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

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY (I&M) FOR AN ORDER AUTHORIZING (1) PRE-APPROVAL OF A CAPACITY PURCHASE AGREEMENT (CPA) AND (2) TIMELY RECOVERY OF COSTS THROUGH I&M'S RESOURCE ADEQUACY RIDER (RAR) OF THE COST OF CAPACITY I&M WILL INCUR UNDER THE CPA.	)	**CAUSE NO. 45869** **APPROVED: AUG 16 2023**

ORDER OF THE COMMISSION

Presiding Officers:
David E. Veleta, Commissioner
Ann Pagonis, Administrative Law Judge

On March 30, 2023, Indiana Michigan Power Company ("I&M" or "Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") initiating this Cause. Also on March 30, 2023, I&M filed its prepared testimony and exhibits constituting its case-in-chief, as well as supporting workpapers, from the following witnesses:

- David Lucas – I&M Vice President, Regulatory and Finance.
- Mark Becker – Managing Director of Resource Planning, American Electric Power Service Corporation.
- Timothy Gaul – Director, Regulated Infrastructure Development, American Electric Power Service Corporation.
- Dean Koujak – Principal, Charles River Associates.
- Andrew Williamson – Director of Regulatory Services, I&M.[1]

On April 6, 2023, Wabash Valley Power Association, Inc. d/b/a Wabash Valley Power Alliance filed its Petition to Intervene, which the Presiding Officers granted by docket entry dated April 17, 2023. On April 19, 2023, Citizens Action Coalition of Indiana, Inc. filed its Petition to Intervene, which the Presiding Officers granted by docket entry dated May 12, 2023.

On June 15, 2023, the Indiana Office of Utility Consumer Counselor ("OUCC") filed testimony and exhibits of Derek Leader and Kaleb Lantrip, both Utility Analysts in the OUCC's Electric Division, constituting its case-in-chief. I&M filed the rebuttal testimony of Andrew Williamson on June 23, 2023.

The Commission conducted an evidentiary hearing in this Cause on July 19, 2023, at 1:30 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner, the OUCC, and Intervenors appeared and participated in the hearing by counsel and the

[1] I&M prefiled corrections to its direct testimony on June 23, 2023.

evidence and testimony of Petitioner and the OUCC were admitted into the record without objection.

Based upon the applicable law and evidence presented, the Commission now finds:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. I&M is a "public utility" within the meaning of that term as used in Ind. Code § 8-1-2-1. I&M is subject to the jurisdiction of the 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. Pursuant to Ind. Code § 8-1-2-42(a), the Commission has authority to approve rate adjustment mechanisms and the implementation of the Resource Adequacy Rider ("RAR") is consistent with that authority. Therefore, the Commission has jurisdiction over I&M and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** I&M is a wholly owned subsidiary of American Electric Power Company, Inc. 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 and operates generation, transmission, and distribution plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the furnishing of such electric service to the public.

I&M supplies electric service to approximately 476,000 retail customers in northern and east-central Indiana and 131,000 retail customers in southwestern Michigan, within a service area covering approximately 4,600 square miles. In Indiana, I&M provides retail electric service to 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 addition, I&M serves customers at wholesale in Indiana and Michigan. I&M's electric system is a fully integrated and interconnected entity that is operated within Indiana and Michigan as a single utility.

3. **Overview of the Capacity Purchase Agreement.** The Montpelier Capacity Purchase Agreement ("CPA") is a seven-year, capacity-only contract between I&M and Rockland Capital. It provides for the purchase of 210 megawatts ("MW") of capacity accredited by Pennsylvania-New Jersey-Maryland Interconnection ("PJM"). This purchase is beginning in PJM capacity year 2027/2028 (or June 1, 2027) and ending with the PJM capacity year 2033/2034 (or May 31, 2034). The source of the capacity is the Montpelier Electric Generating Station, which went into commercial operation in 2001 and is located in Wells County, Poneto, Indiana. It is connected to the American Electric Power Company, Inc. transmission system.

4. **Relief Requested.** I&M requests the Commission issue an order providing for: (i) pre-approval of the Montpelier CPA; (ii) the timely recovery of costs for the full CPA term through I&M's RAR of the cost of capacity I&M will incur under the Montpelier CPA; and (iii) confidential treatment of the Montpelier CPA pricing and other negotiated commercial terms and related confidential information.

