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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED APPLICATION OF INDIANA) MICHIGAN POWER COMPANY, AN INDIANA) CORPORATION, FOR APPROVAL PURSUANT) TO IND. CODE 8-1-8.8-11 OF A RENEWABLE) ENERGY PROJECT POWER PURCHASE) AGREEMENT WITH THE CITY OF) WINCHESTER, INDIANA, INCLUDING COST) RECOVERY.)	CAUSE NO. 44313 APPROVED: JUN 26 2013
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ORDER OF THE COMMISSION

Presiding Officers:

Kari A. E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On February 25, 2013, Indiana Michigan Power Company (“I&M” or “Petitioner”) filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) for approval of a renewable wind energy project power purchase agreement between I&M and the City of Winchester, Indiana (“City”) and recovery of associated costs. On February 25, 2013, I&M prefiled the direct testimony and exhibits of Marc E. Lewis, I&M’s Vice President of Regulatory and External Affairs, and Joseph A. Karrasch, Manager – Asset Investments Renewables for American Electric Power Company, Inc. (“AEP”).

On March 1, 2013, the City filed its petition to intervene, which the Presiding Officers granted on March 12, 2013. On April 5, 2013, the City prefiled the direct testimony of Hon. Steven D. Croyle, Mayor of the City of Winchester. On April 30, 2013, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled the direct testimony of Michael D. Eckert, Senior Analyst in the OUCC’s Electric Division.

Pursuant to notice as required by law, proof of which was incorporated into the record, the Commission held a public hearing in this Cause at 9:30 a.m. on May 29, 2013, in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana. I&M, the City, and the OUCC appeared and participated at the hearing. No members of the general public were present at the hearing.

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

1. **Notice and Jurisdiction.** Notices of the hearings in this Cause were given and published by the Commission as required by law. Petitioner is a “public utility” under Ind. Code § 8-1-2-1. As discussed below, the wind generation project at issue is a clean energy source under Ind. Code § 8-1-37-4(a)(1) and, therefore, qualifies as a renewable energy source under Ind. Code § 8-1-8.8-10(a)(1). Ind. Code § 8-1-8.8-11(a) allows the Commission

to approve financial incentives to encourage clean energy projects. Therefore, 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 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 renders electric service in the States of Indiana and Michigan. In Indiana, I&M provides retail electric service to customers in 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 counties. In addition, I&M serves wholesale customers in Indiana and Michigan. I&M's electric utility is an integrated and interconnected system that is operated within Indiana and Michigan as a single utility.

3. **Relief Requested.** I&M and the City entered into a 20-year renewable energy purchase agreement ("REPA") to interconnect a wind turbine from a facility in Winchester, Indiana. The wind turbine is a distributed generation project rather than a utility-scale wind project and is interconnected at a distribution voltage level. The REPA will allow I&M to gain experience with such facilities without placing undue risk on the reliability of the distribution system or unduly increasing customer bills.

I&M requests the Commission approve the REPA and find the Winchester Project to be an "energy project" and a "renewable energy resource" as those terms are defined in Ind. Code §§ 8-1-8.8-2 and 8-1-8.8-10. I&M also requests authority to recover the costs associated with the REPA through the full 20-year term of the Agreement. I&M proposes to include a representative level of costs associated with the REPA in its proposed revenue requirement in its next general base rate case.

4. **I&M's Evidence.** Mr. Lewis testified that I&M is seeking approval and cost recovery of the REPA. The source of the energy would be an 850 kW wind turbine to be located in the City of Winchester, Indiana. Mr. Lewis stated that the City and the Winchester Redevelopment Corporation approached I&M about their interest in installing a wind turbine along the entry way to the City as a means of demonstrating its interest in the use of and support for renewable energy. He stated that the City's project has available to it Clean Renewable Energy Bonds ("CREB"), which are specifically meant for state and local entities not eligible for Federal Production Tax Credits due to the fact that they are non-profit entities. CREBs are supported by the Internal Revenue Service and are used to lower the cost of the project.

