

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
WABASH VALLEY POWER ASSOCIATION,)
INC. FOR THE ISSUANCE OF A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY)
TO ACQUIRE AN INTEREST IN EXISTING)
GENERATING FACILITIES AND FOR A)
CERTIFICATE OF AUTHORITY TO EXECUTE)
NOTES AS EVIDENCE OF INDEBTEDNESS FOR)
THE PURPOSE OF FUNDING THE PURCHASE)
AND RELATED COSTS)

CAUSE NO. 44739

APPROVED: APR 13 2016

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Loraine L. Seyfried, Chief Administrative Law Judge

On January 21, 2016, Wabash Valley Power Association, Inc. ("Petitioner" or "Wabash Valley") filed its Verified Petition in this Cause with the Indiana Utility Regulatory Commission ("Commission"), requesting a Certificate of Public Convenience and Necessity ("CPCN") to acquire an interest in existing electric generating facilities and approval for financing related to that purchase.

Wabash Valley also filed its case-in-chief on January 21, 2016. On February 4, 2016, Wabash Valley filed supplemental testimony and exhibits, including Wabash Valley's 2015 Integrated Resource Plan ("IRP"), which was submitted to the Commission on January 29, 2016.

On March 7, 2016, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its case-in-chief.

An evidentiary hearing was held on March 28, 2016, at 1:30 p.m. in Room 224, 101 West Washington Street, Indianapolis, Indiana. The parties offered their respective evidence into the record without objection. No members of the general public appeared at the evidentiary hearing or attempted to participate in this Cause.

Based on the applicable law and evidence presented, the Commission finds as follows:

1. **Notice and Commission Jurisdiction.** Due, legal, and timely notice of the evidentiary hearing was given and published by the Commission as required by law. Wabash Valley is a public utility within the meaning of the Public Service Commission Act, as amended, Ind. Code ch. 8-1-2, and is subject to the jurisdiction of the Commission to the extent provided by the laws of the State of Indiana. Wabash Valley seeks from the Commission a CPCN

pursuant to Ind. Code § 8-1-8.5-2 and authority to issue instruments of indebtedness payable at periods of more than 12 months pursuant to Ind. Code §§ 8-1-2-78, 79 and 84(f). Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Wabash Valley is a corporation organized and existing pursuant to the Indiana Nonprofit Corporations Act and, pursuant to Order of the Commission in Cause No. 35091, was granted a CPCN to operate as a public utility. Wabash Valley's principal place of business is located at 722 North High School Road, Indianapolis, Indiana 46214. Wabash Valley serves as a power supplier to 23 electric cooperative members and owns and operates generation, transmission, and related facilities.

3. **Relief Requested.** Petitioner requests a CPCN to purchase Lively Grove Energy Partners, LLC ("Lively Grove") and its only asset, a 5.06% undivided interest in generating facilities known as Prairie State Energy Campus ("PSEC"). Petitioner also requests approval and authorization to issue instruments of long-term indebtedness in amounts not to exceed the purchase price and related costs of the transaction, payable at periods of more than 12 months, for the purpose of financing the purchase of the interest in the PSEC.

4. **Wabash Valley's Evidence.** Mr. Lee R. Wilmes, Petitioner's Vice President, Power Supply, testified that Petitioner is seeking a CPCN to purchase a 5.06% undivided interest in the PSEC, which consists of: (a) a 1650 MW supercritical pulverized coal-fueled power plant with two units and state-of-the-art environmental control technologies, (b) an on-site captive coal mine with more than 25 years of remaining proven reserves, and (c) on-site combustion residual disposal, located in Washington County, Illinois, within the Midcontinent Independent System Operator ("MISO") region. Petitioner's Confidential Exhibit No. 2-C contains the Purchase and Sale Agreement ("PSA") between Wabash Valley and Peabody Electricity, LLC ("Peabody"), and explained the terms of the PSA. Mr. Wilmes testified that he was part of a team representing Wabash Valley in the preparation of the PSA. He testified that Lively Grove is a wholly owned subsidiary of Peabody, and its only currently owned asset is a 5.06% undivided ownership interest in the PSEC, which equates to approximately 83 MW of capacity and energy entitlement from the PSEC's power plant and associated output of its coal mine.

