

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
INDIANA MICHIGAN POWER COMPANY)	
for approval of a power supply cost recovery plan)	
and factors (2018).)	Case No. U-18404
_____)	

At the June 7, 2019 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Daniel C. Scripps, Commissioner

ORDER

History of Proceedings

On September 29, 2017, Indiana Michigan Power Company (I&M) filed an application, with supporting testimony and exhibits, pursuant to Section 6j of 1982 PA 304 (Act 304), MCL 460.6j, requesting approval of its proposed 2018 power supply cost recovery (PSCR) plan and factors. In its application, I&M specifically requested authorization to continue the roll-in methodology in connection with its unified PSCR clause, along with approval to apply a PSCR factor of 17.97 mills per kilowatt-hour (kWh) to customers' bills—an increase of 7.47 mills per kWh from its current PSCR factor—for each of the billing months from January 2018 through December 2018.

A prehearing conference was held on November 28, 2017, before Administrative Law Judge (ALJ) Mark D. Eyster. At the prehearing conference, ALJ Eyster granted intervenor status to the Michigan Department of the Attorney General (Attorney General) and the Association of

Businesses Advocating Tariff Equity (ABATE). I&M and the Commission Staff (Staff) also participated in the proceeding.

On September 20, 2018, ALJ Jonathan F. Thoits¹ conducted an evidentiary hearing. At the evidentiary hearing, all pre-filed testimony and exhibits were bound into the record, without cross-examination. On October 19, 2018, the parties filed initial briefs, and on November 13, 2018, I&M and ABATE filed reply briefs. On February 19, 2019, ALJ Sonneborn issued a Proposal for Decision (PFD). On March 12, 2019, the Attorney General and ABATE filed exceptions, and on March 26, 2019, I&M filed replies to exceptions.

The record in this case consists of 237 transcript pages and 53 exhibits admitted into evidence.

Proposal for Decision

ALJ Sonneborn, hereinafter referred to as the ALJ, provided a detailed explanation of the testimony and positions of the parties on pages 5-16 of the PFD, which will not be repeated here, and identified the following six issues requiring resolution on pages 25-26 of the PFD:

(1) the Attorney General's recommendation that I&M should be required to reduce its base ROE [return on equity] rate billed for transmission services in light of a pending settlement agreement between AEP [American Electric Power Company] and a group of its power transmission customers that included a negotiated lower base ROE rate from 10.99% to 9.85%, and a one-time refund of \$50 million from AEP to its transmission customers for periods prior to 2018; (2) the Attorney General's recommendation that the Commission require I&M to challenge the ROE rate between I&M and its affiliate power supplier AEG [AEP Generating Company] and direct Commission staff to initiate a complaint with FERC [Federal Energy Regulatory Commission] to lower the ROE rate and to warn I&M that its own failure to challenge the ROE charged by AEG could result in a disallowance in I&M's reconciliation proceeding; (3) the Attorney General's recommendation that I&M be required to proactively revise its PSCR Plan filing to reflect the amount of transmission and power purchase cost reductions expected in 2018 as a result of the new federal tax rate of 21% pursuant to the Tax Cuts and Jobs Act of 2017;

¹ On June 21, 2018, this matter was reassigned to ALJ Thoits. *See*, June 21, 2018 Scheduling Memo (filing #U-18404-0058). Thereafter, on February 4, 2019, this matter was reassigned to ALJ Suzanne D. Sonneborn. *See*, February 4, 2019 Scheduling Memo (filing #U-18404-0107).

(4) ABATE's recommendation that the Commission caution I&M on its future recovery of NITS [network integration transmission service] expense increases absent a better demonstration of I&M's actions to ensure that transmission project investments are truly necessary and made at the lowest cost; (5) ABATE's recommendation that this demonstration could be best accomplished by I&M's direct engagement or employment of its own transmission planning experts and by greater transparency through semi-annual meetings with Commission staff and Michigan stakeholders; and (6) ABATE's recommendation that I&M be required to modify its PSCR billing factor to allow for a separate transmission component for each customer class on the basis of 12 Coincident Peak [(12CP)] demand to better address I&M's projected increasing transmission costs and the risk of subsidization from one customer class to another.

No party took exception to the ALJ's recommendations regarding Issues 1 and 3.² The Commission finds the ALJ's findings and conclusions regarding Issues 1 and 3 to be well-reasoned and therefore adopts the ALJ's findings, analysis, and conclusions on these issues. The remaining contested issues are discussed below (based on headings set forth in the exceptions).

