

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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) CAUSE NO. 44511
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.)

PROPOSED ORDER SUBMITTED BY PETITIONER
INDIANA MICHIGAN POWER COMPANY

Petitioner Indiana Michigan Power Company submits the attached proposed order.

Respectfully submitted,



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Proposed Order Submitted by Petitioner Indiana Michigan Power Company was served this 22nd day of October, 2014, via email transmission to:

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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”) 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 9, 2014, I&M filed an unopposed motion for modification of procedural schedule, which was 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.

Pursuant to notice as required by law, proof of which was incorporated into the record, a public hearing in this Cause was held on October 16, 2014, at 1:00 p.m. in Room 222, 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. 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 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 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.

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 1 to 5 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 § 8-1-8.5 to the extent necessary for the CESPP. In the alternative I&M seeks issuance of a certification of public convenience and necessity pursuant to Ind. Code § 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.¹ 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

¹ A utility-scale generating resource is an energy output designed to broadly serve the Company's customer load. "Utility-scale" resources are not necessarily defined to be a specific size, but rather can be developed at any appropriate size, given a range of resource planning and site specific needs and characteristics. "Utility scale" defines a purpose, rather than a size. Chodak Direct, p. 7.

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 RTO 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. Solar Power Rider (“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 and completion of construction 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, etc.) 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 electric plant in 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. Voluntary Green Power Rider (“GPR”). As Mr. Chodak and Mr. Halsey explained, I&M seeks approval of a Green Power Rider 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.** 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.** Jeffrey Pollock, President of J. Pollock, Inc., addressed the CESPP and recommended modifications to the SPR and GPR. Mr. Pollock said the CESPP would put upward pressure on rates because it would generate electricity at an estimated average cost of 20.2¢ per kWh, which he said was substantially above I&M’s projected avoided cost. He suggested that if the cost of the CESPP is higher than \$38 million, I&M should not be allowed to use the higher cost in applying the proposed SPR. He further suggested that cost recovery through the SPR should be limited to I&M’s avoided cost, in order to 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. Mr. Pollock provided an example of how a cost cap would work and how the weighted average avoided cost would be calculated. He also indicated that the formula for calculating the CESPP costs should explicitly include the GPR revenues as an offset, and that the costs allocated to the Large General Service and IP customer classes should be collected on a demand basis.

Mr. Pollock said prior to the CESPP, I&M was not planning to add utility-scale solar generation to its system in 2015 and 2016, although I&M’s IRP showed the addition of 50 MW of solar capacity per year beginning in 2020. He reiterated that I&M considers the CESPP to be consistent with the IRP because moving forward with it allows I&M to be in a better position to more effectively execute these future solar installations. He noted that Mr. Chodak explained that customers will benefit from the new solar generation immediately and the timing and estimated cost of the CESPP is reasonable given the operational benefits that will be gained ahead of the forecasted solar additions in I&M’s 2013 IRP. Finally, Mr. Pollock stated there is tension between I&M’s request to be exempt from obtaining a CPCN and its cost recovery proposal under the SPR. He argued I&M is proposing to circumvent the process used for

approving new generation but receive the benefit of actually having gone through the process. He said if I&M seeks to deviate from the required ratemaking process, then the Commission should not be bound to approve the proposed SPR. He explained that if the SPR is approved, the Commission should ensure that customers are protected from any cost overruns.

7. **I&M Rebuttal.** 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 were to exceed \$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. Statutory Framework. To enhance Indiana’s energy security and reliability, Indiana energy policy encourages the development of a robust and diverse portfolio of energy generation resources, including the use of renewable energy resources, to meet both current and anticipated demand for energy. Ind. Code § 8-1-8.8-1 (“Chapter 8.8”). Among other things, this “all of the above” energy strategy recognizes that the development of such resources “is needed if Indiana is to continue to be successful in attracting new businesses and jobs.” *Id.*

1. Chapter 8.8. In Ind. Code § 8-1-8.8-11 the legislature set forth the means by which the state’s energy policy shall be implemented for renewable energy resources. This 2002 enactment mandates that the Commission “shall encourage” clean energy projects by creating financial incentives for such projects if they are found to be reasonable and necessary. This statutory provision identifies the timely recovery of the costs and expenses incurred during construction and operation of eligible projects that I&M proposes here as one form of financial incentive. Additionally, the statute specifically directs the Commission to create financial incentives for projects to develop alternative energy sources including renewable energy projects. This includes solar projects such as the one I&M proposes here. This statute does not relieve an eligible business of the duty to obtain any certificate required under Ind. Code § 8-1-8.5 but a single application may be filed for all necessary certificates.

