FILED
July 24, 2013
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY ("I&M"), AN INDIANA CORPORATION, FOR APPROVAL OF CLEAN COAL **AND ENERGY PROJECTS OUALIFIED POLLUTION CONTROL PROPERTY** AND FOR ISSUANCE OF CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR USE OF CLEAN COAL TECHNOLOGY ("PROJECTS"); FOR ONGOING REVIEW; FOR APPROVAL OF THE TIMELY **CAUSE NO. 44331** RECOVERY OF COSTS INCURRED DURING CONSTRUCTION AND OPERATION OF SUCH PROJECTS THROUGH I&M'S CLEAN COAL TECHNOLOGY RIDER; FOR APPROVAL OF **DEPRECIATION PROPOSAL FOR** PROJECTS: FOR AUTHORITY TO DEFER COSTS INCURRED DURING CONSTRUCTION AND OPERATION, INCLUDING CARRYING COSTS, DEPRECIATION, AND OPERATION AND MAINTENANCE COSTS, UNTIL SUCH COSTS ARE REFLECTED IN THE CLEAN COAL TECHNOLOGY RIDER, FOR APPROVAL OF COST RECOVERY OF COSTS INCURRED **FOR ROCKPORT ENVIRONMENTAL** PROJECT, , ALL PURSUANT TO IND. CODE §§ 8-1-2-6.1, 8-1-2-6.7, 8-1-2-6.8, 8-1-2-42(a), 8-1-8.4-6, 8-1-8.4-7, 8-1-8.7, 8-1-8.8, AND 170 IAC 4-6-1 ET SEQ.

JOINT MOTION FOR LEAVE TO SUBMIT SETTLEMENT AGREEMENT AND FOR MODIFICATION OF PROCEDURAL SCHEDULE

Indiana Michigan Power Company ("I&M" or "Company"), I&M Industrial Group ("Industrials"), and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively the "Parties" and individually "Party"), by counsel and in accordance with 170 IAC 1-1.1-12 and 170 IAC 1-1.1-17, respectfully move the Commission for leave to submit the attached Stipulation and Settlement Agreement ("Settlement Agreement"). The Parties further request the procedural schedule in this Cause be modified as set forth below, a settlement hearing conducted

and the Settlement Agreement approved by the Commission in a timely manner. In support of this request, the Parties state as follows:

- 1. The Parties have entered into the attached Settlement Agreement which resolves all issues pending before the Commission in this proceeding. The Parties submit the attached Settlement Agreement on the condition that if the Commission fails to approve the Settlement Agreement in its entirety and without any change or condition(s) unacceptable to any Party, the Settlement Agreement and supporting evidence shall be withdrawn and the Commission will continue to hear this Cause with the proceedings resuming at the point they were suspended by this Joint Motion.
- An evidentiary hearing in this Cause is currently scheduled for July 25, 26, and August 8, 2013. The Parties ask the Commission to convene the hearing on July 25th for the purpose of establishing a settlement hearing date and associated procedural matters. While the Parties view the Settlement Agreement as being within the scope of the evidence that has already been prefiled, the Parties propose to file testimony in support of the Settlement Agreement on or before July 31, 2013 and ask that the settlement hearing be conducted on August 8, 2013 (the 3rd hearing day already established for this proceeding) or August 7, 2013.
 - 3. This motion is not filed for purposes of delay.

WHEREFORE, the Parties respectfully request that this Joint Motion promptly be granted, that the Commission modify the procedural schedule in this Cause as requested herein, conduct a settlement hearing on August 7 or 8, 2013, that the Commission thereafter promptly issue an Order approving the Settlement Agreement, and that the Commission grant to the Parties such other relief as may be reasonable and appropriate in the premises.