Mr. Wilmes testified that the PSA calls for Wabash Valley to purchase the entity Lively Grove from Peabody in its entirety at a cost of \$57 million. Upon taking ownership of Lively Grove, Wabash Valley will cause Lively Grove to transfer and assign its 5.06% undivided interest in PSEC to Wabash Valley, which will enable Wabash Valley to subsequently finance the purchase price of the transaction under its Mortgage and Indenture of Trust dated December 31, 1996.

Mr. Wilmes testified that the closing of the acquisition of Lively Grove is set forth in the PSA as the third business day after the PSA's conditions to closing are met. Wabash Valley understands that, as conditions to closing, it must obtain a CPCN from the Commission as well as approval of the Federal Energy Regulatory Commission ("FERC") under Section 203 of the Federal Power Act. Mr. Wilmes testified that, based on his experience negotiating similar purchases, it is his professional opinion that the terms and conditions of the PSA are reasonable and representative of those contained in other agreements of the same nature.

Mr. Wilmes testified that Wabash Valley's owned generation totals 1,010.5 MW, including the following: (a) 156 MW from Gibson Unit 5, of which Wabash Valley has a 25% undivided ownership interest; (b) 168 MW from Wabash River #8; (c) 313.5 MW from Holland Energy, of which Wabash Valley has a 50% undivided ownership interest; (d) 240 MW from the Vermillion generating station, of which Wabash Valley has a 37.5% undivided ownership interest; (e) 86 MW from the Lawrence generating station, of which Wabash Valley owns one-third; and (f) 47 MW from landfill gas-fired internal combustion generating units installed at existing landfill sites in Indiana and Illinois.

Mr. Wilmes testified that Wabash Valley also has a mixture of base, intermediate, load following, and peaking power purchase contracts. Such contracts are characterized as both long- and short-term. He testified that Wabash Valley operates in both the MISO and PJM Interconnection, LLC ("PJM") markets, and Wabash Valley's generation and load are offered into those markets on a day-ahead and real-time basis, which allows for the most efficient dispatch of the generation in these markets. Finally, Mr. Wilmes testified that Wabash Valley and its members have successfully included demand response resources as part of their power supply portfolios since 1981 with the primary purpose of keeping power supply costs as low as possible. Existing demand resource programs include the PowerShift program, which can involve customers' water heaters, air conditioners, pool pumps, field irrigation, or entire homes, and the POWER MOVES Energy Efficiency program, which offers incentives to residential, commercial, and industrial customers taking certain energy efficiency measures.

Mr. Wilmes testified that the purchase of the interest in the PSEC offers appropriate circumstances to allow Wabash Valley to partner with others in existing generation without requiring the purchase of an entire unit, the scale of which would be too large for Wabash Valley's needs. Because of these circumstances, Wabash Valley did not issue a Request For Proposal prior to the PSEC purchase.

Mr. Wilmes testified that the purchase of the interest in the PSEC and the purchase price were consistent with Wabash Valley's 2013 IRP and 2015 IRP. He testified that the cost of the interest in the PSEC would be \$687/kw, compared to the 2013 IRP generation alternatives of \$3,784/kw for a large-scale base load coal plant, \$746/kw for a new peaking unit, and \$1,013/kw for a new combined cycle unit. In addition, the purchase price for the interest in the PSEC also includes a corresponding interest in the adjacent coal mine, which, Mr. Wilmes testified, will lower the operating cost of the PSEC significantly when comparing it to IRP expansion alternatives. Mr. Wilmes testified that the purchase of the interest in the PSEC would amount to the purchase of an economical base load generating plant with a fixed fuel supply and no transportation cost or risk. In addition, the 83 MW resulting from the purchase will help replace the loss of 81 MW of base generation that is expected from Wabash Valley's retirement of its Wabash River Unit 1 targeted for spring 2016. Mr. Wilmes testified that a planned new 6.4 MW landfill gas plant and conversion of the combustion turbine at Wabash River Unit 8 would make up some of this retired capacity, but that the 2015 IRP indicates that Wabash Valley would still be short approximately 59 MW and that Wabash Valley should add additional resources.

Mr. Wilmes testified that the purchase is also consistent with Petitioner's 2015 IRP because the purchase price is significantly lower than the estimated installed cost of a new coal-fired unit and lower than the estimated installed cost of alternative sources of capacity, particularly since the purchase price includes a corresponding interest in the adjacent coal mine. In addition, the purchase of an interest in the PSEC would help meet Wabash Valley's firm non-pass-through load need, which is expected to grow from 72 MW in 2017 to 119 MW in 2018.