5. **Statutory Framework.** Ind. Code § 8-l-2-42(a) authorizes rate adjustment mechanisms for the recovery of costs incurred in the provision of retail service. Recently enacted

House Enrolled Act 1007, codified at Ind. Code § 8-1-2-0.6, sets forth five attributes (also referred to as the "Five Pillars") the Commission will also consider in this matter.[2]

6. Petitioner's Case-in-Chief.

A. Montpelier CPA Overview. I&M witnesses Mr. Lucas and Mr. Gaul described the Montpelier CPA. Mr. Lucas explained the Montpelier CPA is a capacity-only contract I&M has entered into with Rockland Capital for 210 MW of firm capacity from the Montpelier Electric Generating Station. He testified the Montpelier Electric Generating Station is an existing natural gas combustion turbine facility that went into commercial operation in 2001 and is located in Poneto, IN in Wells County. He said this facility is connected to the American Electric Power Company, Inc. transmission system. He explained the contract term for the Montpelier CPA is seven years, starting in PJM capacity year 2027/2028 and ending in 2033/2034. He stated I&M established the term of this CPA to align with the scheduled expiration of existing wholesale contracts. Mr. Gaul provided additional details regarding the structure and terms of the Montpelier CPA.

B. Integrated Resource Plan. Mr. Lucas testified that I&M is on the brink of a major generation transformation as Rockport Unit 1 and Unit 2 retire from service by the end of 2028. He said these coal-fired resources represent nearly one-half of I&M's generation fleet and the retirement of these units provides a significant opportunity for I&M to transition to more renewable resources, further diversify its generation portfolio, and reduce its carbon emissions. He said the Petition in this proceeding is a result of I&M's 2021 Integrated Resource Plan ("IRP"), the planning tool I&M utilizes to determine how to meet the ongoing need for reliable and economic electric demand in its service area.

Mr. Lucas and Mr. Becker testified that the proposed Montpelier CPA is consistent with the Preferred Portfolio that was the result of the IRP process and is an important step in replacing the capacity from the Rockport facility. Mr. Lucas said the objectives and metrics that I&M used during the IRP process to determine the Preferred Portfolio were very closely aligned with the work of the 21st Century Energy Policy Development Task Force.

C. All-Source Request for Proposal and Project Evaluation/Selection. Mr. Lucas and Mr. Gaul explained that the competitive procurement process used to select the proposed CPA. These witnesses explained I&M developed a 2022 All Source Request for Proposal ("RFP") to solicit responses from the market for capacity resource needs identified in I&M's Preferred Portfolio for the 2025/2026 and 2026/2027 PJM Planning Years. They explained the RFP was designed in a way that allowed for an open, non-discriminatory competitive procurement process that considered both third-party and utility ownership, a range of resource types or combinations of resource types, various sizes and capacities within practical limits, ancillary services, and cost reducing benefits. Mr. Lucas added that the RFP was also structured to comply with the terms of the Settlement Agreement approved by the Commission in its Order issued on December 8, 2021 in Cause No. 45546.

[2] On June 28, 2023, the Commission issued General Administrative Order 2023-04 establishing guidelines regarding the Five Pillars

Mr. Gaul elaborated on how I&M developed the structure and requirements of the RFP and I&M's efforts to collect and incorporate stakeholder input in the development of the RFP.

Mr. Lucas and Mr. Gaul also testified that I&M utilized Charles River & Associates to fulfill the role of Independent Monitor, to manage the stakeholder process on behalf of I&M and to allow stakeholder feedback to be received and reasonably considered in the RFP process.

Mr. Gaul testified the Montpelier CPA proposed in this case is the result of a competitive procurement process. Mr. Lucas testified that it is one of the best scoring projects from the 2022 RFP, meaning when compared to alternatives available in the market, the Montpelier CPA is one of the best alternatives I&M has to fulfill the capacity need consistent with that identified through the IRP planning process.