Discussion

Adjustment of Indiana Michigan Power Company's Return on Equity for Power Purchased from AEP Generating Company

Pursuant to a unit power agreement (UPA) between I&M and AEG (FERC Rate Schedule No. 1), dated March 31, 1982, as amended, I&M is able to purchase up to 70% of power and associated energy from AEG's share of two Rockport steam electric generating plants jointly owned or leased by I&M and AEG (Rockport Units 1 and 2) and, in consideration, "pays to AEG amounts sufficient to cover, among other things, AEG's operating and other expenses related to the amount of power sold to I&M," including an ROE of 12.16% for the return on AEG's investments. 2 Tr 42; Exhibits AG-2 and AG-3.

² The Attorney General expressly agreed with the ALJ on Issues 1 and 3. See, Attorney General's exceptions, pp. 2, 4.

According to the Attorney General, this ROE is “outdated and excessive.” 2 Tr 166-167. The Attorney General therefore recommended the following company action or, in the alternative, Commission action:

The Company should challenge this high ROE rate with its affiliate power supplier AEG immediately and potentially reach a settlement for an ROE rate in line with the Base ROE included in the April 2018 settlement agreement with the AEP East Companies, retroactive to at least the beginning of 2018.

If in rebuttal testimony in this case, the Company refuses to agree to this proposal, then I recommend that the Commission direct its staff to initiate a complaint with FERC to lower the ROE rate. Furthermore, the Commission should issue a Section 7 [MCL 460.6j(7)] warning to the Company that its inaction to challenge the excessive ROE rate charged by AEG could be considered imprudent and could result in potential disallowances in the reconciliation of 2018 PSCR costs.

Id., pp. 168-169.

The ALJ agreed with I&M that this proceeding was not the proper forum to raise objections to the reasonableness of a FERC-jurisdictional ROE set forth in the UPA (2 Tr 100-102) and, for this same reason, also opined the absence of I&M challenging this ROE to not warrant the Commission-action requests from the Attorney General above. The ALJ also criticized the Attorney General’s initial brief, noted that the Attorney General did not cross-examine or address rebuttal testimony provided on behalf of the company, and thus recommended that the Attorney General’s recommendations on this issue not be adopted. PFD, pp. 29 (n. 77), 31.

In exceptions, the Attorney General contends that, contrary to the ALJ’s inaccurate statements, she did reference specific transcript pages and quoted her expert witness’s testimony to support her argument that I&M did not meet its burden of proof under MCL 460.6j(5) or satisfy the statutory requirement under MCL 460.6j(6). Attorney General’s exceptions, pp. 2-3. Here, the Attorney General claims that the ALJ “confuses the burden shifting in this case by arguing that the Attorney General failed to cross examine or failed to provide rebuttal,” which, according to the Attorney

General, “can be strategic litigation decisions and do not equate to abandoning a position.” *Id.*, p. 3. The Attorney General posits that “it appears that the ALJ failed to hold I&M to its burden of proof as required by MCL 460.6j and instead required the Attorney General to prove by a preponderance of the evidence that I&M didn’t meets [sic] its burden under the statute.” *Id.* The Attorney General states, however, despite her prior request for the Commission to direct the Staff to file a complaint with FERC on this issue, she is simply seeking the Section 7 warning based on requirements under MCL 460.6j(6) requiring I&M to “take all appropriate actions to minimize the higher costs being paid by the outdated and excessive ROE rate embedded in the cost of power billed by AEG.” *Id.*

In reply, I&M asserts that the Attorney General misunderstands the ALJ’s point and that the ALJ did not shift the burden onto the Attorney General in this case. Rather, according to I&M, the ALJ concluded that “once I&M met its obligation under MCL 460.6j(6) by demonstrating reasonableness and prudence by a preponderance of evidence,” the Attorney General failed “to overcome that preponderance of the evidence.” I&M’s replies to exceptions, p. 11, referencing PFD, p. 31. I&M further reiterates its assertion that this is not the proper forum to argue about the reasonableness of the ROE within a FERC-jurisdictional contract and states, “Similar to ABATE, the AG [Attorney General] is attempting to improperly raise general rate case issues in this PSCR proceeding.” I&M’s replies to exceptions, p. 12. I&M thus contends that it would not be appropriate to issue a Section 7 warning based on the Attorney General’s “scant analysis on this issue,” further arguing that:

the AG’s Exceptions seem to mischaracterize the nature of a Section 7 warning. It is not a hammer with which to drive down a utility’s costs, but instead authorizes the Commission to evaluate the Company’s decisions underlying the 5-year forecast and identify costs that the Commission would be unlikely to permit the utility to recover in the future. The AG’s suggested approach is inappropriate and inconsistent with the statute and Commission precedent.

Id.