2. CPCN Statute. Ind. Code Ch. 8-1-8.5, the Powerplant Construction Act, 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 certificate that public convenience and necessity (“CPCN”) requires or will require such construction, purchase or lease. The Powerplant Construction Act, or “CPCN” Statute, 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, etc.).

“We have indicated in previous CPCN cases that “least-cost planning” is an essential component of our [CPCN] law.” *Joint Petition of PSI Energy, Inc. and CINCAP VII, LLC*, Cause No. 42145, at 4 (IURC Dec. 29, 2002), quoting *Southern Indiana Gas & Electric Co.*, Cause No. 38738, at 5 (IURC Oct. 25, 1989) (“SIGECO”). “We have defined ‘least-cost planning’ as a ‘planning approach’ which will find the set of options most likely to provide utility services at the lowest cost once appropriate service and reliability levels are determined.” *Id.* “However, we have emphasized that the [CPCN] statute does not require the utility to automatically select the least cost alternative.” *Id.* For example, the Commission has found that that renewable energy sources like solar or wind provide real benefits to customers through generation portfolio diversification and that such benefits are attained at a price premium. *See, e.g., Indianapolis Power & Light Company*, Cause No. 43740, at 23 (IURC Jan. 27, 2010).

The Commission has also found that the CPCN statute does not “require the utility to ignore its obligation to provide reliable service or to disregard its exercise of reasonable judgment as to how best to meet its obligation to serve.” *Joint Petition of PSI Energy, Inc. and CINCAP VII, LLC*, Cause No. 42145, at 4. As this Commission has previously ruled: “[i]f an Indiana utility reasonably considers and evaluates the statutorily required options for providing reliable, efficient, and economic service, then the utility should, in recognition that it bears the service obligations of IC 8-1-2-4, be given some discretion to exercise its reasonable judgment in selecting the option or options to implement which minimize the cost of providing such service.” *PSI Energy, Inc.*, Cause No. 39175, at 14 (IURC May 13, 1992); see also *Joint Petition of PSI Energy, Inc. and CINCAP VII, LLC*, Cause No. 42145, at 4.

We have also found that the CPCN Statute is “primarily designed to address the authorization for and control of large, expensive power plants with lengthy construction periods which would be needed to meet expanded growth.” *PSI Energy*, Cause No. 39175, at 3; *SIGECO*, Cause No. 38738, at 4; *IMPA*, Cause No. 38850 (IURC 4/25/1990), p. 12. Some facilities, such as alternative energy production facilities and small generating facilities are exempt from this statute particularly if they are not owned by a provider of retail public utility service. Ind. Code § 8-1-8.5-7. We have found that the Legislature exempted these smaller solar facilities from the requirement to obtain a certificate of public convenience and necessity in an effort “to encourage the development of alternate energy production facilities.” *Indy Solar*, Cause No. 44304 (IURC May 29, 2013), at 8.

3. Alternative Utility Regulation (“AUR”) Statute. In 1995, the legislature adopted the Alternative Utility Regulation (“AUR”) 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. The AUR Statute provides the Commission with flexibility to decline to exercise the CPCN Statute and the Commission has done so for a variety of projects, particularly for smaller projects that do not have lengthy construction periods. *See, e.g., Re Headwaters Wind Farm LLC*, Cause No. 44358, at 10 (IURC 9/19/2013) (declining jurisdiction over wind energy project); *Re Crawfordsville Energy, LLC*, Cause No. 44101, at 8 (IURC 7/3/2012) (declining jurisdiction over 25 MW coal-fired generation plant); *Re Nextera Energy Bluff Point, LLC*, Cause No. 44299, at 10 (IURC 4/3/2013) (declining jurisdiction over wind energy project); *Re Meadow Lake Wind Farm II*, Cause No. 43678, at 11 (IURC 8/19/2009) (same); *Re ESG Biofuels (Blackfoot), LLC*, Cause No. 43569, at 10 (IURC 12/17/2008) (declining jurisdiction over two 1.6 MW generation facilities using landfill gas).

B. Request for Declination of CPCN Statute Jurisdiction. The OUCC recommended the Commission approve I&M’s request for the Commission to decline to exercise jurisdiction under the CPCN statute. The Industrial Group opposed it.

