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**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

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| **VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY (I&M), AN INDIANA CORPORATION, FOR APPROVAL OF A CLEAN ENERGY SOLAR PILOT PROJECT (CESPP); FOR DECLINATION OF JURISDICTION OR ISSUANCE OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR CESPP; FOR APPROVAL OF ACCOUNTING AND RATEMAKING, INCLUDING TIMELY RECOVERY OF COSTS INCURRED DURING CONSTRUCTION AND OPERATION OF CESPP THROUGH A SOLAR POWER RIDER; FOR APPROVAL OF CESPP DEPRECIATION PROPOSAL; FOR AUTHORITY TO DEFER CESPP COSTS UNTIL SUCH COSTS ARE REFLECTED IN THE SOLAR POWER RIDER OR OTHERWISE REFLECTED IN I&M'S BASIC RATES AND CHARGES; AND FOR APPROVAL OF A GREEN POWER RIDER.** | ) | **CAUSE NO. 44511**<br>**APPROVED:** FEB 04 2015 |

**ORDER OF THE COMMISSION**

**Presiding Officers:**
**David E. Ziegner, Commissioner**
**Aaron A. Schmoll, Senior Administrative Law Judge**

On July 7, 2014, Indiana Michigan Power Company ("I&M" or "Petitioner") filed its Verified Petition and Request for Administrative Notice with the Indiana Utility Regulatory Commission ("Commission") for approval of a Clean Energy Solar Pilot Project ("CESPP"); for declination of jurisdiction or issuance of a Certificate of Public Convenience and Necessity ("CPCN") for the CESPP; for associated accounting and ratemaking relief as further detailed below; for approval of a Solar Power Rider ("SPR") to provide for timely recovery of the CESPP costs; and for approval of a Green Power Rider ("GPR") to provide an opportunity for customers to voluntarily support solar projects.

I&M filed its case-in-chief on July 7, 2014. On August 12, 2014, I&M and the Indiana Office of Utility Consumer Counselor ("OUCC") filed a stipulation and agreed procedural schedule and associated terms in lieu of prehearing conference, which agreement was approved by docket entry dated August 26, 2014. On August 15, 2014, the I&M Industrial Group ("Industrial Group") filed its petition to intervene, and on August 18, 2014 the Citizens Action Coalition of Indiana, Inc. ("CAC") filed its petition to intervene, which petitions were subsequently granted. On September

17, 2014, the OUCC and Industrial Group filed their respective cases-in-chief. On September 30, 2014, I&M filed its rebuttal evidence.

The Commission conducted a hearing on October 16, 2014, at 1:00 p.m. in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Counsel for I&M, the OUCC and Intervenors appeared and participated at the hearing. At this time evidence was admitted to the record and witnesses were cross-examined. I&M's Request for Administrative Notice was granted without objection. Following the hearing the parties filed post-hearing proposed orders and briefs in accordance with an agreed procedural schedule.

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

**1. Notice and Jurisdiction.** Due, legal, and timely notice of the evidentiary hearing in this Cause was given and published by the Commission as required by law. Petitioner is a "public utility" under Ind. Code § 8-1-2-1 and 8-1-8.5-1 and an "energy utility" as defined in Ind. Code § 8-1-2.5-2. I&M is an "eligible business" as defined in Ind. Code § 8-1-8.8-6, and 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. Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

**2. Petitioner's Characteristics and Business.** I&M, a wholly-owned subsidiary of American Electric Power ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal office at One Summit Square, Fort Wayne, Indiana. I&M is a member of the East Zone of the AEP System. I&M is engaged in, among other things, rendering electric service in the States of Indiana and Michigan. In Indiana, I&M provides retail electric service to approximately 458,000 customers.

**3. Relief Requested.** I&M requests approval to construct, own and operate up to five separate utility-scale solar facilities totaling approximately 16 megawatts ("MW"), with each facility sized in the range of one to five MWs. In accordance with Ind. Code § 8-1-8.8-11, I&M requests the Commission authorize the necessary accounting and ratemaking to permit I&M to timely recover through rates the costs incurred during construction and operation of the CESPP. I&M requests the timely cost recovery be implemented through I&M's proposed SPR. I&M also requests Commission approval of a new retail tariff identified as the GPR, which establishes a separate rate schedule allowing I&M customers to voluntarily support the solar energy resources, in increments. I&M will utilize the funds collected through the GPR to offset the revenue requirement associated with the proposed SPR. In accordance with Ind. Code § 8-1-2.5-5, I&M requests the Commission decline to exercise its jurisdiction under Ind. Code ch. 8-1-8.5 to the extent necessary for the CESPP. In the alternative I&M seeks issuance of a CPCN pursuant to Ind. Code ch. 8-1-8.5.