Respectfully submitted,

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VERIFIED PETITION OF INDIANA MICHIGAN POWER COMPANY ("I&M"), AN INDIANA CORPORATION, FOR APPROVAL OF CLEAN COAL **ENERGY** AND **PROJECTS** QUALIFIED POLLUTION CONTROL PROPERTY AND FOR ISSUANCE OF CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR USE OF CLEAN COAL TECHNOLOGY ("PROJECTS"); FOR ONGOING REVIEW; FOR APPROVAL OF THE TIMELY **CAUSE NO. 44331** RECOVERY OF COSTS INCURRED DURING CONSTRUCTION AND OPERATION OF SUCH PROJECTS THROUGH I&M'S CLEAN COAL TECHNOLOGY RIDER; FOR APPROVAL OF **DEPRECIATION PROPOSAL FOR** SUCH PROJECTS: FOR AUTHORITY TO DEFER COSTS INCURRED DURING CONSTRUCTION AND OPERATION, INCLUDING CARRYING COSTS, DEPRECIATION, AND OPERATION AND MAINTENANCE COSTS, UNTIL SUCH COSTS ARE REFLECTED IN THE CLEAN COAL TECHNOLOGY RIDER, FOR APPROVAL OF COST RECOVERY OF COSTS INCURRED FOR **ROCKPORT ENVIRONMENTAL** PROJECT, , ALL PURSUANT TO IND. CODE §§ 8-1-2-6.1, 8-1-2-6.7, 8-1-2-6.8, 8-1-2-42(a), 8-1-8.4-6, 8-1-8.4-7, 8-1-8.7, 8-1-8.8, AND 170 IAC 4-6-1 ET SEQ.

STIPULATION AND SETTLEMENT AGREEMENT

Indiana Michigan Power Company ("I&M" or "Company"), Intervenor Industrial Group ("Industrials"), and the Indiana Office of Utility Consumer Counselor ("OUCC"), (collectively the "Parties" and individually "Party") solely for purposes of compromise and settlement and having been duly advised by their respective staff, experts and counsel, stipulate and agree that the terms and conditions set forth below represent a fair, just and reasonable resolution of all

matters pending before the Commission in this Cause, subject to their incorporation by the Indiana Utility Regulatory Commission ("Commission") into a final, non-appealable order ("Final Order") without modification or further condition that may be unacceptable to any Party. If the Commission does not approve this Stipulation and Settlement Agreement ("Settlement Agreement"), in its entirety, the entire Settlement Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties.

A. TERMS AND CONDITIONS

The Settling Parties stipulate and agree as follows:

- 1) I&M's Rockport CCT Project will be approved, including the construction and use of emission reduction technologies and associated facilities.
- 2) I&M is issued a Certificate of Public Convenience and Necessity for the Rockport CCT Project.
- 3) The total estimated capital cost (excluding Allowance for Funds Used During Construction (AFUDC)) provided by I&M in this Cause for the Rockport CCT Project in the amount of \$258,052,000 set forth on Petitioner's Exhibit SMK-1 (Updated) attached hereto is reasonable and will be approved consistent with the clarification set forth below:
 - a) As shown on Petitioner's Exhibit SMK-1 (Updated), the total estimated capital cost of the Rockport CCT Project ((\$258,052,000 excluding AFUDC) is allocated to I&M through two components as follows:
 - i. "I&M's Direct Ownership Share"; and
 - ii. "I&M's Allocated Share" of the total estimated capital costs allocated to I&M via I&M's purchases from AEP Generating Company.

As shown on Petitioner's Exhibit SMK-1 (Updated), Kentucky Power is also allocated a share of the total estimated capital costs of the Rockport CCT Project (the "Kentucky Costs"). This proceeding and this Settlement Agreement do not involve the Kentucky Costs.

- b) The total estimated capital cost of the Rockport CCT Project includes the "Preconstruction Costs" incurred in pursuing the installation of a dry flue gas desulfurization system on one unit at the Rockport Plant (Cause No. 44033).
- c) As shown on Petitioner's Exhibit SMK-1 (Updated), I&M's Direct Ownership Share of the total estimated capital costs (\$258,052,000 excluding AFUDC) is estimated to

