

ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE APPLICATION OF)
INDIANA MICHIGAN POWER COMPANY FOR)
AUTHORIZATION OF A FUEL COST ADJUSTMENT)
FOR ELECTRIC SERVICE APPLICABLE FOR THE)
BILLING MONTHS OF MAY 2023 THROUGH) CAUSE NO. 38702 FAC 90
OCTOBER 2023 AND FOR APPROVAL OF) APPROVED: APR 26 2023
RATEMAKING TREATMENT FOR COST OF WIND)
POWER PURCHASES PURSUANT TO CAUSE NOS.)
43328, 43750, 44034 AND 44362)

ORDER OF THE COMMISSION

Presiding Officer:
Ann Pagonis, Administrative Law Judge

On January 31, 2023, Indiana Michigan Power Company (“I&M” or “Applicant”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Verified Application for a Fuel Cost Adjustment for electric service to be applicable during the May 2023 through October 2023 billing months, pursuant to the provisions of Ind. Code § 8-1-2-42, and for approval of I&M’s ratemaking treatment of wind power purchase costs. I&M filed its case-in-chief on the same day.

The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its case-in-chief on March 7, 2023.

On March 20, 2023, I&M filed its rebuttal testimony.

The Commission conducted an evidentiary hearing in this Cause on April 3, 2023, at 9:30 a.m. in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Applicant and the OUCC participated in the hearing. At the hearing, the direct testimony and attachments of Applicant and the OUCC were admitted into evidence without objection.

The Commission, based upon the applicable law and the evidence of record, now finds as follows:

1. Notice and Jurisdiction. Proper notice of the public hearing in this Cause was published as provided by law. I&M is an Indiana corporation engaged in rendering electric public utility service in the State of Indiana and is a public utility within the meaning of the Public Service Commission Act, as amended. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant’s fuel cost charge. Therefore, the Commission has jurisdiction over the Applicant and the subject matter of this proceeding.

2. Applicant’s Request. In its Verified Application, Applicant seeks Commission approval to implement its proposed fuel adjustment cost during the billing months of May 2023 through October 2023 pursuant to Ind. Code § 8-1-2-42 and I&M’s ratemaking treatment of wind power purchase costs. I&M’s application continues the semi-annual filing process in place since

1999. Applicant also requests the Commission find that the applicable provisions of Ind. Code § 8-1-2-42 are satisfied.

3. Source of Fuel and Coal Increment Pricing. As a condition of receiving its requested fuel adjustment cost, Applicant must demonstrate compliance 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. Applicant's witness Jeffrey C. Dial summarized Applicant's long-term coal supply agreements and described I&M's coal purchasing strategy. He discussed why the Applicant renewed the Cook Coal Terminal transloading facility for use during the Reconciliation Period (June 2022 through November 2022) and how it affected the actual cost of coal delivered to the Rockport Plant as compared to forecasted. Mr. Dial explained how Central Appalachian coal prices have increased during the Reconciliation Period, but Powder River Basin coal decreased during the same period. Mr. Dial explained how transportation constraints were experienced by the Applicant and how the Applicant utilized increment pricing to ensure I&M had adequate coal available. I&M will continue to evaluate the need for pricing strategies and will update its testimony regarding the use of such pricing in future FAC proceedings. Applicant's witness Ivan Phung further explained how I&M utilized increment pricing in support of managing each unit's coal inventory. Applicant's witness Keith A. Steinmetz described the major nuclear fuel contracts and actions taken to minimize I&M's nuclear fuel costs.

OUCG witness Gregory T. Guerrettaz discussed I&M's cost of nuclear fuel and coal and how generation can be affected by the coal prices. Mr. Guerrettaz recommended that Applicant provide any communications between the Applicant and/or its affiliates with any coal or transportation company regarding delivery issues as well as require I&M to continue to provide all new Nuclear Fuel Leases, bid results, and invoices related to the next fuel batches at the time when workpapers are provided. OUCG witness Michael D. Eckert discussed how low-cost natural gas has resulted in a decrease in demand for coal-fired electricity, resulting in increased coal supplies (inventories). Mr. Eckert explained how the lack of available coal during the Reconciliation Period has resulted in I&M modifying its Day-Ahead Offer Price to manage the coal inventory and recommended that in the next FAC filing, Applicant: 1) file testimony, schedules, and workpapers to justify the need for, or use of coal increment/decrement pricing; and 2) require Applicant to explain the generation strategy and coal inventory management utilized by I&M with Rockport 2 becoming a merchant plant.

Applicant's evidence demonstrates that it has made every reasonable effort to obtain available fuel or power as economically as possible. Based on the evidence presented, as indicated here and further below, the Commission finds that Applicant is endeavoring to acquire fuel for its internal generation, or purchase power, so as to provide electricity at the lowest fuel cost reasonably possible.

4. Operating Expenses. Ind. Code § 8-1-2-42(d)(2) requires the Commission to find that increases in a utility's fuel cost have been offset by decreases in other expenses. Applicant's fuel expenses for the 12-month period ended November 30, 2022, in the amount of \$243,283,000, as reflected on Applicant's Attachment 1-F, Schedule 1, Column 9, Line 38, of Exhibit 1, are more than the corresponding amount determined in Applicant's last base rate order (Cause No. 45576) of \$185,803,000 by an amount of \$57,480,000. Applicant's filing demonstrates that I&M's actual fuel costs are higher than the fuel cost included in Cause No. 45576. Accordingly, any increases in fuel costs must be offset by decreases in other non-fuel costs. We find that I&M is in compliance

with the statutory requirements of Ind. Code § 8-1-2-42(d)(2).