**4. I&M's Direct Evidence.**

**A. CESPP.** Paul Chodak III, I&M's President and Chief Operating Officer, explained I&M is requesting Commission approval for I&M to construct and own approximately 16 MW of utility owned solar generation, along with timely cost recovery through I&M's proposed SPR. Mr. Chodak explained the CESPP is, as its name suggests, a pilot project designed to afford I&M and its customers an opportunity to make a meaningful step to integrating utility-scale solar power into I&M's integrated resource portfolio. The CESPP consists of the development and commercial operation by I&M of approximately 16 MW of solar photovoltaic ("PV") generation facilities. I&M anticipates the facilities would be ground-mounted solar PV systems that can be aligned with the available sunlight to maximize system production.

Mr. Chodak explained that I&M seeks approval to invest approximately $38 million through 2016 to develop approximately 16 MW of solar generation capacity. The actual cost of the solar installations will be based on a competitive procurement process and vary somewhat with the size and location of system facilities. I&M expects to acquire the equipment and begin installation of the solar projects beginning in 2015. I&M intends to have the CESPP in commercial operation no later than December 31, 2016, so that the pricing will benefit from the higher level of federal investment tax credit available through that date.

Mr. Chodak explained that the CESPP will provide I&M an opportunity to gain valuable experience in the design and construction of utility-scale solar projects. In addition, the CESPP will enable I&M to become proficient in operating solar generation and integrating it reliably into the PJM Interconnection, LLC ("PJM") transmission grid. This knowledge would be of use to I&M and its customers as I&M moves toward adding utility-scale solar in the coming years. Mr. Chodak testified that the public convenience and necessity requires or will require I&M's construction of the CESPP as a reasonable means for I&M to further the renewable energy policy objectives of the State of Indiana and to diversify I&M's resource portfolio. He stated that as solar power becomes more prevalent as an energy resource, I&M needs the skills and ability to safely, reliably and efficiently operate solar facilities and the CESPP would meet that need.

Mr. Chodak discussed some of the other considerations that motivated I&M to move forward with the CESPP and described I&M's current supply resources. He explained the benefits of increasing the amount of renewable energy in I&M's portfolio and how the CESPP fits into I&M's Integrated Resource Plan ("IRP"). He also identified a number of benefits to I&M and its customers from the CESPP and discussed why the CESPP is reasonable and in the public interest.

Mr. Karrasch discussed I&M's and AEP's experience in renewable generation. He summarized the major features of the proposed CESPP, explaining that the project's five solar facilities will be designed and constructed by one or more qualified third party turn-key contractors via a competitive request for proposals ("RFP") process. He also discussed the criteria used to develop the project site list and proposed project sizing and described how the CESPP will be integrated in the PJM Regional Transmission Operating system.

Mr. Karrasch stated the cost of the project was based on an average of indicative pricing from three experienced solar engineering, procurement and construction ("EPC") contractors. He said the cost estimate of $38 million will be further refined upon receipt of the final PJM studies and completion of the competitive EPC RFP and that I&M will update the Commission as these cost estimates are revised.

Mr. Karrasch described the major milestones and schedule associated with the CESPP and discussed the RFP process for EPC contractor selection. He explained how I&M will solicit and qualify bidders and evaluate the proposals received. He also discussed in detail some of the many benefits of the CESPP, including the experience gained through the EPC phases and by owning and operating the facilities. He concluded the CESPP is a unique opportunity for I&M and others to gain a tremendous amount of information and knowledge from the EPC process, the actual scheduling and operation of the facility, and the impact of the facilities on the operation of I&M's transmission and distribution systems.

B. **SPR.** Christopher M. Halsey, Senior Regulatory Consultant for I&M, explained that, in accordance with Ind. Code § 8-1-8.8-11, I&M requests Commission authorization of the necessary accounting and ratemaking to permit I&M to timely recover through rates the project costs incurred for the CESPP through the proposed SPR. He explained that the rates would be established on forecasted costs aligning with the rate period consistent with other I&M riders. He said the cost recovery would also reflect credits for the amortization of the Investment Tax Credit ("ITC") and GPR credits. He described the accounting required upon the in-service dates and completion of construction dates of the CESPP and explained I&M's request to depreciate the CESPP over a 20 year period. Mr. Halsey explained that I&M would defer post-in-service carrying costs and O&M costs (including depreciation, property taxes, third-party forecasting costs) on an interim basis until such costs are reflected in I&M's retail rates.