- be \$129,026,000 (Total Company). I&M's Direct Ownership Share includes an estimated \$22,013,000 in Preconstruction Costs.
- d) As shown on Petitioner's Exhibit SMK-1 (Updated), I&M's Allocated Share of the total estimated capital costs of the Rockport CCT Project is estimated to be \$90,318,000 (Total Company).
- e) While the total estimated capital cost of the Rockport CCT Project is reasonable and should be approved, only the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share (including Preconstruction Costs) will be recovered under Ind. Code §8-1-8.4 (the Federal Mandated Requirements Statute) as provided below.
- f) I&M's Allocated Share of the Rockport CCT Project will be recovered in subsequent I&M general rate case(s). To the extent I&M's Allocated Share is no more than the estimated costs described herein, then the prudence of such expenditures shall not be subject to challenge other than as contemplated by paragraph 6(j) below.
- g) The Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share (including the Preconstruction Costs) will be determined using the jurisdictional demand allocation factor approved by the Commission in I&M's general rate cases. By way of illustration, as shown on Petitioner's Exhibit SMK-1 (Updated), the jurisdictional demand allocation factor approved in I&M's most recent general rate case (Cause No. 44075) is 64.65519%. Applied to I&M's Direct Ownership Share (Total Company), the resulting capital cost using the current jurisdictional demand allocation factor is \$83,422,005. The Indiana Retail Jurisdictional allocation factors may be reviewed and updated in I&M's subsequent general rate cases.
- h) Also by way of illustration, using the current allocation factor, the Indiana Retail Jurisdictional Share of the Preconstruction Costs reflected in I&M's Direct Ownership Share is estimated to be \$14,232,547 (\$44,026,000 * 50% * 64.65519%). Without waiver of the Parties' position regarding the eligibility of said Preconstruction Costs for cost recovery and solely for purposes of compromise, the Parties agree that the Indiana Retail Jurisdictional Share of the Preconstruction Costs will be amortized and recovered under Ind. Code §8-1-8.4 over the remaining life of the Rockport facility and that the Preconstruction Costs, along with the remaining Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share will earn a return based on I&M's weighted average cost of capital as provided below.
- 4) The Rockport CCT Project may have incremental O&M costs (including consumables), depreciation, and tax expense over and above the amount embedded in I&M's base rates. Such costs will be recovered under Ind. Code §8-1-8.4 as provided for in this Settlement Agreement if reasonable and necessary.
- 5) I&M's Rockport CCT Project constitutes Clean Coal Technology, a Clean Energy Project and Qualified Pollution Control Property and is eligible for the ratemaking treatment described in Ind. Code §§8-1-8.7, 8-1-8.8, 8-1-2-6.7 and 8-1-2-6.8. The cost of the Rockport CCT Project, including capital, operating and maintenance (including

- consumables), depreciation, tax and financing costs are also Federally Mandated Costs under Ind. Code §8-1-8.4-4.
- 6) Without waiver of I&M's position regarding the eligibility of the Rockport CCT Project for cost recovery under Ind. Code §§8-1-8.7, 8-1-8.8, 8-1-2-6.7 and 8-1-2-6.8, and solely for purposes of compromise, the cost recovery for the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share (including Preconstruction Costs) and associated operating and maintenance (including consumables), depreciation, tax and financing costs (referred to below as the Federally Mandated Costs) will be implemented under Ind. Code §8-1-8.4 as set forth below.
 - a) Eighty percent (80%) of the Federally Mandated Costs shall be recovered in a timely manner through a Federal Mandate Rider including: a carrying charge at the overall weighted average cost of capital (weighted average rate of return) on capital costs/expenditures and Preconstruction Costs during construction and after a project is placed in service; operating and maintenance (including consumables), depreciation, tax, financing costs and post in service AFUDC on capital costs and Preconstruction Costs. The Federal Mandate Rider will be established in this docket. I&M may file its first Federal Mandate Rider proceeding within three (3) months of a final Commission Order approving this Settlement Agreement. I&M will request updates to its Federal Mandate Rider in six month intervals with the factors established under the Rider remaining in place until superseded by updated factors. I&M will be authorized to defer and record as a regulatory asset post in-service depreciation. incremental operations and maintenance expense (including consumables), tax and post in service AFUDC on capital costs until the Commission approves ratemaking treatment through the Federal Mandate Rider with any resulting variances reconciled in subsequent Rider filings.
 - b) Twenty percent (20%) of the Federally Mandated Costs, including: AFUDC on capital costs during construction and Preconstruction Cost, post in service AFUDC on capital costs and Preconstruction Costs; after project is placed in service, and operating and maintenance (including consumables), depreciation, and taxes will be deferred until rates are established in subsequent I&M general rate case(s).
 - c) While approved as a Federally Mandated Project under Ind. Code §8-1-8.4, the 80% recovery through the Federal Mandate Rider will be set up to use the same structure currently in place for timely recovery of costs and expenses through I&M's Clean Coal Technology Rider (CCTR).
 - d) Timely cost recovery of the Rockport CCT Project Federally Mandated capital costs provided for herein will be subject to subsection (j) below.
 - e) I&M will be authorized to add to the value of I&M's property for ratemaking purposes the value of the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the total Rockport CCT Project capital costs (including Preconstruction Costs) in accordance with the Commission's construction work in progress ratemaking rules. Pursuant to 170 IAC 4-6-21, I&M shall add the approved