1. Ind. Code § 8-1-2.5-5(b)(1). In determining whether the public interest will be served by the declination of jurisdiction, the statute directs the Commission to consider certain factors enumerated in the statute. Ind. Code § 8-1-2.5-5(b). One factor is whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render the exercise of the Commission’s jurisdiction unnecessary or wasteful. Ind. Code § 8-1-2.5-5(b)(1). When this provision was adopted Chapter

8.8 did not exist and thus the Commission was not operating under this statute. As discussed below, the emergence of solar technologies, as well as the enactment of Chapter 8.8, are technological and operating conditions that render the exercise of the Commission's jurisdiction under the CPCN statute for the CESPP unnecessary or wasteful. Our review under Chapter 8.8, which considers whether a project is reasonable and necessary, overlaps and supplants the need for Commission review under the CPCN Statute.

Furthermore, while I&M is the sole provider of retail electric public utility service within its assigned service area, it is not the sole provider of solar generating facilities. Solar generating facilities come in many forms, ranging from wholesale solar farms to customer sited solar generation. For example, our order in *Indy Solar*, Cause No. 44304 (IURC 5/29/2013), concerned three separate public utility solar power generating units, each with a nameplate capacity of approximately 10 MW, which would be operated in the wholesale power market. We found these units are exempt from the CPCN Statute based on size and the fact that they would be operating in the wholesale market, not the retail market. *Lake County Solar LLC*, Cause No. 44336, at 7 (IURC 6/26/2013) (same).

The Commission's order in *Northern Indiana Public Service Company*, Cause No. 43922 (7/13/2011) ("NIPSCO") authorized timely cost recovery for certain long term wholesale power purchase agreements between NIPSCO and solar generating facilities. The Commission approved a purchase "price of 30 cents/kWh for solar energy generated through facilities with capacities less than or equal to 10 kW and 26 cents/kWh for solar energy generated through facilities with capacity between 10 kW and 2 MW, which is subject to a 2% escalator per year." *Lake County Solar LLC*, Cause No. 44336 (IURC 6/26/2013), at 2. We found this program comports with the Indiana's "Homegrown Energy Plan" and explained that the project "encourages the development of a diverse blend of renewable resource technologies with a range of generating capacity and which are available from vendors located in Indiana." *NIPSCO*, at 15. The purchase prices approved for NIPSCO are comparable to those offered by Indianapolis Power & Light Company ("IPL"), the other Indiana utility with similar cost recovery authorization. *Id.* at 8; *Indianapolis Power & Light*, Cause No. 43623, Phase I Order at 22 (IURC 2/10/10) (authorizing timely cost recovery of wholesale power purchases of solar and other renewable energy, as well as additional incentives of \$2 per watt, up to \$4,000 per site, for customers to install a small scale renewable energy system).

2. Ind. Code § 8-1-2.5-5(b)(2)-(4). The CPCN Statute also directs the Commission to consider whether declining to exercise jurisdiction will be beneficial for the energy utility, its customers or the state; whether declination of jurisdiction will promote energy utility efficiency; and whether the exercise of jurisdiction inhibits the energy utility from competing with other providers of functionally similar energy services or equipment. Ind. Code § 8-1-2.5-5(b)(2)-(4).

As discussed above, all solar generating facilities similar to those proposed here are not subject to the CPCN Statute. Subjecting some, but not all, small solar generating facilities to a proceeding under the CPCN Statute creates an unlevel playing field. This inhibits the development of this technology and the infrastructure necessary to meet the need for this technology. For example, unlike Chapter 8.8, the CPCN Statute does not expressly provide for financial incentives, such as timely cost recovery. This disparate treatment may have the

unintended consequence of encouraging public utilities to enter into PPAs with solar generating facilities instead of developing and owning such facilities in competition with merchant solar generating plants. Put another way, an unlevel playing field can inhibit an energy utility from competing with other providers of functionally similar solar generating services or facilities.²

Focusing our review of solar generating projects under Chapter 8.8 will promote efficiency and permit competitive forces in this sector to better operate. This benefits the utility, customers and state in various ways. First, competition can assure competitive pricing. This can benefit customers by lowering the overall cost of retail service compared to what it would be otherwise. *Re NIPSCO*, Cause No. 40342, at 78 (IURC 10/08/1997) (approving alternative regulatory plan, finding that “[t]he result should be increased price competition, and a reduction in overall energy costs resulting from competition”). Second, permitting retail electric providers to develop utility scale solar facilities will modernize public utility infrastructure and can lead to the greater development of solar generation consistent with Indiana’s energy policy. The record reflects that developing small solar generating facilities will permit I&M to gain experience with the impact of such facilities on the distribution and transmission network as well as with the impact of such facilities in wholesale power market operations. This benefits the utility, its customers and the State of Indiana as explained by Messrs. Chodak and Karrasch.