Mr. Halsey stated I&M is not proposing to establish factors for the SPR in this case. He explained I&M proposes to file its first SPR filing approximately six months prior to the first CESPP project going into service, which should allow sufficient time for the review and issuance of an Order contemporaneous with the in-service date of the first CESPP project. He said I&M proposes to file SPR proceedings on an annual basis thereafter. He added that I&M proposes to reflect the authorized return on the CESPP from its most recent SPR order in determining the total authorized net operation income level to be utilized in the fuel adjustment charge ("FAC") earnings test. Mr. Halsey concluded that the average annual overall rate impact for the CESPP is estimated to be 0.3%.

C. **GPR.** As Mr. Chodak and Mr. Halsey explained, I&M seeks approval of a voluntary GPR that will allow customers the opportunity to support the development of solar power by voluntarily subscribing each month to a specific number of 50 kWh blocks of Solar Renewable Energy Certificates ("SRECs"). The revenue produced by the GPR will be flowed through the SPR as a credit toward the CESPP revenue requirement and thus reduce the rates charged under the SPR. As discussed by Mr. Karrasch, the GPR will use the price of Pennsylvania ("PA") SRECs as a basis for establishing the price of SREC blocks. Mr. Karrasch also explained how I&M established the initial price for SREC blocks under the GPR.

Mr. Halsey testified that the GPR tariff will be available to all classes of retail customers in good standing. He said the SREC blocks will be limited to those available from the output of I&M's solar generation resources, initially sourced from the CESPP generation resources. He explained the purchase options available to customers and I&M's proposal to update the fixed block rate annually through the 30-day filing process. He said I&M will retire the SRECs that are subscribed to by participating GPR customers on an annual basis in PJM's Generation Attributes Tracking System ("GATS").

5. **OUCC's Evidence.** Ronald L. Keen, Senior Analyst within the OUCC's Resource Planning and Communications Division, discussed the OUCC's recommendation that I&M's requested relief be granted and suggested certain reporting requirements in connection with the CESPP and GPR. Mr. Keen recommended approval of the CESPP and I&M's request for the Commission to decline to exercise jurisdiction over I&M's construction, ownership and operation

of, and other activities in connection with the CESPP. He stated the OUCC is convinced that I&M has taken environmental issues under consideration in the development of the project.

6. **Industrial Group's Evidence.** Jeffry Pollock, energy advisor and President of J. Pollock, Incorporated testified on behalf of the Industrial Group, a group of industrial customers in I&M's service territory. Mr. Pollock testified that the CESPP would generate electricity at an average cost of 20.2¢ per kilowatt, which is three times above I&M's projected avoided cost from its 2013 IRP. Mr. Pollock discussed that I&M's stated reasons for pursuing the CESPP were to gain experience with utility-scale solar, but that these benefits would also flow to I&M's parent company, AEP. Mr. Pollock testified that there is tension between I&M's request to be exempt from obtaining a CPCN, but receive the benefits of using a tracker under Indiana Code § 8-1-8.8-11, which is premised on receiving a CPCN.

Mr. Pollock also observed that I&M's capital cost estimate is not firm, and recommended that I&M not be allowed to recover costs in excess of its estimate.

Mr. Pollock recommended that three changes be made to I&M's proposed SPR. The formula for calculating the CESPP costs should explicitly include the GPR revenues as an offset. The costs allocated to LGS and IP customer classes should be collected through a demand charge instead of a per kWh charge. He also recommended that tracked cost recovery be limited to avoided costs. Mr. Pollock also recommended that I&M expand its voluntary GPR to include wind Renewable Energy Certificates ("RECs") or other RECs available in the marketplace. With these modifications, Mr. Pollock showed that I&M could have timely recovery of all but about $250,000 of its costs in Year 1.

Mr. Pollock testified that imposing a cap on the proposed SPR would provide I&M an incentive to properly manage the construction and operating costs of the CESPP and to also maximize the revenues to be collected through the GPR. He stated the cost cap would also be consistent with the fact that the pilot project will benefit both I&M and the other AEP-affiliated companies that have not yet invested in utility-scale solar generation.

