSTMENT FACTORS FOR ELECTRIC SERVICE FOR THE BILLING MONTHS OF JUNE 2021 THROUGH MAY 2022.	)	**CAUSE NO. 44795 OSS 5**

<u>SUBMISSION OF JOINT PROPOSED ORDER</u>

Petitioner, Indianapolis Power & Light Company d/b/a AES Indiana ("AES Indiana", "IPL", "Petitioner" or "Company"), by counsel and on behalf of itself and the Indiana Office of Utility Consumer Counselor ("OUCC"), submits the attached Joint Proposed Order. An editable version in Word format will be provided to the presiding Administrative Law Judge.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served, this 11th day of May, 2021, upon the following via electronic mail, or United States Postal Service, first class, postage prepaid on:

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DMS 19784698v1

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ORDER OF THE COMMISSION

Presiding Officers:
Sarah E. Freeman, Commissioner
David E. Veleta, Senior Administrative Law Judge

On February 19, 2021, Indianapolis Power & Light Company d/b/a AES Indiana ("AES Indiana", "IPL" or "Petitioner") filed its verified petition with the Indiana Utility Regulatory Commission ("Commission") for approval of (1) a rate adjustment to be reflected in its Capacity ("CAP") Adjustment; and (2) a rate adjustment to be reflected in its Off-System Sales ("OSS") Margin Sharing Adjustment, both to be made effective commencing with the June 2021 billing cycle (which begins May 28, 2021) or the first full billing cycle following the Commission's Order.

On the same day, AES Indiana prefiled the verified testimony and attachments of David Jackson, Director, Commercial Operations for AES Indiana, and Patrick Donlon, Director of Regulatory Accounting for AES U.S. Services, LLC. On April 16, 2020, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Kaleb G. Lantrip, Utility Analyst in the OUCC's Electric Division.

The Commission set this matter for an Evidentiary Hearing to be held at 9:30 a.m. on May 11, 2021, in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. A Docket Entry was issued on May 3, 2021, advising that in accordance with Indiana Governor Holcomb's Executive Orders concerning the COVID-19 pandemic, the hearing would be conducted via teleconference and providing related participation information. Petitioner and the OUCC participated in the Evidentiary Hearing by counsel via teleconference. The testimony and exhibits of Petitioner and the OUCC were admitted without objection.

Based upon the applicable law and the evidence of record the Commission now finds:

1. <u>Notice and Jurisdiction</u>. Due, legal and timely notice of the public hearing in this Cause was given and published as required by law. AES Indiana is a public utility as defined in Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code § 8-1-2-42, the Commission has jurisdiction over AES Indiana's rates and charges for utility service, including its CAP and OSS Margin Sharing Adjustments. Therefore, the Commission has jurisdiction over AES Indiana and the subject matter of this proceeding.

2. Petitioner's Characteristics. AES Indiana is a public utility corporation organized and existing under the laws of the State of Indiana with its principal office and place of business at One Monument Circle, Indianapolis, Indiana. AES Indiana renders retail electric utility service to more than 500,000 retail customers located principally in and near the City of Indianapolis, Indiana, and in portions of the following Indiana counties: Boone, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Owen, Putnam, and Shelby. AES Indiana owns and operates electric generating, transmission and distribution plant, property and equipment, and related facilities, which are used and useful for the convenience of the public in the production, transmission, delivery, and furnishing of electric energy, heat, light, and power.

3. Background and Relief Requested. In Cause No. 45029, the Commission approved revisions to AES Indiana's Standard Contract Rider No. 24 ("CAP Adjustment"). *Re Indianapolis Power & Light Co.*, Cause No. 45029 at 30 (IURC Oct. 31, 2018) ("45029 Order"). The 45029 Order authorizes AES Indiana's use of the CAP Adjustment to allow full allocation of an estimate of net capacity revenues above and below the $11.288 million of net capacity revenues included in the determination of basic charges for service in that proceeding. See 45029 Order at 30. In Cause No. 45029, the Commission also approved revisions to AES Indiana's Standard Contract Rider No. 25 ("OSS Margin Adjustment") to allow full allocation of OSS margins (with a floor of $0 for includable margins) above and below the $16.324 million in OSS margins included in the determination of basic charges for service in that proceeding. See 45029 Order at 30.