I&M witness Mr. Koujak discussed the goal of the 2022 All-Source RFP, as well as the eligible technologies and bidder thresholds, which he said are substantially the same or similar to other RFPs he had overseen. He described the evaluation and stakeholder processes and said each was reasonable. Mr. Koujak provided an overview of the RFP results and explained the selection of a thermal capacity resource under the RFP and post-shortlist negotiations. He provided a supporting report and concluded that: (i) I&M developed the RFP documentation in a clear and transparent manner; (ii) I&M performed the evaluation on a fair and consistent basis in-line with the process noted in the RFP; (iii) the criteria used in the evaluation is in-line with typical utility practice and reasonable to achieve the goals of the RFP; (iv) the shortlisting of finalists was also performed on a fair and consistent basis with the process published in the RFP; and (v) there is no evidence that the evaluation and selection process caused any unfair advantage or disadvantage to any interested respondent.

Mr. Lucas testified that I&M received responses from the RFP that were aligned with the overall capacity amounts requested in the RFP; however, the breakdown of capacity across the various technology types differed. He said I&M received a robust response to the RFP from solar projects and other qualified supplemental capacity resources, including thermal and standalone storage resources. He said the responses for wind projects were less than the amount originally targeted in the RFP, notwithstanding I&M's efforts to reach a broader set of wind resources in neighboring states and in Midcontinent Independent System Operator, Inc.

Mr. Gaul discussed the initial bid receipt and overall bidder response to the RFP. Mr. Gaul said, in total, Charles River & Associates (and I&M) received 32 proposals from 12 unique bidders. He said proposals included solar, wind, solar plus storage, wind/solar plus storage, thermal capacity resources, and standalone battery storage technologies. He said several bidders submitted multiple bids for the same project (e.g., bid variations with battery energy storage systems and multiple expected commercial operations dates), accounting for a greater number of bids than projects. He said a total of approximately 7,500 MW of proposed projects across 32 project bids were received. Mr. Gaul added the proposals were not offered to the I&M on an exclusive basis and the bidders could withdraw their proposal at any time.

Mr. Gaul provided a detailed breakdown of the proposals received by each technology type. Mr. Gaul added that two of the three wind projects that had passed the Eligibility and Threshold review ultimately rescinded their bids from the RFP to pursue other agreements.

Mr. Gaul described the steps used in the proposal review and project selection process. He explained the components of the economic analysis and explained how pricing was compared across different proposal contract types, with different term lengths and different energy product offerings. He said Phase 1 of the Economic Analysis focused on the assessment and comparison of projects of similar generation type (wind, solar, or supplemental capacity) using either a calculated levelized adjusted cost of energy or levelized adjusted cost of capacity metric. He said Phase 2 then assessed and compared the projects across all technology types based on a value to cost ratio. He said the value to cost ratio allowed for the holistic consideration of all the value streams provided by each generation type in the comparison. He said across both phases, the metrics were calculated in a manner that ensured proposals could be compared on an equivalent basis across the range of technology types, contract structures (renewable energy purchase agreements or purchase sale agreements), contract term lengths, and energy product offerings. He said ultimately, given the number of projects remaining after the Eligibility and Threshold analysis, the Independent Monitor and I&M agreed that no project would be eliminated in the first phase and all eligible projects would proceed from Phase 1 (levelized adjusted cost of energy/levelized adjusted cost of capacity) to Phase 2 value to cost comparisons.

Mr. Gaul also discussed the ten non-price factors considered in the evaluation of each proposal. Mr. Gaul summarized the total scores for all eligible proposals and identified the projects selected for detailed contract negotiations. Mr. Gaul described the contract negotiation activities with the developers of the shortlisted projects, including the Montpelier CPA.

