

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN)
POWER COMPANY (I&M), AN INDIANA)
CORPORATION, FOR APPROVAL OF A CLEAN)
ENERGY PROJECT AND QUALIFIED)
POLLUTION CONTROL PROPERTY AND FOR)
ISSUANCE OF CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY FOR USE OF)
CLEAN COAL TECHNOLOGY; FOR ONGOING)
REVIEW; FOR APPROVAL OF ACCOUNTING)
AND RATEMAKING, INCLUDING THE TIMELY)
RECOVERY OF COSTS INCURRED DURING)
CONSTRUCTION AND OPERATION OF SUCH)
PROJECT THROUGH I&M'S CLEAN COAL)
TECHNOLOGY RIDER; FOR APPROVAL OF)
DEPRECIATION PROPOSAL FOR SUCH)
PROJECT; AND FOR AUTHORITY TO DEFER)
COSTS INCURRED DURING CONSTRUCTION)
AND OPERATION, INCLUDING CARRYING)
COSTS, DEPRECIATION, TAXES, OPERATION)
AND MAINTENANCE AND ALLOCATED)
COSTS, UNTIL SUCH COSTS ARE REFLECTED)
IN THE CLEAN COAL TECHNOLOGY RIDER OR)
OTHERWISE REFLECTED IN I&M'S BASIC)
RATES AND CHARGES.)

CAUSE NO. 44871

VERIFIED APPLICATION

TO THE INDIANA UTILITY REGULATORY COMMISSION:

Indiana Michigan Power Company (I&M) respectfully petitions the Indiana Utility Regulatory Commission (Commission) for approval of a Clean Energy Project and Qualified Pollution Control Property and for issuance of a Certificate of Public Convenience and Necessity (CPCN) to install Selective Catalytic Reduction (SCR) technology to allow I&M to reduce emissions of nitrogen oxides (NO_x) from Rockport Unit 2, an existing coal-fired steam electric generating unit (Rockport Unit 2 SCR

Project). I&M also requests Commission approval of I&M's accounting and ratemaking proposal as summarized below and detailed in I&M's case-in-chief. Finally, I&M requests ongoing review of the Rockport Unit 2 SCR Project. In support of this Petition, I&M provides the following information:

I&M's Corporate Status

1. I&M, a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP), is a corporation organized and existing under the laws of the State of Indiana, with its principal offices 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. I&M owns, operates, manages and controls plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public. I&M has maintained and continues to maintain its properties in a reliable state of operating condition.

2. I&M provides electric service to approximately 588,000 retail customers within a service area covering approximately 8,260 square miles in northern and east-central Indiana and southwestern Michigan. In Indiana, I&M provides retail electric service to approximately 460,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Hamilton, Henry, Howard, Huntington, Jay, LaPorte, Madison, Marshall, Miami, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells and Whitley. In Michigan, I&M currently provides retail electric service to approximately 128,000 customers. In addition, I&M serves customers at wholesale in

the States of Indiana and Michigan. I&M's electric system is an integrated and interconnected entity that is operated within Indiana and Michigan as a single utility.

I&M's "Public Utility" Status

3. I&M is a "public utility" under Ind. Code §§ 8-1-2-1 and 8-1-8.7-2 and is subject to the jurisdiction of this 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. I&M is an "eligible business" as defined in Ind. Code § 8-1-8.8-6. I&M is also subject to the jurisdiction of the Michigan Public Service Commission and the Federal Energy Regulatory Commission (FERC) as to electric service provided by I&M to retail customers in Michigan and to wholesale customers, respectively. I&M is a member of PJM Interconnection, L.L.C. (PJM), a FERC-approved regional transmission organization (RTO).

4. I&M's operations are subject to federal environmental law and federal and state rules promulgated by, among others, the United States Environmental Protection Agency (USEPA). Such rules establish environmental compliance standards that govern emissions from I&M's electric generating units. These environmental laws and regulations include requirements to directly or indirectly reduce or avoid emissions of nitrogen oxides (NO_x) from coal-fired generating units. As explained in greater detail by I&M Witness Hendricks, the federal Prevention of Significant Deterioration and Nonattainment New Source Review (NSR) provisions are part of the federal Clean Air Act. As part of the federal Clean Air Act and related Consent Decree executed with the Department of Justice (DOJ), the USEPA and other parties, I&M must retrofit Rockport Unit 2 with SCR technology by December 31, 2019 to continue operation of this unit.