Petitioner requests Commission approval of revised CAP and OSS Margin Sharing Adjustment factors for the billing months of June 2021 through May 2022. The revised CAP Adjustment factors are based on forecast capacity sales for the June 1, 2021 through May 31, 2022 Midcontinent Independent System Operator ("MISO") planning year ("2021-2022 MISO Planning Year" or "Forecast Period"). The revised OSS Margin Sharing Adjustment factors requested to be approved in this proceeding are based on forecast OSS margins for the 2021-2022 MISO Planning Year. The revised CAP and OSS Margin Sharing Adjustment factors also include reconciliations of actual capacity costs/revenues and actual OSS margins/revenues experienced during the twelve months of June 2019 through May 2020 (the "Reconciliation Period").

4. Evidence.

A. AES Indiana's Case-in-Chief.

(1) CAP Adjustment. Mr. Jackson reviewed the method by which the CAP Adjustment is calculated. He testified that, as a Load Serving Entity in MISO, AES Indiana is obligated to have sufficient capacity resources to cover its forecast peak demand plus its Planning Reserve Margin Requirement ("PRMR"). He said if AES Indiana does not have sufficient capacity resources to cover its forecasted peak demand and PRMR, AES Indiana may acquire additional capacity through bilateral transactions or by bidding on capacity in MISO's annual voluntary Planning Resource Auction. Similarly, he explained if AES Indiana has sufficient capacity resources to cover its forecast peak demand and PRMR, AES Indiana may sell its additional capacity through bilateral transactions or may offer its additional capacity in MISO's Planning Resource Auction. Jackson Direct at 2.

Mr. Jackson explained that based on the net MW position of AES Indiana expected for the 2021-2022 MISO Planning Year and the AES Indiana fundamental price forecast, AES Indiana forecasts capacity revenues for the 2021-2022 MISO Planning Year of $188,748. Jackson Direct at 4-5. He noted the MISO Planning Resource Auction is a prompt year auction for residual capacity, meaning that only the closest Planning Year is included in the auction. He said as a result, the bilateral market often has a lagged reaction to the most recent auction clearing price. Mr. Jackson explained the bilateral market has been very illiquid and not shown volume or price value as in prior to past auctions. He said the nature of the prompt year, residual capacity construct in MISO is expected to continue to yield significant year-to-year volatility in auction clearing prices and correlated bilateral market prices. Mr. Jackson testified the prices used in this forecast reflect updated market information – specifically AES Indiana's internal forecast. Mr. Jackson testified the forecast level of capacity revenues is reasonable. He noted the long capacity position is estimated using AES Indiana's fundamental forecast and market intelligence from potential buyers and brokers as of February 19, 2021. Jackson Direct at 6. He said a true-up of the forecast to actual costs will occur in a subsequent annual filing. Jackson Direct at 3.

Mr. Donlon testified concerning AES Indiana's determination of the revised CAP Adjustment factors. Mr. Donlon explained that Pet. Att. PJD-1, Schedule 1 summarizes the calculation details and presents the proposed CAP Adjustment factors by customer classification. Mr. Donlon explained that Pet. Att. PJD-1, Schedule 2 presents the forecasted capacity purchase costs for each of the twelve months of the Forecast Period. He said that due to AES Indiana having enough capacity to meet its forecasted peak demand plus its PRMR, the forecasted capacity purchase cost is zero. He noted the base cost of capacity purchases included in the basic rates approved by the Order in Cause No. 45029 is also zero. As a result, he said line 18 shows that there is no charge or credit to be applied to customers for capacity purchases as part of the CAP factor. *Id.* at 7.

With respect to forecasted capacity sales revenue, Mr. Donlon testified that Pet. Att. PJD1, Schedule 3 compares the forecasted revenue of $188,748 to the base amount included in the basic rates approved in the 45029 Order of $11,288,000, resulting in a net charge of $11,099,252. He explained these amounts are allocated to customer classes by applying demand allocation factors from the cost of service study approved in Cause No. 45029. Donlon Direct at 7-8.