Industrial Group witness Pollock alleged there is a tension in I&M’s request because the Company is proposing to circumvent the process used for approving new generation but receive the benefit of actually having gone through the process. Mr. Pollock did not elaborate on his concern and we find it contrary to the record evidence. I&M’s proposal is clear. I&M requests timely cost recovery under Chapter 8.8. The Company is not seeking a CPCN under the Powerplant Construction Act if the Commission declines to exercise the CPCN Statute. Nevertheless, I&M submitted evidence demonstrating compliance with the CPCN Statute to allow the CESPP to be approved in the event the Commission opts to exercise its jurisdiction under the CPCN Statute in whole or in part. In the AUR Statute, the legislature afforded the Commission the flexibility when considering the merits of the CESPP not to be constrained by the requirements of a statute primarily directed at large base load plants.

Accordingly, having considered the factors enumerated in the CPCN Statute, we find that the public interest is served by the Commission declining to exercise its jurisdiction under the CPCN Statute in this proceeding. Granting I&M’s request does not mean that the project will be unregulated or that I&M will not be accountable for reasonably constructing and operating the CESPP; it simply provides an efficient manner in which to review the proposed CESPP. As discussed below, we further find that even if we had not declined this jurisdiction, the CESPP project satisfies the CPCN Statute and the public interest and convenience require or will require the construction of the CESPP as proposed by I&M.

² Additionally, credit rating agencies currently impute debt related to PPAs. With no corresponding equity, the mere signing of a PPA may weaken the Company’s credit profile. Conversely, ownership of solar assets, such as those proposed by I&M, will allow I&M to finance the program with a mixture of both debt and equity, which will maintain the Company’s financial health. The public interest is served when Indiana’s public utilities are able to maintain adequate financial strength as this lowers the overall cost of providing service and benefits customers, the utility and the state. Chodak Direct, p. 17.

C. **Chapter 8.8.** 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 photovoltaic (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.

1. **Clean Energy Solar Pilot Project (“CESPP”).** 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 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. I&M anticipates the facilities would be ground-mounted solar PV systems that can be aligned with the available sunlight to maximize system production. The request for interconnections of four of the five installations to the network is already in the queue for study and approval by PJM. The fifth installation (~1 MW) will connect directly to I&M’s distribution system. The Commission finds that the CESPP is a “clean energy project” as defined in Ind. Code § 8-1-8.8-2.

Chapter 8.8 requires the Commission to authorize financial incentives if we determine the CESPP is reasonable and necessary. As discussed below, we find it is.

The record reflects that the CESPP will provide for the development of “home grown” renewable energy resources. This will further Indiana’s energy policy, allow I&M to evaluate this technology and help diversify I&M’s generation portfolio. The record shows that this project is part of an overall reasonable least cost plan to meet the current and future need for electricity. The evidence demonstrates that approval of the CESPP will provide a number of benefits to I&M, further economic development, and enhance customer education. Further, I&M will gain construction, operational and technical experience and insight into how utility-scale solar facilities will impact I&M’s system. The Commission has previously supported utility renewable energy wind projects. For years, wind energy has been a more economical renewable energy resource than solar, but recent advancements in technology have allowed gains in the efficiency and cost-effectiveness of solar energy. As a result, solar energy is becoming more viable and customers are more interested in it as a resource. Thus, I&M believes now is the right time to move forward with a solar power pilot.

I&M’s 2013 IRP, submitted to the Commission on November 1, 2013, recognizes the imminent economic viability of utility-scale solar. The CESPP is directionally consistent with I&M’s IRP Preferred Portfolio which reflects the addition of 50 MW (nameplate) of solar capacity per year beginning in 2020 and totaling 700 MW by 2033. Chodak Direct at 15; Admin Notice 3 (I&M’s 2013 IRP), at ES-2. Given this forecast, we find it reasonable for I&M to initiate this smaller utility-scale solar pilot project now so that it may gain experience with such projects. The record demonstrates that the CESPP is a reasonable means for I&M to further the renewable energy policy objectives of the State and to diversify I&M’s resource

portfolio. 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. I&M's request recognizes it is facing a rapidly changing environment including the growth of utility-scale and distributed renewable resources. To thrive in this ever changing environment, I&M must recognize that the utility's traditional role in power supply is also changing with the increased penetrations of renewable energy resources and energy efficiency.