As explained in greater detail by I&M Witness Hendricks, there are several USEPA regulatory initiatives in various stages of development that may also necessitate installation of SCR at the Rockport Unit 2.

Rockport Plant

5. The Rockport Plant is a cornerstone of I&M's generation fleet that provides valuable capacity during periods of peak demand, and reasonable-cost and dependable energy to I&M's customers. The Plant, located in Spencer County, Indiana, consists of the following two units:

Plant and Unit	Nominal Net Unit Capacity (MW)	Primary Fuel (Nominal Blend Percentages if Applicable)
Rockport Unit 1	1320	85% PRB*/15% Bituminous
Rockport Unit 2	1300	85% PRB*/15% Bituminous
Total	2620	

6. As shown in the table above, I&M procures a high percentage of its fuel for the Rockport plant from the Powder River Basin (PRB) in the northwestern United States. More than 230 people are employed at the plant and it is a significant taxpayer in the region. The units are among the largest coal-fired units in the country and are efficient and reliable performers for I&M and its customers. Rockport Unit 1 was placed in service in 1984 and Rockport Unit 2 in 1989, which is relatively young for coal-fired generation.

7. On May 13, 2015 in Cause No. 44523, I&M was granted a CPCN for the construction, installation, and use of an SCR on Rockport Unit 1 pursuant to Ind. Code § 8-1-8.7-1 *et seq.* In Cause No. 44523, the Commission also determined that the SCR

on Rockport Unit 1 constitutes as “Clean Energy Project” under Ind. Code ch. 8-1-8.8 and authorized the timely recovery of costs and expenses through I&M’s annual Clean Coal Technology Rider (CCTR) and associated accounting treatment in accordance with the Settlement Agreement approved in that Cause.

8. This Petition concerns Rockport Unit 2. I&M seeks relief comparable to what was granted in Cause No. 44523.

9. I&M and AEP Generating Company (AEG) received approval on March 30, 1989, in Cause Nos. 38690 and 38691, to enter into a sale and leaseback transaction for Rockport Unit 2.¹ As a result, I&M jointly leases Rockport Unit 2 with AEG, with I&M’s leased share being 50% of the unit (I&M’s Ownership Share). The sale and leaseback financing arrangement regarding Rockport Unit 2 allows, among other things, I&M and AEG to invest in Rockport Unit 2 as necessary to comply with environmental regulations by installing environmental control equipment and systems. I&M and AEG own any modifications made to Rockport Unit 2. The Project costs associated with I&M’s Ownership Share are recognized as plant-in-service by I&M, no different than project costs associated with Rockport Unit 1. The Rockport Unit 2 lease terminates on December 7, 2022.

10. AEG’s sells 70% of its 50% share to I&M under the FERC-approved Unit Power Agreement (UPA) and the remaining 30% of AEG’s share is sold to Kentucky Power Company (KPCo) through an assignment agreement between I&M and KPCo and a UPA between AEG and KPCo. As a result, I&M leases or purchases 85% of

¹ AEG is a subsidiary of AEP and was found to be a public utility in Indiana in Cause No. 37602.

Rockport Unit 2, of which 50% is the leased I&M Ownership Share and 35% (i.e. 70% of AEG's 50% share) is purchased according to the terms of the UPA.

11. The Rockport Unit 2 SCR Project is a single project. The initial investment and ongoing operating costs are equally shared between I&M and AEG as joint lessees of Rockport Unit 2. Ultimately, I&M incurs 50% of the overall associated costs as a lessee and 35% of the overall associated costs as a purchaser according to the terms of the I&M and AEG FERC approved UPA.

12. As set forth below, the accounting and ratemaking relief sought by I&M in this proceeding is addressed to I&M's Ownership Share of the Project.

Proposed Rockport Unit 2 SCR Project

13. The Rockport Unit 2 SCR Project consists of advanced technologies designed to reduce NO_x emissions associated with the combustion of coal at Rockport Unit 2 and otherwise comply with the Consent Decree.