Mr. Wilmes testified that the public convenience and necessity require Wabash Valley's purchase of Lively Grove and the 5.06% undivided interest in the PSEC because it is a necessary and economical addition to Wabash Valley's supply portfolio, which will help it fulfill its statutory requirement to supply the needs of its member distribution cooperatives. He testified that Wabash Valley can use its share of the PSEC to meet MISO's resource adequacy requirements and use the capacity to comply with North American Electric Reliability Corporation and planning reserve requirements.

Finally, Mr. Wilmes testified that the PSEC is justified in using non-Indiana coal because the purchase price includes coal reserves and coal mine infrastructure, leaving only the extraction cost as the primary fuel cost. This will result in fuel costs well below other sources and will eliminate the majority of long-term coal price risk as well as the cost and risk of coal transportation.

Mr. Albert Taylor Jr., Manager, Production Assets for Wabash Valley,¹ testified that Wabash Valley received technical and financial information on the PSEC via a secure data room, which contained all data and engineering reports. Mr. Taylor testified that he reviewed specific information as part of Wabash Valley's due diligence request and that he participated in a conference call regarding the PSEC's construction, initial equipment commissioning and operations, operating history, operating and maintenance budgets, capital project budgets, equipment performance, and environmental compliance.

Mr. Taylor testified that construction of the PSEC began in October 2007 under an engineer, procure, and construct contract. Unit 1 of the PSEC's power plant went commercial in June 2012, and Unit 2 did so in November 2012. Mr. Taylor submitted testimony on the history of operations and performance of the PSEC. He testified the PSEC's coal mine is comprised of 35 square miles and an approximately 8-foot continuous coal seam located 250 to 300 feet below ground. He also provided testimony regarding the amount and content of the mine's reserves. Mr. Taylor testified that the mine employs approximately 400 people in producing coal exclusively for the power plant and that the PSEC has approximately 210 non-union employees who operate and maintain the power plant. Petitioner's Confidential Exhibit No. 3-C contains a description of the PSEC's management team and related duties. Mr. Taylor testified that he is comfortable with the management agreements and management team in place at the PSEC.

Mr. Taylor testified that the PSEC is owned by nine participants as tenants in common. Peabody is the only non-public power owner of the PSEC. Eight other public entities own the PSEC, including American Municipal Power, Illinois Municipal Power Agency, Indiana

¹ On March 18, 2016, Petitioner substituted the testimony of Mr. Albert Taylor Jr., for the testimony of Mr. M. Keith Thompson that was initially prefiled with its case-in-chief.

Municipal Power Agency, Missouri Joint Electric Utility Commission, Prairie Power, Southern Illinois Power Cooperative, Kentucky Municipal Power, and Northern Illinois Municipal Power Agency. Mr. Taylor provided the percentage ownership interests and associated capacity for each PSEC owner. He testified that the ownership of the PSEC is governed by a Participation Agreement and provided information on the control and governance of the PSEC.

Mr. Taylor testified that Wabash Valley was provided with detailed ten-year projections for both anticipated capital project costs and operation and maintenance expenses and coal costs, which are reflected in Confidential Exhibit No. MKT-2 of Petitioner's Confidential Exhibit No. 3-C. Mr. Taylor testified as to the PSEC's projected average total annual capital cost and Wabash Valley's corresponding 5.06% share of such cost. He stated he believed the PSEC's operating costs are competitive.

Mr. Taylor sponsored Exhibit No. MKT-3 attached to Petitioner's Exhibit No. 3, which lists the permits required to operate the PSEC. He also testified as to the PSEC's past performance in relation to air emissions rates.

Mr. Jeffrey A. Conrad, Chief Financial Officer of Wabash Valley, addressed Petitioner's request for authorization to execute promissory notes as evidence of indebtedness for financing up to \$57 million for the purchase of Lively Grove and its 5.06% undivided interest in the PSEC. He testified that the Wabash Valley Board of Directors approved the financing of Lively Grove and its 5.06% undivided interest in the PSEC at a meeting held January 6, 2016. He testified that Wabash Valley was evaluating several financing options, including receiving financing from lenders National Rural Utilities Cooperative Finance Corporation and CoBank, ACB, both of which have expressed interest in the financing and are known for providing long-term financing to cooperative organizations. Mr. Conrad testified that Wabash Valley has successfully executed multiple financings with these institutions during the past 15 years. For purposes of this Petition, he stated that Wabash Valley has assumed financing at an annual fixed rate of 3.75% for a term of 15 years. In addition, Wabash Valley will consider financing through the private placement market. Mr. Conrad testified that Wabash Valley will evaluate all its lending choices, review interest rates and financing costs, and select the best low-cost provider for Wabash Valley and its members.