Mr. Donlon also discussed the reconciliation of CAP costs and revenues for the Reconciliation Period, as shown on Pet. Att. PJD-1, Schedules 4 through 7. Donlon Direct at 8-12.

(2) <u>OSS Margin Sharing Adjustment</u>. Mr. Jackson reviewed the manner in which the OSS Margin Sharing Adjustment is calculated and described the methodology used to develop AES Indiana's forecasted OSS margins for the 2021-2022 MISO Planning Year. Jackson Direct at 6-9. He testified that AES Indiana forecast the volume of OSS margins and assigns the OSS margins to generating units based on a ranking of units from highest production cost to lowest production costs to ensure that the lowest cost generation is assigned to AES Indiana's retail load. He stated this is the same methodology that is followed in the FAC process in assigning forecast fuel costs to OSS margins. Jackson Direct at 8. Mr. Jackson explained that revenues are assigned to those units based on forecast Locational Marginal Prices and that OSS margins are the revenues from those units less the fuel and production costs for those units. Mr. Jackson testified that the forecast net OSS margins for the twelve months ending May 31, 2022 are $18,963,914 as shown on Petitioner's Attachment PJD-2, Schedule 2. He said that after removing the forecasted OSS

margins made possible because of energy from the Lakefield Wind Project, the forecasted net OSS margins are $17,281,429. Jackson Direct at 8. He said the forecasted OSS margins are higher than last year's forecast primarily due to higher natural gas prices, which have increased the expectations for power prices over the period. Mr. Jackson concluded that the OSS margins forecasted for the 2021-2022 MISO Planning Year are reasonable. *Id.*

Mr. Donlon testified about the methodology AES Indiana used to determine the OSS Margin Sharing Adjustment. Donlon Direct at 13-15. He testified that consistent with the Commission's Order in Cause No. 43740, the Lakefield Wind Production ("LWP") margin will be credited to the customers through the Fuel Cost Adjustment Factor (Standard Contract Rider No. 6), and accordingly is excluded from the OSS Margin Sharing Adjustment computation. *Id.* at 14.

Mr. Donlon explained the forecasted net OSS margins of $17,281,429 are compared to the $16,324,000 OSS margin included in the basic rates approved in the 45029 Order. He explained Pet. Att. PJD-2, Schedule 2 shows the net customer share charge/credit for the Forecast Period; presents the demand allocation factors from the cost-of-service study approved in the 45029 Order; and shows the final result of the net customer sharing allocated to customer classes based upon the demand allocation factors. He stated the resulting amounts are carried to Petitioner's Attachment PJD-2, Schedule 1. *Id.* at 14-15. Mr. Donlon also discussed the calculation of the proposed OSS Margin Sharing Adjustment factors by customer classification. *Id.*

Mr. Donlon also presented the reconciliation of OSS margins for the Reconciliation Period, as shown on Pet. Att. PJD-2, Schedules 3 through 5. Donlon Direct at 15-19.

(3) <u>Additional Filing Information</u>. Mr. Donlon testified regarding the computation of the State income tax rate used to calculate the Utility Receipts Tax ("URT") adjustments applied to the proposed factors and also to the historical revenues for the respective factors. Donlon Direct at 19-20. Mr. Donlon also presented a forecast of the MWh sales by customer classification for the period during which the factors proposed in this filing would be in effect and provided clean and redline versions of Standard Contract Rider Nos. 24 and 25, depicting the CAP Adjustment and OSS Margin Sharing Adjustment tariffs updated to reflect the proposed factors, respectively. *Id.* at 20.