The Commission agrees with I&M that the ALJ did not improperly shift the burden of proof in this case. On pages 30-31 of the PFD, the ALJ recalled rebuttal testimony on behalf of the company, which addressed the Attorney General's recommendations. The ALJ found I&M's rebuttal testimony persuasive, noting that the Attorney General provided nothing to convince her otherwise. Thus, though the burden of going forward shifts between parties as a proceeding progresses, the burden of proof never shifts away from the applicant, which was the standard applied by the ALJ here. *See*, July 24, 2018 order in Case No. U-18419, p. 6; *In re Application of DTE Electric Company for Approval of Facility*, unpublished per curiam opinion of the Court of Appeals, issued February 7, 2019 (Docket Nos. 344031 and 344033), pp. 5-6.

The Commission also agrees with the ALJ and I&M with respect to the PSCR proceeding not being the proper forum to thoroughly examine the reasonableness of, or to directly challenge, the FERC-approved ROE in the UPA allocating generation costs among affiliates. Moreover, even if this Commission had jurisdiction over this ROE, determining a reasonable ROE, in the interest of both investors and customers, "depends upon a comprehensive examination of all factors involved . . . ," a comprehensive examination which the Commission would find difficult to undertake in this case given the scarce evidence provided. *Meridian Twp v City of East Lansing*, 342 Mich 734, 749; 71 NW2d 234 (1955); *Fed Power Comm v Hope Nat Gas Co*, 320 US 591, 603; 64 S Ct 281; 88 L Ed 333 (1944); 2 Tr 101-102.

The Commission notes that, under cost-based ratemaking principles, it is important to examine the overall costs and allocations in the UPA, not simply the single issue of the ROE on which the Attorney General focused. Further, I&M clarified that ROEs for wholesale generation services are not comparable to an integrated utility's state-determined ROE. 2 Tr 101-102.

Notwithstanding the fact that any changes to the ROE and FERC rate schedule would occur through other venues before FERC, however, the Commission finds that I&M misses the fundamental point raised by the Attorney General—that the utility has a responsibility to arrange least-cost fuel and purchased power to serve customers under Michigan’s Act 304. MCL 460.6j(6). Part of this responsibility involves the utility examining existing contracts as market conditions or other factors change over time and pursuing amendments or new contractual arrangements for fuel or power supply through good faith negotiations (with affiliates or independent third parties as applicable) and/or filings at FERC to institute changes. *See*, June 15, 1989 order in Case No. U-8880, pp. 36-37. Thus, the question at issue here is whether I&M demonstrated it acted in a reasonable and prudent manner in this regard or has been complacent by not pursuing changes to the existing affiliate wholesale power agreement.

The Commission remains concerned both with the ROE and the fact that it has been in place now for more than 37 years. Ultimately, however, the record in this PSCR plan case is insufficient to support a finding that the existing agreement is unjust and unreasonable or that I&M acted imprudently in not pursuing changes to the ROE or other aspects of the agreement at FERC. Accordingly, the Commission does not find a Section 7 warning appropriate in this regard. As the Commission has found previously, “the issuance of a Section 7 warning is a choice that the Commission does not make lightly and that is typically reserved for utility decisions that are, without question, not only costly but unwarranted.” December 20, 2017 order in Case No. U-18143, p. 21. The Commission is, however, clarifying its expectation that I&M must demonstrate to this Commission, in the PSCR reconciliation proceeding and future plan cases, that its wholesale purchases from affiliates are just and reasonable under current market conditions, tax structures, and I&M’s participation in PJM Interconnection, L.L.C. (PJM) and that the utility is

taking appropriate actions to minimize costs to ratepayers pursuant to Act 304. To the extent the utility's actions are determined to be imprudent, the Commission reserves the right to pursue its own complaint at FERC under Section 206 of the Federal Power Act, 16 USC 824e.

Indiana Michigan Power Company's Oversight of Transmission Projects

ABATE asserted that I&M failed to demonstrate sufficient oversight to ensure the company's projected growth in its NITS expenses (of over 80% from 2018 to 2022) is truly necessary and incurred at the lowest reasonable cost. ABATE thus recommended, absent a substantially better demonstration by the company, that the Commission find it unlikely to allow I&M to recover this very large projected increase in future base rate or PSCR proceedings. 2 Tr 194-197. ABATE also recommended that the Commission find that its foregoing recommendation would be best accomplished by:

(i) I&M directly employing or otherwise engaging its own independent transmission planning experts and not relying upon AEP Service Corporation personnel to review its current and projected transmission expenses; (ii) I&M conducting semi-annual meetings with the Commission Staff and stakeholders to discuss I&M's efforts regarding its ongoing review of its transmission expenses; and (iii) I&M including in its annual PSCR plan filings detailed testimony reporting on its review of its current and projected transmission expenses and its semi-annual meetings with stakeholders.

Id., p. 197.