Mr. Conrad testified that Wabash Valley has assumed to repay the financing with a quarterly level principal payment over a 15-year term, which would amount to \$3,800,000 in principal repaid each year. The interest payment amount will vary each quarter and decrease over the life of the loan. Mr. Conrad sponsored Exhibit No. JAC-2 attached to Petitioner's Exhibit No. 4, which estimates debt service payments beginning in 2016. Mr. Conrad testified that, in his opinion, Wabash Valley has sufficient revenues to repay the debt. Per Wabash Valley's formulary rate tariff on file at FERC, Wabash Valley may incur a debt service coverage ratio up to 1.20. In addition, Wabash Valley's Board of Directors has an approved financial policy that requires Wabash Valley to seek to maintain a minimum debt service coverage ratio of 1.20 in its rates. Mr. Conrad testified that the Wabash Valley Indenture of Trust requires a Times Interest Earned Ratio of 1.0 or better and a debt service coverage ratio of 1.10 or better, which such requirements will be fulfilled with this financing.

Finally, Mr. Conrad testified that any capital projects financed by Wabash Valley using long-term debt must meet the requirements of the Indenture of Trust, and any notes issued will require the authorization of the Trustee under the Indenture of Trust. Mr. Conrad testified that Wabash Valley plans to finance the purchase of Lively Grove and its 5.06% undivided interest in the PSEC on the closing date, which will occur three business days after all necessary approvals have been attained by both parties.

5. OUCC's Evidence. Mr. Leon A. Golden, Utility Analyst for the Resource Planning and Communications Division, testified that Wabash Valley's request for a CPCN is consistent with the resource requirements set forth in its 2015 IRP and that the costs associated with the purchase of the resources are competitive with other available resource options. Mr. Golden recommended the Commission approve Wabash Valley's request for a CPCN.

Mr. Golden testified that Wabash Valley's 2015 IRP states that its Wabash River Unit 1 and adjacent gasification plant will be retired in 2016 and that Wabash Valley will fall short of its capacity requirements by 59 MW in 2016. He testified that this, coupled with the expiration of a unit-contingent power purchase agreement at the end of 2017, demonstrate that Wabash Valley's Petition for a CPCN is consistent with its IRP. Finally, Mr. Golden testified that the costs associated with the acquisition of Lively Grove and its 5.06% interest in the PSEC appear reasonable and that the cost of \$687/kW cited by Mr. Wilmes was well below the level required for coal to be a competitive resource option.

Ms. Crystal L. Thacker, Utility Analyst for the Electric Division, testified that the OUCC recommends the Commission grant Wabash Valley's requested financing authority, including the following conditions: (a) Petitioner's issuances pursuant to such authority shall be at a competitive market rate; (b) Petitioner shall provide a written report to both the OUCC and the Commission within 30 days of issuance of the indebtedness that provides, at minimum, the principal amount, applicable interest rate(s), how the interest rate(s) was determined, any collateral required, term and intended purpose of the borrowing, and any other pertinent repayment terms; and (c) Petitioner shall provide an updated Standard & Poor's credit rating report if its credit rating changes.

Ms. Thacker testified that Wabash Valley currently has outstanding financing authority approved by the Commission in Cause Nos. 43640, 44151, and 44465, but that Wabash Valley does not plan to use any of that authority for acquisition of the 5.06% interest in the PSEC because the financing authority granted in Cause Nos. 43640 and 44151 is specifically for landfill gas generating projects and the remaining financing authority granted in Cause No. 44465 is intended to finance Gibson Unit 5 environmental projects. In addition, Ms. Thacker testified that Wabash Valley does not intend to use any of the financing authority requested in pending Cause No. 44746, as this financing authority is intended to be used for Wabash Valley's 2016 and 2017 capital projects.