7. **I&M Rebuttal Evidence.** I&M witnesses Chodak, Karrasch and Halsey presented rebuttal testimony and attachments. As further discussed below, this testimony addressed the concerns raised by the Industrial Group and the OUCC's recommendations. In rebuttal, Mr. Chodak explained why it would not be appropriate to cap the capital cost of the project at $38 million or at I&M's avoided costs. He explained the $38 million is a reasonable estimate of the capital cost given the scope and scale of the project, but the actual cost may vary and could reasonably exceed the total cost estimate. He said requiring I&M to simply forfeit recovery of costs reasonably incurred for the benefit of customers because they exceed the cost estimate, without any opportunity to explain the reasons, is unreasonable and bad public policy. He stated the investment I&M is making is not an energy only approach and the greater understanding and experience for I&M personnel and customers at each stage is an important aspect that cannot be distilled down to an avoided cost analysis. He explained that Mr. Pollock's comparison of the CESPP to the avoided costs shown in I&M's 2013 IRP is misleading, because while I&M's avoided costs will continue to increase over time, the CESPP costs are based on a one-time installation cost. He said the evaluation of a resource addition must also take into account non-cost factors, and the CESPP will reduce the risk associated with cost volatility and add an incremental degree of fuel diversity to I&M's resource mix. He stated I&M's request is consistent with the process used for approving new generation and

explained why it was reasonable for the Commission to use its discretion to decide that a CPCN is not required for this small, renewable energy project. He explained how the CESPP was consistent with I&M's 2013 IRP and the benefits to I&M's customers from adding solar resources slightly ahead of the IRP timeframe.

Mr. Karrasch stated that the RFP process has been accelerated, and I&M anticipates receiving proposals in January 2015. He provided a revised high level milestone schedule and explained that I&M will know the final cost estimate prior to filing its initial SPR filing. He said I&M would use the final project cost estimate, which would in turn be trued up to actual numbers once the projects are in-service using over/under accounting. He said to the extent the final cost estimate exceeded $38 million, I&M would request recovery of those additional costs as part of its SPR filings, subject to Commission review and approval.

Mr. Halsey stated I&M agrees to clarify the SPR tariff to show the GPR revenue offset. With respect to the allocation and collection of the SPR revenue requirement, he explained I&M has proposed that the allocated SPR costs be collected on a rate per kWh for each class similar to the method used in the LCM Rider.

Mr. Halsey explained that Mr. Pollock's statement that the CESPP would generate electricity at an estimated average cost of 20.2¢ per kWh is only representative of the cost in the first year. He provided an attachment showing the estimated average levelized costs of the CESPP over its 20-year life is 14.3¢ per kWh, which reflects the fact that the revenue requirement will decline each year as the electric plant in service depreciates, resulting in a lower required pre-tax return. He said I&M does not recommend including an estimated GPR revenue amount in the initial SPR calculation. He noted the overall first-year rate impact of the CESPP upon I&M customers on a stand-alone basis is estimated to be 0.3%, which can only decline with subscriptions to the GPR.

## 8. Commission Discussion and Findings.

**A. Declination of Jurisdiction for CPCN.** Indiana Code ch. 8-1-8.5, the Powerplant Construction Act ("Chapter 8.5"), was enacted in 1985. This statute provides that a public utility may not begin the construction, purchase, or lease of any steam, water or other facility for the generation of electricity to be directly or indirectly used for the furnishing of public utility service without first obtaining from the Commission a CPCN for such construction, purchase or lease. Chapter 8.5 reflects an integrated resource process which seeks to utilize a diversified portfolio of supply side and demand resources (e.g., coal, gas, nuclear, wind, solar, energy efficiency, load management).

In 1995, the legislature adopted the Alternative Utility Regulation Statute, Ind. Code ch. 8-1-2.5. This statute authorizes the Commission, in whole or in part, to decline to exercise its jurisdiction over an energy utility or the retail energy service of an energy utility, or both.

In this case, Petitioner has requested that the Commission decline its jurisdiction under Chapter 8.5. Petitioner has also requested approval of financial incentives for the project under Ind. Code ch. 8-1-8.8 ("Chapter 8.8").

In determining whether the public interest will be served by the declination of jurisdiction, the Commission must determine whether it is in the public interest to decline its jurisdiction over the energy utility. Ind. Code § 8-1-2.5-5(a). In considering whether the public interest will be served, the Commission considers certain factors enumerated in the statute:

> (1) Whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render the exercise, in whole or in part, of jurisdiction by the commission unnecessary or wasteful.
> (2) Whether the commission's declining to exercise, in whole or in part, its jurisdiction will be beneficial for the energy utility, the energy utility's customers, or the state.
> (3) Whether the commission's declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency.
> (4) Whether the exercise of commission jurisdiction inhibits an energy utility from competing with other providers of functionally similar energy services or equipment.

Ind. Code § 8-1-2.5-5(b).

Petitioner cites to Commission declinations of Chapter 8.5 in previous wind and solar wholesale provider Causes. The Commission does not find that the justifications for wholesale power declinations exist in the case of a retail energy supplier. For instance, wholesale power supply pricing is under the jurisdiction of the Federal Energy Regulatory Commission ("FERC"), while the case at bar addresses retail pricing directly subject to our jurisdiciton.