The ALJ, having reviewed the parties' arguments and evidence, was not persuaded that ABATE's recommendations should be adopted at this time. In support, the ALJ referenced rebuttal testimony on behalf of I&M regarding the company's existing oversight of its transmission projects and planning process, along with the jurisdiction and compliance requirements that transmission investments are subject to, and found that the rebuttal testimony appeared to adequately address ABATE's criticisms. The ALJ further highlighted that ABATE did not cross-examine those company witnesses and noted that ABATE's only reference to that

rebuttal testimony in its initial brief was an assertion that it “‘does little to resolve the concerns regarding expertise, independence, transparency, and ultimately, reasonableness or prudence, of I&M’s conduct’ without,” according to the ALJ, “any analysis of how the testimony was lacking in these areas.” PFD, pp. 40-41, citing ABATE’s initial brief, pp. 12-13. The ALJ further found ABATE’s criticisms to be largely rooted in the projected increase in I&M’s transmission factor that is driven by the projected increase in transmission expenses, which, as explained by the Staff, are just projections and need only be reviewed for purposes of providing a reasonable PSCR billing factor. PFD, p. 41, citing 2 Tr 149. The ALJ also highlighted the Staff’s testimony that “‘there is essentially a zero probability that the projected costs will occur as presented;’” significantly noted the Staff’s determinations following its own analysis of the reasonableness and prudence of the company’s PSCR plan; and pointed out the Staff’s conclusion that the differences that result in a higher PSCR factor, including the company’s projected increase in its transmission expenses and transmission factor, are acceptable for purposes of this case. PFD, pp. 41-42, citing 2 Tr 149, 152-154. Given this, the ALJ recommended that the Commission decline to adopt ABATE’s recommendations “as lacking in support or necessity.” PFD, p. 42.

In exceptions, ABATE argues that, because it addressed I&M’s rebuttal testimony through discovery filed as evidence in this case and explained deficiencies in that testimony in its initial brief, the Commission should reject the ALJ’s finding on this issue, despite ABATE not specifically cross-examining the company’s witnesses. ABATE’s exceptions, p. 2; ABATE’s initial brief, pp. 7-9; Exhibits AB-15 and AB-16. ABATE expounds on two specific discovery examples and concludes that “I&M did not sufficiently demonstrate that it utilized the appropriate electrical engineering expertise for the transmission planning that represents a significant percentage of its projected cost increase.” ABATE’s exceptions, pp. 2-4. Given this, ABATE

maintains that I&M has not demonstrated adequate oversight to ensure its transmission expenses are necessary and at the lowest reasonable cost, specifically I&M's NITS transmission expenses, which ABATE asserts the Commission should thus find unreasonable and imprudent. ABATE further avers that the Commission should also find that:

I&M could, rather than outsourcing its transmission planning oversight to its affiliates, engage or directly employ its own transmission planning experts with sufficient electrical engineering expertise to review transmission investment needs, and conduct semi-annual meetings with the Commission Staff and stakeholders to demonstrate continued transparency on its efforts to manage transmission investment expenses by itself and its AEP affiliates.

Id., p. 4.

In reply, I&M asserts that the ALJ correctly rejected ABATE's invitation to compel the company to hire people—a requirement outside of the Commission's authority. I&M's replies to exceptions, p. 3, referencing *Union Carbide Corp v Pub Serv Comm*, 431 Mich 135; 428 NW2d 322 (1998). I&M maintains that it adequately reviews transmission projects, as does FERC and PJM, and argues that “ABATE obsesses over the trees and misses the forest—it is not relevant that others within the Company's corporate family review proposed transmission projects—it is relevant only whether the Company undertakes adequate oversight of I&M's transmission investments.” I&M's replies to exceptions, p. 4. In this regard, I&M claims that ABATE continues to disregard significant record evidence demonstrating that the company thoroughly reviews these projects. *Id.*, referencing 2 Tr 26-31, 94-100. I&M further states:

Although ABATE condescendingly suggests that its expert is wiser than the Company's collective management team, that suggestion is more hubris than reality. In fact, I&M's management team has decades of experience in the electric utility industry and possesses the requisite experience and expertise to oversee transmission planning. *Id.* [2 Tr 97-98.] I&M management team's expertise in the electric utility industry generally, and specifically with regard to transmission, allows it to clearly set expectations regarding the adherence to project management processes and principles. ABATE's suggestions to the contrary defy the record in this case.

I&M's replies to exceptions, p. 4. I&M argues that ABATE's suggestion that the company's costs are driven by a holding company's motives (discussed more below) is purely speculative, without any support, and that, although ABATE dislikes I&M's approach, the company's internal approach for reviewing transmission projects is prudent given the expertise that experts within the I&M corporate structure have regarding transmission. Further, according to I&M, the suggestion to hire additional employees would create duplicative work and would needlessly increase costs for ratepayers, and, in addition to its thorough internal transmission review process, all of I&M's transmission investments are, again, secondarily reviewed—specifically through FERC's jurisdiction over such investments and adherence of such investments to the FERC-approved PJM Open Access Transmission Tariff. I&M thus contends that its oversight of transmission projects is well-documented in the record in this case.