Ms. Thacker testified that Wabash Valley has asserted that a reasonable range for interest rates for its requested financing authority would be between 2.75% and 4.75% and that the interest rate would be based on U.S. Treasury obligations plus any applicable credit spread, which is expected to be about 150 basis points. Ms. Thacker testified that, if interest rates are

unfavorable at closing, Wabash Valley is able to borrow funds from a credit facility until interest rates are more favorable and that Wabash Valley may lock in an interest rate before closing. Wabash Valley does not consider financing terms to be a prevailing determinant in whether to complete the transaction. Ms. Thacker testified that Wabash Valley should be able to meet or exceed any requirements of its Indenture of Trust.

6. Commission Discussion and Findings.

A. CPCN. Ind. Code ch. 8-1-8.5 governs the Commission's review of CPCN requests. Ind. Code § 8-1-8.5-4 provides:

[i]n acting upon any petition for the construction, purchase, or lease of any facility for the generation of electricity, the commission shall take into account:

(1) the applicant's current and potential arrangement with other electric utilities for:

- (A) The interchange of power;
- (B) The pooling of facilities;
- (C) The purchase of power; and
- (D) Joint ownership of facilities; and

(2) other methods for providing reliable, efficient, and economical electric service, including the refurbishment of existing facilities, conservation, load management, cogeneration and renewable energy sources.

With regard to the interchange of power, the evidence indicates that Wabash Valley operates in both the MISO and PJM markets. Wabash Valley's generation and load are offered into those markets on a day-ahead and real-time basis, which allows for the most efficient dispatch of the generation in those markets. Wabash Valley's 2015 IRP shows that as a participant in MISO and PJM, Petitioner must meet the established reserve requirements by identifying specific generation units, adjusted for forced outages, or by purchasing capacity credits in an annual auction. Thus, we conclude that Wabash Valley's participation in MISO and PJM does not eliminate the need for Wabash Valley to acquire additional energy and capacity resources to serve its load.

Mr. Wilmes testified that Wabash Valley has a mixture of base, intermediate, load following, and peaking power purchase contracts and that such contracts are characterized as both long- and short-term. Petitioner's 2015 IRP provides detailed information regarding these purchase power contracts, including the supplier, type of contract, term, and MW. Based on our review of Mr. Wilmes' testimony and the 2015 IRP, we find that Wabash Valley currently utilizes a diversified and sophisticated portfolio of power purchase agreements to serve its load, and that Wabash Valley appropriately considers power purchase agreements when it evaluates resource options.

In this Cause, Wabash Valley requests a CPCN to purchase a 5.06% undivided interest in the PSEC, which is a jointly-owned facility. Mr. Taylor testified that the PSEC is currently owned by nine participants as tenants in common and that all current owners, with the exception of Peabody, are public power entities. Mr. Wilmes testified that the purchase of the interest in the PSEC offers appropriate circumstances to allow Wabash Valley to partner with others in

existing generation without requiring the purchase of an entire unit, the scale of which would be too large for Wabash Valley's needs. Furthermore, the evidence shows that Wabash Valley currently owns jointly-owned facilities, including the Gibson Unit 5, Holland Energy, Vermillion and Lawrence facilities. Based on our review of this evidence, we find that Wabash Valley appropriately considers joint ownership of facilities when it evaluates resource options.

Regarding other methods of providing electric service, the evidence shows that Wabash Valley plans to reconfigure its Wabash River Unit 8 to run on natural gas rather than steam after it retires Wabash River Unit 1 and the sgSolutions' gasification facility in the spring of 2016. Mr. Wilmes also described Petitioner's conservation and load management programs. The 2015 IRP further indicates that Wabash Valley still needs additional capacity even after considering conservation and load management options. The evidence also shows that Wabash Valley has a number of renewable resources in its energy portfolio, including landfill gas resources and wind purchase power contracts. In addition, the 2015 IRP provides a detailed description regarding Wabash Valley's end-customer (cogeneration) options and policies. Accordingly, we find that Petitioner appropriately considers and implements other methods in the provision of electric service when it evaluates resource options.