Furthermore, the 2013 State Utility Forecasting Group ("SUGF") forecast projects peak electricity demand is projected to grow at an average rate of 0.90 percent annually. Admin Notice 3, at 1-1. This corresponds to about 170 MW of increased peak demand per year. *Id.* SUGF projects a need for 1,450 MW of additional resources over the first half of its 2012-2031 forecast period and an additional 3,600 MW of resources over the second half of the forecast period. *Id.* at 1-5. This resource need reflects the retirement or de-rate of coal-fired generation resulting from compliance with federal environmental mandates. We find I&M's proposed solar facilities are consistent with the SUGF forecast and the policies and objectives of the State of Indiana, as these types of renewable, green energy projects should be encouraged in order to provide alternative sources of electricity for the electricity consumers.

The IRP shows that I&M's need with regard to solar energy cannot be addressed through current and potential arrangements for the interchange of power, the pooling of facilities, the purchase or power, and joint ownership of facilities, as well as other methods for providing reliable, efficient and economical electric service, including refurbishment of existing facilities, conservation, load management, cogeneration and renewable energy sources. I&M has worked to continue to grow its energy efficiency and demand-side management programs, such that these programs are offsetting a significant portion of the Company's sales and demand growth every year. 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. While the IRP is subject to change if circumstances change over time, solar will be part of the energy equation going forward and it is important that I&M become skilled at integrating solar into its generation portfolio, at both utility-scale and distributed generation levels.

I&M has a significant amount of wind energy in its portfolio that is providing a reasonable percentage of energy to I&M's customers. The CESPP will further broaden the diversity of I&M's generation portfolio by adding solar to I&M's existing wind and hydroelectric resources. This is particularly important because the U.S. Environmental Protection Agency's ("EPA") proposed regulations on carbon emissions contemplate a substantial expansion of renewable energy as a potential compliance measure. While the plans for compliance in Indiana with the EPA's proposed rules are not yet known, an increased use of renewable energy will necessarily be part of any plan. Investing in solar generation resources now is a reasonable and economic hedge against the cost of greenhouse gas regulation. A portfolio approach to resource planning is most likely to produce the best economic mix of resources while at the same time mitigating risk through diversification. Because so many variables are uncertain in the future, satisfying load obligations with a diversified portfolio provides options that, taken together, provide a significant amount of flexibility to economically and reliably meet load obligations under a multitude of potential circumstances.

Solar energy is emerging as a technology of increasing efficiency and heightened public interest that will become a more significant resource as installation costs for utility scale solar generation continues to decline and as utilities evolve their generation away from coal. 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. Customers will also benefit from learning more about the use of renewable energy/solar energy to meet their energy needs and I&M will gain operating experience with integrating solar energy.

Accordingly, as stated above, the Commission finds and concludes that the CESPP is reasonable and necessary.

2. Estimated Cost. The record reflects that I&M's cost estimate of \$38 million 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.³ 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 a large powerplant construction or environmental retrofit project with regard to complexity and length of construction. Mr. Chodak said the construction of a CESPP is analogous to building a fence, not a house. The project consists of commodities such as solar panels and inverters and the construction is straightforward.

No party challenged the basis of I&M's cost estimate or its plans to refine it through use of a competitive solicitation process. The estimated average levelized costs of the CESPP over its 20-year life is 14.3¢ per kWh as shown on Attachment CMH-R1. This estimated cost is substantially below the cost of long term solar power purchases authorized in Cause Nos. 43922 and 43623 discussed above. This reflects the declining cost of solar resources and the cost efficiency that can be achieved through deployment of large scale solar resources. The estimated annual overall rate impact of the CESPP is 0.3%, which can only decline with

³ 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.

subscriptions to the GPR. Halsey Direct (Attachment CMH-1). Accordingly, we find the \$38 million estimated cost of the CESPP is reasonable and approve this best estimate.⁴

3. Financial Incentive. Chapter 8.8 provides an opportunity for multiple financial incentives. I&M's request is limited to timely recovery of the costs incurred during the construction and operation of the CESPP through the SPR.

a. I&M's Proposal. I&M proposes to file its first annual SPR filing approximately six (6) months prior to the first CESPP project going into electric plant in service, based on the forecasted costs for the following twelve 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. Halsey Direct, p. 4.