Nevertheless, the Commission does find that other state regulation exists that makes a declination of jurisdiction under Chapter 8.5 appropriate and in the public interest. The Commission has previously considered factors enumerated under Ind. Code ch. 8-1-8.7 ("Chapter 8.7") as appropriate considerations in determining whether a clean energy project under Chapter 8.8 is reasonable and necessary. We believe that consideration of factors under Chapter 8.5 may also appropriate in determining approval under Chapter 8.8. Given that we do so here, we find that further consideration under Chapter 8.5 is unnecessary.

With that said, we agree that Industrial Group criticism of Petitioner's IRP was justified. While the IRP submitted by I&M in 2013 does include utility-scale solar additions of 50 MW per year beginning in 2020, the IRP did not mention, even in its short-term action plan addressing actions planned in the subsequent 3 years, the CESPP. I&M argues that the CESPP is directionally consistent with the IRP because it will provide a solid foundation for it to grow and learn from as it moves toward the larger IRP identified additions. As further discussed below, while we ultimately agree that a pilot project is directionally consistent with developing a larger solar presence, it is somewhat troubling that this learning effort was not on presented to the Commission in the 2013 IRP.

**B. <u>Determination of Eligibility for Financial Incentives under Chapter 8.8</u>.** In accordance with Chapter 8.8, I&M is requesting that the Commission authorize a financial incentive in the form of timely cost recovery through the SPR for its CESPP, which is a proposal to construct and own approximately 16 MW of utility-owned solar PV generation facilities, with each facility sized in the range of 1 to 5 MWs. I&M seeks approval of a GPR that will allow customers the opportunity to support the development of solar power by voluntarily subscribing each month to a specific number of SRECs.

Under Chapter 8.8, the Commission must determine whether Petitioner is an eligible business, whether the CESPP is a "clean energy project," and whether the CESPP is reasonable and necessary in order for Petitioner to receive financial incentives under Ind. Code § 8-1-8.8-11. While an eligible business may be entitled to financial incentives for clean energy projects, Chapter 8.8 does not explicitly provide an eligible business the opportunity to update the Commission with the ongoing need of such projects or changes from the initial cost estimate, as provided in Chapters 8.5 and 8.7.

There is no dispute that Petitioner is a "public utility" within the meaning of Ind. Code § 8-1-2-1, a "utility" within the meaning of Ind. Code § 8-1-2-6.8, an "energy utility" within the meaning of Ind. Code §§ 8-1-2.5-2, and an "eligible business" within the meaning of Ind. Code § 8-1-8.8-6. There is also no dispute that the CESPP constitutes a "clean energy project" under Ind. Code § 8-1-8.8-2(2).

Our focus turns then to the finding related to relief under Section 11(a) of Chapter 8.8, whether CESPP is "reasonable and necessary." While Chapter 8.8 does not set forth any specific factors the Commission should consider in determining the reasonableness and necessity of a clean energy project, the Commission has considered some factors outlined in Chapter 8.7 in other cases. *See Northern Indiana Public Service Co.*, Cause No. 44012 (Phase I Order), at 20 (IURC Dec. 28, 2011) (discussing effect of compliance project on operations and comparing cost of retirement); *see also Indiana Michigan Power Co.*, Cause No. 44182, at 53-54 (IURC July 17, 2013) (Chapter 8.7 factors relevant for LCM Project under Chapter 8.8). We also find that factors outlined in Chapter 8.5 may also be appropriate considerations under the conditions presented in this proceeding.

The CESPP provides I&M and its customers an opportunity to make a meaningful step to integrating solar power into I&M's integrated resource portfolio. I&M has identified sites located on land in close proximity to existing I&M substations and within I&M load centers as potential host sites for small utility scale solar installations, which mitigates the overall cost of the CESPP by reducing the cost of interconnecting to the grid. Strategically locating utility-owned solar PV facilities close to load centers could reduce the need for energy delivery infrastructure development. The evidence demonstrates that approval of the CESPP will allow I&M to gain construction, operational and technical experience and insight into how utility-scale solar facilities will impact I&M's system. The energy produced by the CESPP will reduce electric energy that otherwise would be supplied by I&M's more traditional generating resources (e.g., coal and nuclear). The solar generation will also modify I&M's load shape in that most of these solar resources typically will be generating during on-peak periods. Approval of the modest amount of solar energy reflected in the CESPP will allow I&M to embrace the change toward solar energy in a logical, progressive and disciplined manner with a relatively small impact on customers' overall electricity bills. While solar generation, as an intermittent energy resource, has certain operational challenges, it is a zero-carbon source of electricity that can further diversify I&M's generation portfolio, which now consists of coal, nuclear, wind and hydro generation. At the same time, I&M can gain experience in integrating solar generation into its operations so as to build the knowledge base it will need going forward to reliably and affordably meet the needs and expectations of I&M's customers. Approval of the CESPP will allow I&M to 1) monitor and analyze the performance of the different solar technologies used at the facilities, 2) establish and refine the PJM Day-Ahead forecasting techniques, and 3) assess the impact to the I&M transmission and distribution systems due to the installation of these variable energy resources.