The Commission agrees with the ALJ and I&M that the company's oversight of, and involvement in, its transmission projects is well-documented in this case. 2 Tr 26-31, 94-100. Further, in this testimony, I&M thoroughly explains why it does not have its own independent transmission planning process team, citing efficiencies and economies for the company and its ratepayers. Moreover, I&M's transmission projects are analyzed internally through the company, as well as through the open transmission planning process at PJM with stakeholder input and FERC oversight.

The Commission acknowledges ABATE's concern about transmission cost increases and the need for improved transparency and stakeholder engagement at a more local level. The Commission therefore directs the Staff to coordinate with I&M to host a forum at least once a year (starting in 2020 and until the next iteration of I&M's final five-year distribution plan is due) for I&M, AEP transmission experts, the Staff, and other stakeholders such as ABATE and the

Attorney General to discuss transmission system needs, as well as transmission system upgrade plans and alternatives. Costs and benefits of options can also be further explored. The Commission further directs the Staff to identify ways to potentially integrate this effort into the Commission-directed planning processes so that resource, distribution, and transmission planning are examined more holistically to minimize overall costs and ensure reliable, resilient operation of the system.

Evaluating the Reasonableness and Prudence of Power Supply Cost Recovery Plans, Underlying Decisions, and Cost Items Unlikely to be Permitted to be Recovered

In exceptions, ABATE separately takes specific issue with the ALJ's analysis and conclusions set forth on pages 41-42 of the PFD (also mentioned above) and asserts, "Because the Commission has a statutory duty to not only approve, disapprove, or modify I&M's PSCR plan and factor, but also to identify items and costs the Commission could reasonably anticipate would be disallowed in future proceedings, it should decline to adopt the ALJ's decision on this point." ABATE's exceptions, pp. 5-6. ABATE accentuates statutory direction for the Commission to follow under MCL 460.6j(6) and (7) and argues that the Commission is not allowed to find projected increases in transmission expenses and the transmission factor acceptable in this case simply because the increases are just projections, pointing out that projections form the entire basis of this proceeding. ABATE avers, "If the Commission could disregard concerns regarding projected costs that are not guaranteed to be fully realized, and approve the same as reasonable and prudent simply because they may not come to pass, its initial review of PSCR plans under MCL 460.6j would become largely perfunctory, if not meaningless." *Id.*, p. 6. That being said, ABATE contends that the reasonableness and prudence of the projected transmission costs in this case, along with their possible recovery in the future, are very questionable given the evidence presented. ABATE

specifically recalls evidence about the projected increase in transmission expenses and its impact and claims that such “dramatic increase:”

. . . is being generated pursuant to the election of the AEP Service Corporation, rather than I&M or the requirements of PJM. Thus in addition to the lack of detail regarding these costs or the oversight of their incursion, they appear to be driven by a holding company that has a vested interest in growing the rate base of its held companies in order to increase the total return for its shareholders, meaning it is more likely the projects are unnecessary or not the lowest cost alternative.

Id., pp. 7-8 (footnotes omitted). In this regard, considering the lack of adequately detailed evidence and the requirements of MCL 460.6j, ABATE asserts that the Commission should “take this opportunity to fulfill its statutory role and, at the very least, warn I&M that future recovery of rapidly increasing NITS transmission expenses is risked by a lack of appropriate Company oversight and a corresponding showing that these elements of its plan are reasonable and prudent.” *Id.*, p. 8.

In reply, I&M asserts that ABATE offers nothing to support its position, questioning the company’s projected transmission costs and potential future recovery, “other than unsubstantiated hunches and its general dislike for the projected costs.” I&M’s replies to exceptions, p. 5. To the contrary, I&M avers that it has filled the record in this case with detailed evidence supporting its projected transmission costs and references, as an example in support, evidence set forth in rebuttal testimony. *Id.*, pp. 5-6, referencing 2 Tr 19-33. I&M thus contends that the record demonstrates that its proposed PSCR plan and factors are reasonable and prudent. I&M also states that “[a]lthough ABATE correctly states that the Commission must identify items and costs the Commission could reasonably anticipate would be disallowed in future proceedings, ABATE seems to suggest that the [ALJ] not identifying any such costs fails to comply with the statute” I&M’s replies to exceptions, p. 6. I&M states that the ALJ evaluated its costs in its five-year forecast and did not find anything that she anticipated would be disallowed. The company