The timely cost recovery will include depreciation expense, carrying costs on the post in-service investment, taxes and operating and maintenance 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 operating and maintenance (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 twelve 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.

While Chapter 8.8 indicates that an increased return on shareholder equity may be an appropriate financial incentive, during 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.

⁴ The record reflects that the estimated first year cost is 20.2¢ per kWh. This estimate does not reflect any offset from the GPR. Additionally, it is appropriate to use the estimated average levelized cost of 14.3¢ per kWh because this reflects the life of the project and the revenue requirement will decline each year as the electric plant in service depreciates resulting in a lower required pre-tax return.

Additionally, I&M proposes 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 a 50 kWh block 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.

b. SPR and GPR Tariffs. 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 believes 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 overall first-year rate impact of the CESPP upon I&M customers on a stand-alone basis is estimated to be 0.3%. This rate impact can only decline with subscriptions to the GPR. We find I&M's approach 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 this proposal shows a misunderstanding of the relationship between the CESPP and the GPR and is somewhat short-sighted. Mr. Chodak testified that solar energy appears poised to play a significant and unique role in the future generation of energy and is different from wind energy in several respects. The CESPP is a pilot program that will provide I&M with a better understanding of the solar renewable resource. 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, 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, the 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 it was unduly expanded. Furthermore, selling off I&M's existing wind RECs for short-term gains may be unwise in the face of the potential value of these RECs going forward in a world of carbon regulations and mandatory RPS. At this time, it appears that Indiana may need to rely on renewables and energy efficiency if the EPA's proposed regulation of carbon emissions is adopted as proposed. Thus, selling off RECs now could prove to be more costly to customers if more expensive RECs have to be purchased for compliance purposes in the future. Finally, the Commission has already appropriately addressed wind RECs, including establishing 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 ("PPAs"), if I&M monetizes the wind RECs, the revenues will be credited back to customers. *Re Indiana Michigan Power Company*, Cause No. 44034, at 11-12 (IURC 9/21/2011); *Re Indiana Michigan Power Company*, Cause No. 43750, at 15 (IURC 1/6/2010); *Re Indiana Michigan Power Company*, Cause No. 43328 (IURC 11/28/2007), p. 5, 12.

Accordingly, we find the proposed SPR and GPR tariffs (as revised in Mr. Halsey's rebuttal testimony) should be approved.

e. 30 Day Filing Process. I&M's proposed to use the 30-day filing process set forth at 170 IAC 1-6 *et seq.* 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.

The Commission's 30-day filing rule recognizes that certain requests by a utility for changes in its rates, charges, rules and/or regulations can be accomplished in an administratively efficient manner without the need for a formal docketed proceeding. Given the narrow scope of I&M's proposal and the lack of objection to the tariff adjustment itself, we find it would be administratively efficient to update the fixed block rate through the Commission's 30-day filing process. The OUCC's concerns regarding customer transparency and marketing of the solar project can be addressed as part of the SPR annual reconciliation filings where I&M will seek recovery of these costs.

f. Cost Cap. Industrial Group witness Pollock asked the Commission to impose an absolute cap on I&M's cost recovery but we decline to impose a hard cap. Denial of cost recovery would be contrary to Chapter 8.8 which encourages renewables with financial incentives, including timely cost recovery. Acceptance of Mr. Pollock's position would prevent the utility and the Commission from considering unforeseen opportunities and other circumstances. It is unreasonable to set an absolute ceiling based on the proposed cost estimate because those incremental costs could, in fact, be worth incurring. Adopting a cost cap

would be bad public policy because it could drive utilities to inflate their cost estimates or enter into more costly fixed price contracts to guard against exceeding the hard cap proposed by the Industrial Group. We recognize that the final costs may reasonably vary from this initial cost estimate and find that that I&M should have an opportunity to present such additional costs and justify their reasonableness to the Commission in a separate proceeding. This conclusion is consistent with our orders in *Indiana Michigan Power Company*, Cause No. 44182, at 58 (IURC 7/17/2013) and *Indianapolis Power & Light Company*, Cause No 44242, at 34 (IURC 8/14/2013) wherein the Commission found that requests for recovery of costs in excess of the approved estimate would will require additional approval in a proceeding that allows for public notice and an evidentiary hearing.