Accordingly, the Commission finds and concludes that the CESPP is reasonable and necessary, subject to the following:

i. Estimated Cost. The record reflects that I&M's cost estimate of $38 million for the 15.7 MW project is based on indicative pricing from three experienced solar EPC contractors. The actual cost of the solar installations will be based on a competitive procurement process and vary somewhat with the size and location of system facilities. I&M intends to have the CESPP in commercial operation no later than December 31, 2016 so that the pricing will benefit from the higher level of federal ITC available through that date.[1] Messrs. Chodak and Karrasch explained why they have a high degree of confidence in this cost estimate. They explained that the project differs significantly from large powerplant construction or environmental retrofit projects with regard to complexity and length of construction. The project consists of commodities such as solar panels and inverters and the construction is straightforward. However, neither witness was willing to quantify a degree of certainty related to the cost estimate, but were opposed to being subject to a hard cost cap for the CESPP as proposed by the Industrial Group.

We find the $38 million estimated cost of the CESPP is reasonable and is the best cost estimate, and we find that this estimate is linked as a condition to our reasonable and necessary determination. While Mr. Chodak argued that hard cost caps are bad public policy, the Commission does not believe an open-ended project preapproval is reasonable and places material value in having evidence presented about what the expected range of costs may be in its deliberations on the reasonableness of a project to best understand the risk project preapproval transfers to ratepayers. While that evidence was not presented, Petitioner expressed a high level of confidence in the estimates presented. We find it reasonable to require that Petitioner must seek modification of our reasonable and necessary determination for any increase from this proposed cost estimate. We further find that our reasonable and necessary determination requires that all CESPP installations be completed by December 31, 2016 in order to take advantage of the ITC. Deviations from the cumulative number or size of installations presented herein will require a prorated deviation in the costs ultimately approved for timely recovery.

ii. SPR and GPR. I&M's request for financial incentives under Chapter 8.8 is limited to timely recovery of the costs incurred during the construction and operation of the CESPP through the SPR. I&M proposes to file its first annual SPR filing approximately six months prior to the first CESPP project going into electric plant in service, based on the forecasted costs for the following 12-month period. The proposed ratemaking and accounting treatment for the CESPP includes approval of a 20-year depreciable life for the CESPP. A 20-year depreciation period is intended to match the recovery of this investment over the remaining life of the investment. The SPR rate will be established annually based on forecasted costs aligning with the rate period consistent with other I&M riders.

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[1] The expiration date for the Federal Section 48 ITC is January 1, 2017. Solar projects that are commissioned (placed in service) prior to January 1, 2017 are eligible for a 30% ITC, however, if a project is commissioned on or after January 1, 2017 it will only be eligible for a 10% ITC.

The timely cost recovery will include depreciation expense, carrying costs on the post in-service investment, taxes and operating and maintenance ("O&M") costs, including solar forecasting costs. The cost recovery will also reflect credits for the amortization of the federal ITC and GPR credits as discussed below. The carrying costs to be recovered in the SPR will be computed by applying I&M's weighted average cost of capital to I&M's investment as each solar project is placed into electric plant in service. I&M proposes to reflect the authorized return (also referred to herein as the post in service carrying costs) on the CESPP from its most recent SPR Order in determining the total authorized net operating income level to be utilized in the Ind. Code § 8-1-2-42(d)(3) test. Cost recovery through the SPR will be subject to reconciliation to actual costs. I&M proposes to perform traditional over-/under-recovery accounting consistent with I&M's current tracker reconciliations. When setting new SPR rates, I&M will utilize the most recent actual over/under balance and amortize that balance over the twelve-month period associated with the new rates. I&M also requests authority to create a regulatory asset of post in service carrying costs, both debt and equity, depreciation expense, taxes, and O&M expense, including forecasting costs associated with the CESPP, and maintain those deferrals until they are recovered through the ratemaking process. I&M proposes to recover any costs deferred prior to the implementation of the SPR factor over 12 months starting with the effective date of the Rider. The requested ratemaking treatment will continue until the CESPP is included in rate base in a proceeding that involves the establishment of I&M's basic rates and charges. At the hearing, Mr. Chodak confirmed that the reduced return on equity approved in the Settlement Agreement in *Indiana Michigan Power Company*, Cause No. 43774 PJM 4 (IURC 10/1/2014) would apply to the timely cost recovery of this capital investment.