Ind. Code § 8-1-8.5-5 also sets forth specific findings the Commission must make in order to approve and grant the requested CPCN. As relevant to this proceeding, the Commission must first make a finding as to the best estimate of the purchase costs. Second, the Commission must find that either (a) the proposed purchase will be consistent with the Commission's plan, if any, for the expansion of electric generation facilities, or (b) the proposed purchase is consistent with a utility-specific proposal regarding the future needs of consumers in the State of Indiana or in the petitioning public utility's service area. Third, the Commission must find that public convenience and necessity require the facilities for which the CPCN is requested. Finally, the statute requires a finding that the facility, if it is a coal-consuming facility, utilizes Indiana coal or is justified, because of economic considerations or governmental requirements, in using non-Indiana coal.²

1. Best Estimate of Cost. We have previously stated that "the initial granting of a CPCN depends in large part upon the economical efficacy of a proposed project, and as such, the initial cost estimates are a significant factor in the Commission's decision making process." *Indianapolis Power & Light*, Cause No. 42170 ECR 16 S1, at 7 (IURC July 7, 2011). "It is the Petitioner's obligation to prepare a well-founded and realistically accurate cost estimate to support its CPCN request." *Indiana Michigan Power Co.*, Cause No. 44033, Order on Less Than All the Issues, at 6 (IURC Feb. 22, 2012).

The evidence of record shows that the total cost to purchase Lively Grove and the 5.06% undivided interest in the PSEC will be \$57 million. Mr. Wilmes testified that \$57 million is the

² The provisions of the state statutes providing favorable regulatory treatment to projects using Indiana coal have been held to be an unconstitutional interference with interstate commerce, but severable from the rest of the statutes, which remain valid. *General Motors Corp. v. Indianapolis Power & Light Co.*, 654 N.E.2d 752, 763 (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 (IURC Aug. 29, 2001); *N. Ind. Pub. Serv. Co.*, Cause No. 44012, at 12 n.3 (IURC Dec. 28, 2011). We will accordingly not rely upon such statutory provisions as a prerequisite for approval of a CPCN or to receive any other authority.

cost agreed upon in the PSA, and Mr. Conrad testified that Wabash Valley will not seek to finance any other costs associated with the purchase. Therefore, we find that the \$57 million capital cost is the best estimate of the costs of the purchase based on the evidence in the record. Further, Mr. Wilmes testified that the estimated costs of the interest in the PSEC would be less than the cost of other methods of acquiring generating capacity, including a new large-scale base load coal plant, a new peaking unit, or a new combined cycle unit. Further, Mr. Wilmes testified that the corresponding interest in the coal mine would result in additional fuel cost savings and decreased risk and cost for fuel transportation. Mr. Taylor testified that he believed the PSEC's operating costs are competitive, partially due to low fuel costs as a result of the on-site captive coal mine. On behalf of the OUCC, Mr. Golden testified that the costs of the purchase appear to be reasonable and below the level required to be considered a competitive resource option. The evidence indicates that the best estimate of cost to purchase Lively Grove and its 5.06% undivided interest in the PSEC is \$57 million, and the Commission finds this estimate to be reasonable based on the evidence presented.

2. Consistency with Wabash Valley's IRP and the State's Plan.

Based on our review of the evidence presented in the record, we find that the PSEC purchase is consistent with Wabash Valley's 2013 and 2015 IRPs. Specifically, the evidence indicates that Wabash Valley is expected to lose 81 MW of base generation upon the retirement of its Wabash River Unit 1. Although a new 6.4 MW landfill gas plant and the planned conversion of the combustion turbine at Wabash River Unit 8 will make up some of the lost capacity, the 2015 IRP indicates that Wabash Valley will still be short by approximately 59 MW of capacity. Coupled with an additional shortage created by the expiration of a unit-contingent power purchase agreement at the end of 2017, the 2015 IRP recommends adding 96 MW of combined cycle resources and 144 MW of combustion turbine resources in 2017 and an additional 96 MW of combined cycle resources in 2018.

We find the PSEC purchase is consistent with these recommendations because the evidence indicates that purchasing an interest in the PSEC will be more economical than if Petitioner were to independently build large-scale generation, and the scale of the purchase is adequate for Wabash Valley's needs. Wabash Valley's 2015 IRP indicates that a coal resource can be cost-competitive with a combined cycle resource if the cost of the coal resource is less than approximately \$1,100/kw installed and is equipped with certain environmental controls. The evidence in the record indicates that the PSEC is just such a facility.

In addition, the purchase will help Petitioner meet its statutory requirement to supply the needs of its member distribution cooperatives, meet MISO's resource adequacy requirements, and comply with North American Electric Reliability Corporation and planning reserve requirements. The OUCC also agreed that Petitioner's purchase of the 5.06% interest in the PSEC is consistent with Wabash Valley's 2013 and 2015 IRPs. Accordingly, we find that Wabash Valley's proposed purchase of the interest in the PSEC is consistent with both its 2013 and 2015 IRPs.

