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May 25, 2018

Beth E. Heline
General Counsel
Indiana Utility Regulatory Commission
PNC Center
101 West Washington Street
Suite 1500 E
Indianapolis, IN 46204

RE: Commission Inquiry on Back-Up, Maintenance and Supplemental Power Rates

Dear Ms. Heline,

Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") is submitting this response to various parties' comments on Indiana public electric utilities' back-up, maintenance and supplemental power rates. Vectren South is not responding to every point raised by the commenters. Some of the comments relate to approaches by other utilities to back-up and maintenance service which Vectren South is not well situated to comment upon. Vectren South agrees with the commenters that back-up and maintenance contracts need to be cost based. This point of view necessitates recognition that each utility should maintain the flexibility to approach back-up and maintenance tariffs in a manner unique to its own cost structure and service territory. A state-wide review of back-up and maintenance tariffs would be difficult because each utility is uniquely situated. Consistent with this approach, other Midwest utilities have unique tariffs approved by their state commissions.

These Reply Comments will begin by responding to some of the general observations in the comments with which Vectren South's experience differs. Vectren South will then address several mis-statements in the comments submitted by the Midwest Cogeneration Association ("MCA") related to Vectren South's back-up and maintenance tariff.

General Comments

MCA broadly contends that its members "report" that the "number one" reason otherwise economically viable combined heat and power ("CHP") projects are not built in the Midwest is poorly designed back-up and maintenance tariffs. Vectren South has worked with customers considering CHP and its experience does not support MCA's claim that poorly designed tariffs are the reason projects are not constructed.[1] Vectren South's interaction with customers has shown that the primary road-block to CHP

[1] The difference in perspective may be largely attributable to what MCA and its members contend are "poorly designed" tariffs. As noted in Vectren South's response to specific MCA proposals, MCA supports a rubric that

adoption is the significant up-front capital cost a customer must incur. Manufacturing customers evaluating building new facilities in a utility's service territory are already confronted with significant capital investment to construct their facilities, and the addition of a CHP facility requires even further capital commitment. Even for existing customers, the significant upfront capital investment requires a long-term commitment to the facility to justify the investment which creates risks for the customer. Vectren South has also worked with customers to evaluate the financial impact and found that when factoring the full cost of CHP, the CHP investment takes many years to pay for itself.

The Indiana Industrial Energy Consumers, Inc. ("INDIEC") observe that the CHP can help reduce costs for all ratepayers by reducing the need for incremental investment by utilities in new plants. However, CHP can also leave all other retail customers paying for costs already invested to serve an industrial customer that elects to construct a CHP facility. Utilities make long term investments in generation and transmission facilities, potentially leaving retail customers paying over many years for generation and transmission that was built to serve a customer that decides to construct its own generation. Any effort to encourage further CHP should also consider efforts to minimize this impact on all other customers. Nevada, for example, has required customers leaving the utility's system to pay exit fees.[2] The exit fees lessen fixed cost burdens placed on remaining utility customers when a new CHP customer elects non-firm back-up service.

Some comments assert that back-up and maintenance rates should not be structured on the assumption that the utility must make an investment in generation capacity equal to that of the amount of generation capacity needed for the entire private energy project class at the time of the system coincident peak. This statement assumes that the customer with a CHP only requires non-firm back-up or maintenance service. If customers are willing to assume the risk that they may be without electricity during an outage of their facilities (because it coincides with a period of peak usage or because the utility has taken infrastructure down for service), a cost of service study may conclude generation capacity allocations should not be made to such customers. However, if the customers expect the utility to assure them of the ability to continue receiving electricity, this assumption is incorrect.

Vectren South Tariff Specific Comments

MCA's comments include a number of incorrect statements concerning Vectren South's Rate Backup, Auxiliary and Maintenance Power Service ("Rate BAMP"). First, MCA criticizes Vectren South on the basis that it is "an impermissible assumption" (*e.g.* a cost of service study could not conclude) that customers electing firm service under Rate BAMP must pay to maintain generation capacity to serve the customer's load. However, cost of service study principles assign costs to cost causers. For customers

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requires all other customers to subsidize utility costs to customers that install cogeneration facilities. Vectren South believes that rates should be cost based and that cogeneration customers, like all other customers, should bear the costs they impose on Vectren South's system.