The parties raised certain issues with I&M's SPR and GPR proposals, which we address below:

a. Costs Recovery under SPR. The Industrial Group argued that I&M's customers are not the sole beneficiaries of this project and suggested that it is unfair for 100% of the costs of the CESPP to be reflected in I&M's rates for electric service. We recognize that the experience that I&M will gain from the proposed CESPP may also benefit others, including AEP, but disagree that this requires an adjustment of recovery. We believe that any benefits accruing to AEP will be offset by benefits to I&M ratepayers in the future due to the knowledge and experience I&M may gain through the CESPP. Accordingly, we do not condition our approval of CESPP with any reduction based on benefits that may extend beyond I&M.

Mr. Pollock also proposed that I&M only be allowed to recover its investment up to the level of I&M's avoided cost. He considered this proposal reasonable because the CESPP is being implemented prior to the period identified in I&M's IRP for larger utility scale solar generation. As we noted above, however, the CESPP is directionally consistent with I&M's IRP. Given the small scale of the CESPP, we do not condition our approval of the CESPP to the recovery of only avoided costs.

b. GPR Revenue Offsets. I&M proposed to offset the cost of the CESPP with all revenues that may be received under a proposed GPR which will be available to all classes of retail customers in good standing. Under the GPR, interested customers would pay a monthly market based fee, in addition to the applicable tariff rate, that would enable them to subscribe to 50 kWh blocks of SRECs to be retired by I&M. While all customers will support the CESPP through the SPR, the GPR provides a separate mechanism for customers to further support the CESPP. The subscription rate of this tariff will provide valuable insight into customer preference for solar energy. The revenue produced by the subscription fees will be flowed through in the SPR as a credit toward the CESPP revenue requirement and thus reduce the rates charged under the SPR. In this manner, interested customers would essentially become sponsors of the CESPP and be able to demonstrate their individual support for solar energy. Mr. Chodak explained that any SRECs not subscribed to by customers under the GPR will be maintained and counted toward I&M's compliance with a renewable portfolio standard ("RPS") or greenhouse gas ("GHG") regulations to which it is, or may be, subject. He added that regardless of any future RPS or GHG mandates, receiving the SRECs helps voluntarily reduce GHG emissions per megawatt hour. Also, I&M intends to monitor the value of SRECs in the market and may occasionally monetize unsubscribed SRECs and flow the benefits back to customers through the SPR.

While OUCC witness Keen proposed certain changes to the SPR and GPR tariffs, the OUCC recommended the Commission approve I&M's request to implement the SPR and GPR. Industrial Group witness Pollock requested the SPR tariff show the GPR revenue offset. In its rebuttal, I&M agreed to clarify the tariffs in response to this input and Mr. Halsey included revised tariffs with his rebuttal testimony. However, he recommended against including an estimate of GPR revenues in the initial SPR calculation. Mr. Halsey suggested this approach provides transparency to the cost of the solar project on a stand-alone basis. SPR costs and GPR revenues will both be reconciled in the ongoing annual proceedings. Further, the incremental nature of the CESPP leads to a moderate overall first-year estimated rate impact of the CESPP upon I&M customers on a stand-alone basis of 0.3%. We find I&M's approach as set forth in its rebuttal is reasonable and should be accepted.

c. Cost Allocation. Industrial Group witness Pollock proposed the CESPP costs should be allocated to customers on a demand basis. I&M agreed that the SPR costs are fixed costs and as such should be allocated to the customer classes based on class coincident peak demands. However, I&M proposed that the allocated SPR costs be collected on a rate per kWh for each class. We find I&M's approach to be reasonable as it is consistent with the method used in I&M's LCM Rider.

d. Scope of GPR. Mr. Pollock also asked the Commission to expand the GPR to include other renewable energy sources such as wind. Mr. Chodak explained that the GPR is intended to gauge customer's interest in and support for solar energy. He added that while I&M is aware that there is support for solar energy among its customers, it will be instructive to analyze the depth and breadth of that support. Mr. Chodak explained that an effective marketing campaign will provide significant data that can be a valuable resource for that analysis. However, he suggested the value of that data would be diminished if it is not clear whether the support could be viewed as being for solar, wind or biomass, or all renewables.