The State Utility Forecasting Group ("SUFG") was established pursuant to Ind. Code § 8-1-8.5-3.5 to forecast the probable future growth of the use of electricity within Indiana and this region of the nation. The Commission uses the SUFG forecast to assess and plan for the long-

range needs for expansion of facilities for the generation of electricity, consistent with Ind. Code § 8-1-8.5-3.5(c). *Indianapolis Power & Light Co.*, Cause No. 44339, at 26 (IURC May 14, 2014); *PSI Energy, Inc.*, Cause No. 42145, at 1 (IURC Dec. 19, 2002). The 2015 SUFG report presented in this Cause indicates a need for new capacity in Indiana and that “these projections indicate a relatively balanced need for the three types of resources modeled: baseload, cycling (also referred to as intermediate) and peaking.” Admin Notice 1, at 1-1 (SUFG Indiana Electricity Projections: The 2015 Forecast). As a result, we find that Petitioner’s proposed purchase of an interest in an existing base-load generation facility is consistent with the overall plan for expansion of electric generating capacity.

3. Public Convenience and Necessity. Based on the evidence presented, we find that the purchase of the interest in the PSEC would permit Wabash Valley to acquire generating assets on a scale appropriate to its needs and that such purchase would be an economical base load generating plant with a fixed fuel supply and no transportation cost or risk. In addition, we find that the purchase will replace the expected loss of 81 MW of base generation from the retirement of the Wabash River Unit 1. Mr. Taylor testified that Wabash Valley expects the PSEC operating costs to be competitive. Mr. Golden testified that Wabash Valley’s request for a CPCN is consistent with Wabash Valley’s resource requirements as set forth in its IRP and that the costs associated with the purchase of the resources are competitive with other available resource options.

Therefore, we find that the purchase is a necessary addition to Petitioner’s supply portfolio, which will help it fulfill its statutory requirement to supply the needs of its members. The Commission therefore concludes that the public convenience and necessity requires, or will require, Wabash Valley’s purchase of Lively Grove and the 5.06% undivided interest in the PSEC.

4. Non-Indiana Coal. The evidence shows the PSEC campus, which is located in Illinois, includes a coal mine that is used exclusively for purposes of the generating facility. Thus, we conclude that the PSEC is justified in using non-Indiana coal because the purchase price includes coal reserves and coal mine infrastructure, leaving only the extraction cost as the primary fuel cost, resulting in fuel costs below other sources, and eliminating long-term coal price risk and associated transportation cost and risk. However, as discussed in footnote 2 above, we will not use the Indiana coal requirement as a prerequisite for approval of a CPCN.

5. Conclusion. Based on the evidence presented, the Commission finds Wabash Valley has made reasonable efforts in its current and potential arrangements with other electric utilities for the interchange of power, pooling of facilities, purchase of power, and joint ownership of facilities. Wabash Valley has also implemented other methods for providing reliable, efficient, and economical electric service, including the construction of new facilities, conservation, load management, cogeneration, and procurement of renewable energy resources. Wabash Valley has also considered options available to meet increasing demand for electricity and the need for reliable energy and capacity. The evidence also indicates that the purchase of Lively Grove and a 5.06% undivided interest in the PSEC is a reliable, efficient, and economical way to meet Wabash Valley’s needs.

Based on these findings, the Commission concludes that a CPCN should be granted to Wabash Valley for the purchase of Lively Grove and the 5.06% undivided interest in the PSEC pursuant to Ind. Code § 8-1-8.5-4 and Ind. Code § 8-1-8.5-5.

B. Financing Authority. Wabash Valley also requests a certificate of authority to issue bonds, notes, or other evidence of indebtedness payable at periods of more than 12 months for the purpose of financing 100% of the purchase price and related costs for the acquisition of Lively Grove and the 5.06% undivided interest in the PSEC.

Ind. Code § 8-1-2-79 requires Commission approval of Petitioner's issuance of evidence of indebtedness payable more than one year from its issuance. Additionally, Ind. Code § 8-1-2-84 requires Commission approval for the encumbrance of a public utility's property. Finally, Ind. Code § 8-1-2-80 requires the Commission, in order to grant the requested financing authority, to issue to Wabash Valley a certificate of authority stating: (a) the amount of such indebtedness reasonably necessary for the purposes for which it is to be issued and the character of the same; and (b) the purposes for which the indebtedness is to be issued and the property to be acquired thereby.

