ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Bennett	√		
Freeman			√
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 NOVEMBER 2023 THROUGH APRIL 2024 AND FOR APPROVAL OF RATEMAKING TREATMENT FOR COST OF WIND POWER PURCHASES PURSUANT TO CAUSE NOS. 43328, 43750, 44034 AND 44362; FOR APPROVAL OF RATEMAKING TREATMENT FOR EXCESS DISTRIBUTED GENERATION COSTS PURSUANT TO CAUSE NO. 45506; AND FOR AUTHORITY TO RECOVER AND APPROVAL OF RECOVERY FOR ENERGY RELATED COSTS ASSOCIATED WITH COGENERATION PROJECTS AND DEMAND RESPONSE PROGRAMS	)	**CAUSE NO. 38702 FAC 91** **APPROVED: OCT 25 2023**

<u>ORDER OF THE COMMISSION</u>

Presiding Officer:
Ann Pagonis, Administrative Law Judge

On July 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 November 2023 through April 2024 billing months, pursuant to the provisions of Ind. Code § 8-1-2-42; for approval of I&M's ratemaking treatment of wind power purchase costs; for approval of ratemaking treatment for excess distributed generation costs pursuant to Cause No. 45506; and for authority to recover and approval of recovery of energy-related costs associated with cogeneration and demand response programs. 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 September 5, 2023.

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

The Commission issued a docket entry on September 22, 2023 requesting additional information from I&M regarding the difference between the OUCC's and I&M's calculations. I&M responded on September 27, 2023, providing an updated and corrected calculation. The Commission also issued a docket entry to the OUCC on September 29, 2023, requesting additional information regarding the OUCC's calculation. The OUCC responded on October 3, 2023 that it was in agreement with I&M's corrected calculation

The Commission conducted an evidentiary hearing in this Cause on October 3, 2023 at 1:30 p.m. in Room 224 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 as well as each party's respective answer to the Presiding Officer's docket entries, 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 November 2023 through April 2024 pursuant to Ind. Code § 8-1-2-42 and I&M's ratemaking treatment of wind power purchase costs. Applicant also requests approval of ratemaking treatment for excess distributed generation costs pursuant to Cause No. 45506; and for authority to recover and approval of recovery of energy-related costs associated with cogeneration and demand response programs. 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 the delivery of actual tons delivered of Central Appalachian coal during the reconciliation period (December 2022 through May 2023) and how it affected the actual cost of coal delivered to the Rockport Plant as compared to forecasted. Mr. Dial explained how Central Appalachian and Powder River Basin coal prices have increased during 2022 and then decreased during the reconciliation period (December 2022 through May 2023) period. Mr. Dial explained how the transportation constraints that were experienced by the Applicant in 2022 have subsided, therefore, labor and capacity are no longer a concern, and he explained how the Applicant utilized various strategies to address inventory concerns. Applicant's witness Todd Johnston discussed the variability in the PJM market, including the spike in energy prices during Winter Storm Elliott and how the energy price decreased during the reconciliation period. Witness Johnston further explained how I&M utilized commitment strategies in support of testing and managing the coal inventory, and for near-term economics. Applicant's witness Keith A. Steinmetz described the major nuclear fuel contracts and actions taken to minimize I&M's nuclear fuel costs.

OUCC witness Gregory T. Guerrettaz discussed I&M's cost of nuclear fuel and coal and how projected transloading costs of coal decreased during the actual period. Witness Guerrettaz also discussed I&M's use of pricing strategies to continue to address inventory issues. Witness

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. OUCC witness Michael D. Eckert discussed how a decrease in the cost of natural gas has resulted in a decrease in demand for coal-fired electricity. Witness Eckert explained how I&M has examined several options and taken steps to address the coal inventory level. Witness Eckert recommended: (1) approval of I&M's proposed fuel cost factor as recalculated and confirmed by Mr. Guerrettaz; 2) that Applicant provide the Commission with information on how it proposes to address its coal inventory; (3) that I&M provide the calculation inputs of coal decrement or increment pricing; and (4) that the Commission require I&M to discuss with the OUCC any significant milestones achieved before the next FAC case.

