

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**APPLICATION OF SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY D/B/A VECTREN)
ENERGY DELIVERY OF INDIANA, INC.)
("VECTREN SOUTH") FOR APPROVAL OF A)
CHANGE IN ITS FUEL COST ADJUSTMENT FOR)
ELECTRIC SERVICE IN ACCORDANCE WITH)
THE ORDER OF THE COMMISSION IN CAUSE)
NO. 37712 EFFECTIVE JUNE 18, 1986 AND)
SENATE BILL NO. 529 EFFECTIVE APRIL 11, 1979)**

CAUSE NO. 38708 FAC 106

APPROVED: APR 29 2015

ORDER OF THE COMMISSION

**Presiding Officer:
Gregory R. Ellis, Administrative Law Judge**

On February 18, 2014, in accordance with Ind. Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Applicant") filed its Verified Application in this Cause for approval for a change in its fuel cost charge ("FAC"). Along with its Verified Application, Applicant filed the testimony of Wayne D. Games, Applicant's Vice President of Power Supply; J. Cas Swiz, Applicant's Director of Regulatory Implementation and Analysis; and Shawn M. Kelly, Applicant's Director of Regulatory Affairs. The Office of the Utility Consumer Counselor ("OUCC") filed its report and the testimony of Gregory Guerrettaz, a Certified Public Accountant, and Michael D. Eckert, a Senior Utility Analyst, in this matter on March 25, 2015. On March 31, 2015, Vectren South submitted its Motion for Protection of Confidential and Proprietary Information seeking a determination that designated confidential information ("Confidential Information") involved in this proceeding be exempt from public disclosure under Ind. Code § 8-1-2-29 and Ind. Code ch. 5-14-3. The Confidential Information was granted protection on a preliminary basis through a docket entry on March 31, 2015. The Commission issued a docket entry requesting information from the OUCC on March 31, 2015, to which the OUCC responded on April 2, 2015.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 11:00 a.m. on April 8, 2015, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicant and the OUCC were present and participated. The testimony and exhibits of Applicant and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented, the Commission now finds:

- 1. Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as defined in Ind.

Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant's rates and charges related to adjustments in fuel costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. Applicant's Characteristics. Applicant is a corporation organized and existing under the laws of the State of Indiana. Its principal office is located at One Vectren Square in Evansville, Indiana. Applicant is engaged in rendering electric utility service to the public and owns and operates electric generating plant and distribution system for the production, transmission, delivery and furnishing of this service.

3. Source of Fuel and Purchased Power. Applicant utilizes coal and natural gas for its electric generation and incurs the costs of purchasing those fuels, including fuel related transportation and storage costs. Applicant utilizes Indiana coal as its primary fuel source for electric generation. Applicant's generating units are offered into the Midcontinent Independent System Operator's ("MISO") Day Ahead and Real Time markets and are dispatched by the MISO on an economic basis. Applicant has contracted through competitive bidding to purchase its coal requirements from nearby mines which helps minimize transportation costs. Applicant has made specific data concerning its coal purchases available to the auditors for the OUCC.

Consistent with the Commission's instructions in Cause No. 38708 FAC 102-S1, Applicant provided a detailed discussion of its coal procurement plan for both the current calendar year and the following calendar year. This coal supply plan was presented in the testimony of Mr. Games. Based on the evidence presented, we find that Applicant has met the requirement to present its 2015-2016 coal supply plan and demonstrated that its plan supports its reasonable efforts to procure coal at the lowest cost reasonably possible.

OUCC witness Eckert testified that Vectren South's steam generation costs are comparable to other Indiana investor owned utilities, and that Vectren South's monthly cost of fuel is now among the lowest in the State of Indiana. Mr. Eckert recommended that the Commission continue to monitor Vectren South's fuel cost, coal inventory, and its mix of power supply sources. He also recommended the Commission require Vectren South to update the Commission regarding its coal procurement practices, coal RFPs, coal price reopeners, and any coal contract changes through its FAC.

Based on the evidence presented, the Commission finds that Applicant has made every reasonable effort to acquire fuel so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

4. Purchased Power Costs For June, July, and August 2014. Applicant's witness Games testified that a Settlement Agreement approved by this Commission in Cause No. 43414 establishes daily benchmarks using a generic gas-fired turbine ("GT") heat rate of 12,500 btu/kWh and the NYMEX Henry Hub Gas day ahead price plus \$0.60/mmbtu gas transport charge for a generic gas-fired GT. Applicant's Exhibit No. 1, Attachment WDG-1, Schedule 2 illustrates the calculation of the daily benchmarks. Applying the daily benchmarks to individual power purchase transactions in this proceeding, Applicant requests the recovery of certain

purchased power costs in excess of the daily benchmarks for the months of September, October, and November 2014.