Mr. Lewis explained that the REPA is similar to the Fowler Ridge and Wildcat 1 wind farm REPAs because it supports the production of emissions-free renewable energy sources in Indiana. But the REPA differs from the Fowler Ridge and Wildcat 1 REPAs because it is a distributed generation project rather than a utility-scale wind project. Mr. Lewis added that I&M will be purchasing only energy under the REPA, whereas under the Fowler Ridge and Wildcat 1 REPAs, I&M purchases energy, capacity, and Renewable Energy Credits ("RECs").

Mr. Lewis stated that I&M is interested in exploring the build out of distributed generation resources. The REPA allows I&M to test the efficacy of pricing the energy in the REPA based on the costs of the project and supports the production of renewable energy by one of I&M's municipal customers. It also permits I&M to gain experience with the impact of such facilities on I&M's distribution network, and will not unduly increase customer bills.

Mr. Lewis explained that I&M is proposing to recover the costs of the REPA differently from the utility-scale REPAs, which the Commission authorized I&M to administer within I&M's fuel adjustment charge ("FAC") proceedings (or successor mechanism). Instead, because the costs incurred by I&M under the REPA will be relatively small compared to utility-scale REPAs and the benefits are attributable to Indiana, I&M proposes that the energy delivered under the REPA be assigned to I&M's Indiana jurisdiction and that the Commission authorize I&M to include in its next general rate case a representative level of costs in the revenue requirement the Commission will use to establish basic rates without the need to track the recovery of the costs through periodic regulatory proceedings.

Mr. Lewis stated that I&M supports the use of wind energy as a means of advancing generation diversity. He noted that I&M's customers are interested in the use of more renewables to meet their needs. He further noted that as environmental regulations of greenhouse gases continue to increase, it is important to develop an emissions strategy that will comply with reasonably anticipated regulations through the use of emission free generation. Mr. Lewis indicated that investing in distributed wind resources allows I&M to learn about potential for renewable distributed generation to play a part in that strategy.

Mr. Lewis testified that the approval of the REPA is consistent with Indiana's policy toward wind energy. Mr. Lewis said that the General Assembly has expressed a public policy of supporting the reasonable and achievable growth of renewable energy through incentives and goals. In particular, he noted that Ind. Code ch. 8-1-8.8 supports the development of renewable energy projects and encourages renewable energy projects through the creation of incentives. He added that the Commission has also shown support for wind power through its review and approval of I&M's request to purchase 150 MWs of wind power from Fowler Ridge Wind Farm, LLC and 100 MWs from Wildcat Wind Farm 1 (Cause Nos. 43328, 43750, and 44034) and the approval of wind resources purchased by other Indiana utilities.

Mr. Lewis stated that I&M executed the REPA for the purchase of approximately 850 kW of wind power. He explained that the structure of the REPA expects the initial delivery of power to begin on or before December 31, 2013, and continue for 20 years. I&M agreed to allow the City to retain and monetize the RECs associated with the project to help lower the overall project cost to the City.

Mr. Lewis testified that I&M will pay the City a price for energy that is generally based on the costs incurred by the City to finance, construct, and operate the turbine. He explained that this method of pricing is similar to the manner in which pricing is developed for feed-in tariffs. In this way, I&M can evaluate the benefits of the distributed renewable resource to I&M and its customers in a measured and limited manner without unduly

increasing I&M's costs and or risking the reliability of the system. Mr. Lewis testified that the costs under the REPA are comparable with the costs found for this kind of renewable energy in feed-in tariffs approved by the Commission for other utilities.

Mr. Lewis testified that I&M requests that the Commission find the REPA to be a renewable energy project, as that term is defined in Ind. Code § 8-1-8.8-2. He explained that as such, it would be eligible for certain incentives under the law, including, but not limited to, timely cost recovery. He stated that because the wind turbine is relatively small, the monthly cost incurred by I&M is expected to be nominal and not significant enough to materially affect I&M's FAC factor. Therefore, because the benefits are attributable to Indiana, I&M proposes that the energy delivered under the REPA be assigned to I&M's Indiana jurisdiction and manageable as an element of basic rates outside of the FAC proceeding. I&M proposes to forecast the expected output of the turbine and multiply it by the contract price to determine the average monthly cost to be included in purchased power (Account 555).