g. Other Industrial Group Concerns. Mr. Pollock argued that I&M's customers are not the sole beneficiaries of this project and suggested that it is somehow 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 is unreasonable. Such benefits flow both ways. All customers benefit from AEP's scope and scale regardless of which AEP operating company provides their service. For example, I&M has benefitted from AEP Ohio's solar experience. Additionally, the experience gained with regard to integrating solar generation into I&M's resource portfolio is qualitative, meaning it does not increase the estimated cost of the solar projects. I&M is a stand-alone utility and makes investments to serve the needs of its customers. The experience I&M is seeking to gain as a result of this project is addressed to I&M's system. I&M seeks to develop a better understanding of how I&M can best locate, integrate, operate, maintain solar technology on the I&M system and how to select the appropriate solar technology prior to large scale deployment. Furthermore, the estimated cost of the solar projects is related to the generation assets themselves that will serve I&M customers. Accordingly, we find Mr. Pollock's concern does not warrant a change in I&M's proposed financial incentive.

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 considers 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. I&M has been clear from the beginning that the CESPP will provide energy at a cost higher than the current avoided cost and that there are significant benefits to be achieved through the CESPP. The Industrial Group does not object to the benefits that will be provided, but does object to I&M's recovery of the costs of producing the benefits. Mr. Pollock's proposal is contrary to the Commission's policy, which recognizes that renewable energy sources like solar or wind provide real benefits to customers through generation portfolio diversification and that such benefits are attained at a price premium. Reasonable investments made by I&M to provide service to customers should be allowed to be fully recovered and not limited or taken away. Chapter 8.8 mandates that the Commission shall encourage renewable energy projects through financial incentives, not penalize a utility for making such investments and otherwise taking reasonable steps to serve customers today and prepare for the future.

Finally, Mr. Pollock requested I&M commit to market the GPR aggressively. In his rebuttal, Mr. Chodak explained that I&M is developing a structured marketing plan for the GPR that will be implemented coincident with the construction of the initial sites, if the CESPP is

approved. I&M's intent is to optimize customer participation in the GPR and ultimately offset the revenue requirement of the SPR so it is important to balance the cost of the marketing plan with the expected increase in revenue. The record reflects that I&M also intends to provide the details of the marketing plan in the initial SPR filing so that the Commission, the OUCC and interveners have an opportunity to review it. We find this cost-conscious strategy is reasonable. It provides an opportunity for stakeholder and Commission input and balances the need to effectively inform and alert customers about the GPR while at the same time controlling the marketing expense, the cost of which is subject to review and recovery in the SPR proceedings.

h. Conclusion. In sum, we find and conclude that I&M's proposed timely cost recovery is reasonable and shall be approved. If the actual costs are less than the estimate, I&M will only recognize the actual costs for ratemaking purposes. Any costs in excess of the approved estimate are not approved at this time but the Commission declines to pre-judge this issue. I&M proposed to keep the Commission and informed of the CESPP project development and costs through the SPR filings. This approach is reasonable. Should the costs exceed the estimate, I&M will have the opportunity to demonstrate in the SPR filing that the costs were reasonably incurred, and interested parties, such as the Industrial Group, will have a reasonable opportunity to question the recovery of those costs. To the extent a material issue arises, the Commission may consider implementing a subdocket or separate proceeding to address such issues to avoid unduly burdening the efficient administration of the SPR and GPR tariffs.

4. 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.

This recommendation was acceptable to I&M with some slight modifications. Mr. Halsey explained that I&M is agreeable to 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 5 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.

9. Confidentiality. 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. Indiana Michigan Power Company's proposed Clean Energy Solar Pilot Project is hereby approved as a "clean energy project" as defined in Ind. Code § 8-1-8.8-2.
- 2. The Commission declines to exercise its jurisdiction under Ind. Code ch. 8-1-8.5.

3. I&M's cost estimate of \$38 million for the CESPP shall be and hereby is approved.
4. I&M's requested accounting and ratemaking treatment is hereby approved.
5. I&M's proposed Solar Power Rider is approved and rider filings shall be docketed as Cause No. 44511 SPR X.
6. I&M's proposed Green Power Rider is approved.
7. I&M shall comply with the reporting requirements set forth in Paragraph 8(C)(4) above.
8. This Order shall be effective on and after the date of its approval.

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

APPROVED:

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

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