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. Other Energy Purchases. Applicant's witness Denzil L. Welsh testified in support of I&M's request for approval of the recovery of cogeneration, excess distributed generation, and other energy purchases in the FAC (including energy curtailment costs paid to demand response customers). Witness Welsh explained that these costs, like other purchased power costs, should be recovered via the FAC, on a total company basis. Witness Welsh also explained why energy curtailment costs related to Winter Storm Elliot, paid to demand response program participants, should be included in the FAC costs. The OUCC did not take issue with these requests. The record supports, and the Commission so finds, that Applicant's cogeneration, excess distributed generation costs, and demand response energy curtailment costs are properly recoverable via the FAC. The record also supports that such costs are reasonable, and the Commission therefore approves Applicant's proposed ratemaking treatment of such costs.

5. 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 operating expenses excluding fuel costs for the twelve-month period ended May 31, 2023, in the amount of $1,242,190,000, as reflected on Attachment 1-F, Schedule 1, Column 9, Line 37, of Applicant's Exhibit 1, are more than the corresponding amount determined in Applicant's last base rate order (Cause No. 45576) of $944,749,000. Applicant's filing demonstrates that I&M's increase in fuel cost have not been offset by decreases in other expenses. We find that I&M is in compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(2).

6. 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 March 31, 2023 of $299,141,000. According to Attachment 1-F, Schedule 1, attached to Applicant's Exhibit 1, for the 12 months ended May 31, 2023, I&M earned an actual jurisdictional net operating income of $300,123,000. This results in I&M's actual return being more 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 not satisfied.

Therefore, in accordance with Ind. Code § 8-1-2-42(d)(3) a reduction to I&M's FAC factor is necessary. This amount is to be the lower of the 12-month over earnings and the sum of the differentials for the relevant period. The over-earnings amount for the 12-month period was $982,000 and the sum for the differential period is $70,264,000. For this reason, I&M will base its credit on the 12-month period amount and divide it in half due to I&M filing semi-annual FAC proceedings. This results in a total FAC credit of $491,000 or $655,000 grossed up for taxes.

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 May 31, 2023, 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 May 31, 2023.

7. Estimating Techniques. I&M's overall weighted average fuel cost estimating error during the months of the reconciliation period of December 2022 through May 2023 was an overestimation of approximately seven percent. I&M Witness Denzil L. Welsh noted that the primary driver of the lower than forecasted costs during the reconciliation period were lower than forecasted fossil fuel costs and purchases related to AEG. I&M projected its fuel costs for the billing months of November 2023 through April 2024. 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 of December 2022 through May 2023. No party presented any evidence to the contrary. Based on the evidence, we find that Applicant's estimating techniques are reasonable and its estimate of fuel costs for November 2023 through April 2024 should be accepted.

8. 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. 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.

9. 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 over-recovered, in the amount of $16,651,876, based upon projected fuel costs for those months previously approved by the Commission.

Applicant's total estimated cost of fuel for the billing months November 2023 through April 2024 is $160,863,170 and its total estimated sales are $10,601,753 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 $15.173 mills per kWh. Combining the variance factor with the estimated per kWh cost of fuel, the per kWh reduction amount resulting from Ind. Code § 8-1-2-42(d)(3) and subtracting the base cost of fuel in Cause No. 45576, results in a proposed total fuel factor of (.185) 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 ($0.185) mills per kWh to Applicant's Indiana retail tariffs for the billing months of November 2023 through April 2024. The typical residential bill for a customer using 1,000 kWh per month will increase by $4.44 or 2.76% compared to the factor approved in Cause No. 38702 FAC 90 (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 25, 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 November 2023 through April 2024 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. I&M's proposed ratemaking treatment for the cost of cogeneration and excess distributed generation purchases is approved.

4. I&M's proposed ratemaking treatment for energy curtailment costs associated with its demand response programs is approved.

5. 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.

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

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

APPROVED: OCT 25 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: 2023.10.25 11:48:17 -04'00'

Dana Kosco
Secretary of the Commission