As proposed by I&M, its GPR is intentionally tied to the CESPP as a means to support that specific pilot project and to test the support for solar energy in general. We agree that this objective would be missed if the scope of a solar-specific GPR were expanded to include wind RECs. We also note that the Commission has already established a means for returning the value of certain wind RECs to I&M's customers. Under the Commission Orders in Cause Nos. 44034, 43750 and

43328 approving I&M's wind Power Purchase Agreements, if I&M monetizes the wind RECs, the revenues will be credited back to customers. *Indiana Michigan Power Co.*, Cause No. 44034, at 11-12 (IURC 9/21/2011); *Indiana Michigan Power Co.,* Cause No. 43750, at 15 (IURC 1/6/2010); *Indiana Michigan Power Co.*, Cause No. 43328 at 5, 12 (IURC 11/28/2007). Accordingly, we find that sales of wind RECs should not be included in the GPR.

e. Conclusion. Based on the foregoing, we find the proposed accounting treatment and Petitioner's proposed SPR and GPR tariffs (as revised in Mr. Halsey's rebuttal testimony) should be approved.

iii. 30 Day Filing Process. I&M proposed to use the 30-day filing process set forth under 170 IAC 1-6 solely to update the fixed block rate in the GPR tariff on an annual basis. OUCC witness Keen objected to I&M's proposal but neither the OUCC nor any other party objected to using the PA SREC as published by SNL Energy Power Daily or other equivalent source as the basis for establishing the fixed block rate in the GPR. Thus the annual update to the fixed block rate should not be controversial.

We believe that I&M's proposal to use the 30-day filing process to update the fixed block GPR rate to a known benchmark is reasonable. Other costs borne by I&M associated with the GPR administration will be addressed as part of the SPR annual reconciliation filings where I&M will seek recovery of these costs. In the event that adjustments to the fixed block rate become controversial or burdensome to the parties or the Commission, the Commission has the authority to require I&M to move such filings to a docketed proceeding.

iv. Reporting Requirements. OUCC witness Keen recommended I&M file an annual GPR report. I&M responded that the reporting proposal is acceptable but proposed to provide the reports in I&M's annual SPR filings. We find this approach is reasonable. In its annual SPR filings I&M shall report on:

a. I&M's marketing and communication of the GPR;
b. number of customers enrolled in the GPR per month, including a breakdown of residential and C&I customers;
c. if I&M decides to change the reference market for setting the price of the SREC blocks, the name of the SREC market providing the basis of I&M's updated SREC block price; and
d. the market prices of the SREC for each month of the reporting period.

We further direct I&M to provide information regarding any other approved costs included in the annual SPR rider filings.

Mr. Keen also recommended several reporting requirements related to the construction and operation of the solar generation facilities. He proposed the initial report to contain (to the extent such information is available) the following:

a. project name(s) of the facility;
b. name, title, address and phone number(s) for primary contact person(s) for the facility;
c. specific locational address for the solar energy generation facility;

d. number and configuration of arrays and total number of panels for the complete facility;
e. anticipated output per panel, per array and total output for the facility;
f. manufacturer, model number, and operational characteristics of each type of panel used in each specific facility;
g. copy of all Interconnection System Impact Studies;
h. expected in-service (commercial operation) date; and
i. an estimate of the engineering/construction timeline and critical milestones for the facility.

The OUCC recommended that Petitioner file subsequent annual reports, which would include the following:

a. any changes of the information provided in the Initial Report; and
b. a monthly summarization of the actual output in generation for each facility with a willingness on behalf of Petitioner to provide, upon request, more detailed generation performance data for any specific facility as requested by the OUCC and/or Commission.

Mr. Halsey was supportive of providing the initial report information, subject to the protection of confidential information. He proposed that I&M continue to provide an annual report for the generation output information for a period of five years similar to I&M's wind generation reporting. Accordingly, we find the OUCC reporting recommendations for the CESPP and GRP as modified in Mr. Halsey's rebuttal testimony are reasonable and should be approved. I&M's initial and subsequent annual reports shall be filed in I&M's annual SPR proceedings.

**C. <u>Confidentiality</u>.** During the hearing I&M moved for the protection and nondisclosure of confidential information and supported this request with the testimony of Mr. Karrasch. No party objected to the motion and the Presiding Officers granted it. We affirm this ruling and find all such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:**

1. Petitioner's proposed CESPP is approved as a "clean energy project" as set forth in this Order.

2. The Commission declines to exercise its jurisdiction under Ind. Code ch. 8-1-8.5 for the CESPP.

3. I&M's cost estimate of $38 million for 15.7 MW for the CESPP shall be and hereby is approved.

4. I&M's proposed Solar Power Rider is approved and rider filings shall be docketed as Cause No. 44511 SPR X.

5. I&M shall comply with the reporting requirements set forth in Paragraph 8(B)(iv).

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

**STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:**

**APPROVED:** FEB 04 2015

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

Brenda A. Howe

**Brenda A. Howe**
**Secretary to the Commission**