Mr. Gaul explained how market pressures impacted the RFP bid and review process. He said a range of events impacted markets both immediately before and during the bid selection and negotiation process for the 2022 All Source RFP, including: the Uyghur Forced Labor Prevention Act and subsequent detainment of module deliveries by U.S. Customs and Border Protection, Russia's invasion of Ukraine, the initiation of the Antidumping Duty and Countervailing Duty investigation by the U.S. Department of Commerce, the enactment of the Inflation Reduction Act, the release of guidance around the Inflation Reduction Act's Prevailing Wage and Apprenticeship requirements, PJM interconnection queue reform, and the rise in inflation and interest rates. He said ongoing supply chain risks and delays in the PJM interconnection process were the primary drivers of schedule changes during the bid review and negotiation process. He said continuing supply chain risks and commodity inflation driven by the war in Ukraine, pending solar module tariff outcomes of the Antidumping Duty and Countervailing Duty investigation, and competition among developers for material supply and contractor support have all added scheduling risks to projects. Mr. Gaul said delays and uncertainty in the PJM interconnection process have likely had the most significant impact on project development timelines. Mr. Gaul stated the overall effect of the PJM queue delays has been a reduction in the supply of projects that can support the increasing demand for renewables in a manner that meets the timing of energy and capacity needs of the system. He stated that although the Federal Energy Regulatory Commission has approved reforms to help resolve the generation interconnection queue bottleneck, the plan itself will take years to execute and new generation interconnection requests are not being accepted until more of the backlog is processed.

Mr. Gaul also discussed a range of economic factors that caused increases to cost and volatility in raw materials, equipment costs, interest rates, and labor during the bid evaluation and negotiation process. He said each of these factors impacted bid pricing and shaped contract negotiations.

Mr. Gaul explained how I&M responded to industry challenges through contract negotiations. Mr. Gaul testified that each agreement incorporates financial assurances that the developer will meet its contractual obligations; that the facilities will align with performance expectations; and that major equipment suppliers and contractors will honor all warranties, guarantees, and commitments to the projects. He said overall, I&M's Best Estimates are reasonably designed and allow I&M to acquire the resources needed to meet customers' need for energy and capacity resources. He explained the Montpelier CPA provides a unique opportunity for I&M and its customers to reduce or eliminate several of these market risk factors.

Mr. Gaul testified that contracting with an existing asset removes much of the market, commodity, and supply chain risks he described in his testimony. He said as an existing resource, the Montpelier Electric Generating Station provides necessary and timely capacity without any of the development risks currently impacting new generation builds. In this way, he said the Montpelier CPA serves as an important capacity resource that helps to ensure that I&M continues to meet its Fixed Resource Requirement plan while transitioning to more renewable energy resources. He said I&M would also gain a valuable resource not only to manage through the variability of new generation development timelines and success rates, but also to manage its capacity portfolio overall.

Mr. Gaul stated I&M conducted significant due diligence on the Montpelier Electric Generating Station, including review of Generating Availability Data System data, Equivalent Demand Forced Outage Rate evaluation, site walk-downs, review of current and prior maintenance plans/records, and inspection reports. He said I&M observed favorable due diligence results, with the Montpelier Electric Generating Station positioning themselves for strong performance and reliability for additional years beyond the contracted date. Further, he said to ensure future visibility and compliance with operation and maintenance standards, contractual requirements were agreed to by both parties addressing operational requirements, planned maintenance, and forced outages. He said these contractual commitments help ensure proper monitoring of the plant's performance and maintenance and will ultimately help to uphold commitments in the CPA. In addition, Mr. Gaul stated Rockland has agreed to a fixed independent amount (calculated as an annual payment) via Letter of Credit, or Collateral, as a first-year baseline amount which covers maximum Principal Adverse Impact risk and penalties that could be incurred. He said the fixed independent amount will be modified for each Delivery Year to include any capacity penalties incurred. He noted I&M also negotiated other financial commitments if the unit fails to deliver, and for other non-performance events.

D. <u>Best Estimate</u>. Mr. Gaul presented the Best Estimate for the Montpelier CPA. Mr. Gaul stated the CPA costs are the result of the competitive All-Source RFP process and direct arms' length negotiation and executed transactions. He said Respondents to the RFP were motivated to reply with competitive bids in order to be considered for review and negotiation of an agreement. He said the Montpelier CPA was selected as the reasonable least-cost capacity-only product when compared to the only other capacity-only bid submitted. He stated securing the cost for capacity under this agreement provides I&M security and control over future market volatility and capacity pricing risk.