Mr. Donlon testified that upon implementation of the proposed CAP Adjustment and OSS Margin Sharing Adjustment factors, residential customers using 1,000 kWh of electricity per month will experience a CAP Adjustment factor of $1.12 and an OSS Margin Sharing Adjustment factor of $1.01 for the billing period of June 2021 through May 2022. He said this represents a net increase of $2.13 or 1.84% over the basic rates and charges currently in effect. In relation to the factors currently in effect, he said an average residential customer using 1,000 kWh per month will experience a CAP Adjustment factor increase of $0.23 and an OSS Margin Sharing Adjustment factor decrease of $0.32. Mr. Donlon stated this amounts to a net decrease of $0.09 or 0.08% less than the bill for a residential customer using 1,000 kWh of electricity per month including the current CAP Adjustment factor and current OSS Margin Sharing Adjustment factor. *Id.* at 21-22.

B. <u>OUCC's Case-in-Chief</u>. Mr. Lantrip discussed AES Indiana's information and results for its CAP and OSS Margin Sharing Adjustment Factor and concluded that AES Indiana's proposed factors appear to be in compliance with the ratemaking and accounting treatment authorized by the Commission in Cause No. 45029. Pub. Ex. 1 at 1, 9.

Mr. Lantrip testified that AES Indiana is proposing to track total capacity costs of $13,692,357. He said this amount includes AES Indiana's forecasted capacity sales revenues of $(188,748), embedded base rate capacity sales revenues of $11,288,000, and the reconciliation variance of $2,593,105. Pub. Ex. 1 at 3. He described how AES Indiana's forecasted and historical capacity purchase expenses and sales revenues were calculated. *Id.* at 3-6.

Mr. Lantrip testified that AES Indiana proposes to track the total OSS margin customer charge of $11,914,265 through its OSS Margin Sharing Adjustment. Pub. Ex. 1 at 7. He said this includes forecasted OSS over-recovered margins of $(957,429) plus the variance from the prior period reconciliation of $12,871,694. He discussed the calculation of the OSS margin forecast and variance, as well as the reconciliation of AES Indiana's actual OSS margins net of the impact of base rates. *Id.* at 7-8. He testified AES Indiana provided supporting evidence for the under-recovery of OSS margins during the reconciliation period. *Id.* at 8-9.

Mr. Lantrip concluded based on his analysis that AES Indiana's proposed factors are in compliance with the ratemaking and accounting treatment authorized by the Commission in Cause Nos. 44576 and 45029 and should be approved. Pub. Ex. 1 at 9.

5. Commission Discussion and Findings. As discussed in greater detail below, the evidence supports the conclusion that AES Indiana's requested rate adjustments reflected in its Capacity Adjustment and its OSS Margin Sharing Adjustment were properly calculated and are reasonable. We therefore approve the Capacity Adjustment and OSS Margin Sharing Adjustment factors as requested by AES Indiana.

A. CAP Adjustment Factors. As shown in Pet. Att. PJD-1, Sch. 3, AES Indiana has forecasted capacity sales revenue of $188,748 for the twelve months ended May 31, 2022. After taking into consideration the level of capacity expense embedded in base rates, AES Indiana's resulting customer charge for its forecasted capacity sales revenue is $11,099,252. As shown in Pet. Att. PJD-1, Sch. 2, AES Indiana has not forecasted any capacity purchase expense for the twelve months ended May 31, 2022. We find AES Indiana's forecasted capacity expenses and sales reasonable based on AES Indiana's evidence that its forecast was based on market intelligence from potential sellers and brokers at the time when the capacity was acquired.

As shown in Pet. Att. PJD-1, Sch. 5, AES Indiana incurred net capacity expense for the period of June 1, 2019 through May 31, 2020 of ($3,697). This amount is then reconciled with the net capacity revenues received for the same twelve month period of $(2,596,802) and the under-recovery balance from the prior filing of $808,624, resulting in a total under-recovery balance in this filing of $3,401,729, as shown in Pet. Att. PJD-1, Sch. 4. As shown in Pet. Att. PJD-1, Sch. 1, when the customer share of forecasted capacity purchase revenues is combined with the total under-recovery balance, the resulting grand total net customer share is a charge of $2,593,105. We find AES Indiana has properly calculated its proposed CAP Adjustment factors. In accordance with the Orders approved by the Commission in Cause Nos. 44576 and 45029, we find AES Indiana should be authorized to apply its requested CAP Adjustment factors for all bills rendered for electric service beginning with the first billing cycle of the June 2021 billing month. Such factors shall remain in effect until superseded by subsequent factors.