14. The SCR technology was not in general commercial use at the same or greater scale in the United States as of January 1, 1989, or at the time of enactment of the federal Clean Air Act Amendments of 1990. "Clean Energy Project" under Ind. Code § 8-1-8.8-2 is explicitly defined to include SCR. The Commission has previously found that SCR satisfies the definition of clean coal technology. *Indiana Michigan Power Company*, Cause No. 44523 (IURC 5/13/2015) ("44523 Order"); *Petition of Northern Indiana Public Service Company*, Cause No. 42150 (IURC 11/26/2002); *Petition of Indianapolis Power & Light Company*, Cause No. 42170 (IURC 11/14/2002). The Commission's Order in *Petition of Southern Indiana Gas and Electric*, Cause No.

41864 (IURC 8/29/2001) (at 4-5) states that SCR technology was selected by the Department of Energy for funding under its Innovative Clean Coal Technology program and was finally approved for such funding on or after January 1, 1989. 44523 Order at 17 (same).

15. The Rockport Unit 2 SCR Project also constitutes “Clean Coal Technology” as defined in Ind. Code §§ 8-1-2-6.1, 8-1-2-6.7, 8-1-2-6.8, 8-1-8.7, and 8-1-8.8-3, an “Air Pollution Control Device” as defined in 170 IAC 4-6-1(a) and “Qualified Pollution Control Property” under Ind. Code § 8-1-2-6.8.²

16. The installation of the SCR system at Rockport Unit 2 will provide for the future use of this generating capacity to provide electric service while complying directly or indirectly with environmental mandates.

17. The Rockport Unit 2 SCR Project is in the public interest, required by public convenience and necessity, and the associated costs are reasonable and necessary. Therefore, I&M should be granted the CPCN as requested herein and all other necessary Commission approval in order to proceed with the SCR Project and associated cost recovery.

² As noted in the 44523 Order, the “provisions of the state environmental statutes providing favorable regulatory treatment to projects using Indiana or Illinois Basin coal have been held to be an unconstitutional interference with interstate commerce, but severable from the rest of the statutes which remain valid.” 44523 Order at 20, citing *General Motors Corp. v. Indianapolis Power & Light Co.*, 654 N.E.2d 752 (Ind. Ct. App. 1995); *Alliance For Clean Coal v. Bayh*, 72 F.3d 556 (7th Cir. 1995); see also *S. Ind. Gas and Electric Co.*, Cause No. 41864, at 7 (Aug. 29, 2001); *N. Ind. Pub. Serv. Co.*, Cause No. 42150, at 5 n.3 (Nov. 26, 2002); *Indianapolis Power and Light Co.*, Cause No. 42170, at 5 n.1 (Nov. 14, 2002); *Indianapolis Power and Light Co.*, Cause No. 44242, at 30 n. 2 (Aug. 14, 2013). The Commission has not relied on such statutory provisions as a prerequisite for approval. 44523 Order at 20.

Ongoing Review

18. In accordance with Ind. Code § 8-1-8.7-7, I&M requests ongoing review of the Rockport SCR Project, including review of progress reports and any revisions in the cost estimates, as the construction proceeds. I&M proposes that such ongoing review be conducted as part of I&M's annual CCTR filings.

Ratemaking and Accounting

19. I&M requests the Commission authorize the necessary ratemaking and accounting to permit I&M to recover through rates I&M's Ownership Share of the Rockport Unit 2 SCR Project.

20. I&M elects cost recovery for I&M's Ownership Share of the Rockport Unit 2 SCR Project costs in accordance with the Commission's authority under Ind. Code § 8-1-8.8-11 and ratemaking and accounting treatment that is consistent with Ind. Code Chapters 8-1-2-6.1, 6.7, 6.8, and 8.7 and 170 IAC 4-6-1 *et seq.*

21. More specifically, I&M requests the Commission approve timely recovery via I&M's CCTR of the Indiana Jurisdictional portion of the I&M Ownership Share incurred during construction and operation of the Rockport Unit 2 SCR Project, including carrying costs during construction, and post in-service carrying costs of the investment, as well as depreciation expense, gross revenue conversion factor costs, property tax expense and operating and maintenance expense, including consumable expense. The carrying costs to be recovered in the CCTR would be computed by applying I&M's pre-tax weighted average cost of capital to I&M's Ownership Share of the investment during

and after construction. Cost recovery through the CCTR will be subject to reconciliation to actual costs.