E. Accounting and Ratemaking. I&M witness Mr. Williamson addressed the accounting and ratemaking associated with the Montpelier CPA. He said I&M seeks timely cost recovery under Ind. Code § 8-1-2-42(a) through a rate adjustment mechanism. He stated I&M proposes timely cost recovery be administered through the RAR proceedings which is an existing rate adjustment mechanism approved by the Commission through which I&M recovers the costs of I&M's purchased capacity resources. He said I&M requests that the Commission find the Montpelier CPA reasonable and necessary and authorize the associated timely cost recovery throughout the entire seven-year term of the agreement. He stated I&M also seeks confirmation that the costs thereof are recoverable through the RAR proceedings (or successor recovery mechanism).

Mr. Williamson testified I&M incurred reasonable and necessary costs for the development of the Montpelier CPA that are not otherwise captured by the ratemaking process. He said I&M requests Commission approval to establish a regulatory asset and authority to recover the CPA development costs in the RAR over a period of two years, including a pre-tax return on the unamortized balance. He said the CPA development costs incurred as of February 28, 2023, are approximately $142,000. He said additional costs will continue to be incurred until all condition precedents and other applicable contract terms are met and final. He said following the Commission's approval of I&M's request, I&M will reflect the final CPA development cost balance in the RAR.

Mr. Williamson also provided an estimate of the overall incremental rate impact of the Montpelier CPA to I&M's customers. He said I&M estimates the average year one annual rate impact on an Indiana jurisdictional basis for all rate classes to be 0.4%. Mr. Williamson also discussed recent cost reductions associated with I&M's generation transformation. He said the overall estimated year one rate impact inclusive of the CPA, the Clean Energy Projects requested for approval in Cause No. 45868, and the recent cost reductions associated with Rockport Unit 2 results in a cost-of-service decrease of approximately 7.6%.[3]

F. Benefits and Public Interest. Mr. Lucas testified the Montpelier CPA is a relatively unique opportunity that provides a number of benefits to I&M customers. He noted the Montpelier CPA is one of the best scoring projects from the 2022 All Source RFP, which means, when compared to alternatives available in the market, this project is one of the best alternatives I&M has to meet its capacity obligations. In addition, he said the CPA, when combined with I&M's existing generation resources and other new capacity additions identified in the IRP, provides I&M with a diversified generation portfolio that takes advantage of the positive attributes of each generation resource to provide safe and reliable service to I&M's customers. He also said the term of the Montpelier CPA allows I&M to better align its capacity resources with expected changes in its capacity obligation as wholesale contracts reach their expiration date. Mr. Lucas noted the Montpelier CPA allows I&M to utilize an existing generation resource located in Indiana to meet its capacity obligation, which eliminates siting concerns, delays in interconnect approvals, supply chain concerns, and a number of other potential risks associated with new generation resources. Finally, he stated the Montpelier CPA provides an opportunity to balance I&M's immediate need for firm long-term capacity with the opportunity in seven years to re-evaluate options for flexible

[3] I&M's petition for approval of the Clean Energy Projects was filed March 28, 2023, and docketed as Cause No. 45868.

and dispatchable resources. He said this will allow I&M to consider, and potentially take advantage of, new technologies that have matured and become commercially available that support I&M's net zero goals. He concluded the CPA will benefit customers, help ensure continued system reliability, and is in the public interest.

7. <u>OUCC's Evidence</u>. OUCC witness Mr. Leader addressed I&M's request for approval of the Montpelier CPA and associated cost recovery. He said affordability should be protected when utilities invest in infrastructure necessary for system operation and maintenance. He said I&M has estimated the average year one impact of the Montpelier CPA on all rate classes to be approximately 0.4%. He said when this impact is taken together with the estimated impact of the four solar projects I&M has proposed in Cause No. 45868, the total impact would be an increase of 2.1%, or about $3.32. He concluded the Montpelier CPA is reasonable and in the public interest and recommended the Commission approve I&M's request to recover the CPA costs through its RAR over the seven-year contract. He recommended, as also discussed by OUCC witness Mr. Lantrip, that I&M be allowed to recover, on a "return of" basis only, its $142,000 of CPA development costs over the requested two-year period. He further recommended I&M not be allowed to seek recovery of development costs over and above the $142,000 through the RAR filing, unless subject to Commission approval, based upon the support provided for these costs.