- return to its net operating income authorized by the Commission for purposes of Ind. Code §8-1-2-42(d)(3) in all subsequent fuel adjustment charge proceedings, pro-rated for the effective period of the approved rates.
- f) I&M will be authorized to accrue and recover AFUDC on the capital cost of the Rockport CCT Project, and the accrual of AFUDC shall continue on any unrecovered value of a particular Project until ratemaking treatment for the value of the property is effective, including post-in-service AFUDC on costs not yet recognized in the Federal Mandate Rider for the period following the in-service date of a particular project until ratemaking treatment reflecting the value of that property is effective.
- g) The 80% recovery through the Federal Mandate Rider will be established as a new case number, such as Cause No. 44331 ECR-X.
- h) The 20% cost recovery allowed under the Federally Mandated Requirements Statute will be deferred with all attributable costs allowed under §8-1-8.4 for recovery in I&M next applicable general base rate case(s).
- i) In the event the actual construction costs (excluding AFUDC) exceed the Federally Mandated costs of the Rockport CCT Project by more than twenty-five percent (25%), then the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the Rockport CCT Project costs above the 25% will be presented by I&M with specific justification and considered for rate recovery by the Commission in I&M's next applicable general base rate case(s).
- j) Except as provided above for Preconstruction Costs, I&M will be authorized to depreciate the Indiana Retail Jurisdictional Share of I&M's Direct Ownership Share of the Rockport CCT Project utilizing a 10 year life. Notwithstanding the foregoing provision, in the event the Rockport Unit 2 lease is not renewed beyond the end of its current term in 2022 and I&M is no longer using the asset, then no later than six (6) months prior to the expiration of the lease, I&M will file a petition with the Commission for approval of the Company's proposal regarding any accounting and ratemaking issues associated with wrapping up the Rockport CCT Project costs and attributes attached to Unit 2 and the ongoing nature of the prospective cost recovery. This provision is without waiver of each Party's respective rights to make arguments in such subsequent proceeding regarding the recoverability, accounting and ratemaking for such Unit 2 costs, including the right to propose or oppose the recovery of such costs through the Federal Mandate Rider be continued on a subject to refund basis pending the outcome of such proceeding.
- 7) The allocation of costs in the Federal Mandate Rider will be based on the allocation methods approved by the Commission in I&M's base rate case (Cause No. 44075), which includes the 6 coincident peak (CP) method for determining the demand allocation.
- 8) The information filed in this Cause pursuant to motion for protective order is deemed 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.
- 9) Any settlement agreement will be formalized using standard form of settlement and associated boilerplate consistent with past agreements between I&M, the OUCC and Industrial Group.
- 10) The Settling Parties will file a Motion for Leave to File Settlement Agreement and request the Commission to conduct a settlement hearing on August 8, 2013. The Settling Parties will file testimony in support of the Settlement Agreement at least five (5) business days prior to the settlement hearing.

B. PRESENTATION OF THE SETTLEMENT TO THE COMMISSION

- 1. The Parties shall support this Settlement Agreement before the Commission and request that the Commission expeditiously accept and approve the Settlement Agreement. The concurrence of the Parties with the terms of this Settlement Agreement is expressly predicated upon the Commission's approval of the Settlement Agreement in its entirety without any modification or any condition that may be unacceptable by any Party. If the Commission does not approve the Settlement Agreement in its entirety and without change, the Settlement Agreement shall be null and void and deemed withdrawn, upon notice in writing by any Settling Party within fifteen (15) business days after the date of the Final Order that any modifications made by the Commission are unacceptable to it.
- 2. The Parties shall jointly move for leave to file this Settlement Agreement and supporting evidence. Such evidence together with the evidence previously prefiled by the Parties in this Cause will be offered into evidence without objection and the Parties hereby waive cross-examination. The Parties propose to submit this Settlement Agreement and evidence conditionally, and that, if the Commission fails to approve this Settlement Agreement in its entirety without any change or with condition(s) unacceptable to any Party, the Settlement and supporting evidence shall be withdrawn and the Commission will continue to hear Cause No.

- 44331 with the proceedings resuming at the point they were suspended by the filing of this Settlement Agreement.
- 3. A Final Order approving this Settlement Agreement shall be effective immediately, and the agreements contained herein shall be unconditional, effective and binding on all Parties as an Order of the Commission.
- 4. The Parties shall jointly agree on the form, wording and timing of public/media announcement (if any) of this Settlement Agreement and the terms thereof. No Party will release any information to the public or media prior to the aforementioned announcement. The Parties may respond individually without prior approval of the other Parties to questions from the public or media, provided that such responses are consistent with such announcement and do not disparage any of the Parties. Nothing in this Settlement Agreement shall limit or restrict the Commission's ability to publicly comment regarding this Settlement Agreement or any Order affecting this Settlement Agreement.