quotes the Commission's treatment of five-year forecasts from its March 29, 1990 order in Case No. U-9172, pp. 17-19, and asserts that the Commission "explained that it does not analyze 5-year plans under a reasonableness and prudence standard, but evaluates whether the Commission would be unlikely to permit the utility to recover in the future." I&M's replies to exceptions, pp. 6-7, also referencing the June 28, 2013 order in Case No. U-16892. I&M argues that, contrary to ABATE's assertions, the ALJ thoroughly and properly analyzed the reasonableness and prudence of the company's PSCR billing factor. I&M further asserts that ABATE misconstrues the ALJ's findings in that the ALJ "did not find that the projects are reasonable and prudent **because** they may not come to pass, but rather they are reasonable and prudent **even though they may not** come to pass." I&M's replies to exceptions, p. 7, referencing PFD, pp. 40-42. I&M contends that the ALJ recognized that projections of PSCR costs, based on information available at the time the forecast is created, cannot be perfect. Thus, I&M states that the ALJ did not ignore concerns but rather, after evaluation, agreed with the Staff that the company's projections are reasonable estimates of future events. According to I&M, MCL 460.6j(4) does not require exact projections in a utility's five-year forecast; instead, as recognized by the Legislature, projections may be an estimate of possible future costs. I&M recalls the Staff's testimony (2 Tr 149), averring such testimony to be consistent with Commission precedent that "[k]nown costs must be reviewed for reasonableness and prudence; projections need only be a reasonable and prudent hypothesis of future events.'" I&M's replies to exceptions, p. 8, citing December 17, 1986 order in Case No. U-8286, p. 21 (alteration in original). *See also, Attorney General v Pub Serv Comm*, 161 Mich App 506, 517; 411 NW2d 469 (1987). I&M concludes:

In sum, the ALJ correctly found that the reasonableness and prudence of I&M's transmission costs is supported by the record. Rather than a meaningful analysis about whether the projections are reasonable and prudent estimates of future transmission costs, ABATE's argument to the contrary focuses on the dollar

amount of I&M's PSCR costs and leaps to a conclusion that those amounts cannot possibly be reasonable. As the [ALJ] explained, "ABATE's criticisms are largely rooted in the projected cost increase in the transmission factor." The [ALJ] appears to recognize that it is unlikely that any explanation I&M provided would have convinced ABATE that the projections are reasonable because ABATE simply dislikes the amounts projected.

I&M's replies to exceptions, pp. 8-9 (citation omitted).

As stated by the Staff, "the main purpose of a PSCR plan is to set a reasonable billing factor."

2 Tr 148-149. Further:

The projections that produce the requested monthly PSCR factor are a "best guess under normal circumstances" and provide a reasonable representation of future events. All revenue collected from the PSCR base and proposed factors will be reconciled with the booked costs that will result from actual system operations during 2018. The actual booked costs are what will be reviewed for reasonableness and prudence as well as a determination on ultimate recovery in the 2018 reconciliation case.

Id., pp. 150-151. Within this context, the Staff, after assessing the reasonableness and prudence of I&M's PSCR plan and having discovered no known costs, identified the main projected differences driving the increase in the PSCR factor from 2017 to 2018 and determined those differences to be acceptable for purposes of this case, all of which the ALJ found credible and convincing. *Id.*, pp. 148-154; PFD, pp. 41-42. Thus, the Commission finds that, contrary to ABATE's assertions, the Staff's review of I&M's PSCR plan and proposed PSCR billing factor for 2018, and the ALJ's subsequent recommended adoption incorporating the Staff's approval of the same, was not "largely perfunctory" or "meaningless." Rather, the ALJ's findings, conclusions, and recommendations were based on the Staff's meaningful analysis set forth in the record, conform with the requirements of MCL 460.6j(6) and (7), and should be adopted. Further, actual transmission costs will be closely scrutinized in I&M's reconciliation proceeding.

Allocation of Transmission Expenses Based on 12-Coincident Peak Demand

Starting with the company's 2019 PSCR plan filing, ABATE recommended that I&M modify its current "single per kWh PSCR billing factor" applicable to all customer classes so that there is a separate transmission component of the company's PSCR billing factor for each customer class on the basis of 12CP demand, consistent with MCL 460.11(1) and the recovery of transmission expenses in base rates in Case No. U-18370. 2 Tr 198, 220-221. According to ABATE, rapid and consistent increases in transmission expenses, such as those forecasted by I&M in this case, can cause large subsidies among customer classes in between general rate cases (when the transmission component of the company's PSCR base factor is reset). *Id.*, p. 221. ABATE illustrated this subsidy concern and averred that I&M's current method "could result in annual subsidies of \$2.1 million being paid by [certain] customers . . . ," considering the six-year gap in between I&M's last two general rate cases (Case Nos. U-16801 and U-18370). *Id.*, pp. 221-224. ABATE further asserted that separate transmission billing factors, under its recommendation, "would then be combined with the still-uniform traditional power supply cost component of the PSCR billing factor and any estimated under-recovery or over-recovery to yield a total PSCR billing factor for each customer class." *Id.*, p. 226. ABATE described how these separate transmission billing factors could be developed, determined, and applied and explained that, even though its method and the company's current method would produce the same total transmission revenues, its method "does so while eliminating cross-subsidies between customer classes." *Id.*, pp. 226-230. Pointing to the separate PSCR billing factors that I&M had for its St. Joseph and Three Rivers areas in the past, as indicated in the company's application in this proceeding, ABATE further posited there being no reason as to why its recommendation could not be adopted.