OUCC witness Mr. Lantrip discussed I&M's proposed CPA and associated accounting and ratemaking treatment. He explained I&M determined its development costs based on the installed capacity of the CPA of 210 MW, when combined with the development costs of the requested 280 MW of PPA resources in the concurrently filed Cause No. 45868. He said therefore, I&M allocated 43% of the development costs to the CPA [210/(210+280)]. He stated the costs include internal resource support costs and outside services to develop and finalize the CPA and obtain approval for the resource. He noted the costs are not ongoing in nature and have not been otherwise recovered in I&M's rates.

Mr. Lantrip testified I&M does not yet have the finalized version of the CPA development cost total, and therefore he would not recommend the Commission's approval in this Cause be applied to costs above the $142,000 requested here. He recommended if I&M receives approval for its capacity agreement costs to be recovered through the RAR, any development costs over and above the $142,000 be requested and supported through that rider filing update. Additionally, he recommended the development costs be allowed a "return of" and not "pre-tax return on" treatment in making the Petitioner whole for its development expenses in finalizing this contract.

8. <u>Petitioner's Rebuttal</u>. Mr. Williamson responded to the OUCC's recommendations regarding development costs associated with the CPA. He said, as also explained in his direct testimony, the CPA development costs are reasonable and necessary costs incurred in order to comply with and finalize the terms of the CPA and are not ongoing in nature. As a result, he said it is reasonable and necessary that the Commission grant I&M the authority to record the actual CPA development costs incurred as a regulatory asset. He stated as I&M updates the RAR, it will support the CPA development costs incurred above the $142,000 balance as of February 2023.

With respect to Mr. Lantrip's recommendation that I&M's recovery of development costs be limited to a "return of" and not a "return on" such costs, Mr. Williamson stated these are one-time costs that are incurred in support of development of a long-term contract. He said multiple years will span between incurrence of these costs and the time which they are fully reflected in I&M's rates. He testified that as a result, it is reasonable to provide for a pre-tax weighted cost of capital return to recognize the time value of money associated with the unamortized balance. He explained that if such costs were incurred related to a project that I&M would own, the costs would be capitalized according to the Federal Energy Regulatory Commission Uniform System of Accounts and would also customarily earn a pre-tax weighted cost of capital return until the costs were fully depreciated. He said I&M's proposal in this case is consistent with that ratemaking but due to I&M's proposal to recover these costs in the RAR over a period of two years, the cumulative weighted cost of capital return will be much smaller than if the costs were amortized over the seven-year term of the CPA.

Mr. Williamson stated I&M worked with the OUCC to resolve their concerns related to CPA development costs. He said as a matter of compromise, in order to resolve this case, I&M is willing to resolve the OUCC's concerns as follows: (i) the CPA development costs incurred as of February 2023 are approved for ratemaking treatment in the RAR; (ii) I&M will record all actual CPA development costs as a regulatory asset; (iii) in a future RAR proceeding, I&M will present and support CPA development costs incurred above the $142,000 for ratemaking treatment over a period of two years; and (iv) I&M agrees not to recover a return on the unamortized CPA development costs. Mr. Williamson testified that I&M has discussed this proposed resolution with the OUCC and is authorized to represent that the OUCC does not object to it.

9. <u>Commission Discussion and Findings</u>. The evidence of record in this Cause supports a finding that the relief requested herein should be approved. The evidence indicates the Montpelier CPA will produce benefits for I&M and its customers. The evidence further reflects that I&M and the OUCC have worked in a collaborative fashion to resolve the OUCC's concerns related to cost recovery of the CPA development costs. As set forth further below, the Commission finds that the approval we grant herein is in the public interest.

A. <u>Reasonableness of the CPA Terms and Best Estimate</u>. The record shows the Montpelier CPA resulted from a competitive All-Source RFP process and direct arms' length negotiations. The Montpelier CPA is a capacity-only contract for 210 MW of firm capacity. The seven-year term of the CPA was selected to align with the scheduled expiration of existing wholesale contracts. The record further shows the proposed Montpelier CPA is consistent with the Preferred Portfolio that was the result of the IRP process and is one of the best alternatives I&M has to fulfill its capacity needs consistent with that identified through the IRP planning process. The OUCC agreed the Montpelier CPA is reasonable and in the public interest.