22. In order to provide for timely and efficient recovery of the Rockport Unit 2 SCR Project, I&M requests the Commission authorize I&M to defer in Account 182.3, Other Regulatory Assets, of the FERC's Uniform System of Accounts, any post in-service costs including carrying costs, depreciation expense, property tax expense and operating and maintenance expense, including consumable expense associated with its proposed Rockport Unit 2 SCR Project incurred prior to the Commission approving rates recovering such costs. I&M submits that such accounting treatment should be authorized for any costs associated with this Verified Petition, and continue until such costs are timely recovered by I&M through its CCTR mechanism or I&M's basic rates.

23. I&M requests the Commission approve the Company's requested accounting and ratemaking proposals regarding the depreciation of the Rockport Unit 2 SCR Project, including the depreciation of the Project over a period of 10 years.

24. I&M proposes and requests authority to perform traditional under/over recovery accounting for the annual true-up of rider revenues to actual costs.

25. Use of SCR technology is specially encouraged by Ind. Code ch. 8-1-8.8. Therefore, timely recovery in accordance with this statute is consistent with Indiana energy and regulatory policy.

26. These matters will be further detailed in the evidence to be presented by I&M in this Cause.

Governing Statutes

27. I&M considers the provisions of Public Service Commission Act, as amended, to be applicable to this proceeding, including Ind. Code §§ 8-1-2-6.1, 8-1-2-6.7, 8-1-2-6.8, 8-1-8.7, 8-1-8.8, and the regulations set forth at 170 IAC 4-6-1 *et seq.* The accounting, depreciation and ratemaking authority sought herein is also consistent with Ind. Code §§ 8-1-2-10, 8-1-2-14, 8-1-2-19 through 21, 8-1-2-23 and 8-1-2-42.

Service

28. I&M's duly authorized representatives to whom all correspondence and communications in this Cause should be sent are:

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WITH A COURTESY COPY TO:

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Prehearing Conference

29. Timely Commission approval of the Rockport Unit 2 SCR Project is reasonable and necessary to permit Rockport Unit 2 to provide generation needed to serve I&M's customers' needs while maintaining reasonable rates.

30. To facilitate I&M's ability to proceed with the Rockport Unit 2 SCR Project in a timely manner, I&M requests the Commission promptly conduct a prehearing conference to establish a procedural schedule in this Cause. This request is made in accordance with 170 IAC 1-1.1-15(b). In accordance with 170 IAC 1-1.1-15(e), I&M will seek to enter into a stipulation with the Indiana Office of Utility Consumer Counselor regarding a procedural schedule in lieu of a prehearing conference. In accordance with Ind. Code § 8-1-8.8-11(d), I&M also requests the Commission issue a determination of the Rockport Unit 2 SCR Project's eligibility for the financial incentives within one hundred twenty (120) days of the filing of I&M's Petition and case-in-chief.

RELIEF REQUESTED

WHEREFORE, I&M respectfully requests that the Commission:

(a) establish a procedural schedule in this Cause in accordance with Ind. Code § 8-1-8.8-11(d);

(b) issue an order approving the Rockport Unit 2 SCR Project as a Clean Energy Project under Ind. Code § 8-1-8.8-1 *et seq.*, as proposed by I&M in this Cause;

(c) grant I&M a certificate of public convenience and necessity for the Rockport Unit 2 SCR Project in accordance with Ind. Code § 8-1-8.7-1 *et seq.*;

(d) approve the cost estimate for the Rockport Unit 2 SCR Project;

- (e) provide for ongoing review of the Rockport Unit 2 SCR Project;
- (f) approve the ratemaking and accounting treatment as set forth above, including depreciation and timely cost recovery, as further described in I&M's case-in-chief; and
- (g) provide to I&M such further relief as may be appropriate.

Respectfully submitted,

INDIANA MICHIGAN POWER COMPANY

By:



Marc E. Lewis
Vice President of Regulatory and External
Affairs

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VERIFICATION

I, Marc E. Lewis, Vice President of Regulatory and External Affairs for Indiana Michigan Power Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

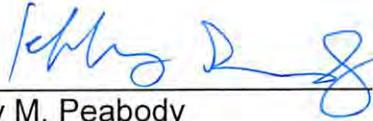
Dated: 10-21-2016



Marc E. Lewis

CERTIFICATE OF SERVICE

The undersigned certifies that two copies of the foregoing Verified Petition was served this 21st day of October 2016, via hand delivery, on the Office of Utility Consumer Counselor, PNC Center, 115 W. Washington St., Suite 1500 South, Indianapolis, Indiana 46204.



Jeffrey M. Peabody