C. EFFECT AND USE OF SETTLEMENT

1. It is understood that this Settlement Agreement is reflective of a negotiated settlement and neither the making of this Settlement Agreement nor any of its provisions shall constitute an admission by any Party to this Settlement Agreement in this or any other litigation or proceeding. It is also understood that each and every term of this Settlement Agreement is in consideration and support of each and every other term.

- 2. This Settlement Agreement shall not constitute and shall not be used as precedent by any person in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce the terms of this Settlement Agreement.
- 3. This Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved here and in any future regulatory or other proceedings.
- 4. The Parties agree that the evidence in support of this Settlement Agreement constitutes substantial evidence sufficient to support this Settlement Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of this Settlement Agreement, as filed. The Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible.
- 5. The communications and discussions during the negotiations and conferences and any materials produced and exchanged concerning this Settlement Agreement all relate to offers of settlement and shall be privileged and confidential, without prejudice to the position of any Party, and are not to be used in any manner in connection with any other proceeding or otherwise.
- 6. The undersigned Parties have represented and agreed that they are fully authorized to execute the Settlement Agreement on behalf of their designated clients, and their successors and assigns, who will be bound thereby.

7. The Parties shall not appeal or seek rehearing, reconsideration or a stay of the Final Order approving this Settlement Agreement in its entirety and without change or condition(s) unacceptable to any Party (or related orders to the extent such orders are specifically implementing the provisions of this Settlement Agreement). The Parties shall support or not oppose this Settlement Agreement in the event of any appeal or a request for a stay by a person not a party to this Settlement Agreement or if this Settlement Agreement is the subject matter of any other state or federal proceeding.

8. The provisions of this Settlement Agreement shall be enforceable by any Party before the Commission and thereafter in any state court of competent jurisdiction as necessary.

9. This Settlement Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

ACCEPTED and AGREED as of the 24 th day of July, 2013.

INDIANA MICHIGAN POWER COMPANY

Name: Marc E. Lewis

Its: Vice President

INDUSTALALS

Name: Timothy L. Stewart

Attorney

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Name: Randall C, Helmen

Its: Chief Deputy Consumer Counselor

INDIANA MICHIGAN POWER COMPANY
ESTIMATED RATE IMPACT - UPDATED
ROCKPORT CLEAN COAL TECHNOLOGY (CCT) PROJECT

(DOLLARS IN THOUSANDS) AEP GENERATING AEP GENERATING INDIANA COMPANY COMPANY MICHIGAN I&M **KENTUCKY POWER** POWER SHARE TOTAL LINE ITEM SHARE SHARE TOTAL CAPITAL INVESTMENT UNITS 1&2 DSI (\$000) - UPDATED 214,026 \$ 214,026 \$ 214,026 44,026 44,026 44,026 **ROCKPORT ENVIRONMENTAL PROJ COSTS CAUSE NO. 44033** 258,052 \$ 258,052 \$ 258,052 **TOTAL CAPITAL COSTS** \$ 50% 50% INVESTMENT ALLOCATION 50% 100% 70% 30% COST RESPONSIBILITY BETWEEN I&M AND KENTUCKY POWER 129,026 \$ 90,318 \$ 38,708 ALLOCATED INVESTMENT \$ **WEIGHTED AVERAGE COST OF CAPITAL CAUSE NO. 44075** 6.97% 6.97% **NET OPERATING INCOME REQUIREMENT** 8.993 \$ 6,295 **GROSS REVENUE CONVERSION FACTOR - CAUSE NO. 44075** 1.6655 1.6655 REVENUES FOR INCOME REQUIREMENT 14,978 \$ 10,485 10 **ALLOCATED INVESTMENT FROM LINE 6** 129,026 \$ 90,318 11 10 10 12 **RECOVERY PERIOD - 10 YEARS** 12,903 \$ 9,032 13 ANNUAL DEPRECIATION ANNUAL INCREMENTAL O&M (APPROX \$2.7 MILLION TOTAL PLANT) \$ 1,350 \$ 945 20,461 15 **TOTAL REVENUE REQUIREMENT (LINES 10 + 13 + 14)** 29,231 \$ 64.65519% 64.65519% 16 INDIANA JURIS DEMAND ALLOC FACTOR 13,229 32,129 INDIANA RETAIL REVENUE REQUIREMENT 18,899 \$ 17 \$ 1,160,068 18 **TOTAL INDIANA RETAIL REVENUES CAUSE NO 44075** 3% 19 APPROXIMATE OVERALL % INCREASE IN RATES

^{*} ASSUMES THAT AEP GENERATING'S ROR IS APPROXIMATE TO I&M'S