The evidence shows the CPA costs result from a competitive All-Source RFP process, direct arms' length negotiation, and executed transactions. The Best Estimate reasonably reflects change of law, supply chain disruptions, and other economic conditions, and is consistent with industry practice. The Project costs reasonably reflect industry trends and the potential cost impact of project risk and factors beyond I&M's control. The agreement terms are reasonably designed to manage industry and economic challenges while facilitating the capacity resources required by I&M to meet its customers' ongoing need for electricity. No party challenged I&M's Best Estimate.

Based upon the evidence, the Commission finds the terms of the Montpelier CPA, including the Best Estimate provided by I&M, are reasonable and necessary, in the public interest, and are approved.

B. <u>Montpelier CPA Cost Recovery</u>. Pursuant to Ind. Code § 8-1-2-42(a), the Commission has authority to approve timely cost recovery of the Montpelier CPA through a rate adjustment mechanism. The record shows I&M proposes such timely cost recovery be administered through the RAR proceedings, which is an existing rate adjustment mechanism approved by the Commission that recovers the costs of I&M's purchased capacity resources. The OUCC agreed with I&M's proposal to recover the CPA costs through its RAR over the seven-year contract term.

The record shows the CPA development costs are reasonable and necessary to execute the long-term CPA contract and should be fully recoverable. The OUCC raised concerns related to I&M's proposed treatment of its development costs, which I&M addressed and resolved through its rebuttal testimony. Based on the evidence presented, the Commission approves the CPA development costs incurred as of February 2023 for ratemaking treatment in the RAR. I&M is authorized to record all actual CPA development costs as a regulatory asset. In a future RAR proceeding, I&M will present, and support CPA development costs incurred above the $142,000 for ratemaking treatment over a period of two years. Finally, we note I&M's agreement not to recover a return "on" the unamortized CPA development costs.

Accordingly, we authorize I&M to recover the costs associated with the Montpelier CPA throughout the entire seven-year term of the CPA as proposed by I&M and modified in its rebuttal. The Commission further finds the costs approved for recovery herein are recoverable through I&M's RAR proceedings (or subsequent recovery mechanism).

C. <u>Ind. Code §§ 8-1-2-0.5 and -0.6</u>. In House Enrolled Act 1007 (codified at Ind. Code § 8-1-2-0.6), effective July 1, 2023, the Indiana General Assembly declared it is the continuing policy of the state that decisions concerning Indiana's electric generation resource mix, energy infrastructure, and electric service ratemaking constructs must consider each of the Five Pillars of electric utility service enumerated in the statute: reliability, affordability, resiliency, stability, and environmental sustainability. While these pillars were recently codified, they are based on the "The Five Pillars of Electric Utility Service" and the "Managed Transition to Renewable Energy Resources" outlined in the 21st Century Development Task Force Report. These policies reinforce that "the transition to an increased reliance on renewable energy resources must be managed in a way that doesn't compromise the reliability, resiliency, and stability of electric utility service, and that maintains affordability for all customer classes." Petitioner's Exhibit 1 (Lucas Direct) at Page 7, citing 21st Century Energy Policy Development Task Force Report, October 19, 2022, Page 9.

As discussed by Mr. Lucas, the objectives and metrics I&M used during the IRP process to determine the Preferred Portfolio were very closely aligned with the work of the 21st Century Energy Policy Development Task Force. I&M's primary objectives were affordability, sustainability, reliability, and resource diversification. I&M's Preferred Portfolio additions, when combined with I&M's current generation resources, directly align with Task Force findings by providing a diverse resource mix that leverages the strengths of, and mitigates the weaknesses inherent in, each type of generation resource. The record shows the Montpelier CPA is a critical element in implementing this Preferred Portfolio.

As discussed above, the Montpelier CPA is important for reliability. Rejection of the CPA could potentially jeopardize reliability and likely lead to higher costs for I&M's customers. Allowing I&M to enter into the Montpelier CPA provides I&M the flexibility to adapt to changes in policies and in the market and better positions I&M to timely develop the capacity needed to serve customers.