As discussed above, the ALJ was not persuaded by any of ABATE's recommendations, including this one, and recommended that the Commission decline to adopt them, again "as lacking in support or necessity." PFD, p. 42.

In exceptions, ABATE argues that the ALJ's analysis, even if accurate, "do[es] not support the rejection of an allocation methodology that was unopposed in this proceeding, remains necessary to obviate cross-customer class subsidization, and brings I&M's revenue collection in line with the requirements of Michigan law." ABATE's exceptions, p. 9. ABATE restates its prior evidence and arguments in support and asserts that the Commission should require I&M to adopt its recommendations, again starting with the company's 2019 PSCR plan filing. ABATE's exceptions, pp. 9-12, citing 2 Tr 194, 196-198, 220-230; ABATE's initial brief, pp. 13-17; and ABATE's reply brief, pp. 1-5.

I&M contends that, if ABATE's proposal is approved, a new cost of service study, as required in a general rate case, would need to be undertaken in every PSCR plan case, increasing the complexity of not only PSCR plan cases but PSCR reconciliations as well because ABATE's proposal would "require a separate reconciliation of actual PSCR costs and revenues for each rate class." I&M's replies to exceptions, p. 9. According to I&M, "[t]his is both impracticable and inconsistent with the statutory scheme." *Id.* The company expounds:

The transmission component is the increase or decrease in reconciled costs from the level included in base rates. ABATE's position is inconsistent with a proper implementation of I&M's PSCR clause and factor because it conflates this PSCR case with cost allocation and rate design issues properly addressed in base rate cases. Although ABATE contends that utilizing a 12 CP demand allocation would be consistent with MCL 460.11(1), ABATE misconstrues that provision as applied to PSCR proceedings. MCL 460.11(1) describes the 75/0/25% method and 100% method of allocating production and transmission costs, respectively, as it relates to developing customer class cost allocation for base rate cases, not PSCR cases. A PSCR case is limited in scope and does not involve detailed base rate design issues. A plain reading of MCL 460.11(1) demonstrates that base rate cases accompanied

by a cost of service study are the appropriate forum for addressing cost allocation and rate design issues.

Id. I&M discusses the long-standing approval of its current PSCR billing factor pricing method, starting with Case No. U-16801 and then every PSCR plan and reconciliation thereafter, with the most recent approval of this methodology in Case No. U-18370. The company further asserts that “[s]erious problems would arise if ABATE’s proposal were implemented,” namely the requirement to create separate billing determinants/separate PSCR factors for each rate class, with two PSCR factors for those rate classes that are demand-metered—one PSCR factor for energy and one PSCR factor for demand. *Id.*, p. 10. I&M also avers that ABATE’s “dramatically alter[ing]” proposal is “factually deficient,” in that such proposal is “based on an improper overemphasis on the five-year PSCR forecast, which is a non-dispositive element of the PSCR Plan and has a zero probability of occurring as projected.” *Id.*, pp. 10-11. I&M requests that the Commission reject ABATE’s proposal, consistent with the rejection of a similar proposal by ABATE in the May 7, 1991 order in Case No. U-9346.

The Commission agrees with the ALJ and I&M and finds that ABATE’s recommendation should be rejected. Considering the long-standing approval of I&M’s methodology for determining its PSCR billing factor, the applicability of MCL 460.11(1) to general rate cases, and the added complexity that would ensue for every PSCR proceeding, the Commission is not convinced that ABATE’s recommendation is justified, especially when based on cost projections that essentially have a zero probability of materializing as forecasted. 2 Tr 149.

THEREFORE, IT IS ORDERED that:

A. Indiana Michigan Power Company’s application for approval of its 2018 power supply cost recovery plan and factors is approved.

B. Indiana Michigan Power Company's five-year forecast is accepted.

C. Indiana Michigan Power Company is authorized to implement a power supply cost recovery factor of up to 17.97 mills per kilowatt-hour for the period of January 1, 2018, through December 31, 2018.

D. Within 30 days from the date of this order, Indiana Michigan Power Company shall file a tariff sheet substantially similar to Exhibit IM-21, attached to this order as Exhibit A.