Mr. Karrasch testified that I&M utilizes American Electric Power Service Corporation to negotiate on behalf of I&M to secure long-term REPAs. He said that the REPA is a joint development between the City and the Winchester Redevelopment Authority of a smaller scale (up to 1 MW, but designed to be 0.85 MW) distributed generation project as compared to a utility scale project like the Fowler Ridge (600 MW total) or Wildcat (202.5 MW) wind farms. According to Mr. Karrasch, the single wind turbine will be located in the City of Winchester and interconnected to the distribution system of I&M at the Anchor Hocking substation.

Mr. Karrasch testified that the REPA has a term of 20 years with an initial around-the-clock contract price (\$/MWh). The REPA entitles I&M to the energy (kilowatt-hours) from the project. Mr. Karrasch explained that as a condition of the REPA I&M must obtain a final, non-appealable order from the Commission approving the terms and conditions of the REPA without modification and authorizing I&M to recover all of the jurisdictional costs associated with the REPA through Indiana retail rates.

Mr. Karrasch stated that the other conditions precedent that must be satisfied are associated with an Interconnection Agreement, evidence of insurance, wildlife permits and studies, and approval of the REPA by the City Council, Mayor of the City, and the Winchester Redevelopment Authority. He further testified that under the REPA I&M must continue to recover its related costs through Indiana retail rates. He stated that in the event that I&M does not recover its costs, I&M and the City will enter into good faith negotiations to determine whether modifications to the REPA, including the price, can be made. If the parties are not successful in negotiating modifications, then I&M has termination rights.

Mr. Karrasch testified that the REPA contains typical and conventional indemnity provisions between a seller and purchaser of power under a power purchase agreement. He explained that many of these indemnity protections are aligned with transfer of title to and risk of loss to the Energy between the parties. I&M is also protected from any environmental claims or matters relating to the wind facility. Mr. Karrasch testified that the Agreement requires the Seller to maintain customary insurance coverages, including, without limitation,

Commercial General Liability, Workers Compensation, Employers Liability, Builder's Risk, Environmental Impairment Liability, and All-Risk Property insurance.

5. **The City's Evidence.** Mayor Croyle testified that the City believes that the wind project will boost economic development for the City and the nearby district and will provide the City with a landmark profile to show its commitment to green energy and renewable resources. Mayor Croyle stated that due to timing deadlines with the Clean Renewable Energy Bonds, it was necessary to issue the bonds and financing at an early stage in the project. Mayor Croyle testified that the City has made a substantial financial commitment with the issuance of certain debt obligations in an amount of approximately \$3,000,000 for the purpose of financing the design, construction, and equipping of the wind turbine.

6. **OUCC's Evidence.** Mr. Eckert stated that the OUCC continues to be an advocate for the reasonable development of renewable energy generation resources in Indiana. He testified that the OUCC believes the REPA satisfies the statutory definition of a "clean energy project" as defined in Ind. Code § 8-1-8.8-2 because the project will constitute a renewable energy resource.

Mr. Eckert testified that the OUCC is not opposing I&M's rate recovery request. However, Mr. Eckert testified that the OUCC believes that the "representative level of costs" built into I&M's base rates is and should be subject to review in I&M's next rate case and any future rate proceedings thereafter.

Mr. Eckert stated that the OUCC recommends that I&M submit to the Commission an annual confidential report detailing the wind energy delivered on an hourly basis by and for the Winchester turbine for the preceding year annually for a period of five (5) years from the commencement of the REPA.