5. Return Earned. Applicant's witness Dona Seger-Lawson explained that pursuant to the Order in Cause No. 45576, I&M is authorized to earn an electric operating income of \$296,735,000. That amount (when adjusted for Cause Nos. 44182 and 45245) results in an authorized level for the 12 months ended November 30, 2022, of \$291,493,000. According to Applicant's Attachment 1-F, Schedule 1, attached to Exhibit 1, for the 12 months ended November 30, 2022, I&M earned an actual jurisdictional net operating income of \$289,648,000. This results in I&M's actual return being less than its authorized return for the most recent 12-month period and the sum of the differentials for the relevant period is also greater than zero, meaning that the Commission should find that the "return" test of Ind. Code § 8-1-2-42(d)(3) is satisfied. Therefore, in accordance with Ind. Code § 8-1-2-42(d)(3) an increase to I&M's FAC factor is necessary.

OUCC witness Guerrettaz affirmed Applicant's conformity with the requirements of Cause No. 38702 FAC 89.

Upon our consideration of the record evidence, the Commission finds I&M has properly determined the authorized operating income for the 12 months ended November 30, 2022, and properly reflected the return authorized in Cause Nos. 44182 and 45245. Thus, by the mechanics of the applicable statute, the Commission finds I&M appropriately calculated and applied the reduction amount to its proposed fuel factor in light of the return earned by I&M during the 12 months ending November 30, 2022.

6. Estimating Techniques. I&M's overall weighted average fuel cost estimating error during the months of the reconciliation period of June through November 2022 was an underestimation of approximately 18%. I&M's witness Bryan S. Owens noted that the primary driver of the higher than forecasted costs during the Reconciliation Period were higher than forecasted system purchases and fuel costs, which were partially offset by higher than forecasted Inter-System sales. I&M projected its fuel costs for the billing months of May 2023 through October 2023. I&M's filing demonstrates that the estimates of I&M's prospective average fuel costs for the projected period are reasonable after taking into consideration the difference between I&M's projected and actual fuel cost for the Reconciliation Period. Based on the evidence, we find that Applicant's estimating techniques are reasonable and its estimate of fuel costs for May 2023 through October 2023 should be accepted.

7. Wind Power Purchases. Applicant's witness Shelli A. Sloan testified in support of I&M's request for approval of ratemaking treatment for costs related to I&M's wind power purchases. Ms. Sloan testified that I&M is projected to receive energy from the Fowler Ridge phase one and phase two wind farms, the Wildcat wind farm, and the Headwaters wind farm. OUCC witness Eckert testified that he reviewed the settlement agreement and subsequent Order in Cause No. 43328 and that I&M has forecasted the costs of wind power that it will be incurring in the future by using the cost per MWh from the Wind Power Purchase Agreements and has identified the wind power MWhs and costs on separate line items. Pub. Ex. No. 2 at 2. I&M's wind purchases are shown consistent with the Commission's Order in Cause No. 38702 FAC 63, and inclusion of these costs conforms to the Commission's November 28, 2007, Order in Cause No. 43328, January 6, 2010 Order in Cause No. 43750, September 21, 2011 Order in Cause No. 44034, and the November 25, 2013 Order in Cause No. 44362. Accordingly, the record supports, and the Commission so finds, that the wind power purchase costs reflected in I&M's filing are reasonable and the Commission therefore approves the ratemaking treatment of such costs.

8. Fuel Cost Adjustment Charges. Attachment 1-C to Applicant's Exhibit 1 sets forth I&M's actual incurred fuel costs for the reconciliation period. I&M's fuel costs for the reconciliation period were under-recovered in the amount of \$39,727,905, based upon projected fuel costs for those months previously approved by the Commission.

Applicant's total estimated cost of fuel for the billing months May 2023 through October 2023 is \$136,789,839 and its total estimated sales are 10,534,005 MWhs. I&M's estimated cost of fuel, as indicated on Applicant's Attachment 1-B, Schedule 1, line 23 of Exhibit 1, is therefore 12.986 mills per kWh. Combining the variance factor with the estimated per kWh cost of fuel, subtracting the base cost of fuel in Cause No. 45576, and including the Variance Factor from FAC 89, results in a proposed total fuel factor of 4.245 mills per kWh.

In accordance with the basing point approved by the Commission in Cause No. 45576 and the evidence presented in this proceeding, we find Applicant is authorized to apply a fuel cost adjustment of 4.245 mills per kWh to Applicant's Indiana retail tariffs for the billing months of May 2023 through October 2023. The typical residential bill for a customer using 1,000 kWh per month will increase by \$3.75 or 2.39% compared to the factor approved in Cause No. 38702 FAC 89 (excluding taxes).

9. Required Reporting. I&M's FAC filing continues to utilize the semi-annual filing practice and such practice was unopposed; accordingly, the Commission approves a fuel cost factor for a six-month period. However, as required by Ind. Code § 8-1-2-42(c), the OUCC should perform a quarterly review of I&M's books and records pertaining to the cost of fuel and report to the Commission by November 22, 2023. Applicant has agreed to cooperate and provide reasonable support in the OUCC's fulfillment of this requirement.

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

1. In accordance with Ind. Code § 8-1-2-42, the fuel cost adjustment charge set forth in Finding No. 8 above for the billing months of May 2023 through October 2023 is approved.
2. I&M's ratemaking treatment for the cost of wind power purchases pursuant to the Commission's Orders in Cause Nos. 43328, 43750, 44034, and 44362 is approved.
3. Prior to implementing the rate, Applicant shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division.
4. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, VELETA, AND ZIEGNER CONCUR:

APPROVED: APR 26 2023

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

**Dana Kosco
Secretary of the Commission**