E. The Commission Staff shall coordinate with Indiana Michigan Power Company to host a forum at least once a year (starting in 2020 and until the next iteration of Indiana Michigan Power Company's final five-year distribution plan is due) for Indiana Michigan Power Company, American Electric Power Company transmission experts, the Commission Staff, and other stakeholders such as the Association of Businesses Advocating Tariff Equity and the Michigan Department of the Attorney General to discuss transmission system needs, as well as transmission system upgrade plans and alternatives. Costs and benefits of options can also be further explored. The Commission Staff shall further identify ways to potentially integrate this effort into the Commission-directed planning processes so that resource, distribution, and transmission planning are examined more holistically to minimize overall costs and ensure reliable, resilient operation of the system.

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, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General – Public Service Division at pungpl@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General – Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Daniel C. Scripps, Commissioner

By its action of June 7, 2019.

Barbara S. Kunkel, Acting Executive Secretary

M.P.S.C. 15 - ELECTRIC
INDIANA MICHIGAN POWER COMPANY
STATE OF MICHIGAN
(PSCR PLAN)

FOURTEENTH REVISED SHEET NO. D-110.00
CANCELS THIRTEENTH REVISED SHEET NO. D-110.00

POWER SUPPLY COST RECOVERY FACTOR

(Continued from Sheet No. D-109.00)

Not more than 45 days following the last day of each billing month in which a power supply cost recovery factor has been applied to customers' bills, the Company shall file with the Commission a detailed statement for that month of the revenues recorded pursuant to the power supply cost recovery factor, the allowance for cost of power included in the base rates established in the latest Commission order for the Company, and the cost of power supply.

Not less than once a year and not later than 90 days after the end of the 12-month period covered by the Company's most recently authorized power supply cost recovery plan, a power supply cost reconciliation proceeding will be commenced to reconcile the revenues recorded pursuant to the power supply cost recovery factor and the allowance for cost of power included in the base rates as established by the Commission under the Company's most recent power supply cost recovery plan, among other things. The Company shall be required to refund to customers, or to credit to customers' bills any net amount, plus interest, determined to have been recovered which is in excess of the amounts properly expensed by the Company for power supply. The Company shall recover from customers any net amount, plus interest, by which the amount determined to have been recovered over the period covered was less than the amount determined to have been properly expensed by the Company for power supply.

Maximum allowable Power Supply Cost Recovery Factors approved by the Commission:

(1)	(2)	(3)	(4)
Billing Month	Total PSCR Costs (Mills/kWh)	PSCR Costs In Base Rates (Mills/kWh)	PSCR Factor Charge/(Credit) (Mills/kWh)
			(Col. 2 - Col. 3)
Jan. – Dec 2016	32.66	23.77	8.89
Jan. – Dec 2017	34.27	23.77	10.50

D

Should the Company apply a lesser factor than the above, or if the factor is later revised pursuant to Commission Orders or 1982 PA 304, the Company will notify the Commission if necessary and file a revision to the above list.

Actual Power Supply Cost Recovery factors billed pursuant to 1982 PA 304, Section 6j(9):

(1)	(2)	(3)	(4)
Billing Month	Total PSCR Costs (Mills/kWh)	PSCR Costs In Base Rates (Mills/kWh)	PSCR Factor Charge/(Credit) (Mills/kWh)
			(Col. 2 - Col. 3)
Jan. – Dec 2016	32.66	23.77	8.89
Jan. – Dec 2017	34.27	23.77	10.50
Jan. – Dec 2018	41.74	23.77	17.97

N

ISSUED
BY TOBY THOMAS
PRESIDENT
FORT WAYNE, INDIANA

EFFECTIVE FOR BILLS RENDERED
FOR THE 2018 PSCR PLAN YEAR

ISSUED UNDER AUTHORITY OF THE
MICHIGAN PUBLIC SERVICE COMMISSION
DATED
IN CASE NO. U-18404


PROOF OF SERVICE

STATE OF MICHIGAN)

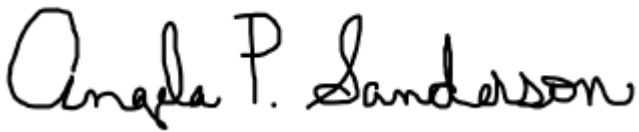
Case No. U-18404

County of Ingham)

Brianna Brown being duly sworn, deposes and says that on June 7, 2019 A.D. she electronically notified the attached list of this **Commission Order via e-mail transmission**, to the persons as shown on the attached service list (Listserv Distribution List).


Brianna Brown

Subscribed and sworn to before me
this 7th day of June 2019.



Angela P. Sanderson
Notary Public, Shiawassee County, Michigan
As acting in Eaton County
My Commission Expires: May 21, 2024

Service List for Case: U-18404

Name	Email Address
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