

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of	)	
<b>INDIANA MICHIGAN POWER COMPANY</b>	)	
for a power supply cost recovery reconciliation	)	Case No. U-13919-R
proceeding for the 12-month period ended	)	
December 31, 2004.	)	
_____	)	

At the April 13, 2006 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chairman  
Hon. Laura Chappelle, Commissioner  
Hon. Monica Martinez, Commissioner

**ORDER**

Procedural History

On March 31, 2005, Indiana Michigan Power Company (I&M), a subsidiary of American Electric Power (AEP), filed an application with supporting testimony and exhibits, requesting reconciliation of its power supply cost recovery (PSCR) revenues and expenses for the 12-month period ended December 31, 2004, pursuant to section 6j of 1982 PA 304 (Act 304), as amended, MCL 460.6j. I&M seeks authority to collect underrecoveries totaling \$1,267,764 and \$328,779, including interest, from customers located in its St. Joseph and Three Rivers rate areas, respectively.

Pursuant to due notice, a prehearing conference was held on May 24, 2005 before Administrative Law Judge Mark E. Cummins (ALJ). At the prehearing conference, the ALJ

granted the Michigan Environmental Council and Public Interest Research Group of Michigan's (MEC/PIRGIM) petition to intervene. The Commission Staff (Staff) also participated. An evidentiary hearing was conducted on December 19, 2005. Prefiled direct testimony and exhibits were bound into the record and cross-examination was waived. The record consists of 64 pages of transcript and eight exhibits. On January 17, 2006, I&M, the Staff, and MEC/PIRGIM filed initial briefs. On January 27, 2006, I&M and MEC/PIRGIM filed reply briefs.

The ALJ issued a Proposal for Decision (PFD) on February 23, 2006. On March 9, 2006, the Staff and I&M filed letters indicating that they were not filing exceptions to the PFD. No replies to exceptions were filed.

#### Positions of the Parties

The ALJ found that no party took issue with the reasonableness and prudence of I&M's actions regarding the procurement, transportation, or use of fuel and purchased power during 2004. The ALJ found that no party presented any issue respecting the base underrecoveries claimed by I&M for both its St. Joseph and Three Rivers rate areas, the interest added, or the proposed method for recovering those amounts from customers. The ALJ found that the only contentious issue was presented by MEC/PIRGIM's assertion that in I&M's 2004 plan case (not the reconciliation case) the utility failed to present evidence justifying its spent nuclear fuel (SNF) costs. MEC/PIRGIM argued that the Commission should undertake an investigation of SNF costs and rate issues, and should impose conditions on I&M's collection of SNF-related fees from customers.

After giving a thorough history of the issues surrounding the U.S. Department of Energy's ongoing default on its contractual obligation to dispose of SNF (thereby forcing utilities to incur the cost and risk of on-site storage), the ALJ found that MEC/PIRGIM was re-litigating an issue that had been dealt with in the plan case, and that, in any case, the argument must once again be

rejected. The ALJ found that I&M's 2004 PSCR costs were reasonably and prudently incurred, and recommended that the Commission allow the utility to recover through the application of prospective surcharges, \$1,267,764 from customers in its St. Joseph rate area, and \$328,779 from customers in its Three Rivers rate area.

### Discussion

Subsection 6j(12) of Act 304, MCL 460.6j(12), requires that not less than once a year, and not later than three months after the end of the 12-month period covered by a utility's PSCR plan, the Commission shall commence a PSCR reconciliation proceeding as a contested case, for the purpose of reconciling the revenues recorded pursuant to the PSCR factor and the allowance for cost of power supply included in the base rates established in the latest Commission order for the utility, on the one hand, with the amounts actually expensed and included in the cost of power supply by the utility, on the other.

Subsection 6j(15) of Act 304, MCL 460.6j(15), provides that, in its PSCR reconciliation order, the Commission shall authorize the utility to recover from its customers any net amount determined to have been collected over the period covered less than the amount actually expensed by the utility for power supply, and which was incurred through reasonable and prudent actions not precluded by the Commission's order in the PSCR plan case. For excess costs incurred through actions consistent with the PSCR plan order, the Commission shall authorize their recovery only if the utility demonstrates that the excess costs were reasonable and prudent.

Subsection 6j(16) of Act 304, MCL 460.6j(16), provides the method and calculation of interest if the Commission orders additional charges pursuant to subsection 6j(15), as part of its final order in a PSCR reconciliation.

I&M contends that it should be authorized to recover, through prospective surcharges, all underrecoveries incurred during 2004, plus interest computed in accordance with section 6j(16) of Act 304. I&M presented evidence regarding its coal procurement process and explained actions taken by the utility to minimize the overall cost of fuel during the 2004 PSCR plan year. I&M provided evidence showing that it continues to aggressively pursue and manage its coal supplies and transportation costs. 2 Tr. 23. I&M further provided evidence of actions taken to minimize all SNF-related costs. 2 Tr. 32-38. I&M also provided testimony regarding AEP's recent integration into the PJM Regional Transmission Organization (PJM) and its effect on third-party purchases during 2004. According to testimony, the fact that PJM now dispatches all of AEP's generation has had no significant effect on I&M. Evidence showed that this is due to the fact that I&M's electrical generation is economical, and all such lower-cost resources are assigned first to satisfy internal load. 2 Tr. 43.