7. **Commission Discussion and Findings.** Ind. Code § 8-1-8.8-11 allows the Commission to authorize the timely recovery of costs and expenses incurred during the operation of clean energy projects and other financial incentives the Commission considers appropriate. The statutory definition of a clean energy project includes a project to develop alternative energy sources, including renewable energy projects. Ind. Code § 8-1-8.8-2(2). Ind. Code § 8-1-8.8-10 defines renewable energy resources to include energy from wind. *See* Ind. Code 8-1-37-4(a)(1). Therefore, the City's wind turbine qualifies as a clean energy project and is eligible for financial incentive under Ind. Code § 8-1-8.8-11. However, because I&M is not constructing the wind turbine but rather purchasing the energy produced by it, we must consider whether it is appropriate for I&M to recover the costs of the REPA.

Based on the evidence, we find that the REPA resulted from arms-length negotiations. I&M will only pay for the energy it receives. I&M will not obtain the RECs associated with the wind turbine so that the City may use the sale of those RECs to offset the construction costs. The REPA is a reasonable addition and diversification of I&M's generation portfolio, because it will be available independent of fuel price volatility and any costs associated with potential emissions regulations. Further, the REPA will allow I&M to learn about the

potential for renewable distributed generation. In addition, we have already allowed I&M to recover costs associated with other wind-generation-related REPAs. Based on this evidence, we find that it is reasonable to allow I&M to recover costs associated with the REPA.

In similar cases involving the purchase of energy generated by wind power from larger-scale wind farms, the Commission has authorized I&M to recover the costs associated with its REPAs through its FAC mechanism. *See, e.g., Ind. Mich. Power Co.*, Cause No. 44034, 2011 Ind. PUC LEXIS 272, at *37-39 (IURC Sept. 21, 2011). Here, I&M requests authorization to recover the costs of the REPA through its revenue requirement beginning with its next general rate case. I&M proposes to include a representative amount of costs, which it will calculate by forecasting the expected output of the turbine and multiplying that amount by the contract price.

Mr. Lewis testified that this project differs from I&M's other wind energy REPAs because it involves a single turbine and it is a distribution-level project. In addition, the costs associated with the REPA will likely be nominal and would not materially impact the FAC factor. Mr. Lewis also testified that the benefits of the REPA are attributable to Indiana, and therefore it would be appropriate to assign the costs associated with the REPA to I&M's Indiana Jurisdiction only. Mr. Eckert testified that the OUCC does not object to I&M's proposal to recover the REPA costs in its next general rate case, but argued that the representative amount included in I&M's revenue requirement should be subject to review.

Based on the evidence, we authorize I&M to seek recovery of the purchased power costs and other reasonable and necessary costs associated with the REPA over its full twenty-year term and to assign the costs to I&M's Indiana Jurisdiction. While we authorize I&M to seek such recovery, the amount of representative costs included in I&M's revenue requirement shall be subject to review in each rate case in which they are presented.

Mr. Eckert recommended that we require I&M to submit an annual confidential report to the Commission reporting the wind energy delivered on an hourly basis by the Winchester turbine for the preceding year for a period of five (5) years from the commencement of the REPA. The Commission included similar reporting requirements in I&M's other wind farm REPA cases. *See, e.g., Ind. Mich. Power Co.*, 2011 Ind. PUC LEXIS 272, at *39-40. However, due to the small scale of the Winchester Project, we find that such a reporting requirement is not warranted here.

8. Confidential Information. On February 25, 2013, I&M filed a Motion for Protection and Nondisclosure of Confidential and Proprietary Information, which the Presiding Officers granted on March 12, 2013. We find that all such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 8-1-2-29, and is exempt from public access and disclosure by the Commission.

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

1. I&M's REPA with the City of Winchester is a Renewable Energy Project as that term is used in Ind. Code ch. 8-1-8.8.

2. I&M is authorized to seek recovery of a representative level of the costs associated with the REPA in the revenue requirement used to establish basic rates in its next general rate case.

3. The information filed by I&M in this Cause is deemed confidential pursuant to Ind. Code §§ 5-14-3-4 and 8-1-2-29, 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.

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

ATTERHOLT, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS ABSENT:

APPROVED: JUN 26 2013

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



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