Applicant's witness Games stated that Applicant incurred purchased power costs in September 2014 in excess of the daily benchmarks in the amount of \$1,049.88, incurred costs in October 2014 in excess of the daily benchmarks of \$19,711.64, and incurred costs in November 2014 in excess of the daily benchmarks of \$84,746.48. Applicant provided the Commission with evidence regarding purchased power that included purchased power volumes, costs, the reasons for the purchases, and the sum of hourly purchased power costs in excess of the applicable benchmarks for the reconciliation period. Applicant's Exhibit No. 1, Attachment WDG-1, Schedule 3. Mr. Games explained that these costs were incurred pursuant to MISO's security constrained economic dispatch across its footprint, because MISO elected to utilize other generation when Vectren South needed additional power. The majority of the over benchmark purchases were due to unplanned outage time and repairs. Applicant provided support for its position that all over-benchmark costs included in this proceeding are recoverable *Id.* In response to the Commission's March 31, 2015 docket entry request for additional information, OUCC witness Eckert agreed with Applicant's calculations and concluded that Applicant should be allowed to recover \$105,508 of purchased power costs that exceeded the benchmark. Based on the evidence, we find that Applicant's identified purchased power costs are properly included in the fuel cost reconciliation.

5. Available Data on Actual Fuel Cost. At the time of the filing of this application, the latest month for which Applicant's actual fuel costs were available was November 2014, and the latest three months for which such figures were available were September, October, and November 2014.

The Order in Applicant's most recent electric base rate case, Cause No. 43839, was issued on April 27, 2011 ("April 27, 2011 Order") and approved the cost of fuel per kWh sold to be determined for the various voltage-level sales groups based on the line loss characteristics of each voltage group. These changes were effective May 3, 2011. The average cost of fuel per kWh supplied for the months of September, October, and November 2014 was \$0.029413, Applicant's Exhibit No. 3, Attachment SMK-2, Schedule 5, page 4 of 4, line 26.

6. Fuel Cost/Other Operating Expenses. Actual increases in Applicant's fuel cost through November 30, 2014 have not been offset by actual decreases in other operating expenses.¹ As shown in Applicant's Exhibit No. 2, Attachment JCS-1, Page 1 of the Verified Application, the authorized operation and maintenance expense, excluding fuel cost, for the 12 months ended November 30, 2014 was \$274,032,000, while the actual operating and maintenance expense, excluding fuel amounted to \$320,032,000. Based on the evidence, increases in fuel costs have not been offset by decreases in other operating expenses.

7. Return Earned. Ind. Code § 8-1-2-42(d)(3), subject to the provisions of Ind.

¹ Applicant's fuel costs through November 30, 2014 have actually decreased from that authorized.

Code § 8-1-2-42.3, generally prohibits a fuel cost adjustment charge which would result in Applicant earning a return in excess of the applicable authorized return. Should the fuel cost adjustment result in Applicant earning a return in excess of the applicable authorized return, Applicant must, in accordance with the provisions of Ind. Code § 8-1-2-42.3, determine if the sum of the differentials between the actual earned return and the authorized return for each of the 12 month periods considered during the relevant period is greater than zero.

The authorized return from Cause No. 43839 results in a total authorized return in this Cause of \$94,450,297. Applicant's Exhibit No. 2, Attachment JCS-2 shows net electric operating income applicable to retail customers for the 12 months ended November 30, 2014 of \$95,474,000. Therefore, Applicant did exceed the allowed return for the 12 months ended November 30, 2014. However, the sum of the differentials between the actual earned return and the authorized return for the relevant period as defined in Ind. Code § 8-1-2-42.3 for Vectren South is a deficit of \$5,279,672, as reflected on Applicant's Exhibit No. 2, Attachment JCS-2, Line 21. Thus, by the mechanics of the applicable statutes it is not appropriate to require a refund of any return earned by Applicant during the 12 month period ending November 30, 2014.

8. Estimation of Fuel Cost. Applicant estimates that its prospective fuel cost for the months of May, June, and July 2015 will be \$46,497,359. Applicant's Exhibit No. 3, Attachment SMK-2, Schedule 1, Line 24. Applicant had estimated its weighted average fuel cost for September, October, and November 2014 would be \$0.030428 per kWh supply. Exhibit No. 3, Attachment SMK-2, Schedule 5, page 4 of 4, Line 26. The actual weighted average fuel cost experienced for this three month period was \$0.029413 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of \$0.001015 per kWh or 3.455%. Exhibit No. 3, Attachment SMK-2, Schedule 5, Page 4 of 4, Line 27.