Wabash Valley's Petition and evidence describe the nature and purpose of the long-term indebtedness for which it requests approval – namely to finance 100% of the purchase price and related costs for the acquisition of Lively Grove and the 5.06% undivided interest in the PSEC. We find the proposed use of these funds is reasonable and consistent with Indiana law and should be approved.

Wabash Valley's evidence demonstrates that it will have sufficient revenue to timely pay the debt without adversely affecting its credit ratings or violating its financing obligation to lenders. The evidence shows that Wabash Valley based its pro forma balance sheet and income statement on an assumed annual fixed interest rate of 3.75% for a term of 15 years. Ms. Thacker testified that Wabash Valley asserted that a reasonable range for interest rates for its requested financing authority would be between 2.75% and 4.75% and that the interest rate would be based on U.S. Treasury obligations plus any applicable credit spread, which is expected to be about 150 basis points. Finally, the evidence shows that Petitioner will evaluate all its lending choices, review interest rates and financing costs, and select the best low-cost provider for Wabash Valley and its members.

The OUCC's evidence indicates that Wabash Valley does not intend to use any of its outstanding or pending financing authority for the purchase of Lively Grove and its 5.06% interest in the PSEC and that any financing authority it receives in this Cause should meet its Indenture of Trust requirements. Consequently, the OUCC recommends the Commission grant Petitioner's requested financing authority pursuant to the following conditions: (a) Wabash Valley issuances pursuant to such authority shall be at a competitive market rate; (b) Wabash Valley shall provide a written report to both the OUCC and the Commission within 30 days of issuance of the indebtedness that provides, at minimum, the principal amount, applicable interest rate(s), how the interest rate(s) was determined, any collateral required, term and intended

purpose of the borrowing, and any other pertinent repayment terms; and (c) Wabash Valley shall provide an updated Standard & Poor's credit rating report if its credit rating changes.

Based on the evidence of record, the Commission finds that Wabash Valley's request for a certificate of authority to issue evidence of indebtedness up to \$57 million to purchase Lively Grove and its 5.06% interest in the PSEC is reasonably necessary for that purpose. We also find that the amount of debt Wabash Valley plans to issue does not exceed an amount that is reasonably necessary because it is directly tied to the purchase price of the asset. We therefore conclude that Wabash Valley's request for a certificate of authority should be granted subject to the conditions proposed by the OUCC.

C. Confidential Material. Concurrently with its Petition, Wabash Valley filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information ("Motion"). Attached to the Motion were the Affidavits of Lee R. Wilmes, Jeff A. Conrad and M. Keith Thompson. On February 1, 2016, the Presiding Officers issued a Docket Entry finding that the information ("Confidential Information") should be held as confidential by the Commission on a preliminary basis.

Upon review of the Confidential Information, the Commission concludes that the information for which Petitioner sought confidential treatment contains trade secret information as defined by Ind. Code § 24-2-3-2. Accordingly, the Confidential Information submitted to the Commission pursuant to the Motion and the February 1, 2016 Docket Entry is exempt from the public access requirements of Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29, and shall continue to be held as confidential by the Commission.

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

1. Wabash Valley is issued a CPCN to purchase Lively Grove and a 5.06% undivided interest in the PSEC.
2. Wabash Valley is authorized to issue long-term debt and execute notes as evidence of indebtedness in amounts not to exceed the purchase price and related costs and to encumber its property to secure payment of the indebtedness, subject to the conditions set forth in Paragraph 6.B above.
3. Wabash Valley is issued a certificate of authority for the issuance of such securities.
4. Wabash Valley is granted authority to execute such other transaction documents and evidences of indebtedness as are necessary and appropriate to effectuate the issuance of such long-term debt.
5. Wabash Valley is granted authority to use and apply the cash proceeds arising from the issuance of such long-term debt for the purposes set forth in this Order.

6. Within 30 days of exercising any of the financing authority granted in this Order, Wabash Valley shall file a report in this Cause that provides the principal amount, applicable interest rate(s), how the interest rate(s) was determined, any collateral required, term and intended purpose of the borrowing, and any other pertinent repayment terms.

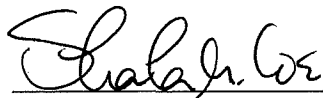
7. The Confidential Information filed under seal by Wabash Valley in this Cause shall continue to be treated by the Commission as confidential and not subject to public disclosure.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: APR 13 2016

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



Shala M. Goe
Acting Secretary to the Commission