With respect to affordability, we find the estimated rate impact specific to the Montpelier CPA shown by Petitioner witness Mr. Williamson is reasonable. OUCC witness Leader recognized the bill impact of the proposed projects. Mr. Williamson also presented the estimated rate impact considering a holistic view of I&M's generation transformation, including the cost of the CPA, the Clean Energy Projects proposed in Cause No. 45868, and the recent cost reductions associated with Rockport Unit 2. This analysis shows the impact is a net reduction in costs for customers. In other words, the steps Petitioner has taken to transition its generation fleet, including the cost of the Montpelier CPA, is expected to result in a net cost savings for I&M and ultimately, I&M's customers. However, when this impact is taken together with the estimated impact of the four solar projects I&M has proposed in Cause No. 45868, the total impact would be an increase of 2.1%, or about $3.32.

The resiliency pillar recognizes that Indiana's electric infrastructure should be appropriately invested in and provide the necessary resources for the system to adapt to changing conditions and withstand and rapidly recover from disruptions or off-nominal events.

Similarly, the stability pillar considers the ability of the system to maintain a state of equilibrium during normal and abnormal conditions or disturbances and deliver a stable source of electricity. A stable source of electricity is important to Indiana's economy as advanced manufacturing industries and other businesses require a stable source of electricity. Allowing I&M to move forward with the proposed Montpelier CPA better positions I&M to provide a resilient system and deliver a stable source of electricity.

Finally, the environmental sustainability pillar includes: the impact of environmental regulations on the cost of providing electric utility service and demand from consumers for environmentally sustainable sources of electric generation. I&M's IRP reasonably considered both.

As reflected throughout this Order and summarized in this Section, the Commission has considered the Five Pillars enumerated in Ind. Code § 8-1-2-0.6 in reaching our decision in this proceeding. The Commission finds I&M's proposals are consistent with the legislative directives.

D. <u>Conclusion</u>. I&M has established a need for capacity. The Montpelier CPA proposed in this proceeding is the result of a robust IRP and competitive procurement process and represents a reasonable, least cost portfolio for I&M to utilize in meeting its ongoing obligation to provide adequate and reliable service and facilities consistent with Indiana energy policy. We find the evidence presented in this proceeding supports approval of the CPA, including the associated cost recovery proposed by I&M as amended in rebuttal. The Montpelier CPA will provide needed capacity, diversify I&M's supply portfolio, and support reliability while also reasonably balancing affordability of service.

10. **Confidential Information.** On March 30, 2023, I&M filed a motion seeking a determination that designated confidential information involved in this proceeding be exempt from public disclosure under Ind. Code § 8-1-2-29 and Ind. Code ch. 5-14-3. The request was supported by an affidavit showing the designated documents offered into evidence at the evidentiary hearing were trade secret information within the scope of Ind. Code § 5-14-3-4(a) (4) and Ind. Code § 24-2-3-2. On April 17, 2023, the Presiding Officer issued a docket entry finding such information confidential on a preliminary basis. I&M subsequently submitted designated confidential information in accordance with this finding.

After reviewing the designated confidential information, the Commission finds all such information qualifies as confidential trade secret information pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2. This information has independent economic value from not being generally known or readily ascertainable by proper means. I&M takes reasonable steps to maintain the secrecy of the information and disclosure of such information would cause harm to I&M. Therefore, we affirm the preliminary ruling and find this information should be exempted from the public access requirements contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29 and held confidential and protected from public disclosure by this Commission.

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

1. I&M is authorized to enter into the Montpelier CPA with Rockland Capital or its assigns and/or successors.

2. I&M's Best Estimate for the Montpelier CPA is approved.

3. I&M is authorized to recover the costs incurred under the Montpelier CPA over its full seven-year term pursuant to Ind. Code § 8-1-2-42(a), through I&M's RAR proceedings (or succor rate adjustment mechanism).

4. I&M's proposed accounting and ratemaking treatment of CPA development costs, as modified in rebuttal, is approved.

5. The confidential information filed under seal in this Cause shall continue to be treated by the Commission as confidential and not subject to public disclosure.

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

<u>HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR</u>:

APPROVED: AUG 16 2023

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

Dana Kosco
Digitally signed by Dana Kosco
Date: 2023.08.16 10:13:50 -04'00'

Dana Kosco
Secretary of the Commission