B. OSS Margin Sharing Adjustment Factors. As shown in Pet. Att. PJD-2, Sch. 2, AES Indiana has forecasted OSS margins (net of LWP Margin) of $17,281,429 for the twelve months ended May 31, 2022. After taking into consideration the level of OSS margin embedded in base rates, the resulting customer share is a credit of $(957,429). The record shows that AES Indiana forecasts the volume of OSS margins and assigns the OSS margins to generating units based on a ranking of units from highest production cost to lowest production costs to ensure that the lowest cost generation is assigned to AES Indiana's retail load. The record further shows this is the same methodology that is followed in the FAC process in assigning forecasted fuel costs to OSS margin. We find AES Indiana's forecasted OSS margins and fuel cost assignment methodology to be reasonable.

As shown in Pet. Att. PJD-2, Sch. 4, AES Indiana received net OSS margins for the Reconciliation Period of $10,459,318. After subtracting the base rate OSS margins credit of $16,324,000, the total resulting net margin revenue under the base amount is $5,864,682. The amount on Pet. Att. PJD-2, Sch. 4 is then reconciled with the actual net OSS factor revenue received for the same twelve-month period of $7,007,021 and the under-recovery balance from the prior filing of $14,098,265 resulting in a total under-recovery balance in this filing of $26,969,959, as shown in Pet. Att. PJD-2, Sch. 3. As shown in Pet. Att. PJD-2, Sch. 1, when the customer share of forecasted OSS margins is combined with the total under-recovery balance, the resulting grand total net customer share is a charge of $11,914,265. We find AES Indiana has properly calculated its proposed OSS Margin Sharing Adjustment factors. In accordance with the Orders approved by the Commission in Cause Nos. 44576 and 45029, we find AES Indiana should be authorized to apply its requested OSS Margin Sharing Adjustment factors for all bills rendered for electric service beginning with the first billing cycle of the June 2021 billing month. Such factors shall remain in effect until superseded by subsequent factors.

6. Effect on Customers. Netting the CAP and OSS Margin Sharing factors results in the average residential customer using 1,000 kWh per month will experience a monthly rate decrease of $0.09 or 0.08% on his or her electric bill compared to the present CAP Adjustment and the OSS Margin Sharing Adjustment factors.

7. Confidential Information. AES Indiana filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information ("Motion") with the Affidavit of David Jackson on February 19, 2021. The Presiding Officer granted the Motion in a March 2, 2021 Docket Entry, finding the information should be held confidential on a preliminary basis. Mr. Jackson's Affidavit and a review of the submitted documents indicate that the confidential information has actual or potential independent economic value for AES Indiana and its ratepayers, the disclosure of the confidential information could provide AES Indiana's competitors and suppliers an unfair advantage, and AES Indiana has taken all reasonable steps to protect the confidential information from disclosure. Accordingly, pursuant to Ind. Code §§ 5-14-3-4(a)(4) and 8-1-2-29, we find the confidential information is trade secret and exempt from public access and disclosure by the Commission.

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

1. AES Indiana is authorized to implement its requested CAP Adjustment and the OSS Margin Sharing Adjustment factors, as set forth in Finding Paragraph No. 5, to be effective with

the first billing cycle of the June 2021 billing month for Regular Billing District 41 and Special Billing District 01. The CAP and OSS Margin Sharing Adjustment factors approved herein, upon becoming effective, shall remain in effect until new revised rates are approved.

2. AES Indiana shall file with the Energy Division of the Commission under this Cause the revised tariff sheets of AES Indiana's Tariff for Electric Service reflecting the changes to the CAP and OSS Margin Sharing Adjustments and may place the revised rates into effect upon approval by the Energy Division.

3. The confidential information filed in this Cause contains trade secrets and is therefore excepted from public access and disclosure pursuant to Ind. Code §§ 5-14-3-4(a)(4) and 8-1-2-29.

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

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:
APPROVED:

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

____

Dana Kosco
Secretary of the Commission

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