[2] *See e.g.* Sean Whaley, *PUC says exit fees for major casino companies are fair*, LAS VEGAS REVIEW-JOURNAL, January 6, 2016 *available at https://www.reviewjournal.com/business/energy/puc-says-exit-fees-for-major-casino-companies-are-fair/*

that build CHP and then demand that the utility stand ready to meet 100% of their back-up energy needs, that customer must bear the cost of the investments necessary to ensure that generation capacity is available and can be provided instantaneously. The utility must invest in transmission assets and generation supply to ensure that if the customer's CHP facility fails to operate during a period of peak usage, the infrastructure is available to serve the needs of the customer. If that customer is charged only 5% of the full-time use rate, then all other customers are left shouldering the burden of the investments made to ensure that the utility can meet the customer's potential demand 100% of the time.

A manufacturer's warranty for the reliable operation of the facility provides no escape for a utility need to hold capacity to serve the CHP customer in the event that the generation unit fails to operate. Neither does a manufacturer's warranty provide protection to other customers who must bear the cost for the investment necessary to guaranty the utility can serve the customer in the event a customer's CHP unit fails to operate. Indeed, MCA's contention that no customer would elect non-firm standby service because of a customer's need to support critical non-interruptible business operations explicitly shows that it is advocating to shift the risk, without paying the cost, of a CHP failing to operate to the utility and its other customers. If the risk is small, as MCA implies, the customer, rather than the utility and all other customers, should bear the risk.

Vectren South's non-firm Rate BAMP offers a solution for customers willing to rely on the CHP's manufacturer's warranty and the believed reliability of the unit. The customer will not pay for generation capacity every month, provided it believes the likelihood is small that the CHP will fail during a time when the utility is unable to meet the customer's needs. Vectren South has one customer served under Rate BAMP that has elected non-firm generation service and all of the customer-owned generation interruptions to date have occurred during periods when Vectren South was able to secure sufficient supplies to meet the customer's needs. Given the low risk (but likely high consequence) of a utility not being able to meet the needs of a non-firm customer, that customer should pay the resulting costs if it cannot accept this risk.

MCA criticizes Vectren South for charging transmission at 100% of contract capacity. Yet, Vectren South's experience with Rate BAMP is that customers expect to instantaneously be served from Vectren South's transmission system during an interruption of their CHP system. For that to happen, Vectren South must always have transmission facilities available to serve the customers. In other words, the transmission service cannot be "interruptible" unless the customer installs facilities allowing it to immediately disconnect if the facilities designed to serve all other customers are inadequate to handle the CHP customer's load at the time of an interruption. The Commission has agreed that this approach is reasonable. *Southern Indiana Gas and Electric Co.*, Cause No. 43354 MCRA 21 (IURC 3/7/2018). Again, MCA advocates for imposing a cost on all other customers to minimize the risk to a customer that elects to install a CHP facility.

MCA suggests that Vectren South misrepresented the capacity component of its firm Rate BAMP in its response to the Commission's questionnaire because it stated that "Firm generation is priced with a

capacity charge related to the Cogeneration and Small Power Production rate" but the tariff indicates Backup power is charged at 120% of the capacity component of the current Rate CSP. (Emphasis added.) However, Vectren South did not say that the charge is exactly the same as the Cogeneration and Small Power Production rate and explicitly acknowledged how the charge works in its response to question 4.

Conclusion

Vectren South believes its Rate BAMP is designed to serve customers who decide to install CHP or other forms of customer-owned generation. Customers who demand that the utility stand ready to serve them at any moment of failure of customer-owned generation must pay the costs of utility-owned infrastructure necessary to meet that demand. Vectren South agrees that cost-of service principles should guide the costs charged for its Rate BAMP and will consider whether any changes are necessary when it initiates its next base rate case, which will be filed with the Commission by the end of 2023.

Sincerely,

Jason Stephenson
Vice President, General Counsel of Vectren Utility Holdings, Inc.