Applicant's witness Kelly noted and explained the estimation deviation of 10.31% for October 2014. A portion of the deviation resulted from the difference in treatment of the volumes and fuel costs associated with intersystem sales during the reconciliation and estimation processes. In an effort to continuously improve its estimates, Applicant stated it will include a projection of intersystem sales and associated fuel costs for each month, when applicable, in this and subsequent FAC filings.

Based on the evidence presented, the Commission finds that Applicant's estimating techniques are reasonable, and its estimates for May, June, and July 2015 should be accepted.

9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During September, October, and November 2014, Applicant's actual incremental cost of fuel incurred was \$(7,094,759) (Applicant's Exhibit No. 3, Attachment SMK-2, Schedule 4, pages 1-3, Line 6, Col D) but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled \$(5,921,356), (*id.*, Column H), resulting in an over-recovery for the reconciliation period, in the amount of \$1,173,403 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for September, October, and November 2014 is proper and when combined with the estimated three months of May, June,

and July 2015, assures that the Applicant is reconciling actual fuel costs applicable to kWh sales.

10. Resulting Fuel Cost Adjustment. The estimated cost of fuel supplied for the months of May, June, and July 2015 in this filing, in the amount of \$0.029097 per kWh as reflected on Applicant’s Exhibit No. 3, Attachment SMK-2, Schedule 1, Line 25 plus the variance of \$(0.000905) per kWh (*id.*, Line 29) results in the cost of fuel supplied of \$0.028192 per kWh. Adjustments for system losses are applied to the rate schedules based on voltage-level losses, as approved in the April 27, 2011 Order. The table below illustrates the calculation of the FACs for the voltage-level groups based on their estimated loss percentages.

	RS, B, SGS, OSS, SL, OL	DGS	LP	HLF	Special Contracts
Cost of Fuel Supplied	28.192	28.192	28.192	28.192	29.163
Estimated Loss %	7.444202%	7.416459%	4.716010%	1.808609%	1.976817%
Fuel Cost Adjusted for Losses	30.291	30.283	29.522	28.702	29.740
Estimated Cost of Company Use	0.071	0.071	0.071	0.071	0.071
Total Estimated Cost of Fuel (mills/kWh Sold)	30.362	30.354	29.593	28.773	29.811
Less Base Cost of Fuel Included in Rates (mills/kWh Sold)	38.295	38.275	37.123	35.883	
Fuel Cost Charge Incl. IURT (mills/kWh Sold)	(8.054)	(8.042)	(7.645)	(7.218)	30.265

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during May, June, and July 2015.

11. Effect on Customers. Based on the Applicant’s filing, the average residential standard customer using 1,000 kWh per month will experience a decrease of \$0.03 on his or her electric bill for May, June, and July 2015 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

12. Confidential Information. Vectren South sought a determination that Confidential Information involved in this proceeding be exempt from public disclosure under Ind. Code § 8-1-2-29 and Ind. Code ch. 5-14-3. The request was supported by the affidavit of Mr. Games. By the Commission’s March 31, 2015 docket entry, the Presiding Officer granted Vectren South’s request, finding the Confidential Information to be preliminarily confidential after which such information was submitted under seal. After reviewing the Confidential Information, we find all such information qualifies as confidential trade secret information pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2. This information has independent economic value from not being generally known or readily ascertainable by proper means. Vectren South takes reasonable steps to maintain the secrecy of the information and disclosure of such information would cause harm to Vectren South. Therefore, we affirm the preliminary ruling and find this information should be exempted from the public access requirements

contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29, and held confidential and protected from public disclosure by this Commission.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Application of Southern Indiana Gas and Electric Company for approval of fuel cost adjustments for electric service as set out in Finding No. 10 above is hereby approved.

2. Applicant shall file with the Electricity Division of this Commission, prior to placing in effect the fuel cost adjustment herein approved, a separate amendment to its rate schedules with a reasonable reference therein reflecting that such fuel cost adjustment is applicable to all of its filed rate schedules.

3. Applicant's coal procurement plan for 2015 and 2016 has met the requirements of the Commission's Order in Cause No. 38708 FAC 102-S1.

4. The material submitted to the Commission under seal is declared to contain trade secret information as defined in Ind. Code § 24-2-3-2 and therefore is exempted from the public access requirements contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29.

5. This Order shall be effective on and after the date of its approval.

STEPHAN, MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:

APPROVED:

APR 29 2015

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



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