Finally, I&M offered evidence reconciling the revenues for each of I&M's two rate areas with the amounts actually expensed and included in the cost of power supply for these areas during 2004. The primary reason for I&M's underrecovery of PSCR costs during 2004 was the utility's receipt of lower than expected capacity settlement credits. 2 Tr. 55. Assuming implementation of an April through June 2006 surcharge period, I&M claims that it should be allowed to recover \$1,267,764 (which includes interest through the mid-point of that surcharge period) from customers in its St. Joseph rate area, and \$328,779 (again, including interest) from those in its Three Rivers rate area.

The Staff conducted an audit and reviewed the reasonableness and prudence of I&M's actions regarding the 2004 PSCR plan year. Satisfied by that review, the Staff did not present any

witnesses in this case and proposed no revisions to the utility's figures. The Staff supports the company's calculation of its undercollections for both the St. Joseph and Three Rivers rate areas.

Likewise, MEC/PIRGIM did not take issue with I&M's proposed reconciliation plan. MEC/PIRGIM expresses no dispute with I&M's calculations regarding its SNF-related costs and fees. Rather, it merely reasserts the position taken in I&M's 2004 PSCR plan case (which was rejected in the April 28 and August 1, 2005 orders in Case No. U-13919) urging the Commission to undertake an investigation concerning SNF cost and rate issues, and to impose additional conditions on I&M's collection of SNF fees.

The Commission adopts the recommendation of the ALJ to approve I&M's proposed reconciliation plan. The Commission finds that I&M's procurement, transportation, fuel, and purchased power expenses for 2004 were reasonably and prudently incurred.

With respect to SNF-related issues, the investigation into SNF costs and rate issues that MEC/PIRGIM currently requests has already been accomplished. The Commission examined the reasonableness and prudence of the utility's actions in the 2004 plan case, and ruled as follows: "The Commission concludes that I&M has not acted unreasonably or imprudently in its handling of SNF payments. In so doing, the Commission rejects all of MEC/PIRGIM's arguments to the contrary." April 28, 2005 order in Case No. U-13919, p. 10. The Commission subsequently rejected MEC/PIRGIM's request for rehearing brought on the same grounds. August 1, 2005 order in Case No. U-13919, pp. 4-5. Because the ALJ provided a history of the issue, and because the Commission has fully considered this argument on numerous occasions, it will not reiterate the analysis provided in prior orders, and once again rejects MEC/PIRGIM's demands with regard to an SNF investigation. *See*, September 20, 2005 order in Case No. U-13771; April 28, 2005 order

in Case No. U-13919; February 28, 2005 order in Case No. U-13917; September 16, 2002 order in Case No. U-12725; November 20, 2001 orders in Case Nos. U-12613 and U-12615.

The Commission authorizes the utility to recover, through the application of prospective surcharges in the May to July 2006 time period, \$1,267,764 from customers located in its St. Joseph rate area, and \$328,779 from those in its Three Rivers rate area. Accordingly, the surcharge for the St. Joseph rate area will be up to 2.65 mills per kWh, and the Three Rivers rate area surcharge will be up to 1.31 mills per kWh.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 *et seq.*; 1919 PA 419, as amended, MCL 460.51 *et seq.*; 1939 PA 3, as amended, MCL 460.1 *et seq.*; 1982 PA 304, as amended, MCL 460.6h *et seq.*; 1969 PA 306, as amended, MCL 24.201 *et seq.*; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 *et seq.*

b. I&M should recover, through the application of prospective surcharges in the May to July 2006 time period, \$1,267,764 from customers located in its St. Joseph rate area at a rate of up to 2.65 mills per kWh, and \$328,779 from those in its Three Rivers rate area at a rate of up to 1.31 mills per kWh.

THEREFORE, IT IS ORDERED that:

A. Indiana Michigan Power Company is authorized to recover, through the application of prospective surcharges in the May to July 2006 time period, \$1,267,764 from customers located in its St. Joseph rate area at a rate of up to 2.65 mills per kWh, and \$328,779 from those in its Three Rivers rate area at a rate of up to 1.31 mills per kWh.

B. Indiana Michigan Power Company shall file, within 30 days, tariff sheets reflecting the approved surcharges.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark

Chairman

( S E A L )

/s/ Laura Chappelle

Commissioner

/s/ Monica Martinez

Commissioner

By its action of April 13, 2006.

/s/ Mary Jo Kunkle

Its Executive Secretary

B. Indiana Michigan Power Company shall file, within 30 days, tariff sheets reflecting the approved surcharges.

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MICHIGAN PUBLIC SERVICE COMMISSION

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Chairman

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Commissioner

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Commissioner

By its action of April 13, 2006.

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Its Executive Secretary