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 MISO COST AND REVENUE ADJUSTMENT FOR ELECTRIC SERVICE IN ACCORDANCE WITH THE ORDER OF THE COMMISSION IN CAUSE NO. 43111 EFFECTIVE AUGUST 15, 2007 AND CAUSE NO. 43839 DATED APRIL 27, 2011 PURSUANT TO I.C. § 8-1-2-42(a)	)	**CAUSE NO. 43354 MCRA16** **APPROVED:** JUN 10 2015

ORDER BY THE COMMISSION

Presiding Officers:
David Ziegner, Commissioner
Marya Jones, Administrative Law Judge

On March 25, 2015, in accordance with Ind. Code § 8-1-2-42(a), Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Applicant") filed with the Indiana Utility Regulatory Commission ("Commission") its Application and case-in-chief in this Cause for approval of a MISO Cost and Revenue Adjustment ("MCRA") as authorized in the Commission's Orders in Cause No. 43111 and Cause No. 43839. Submitted with the Application was the testimony and exhibits of Shawn M. Kelly, Director, Regulatory Affairs for Vectren South's parent company; and Patricia A. Banet, Manager of Large Customer Billing for Vectren South's parent company. On April 30, 2015, Vectren South filed a response to the Commission's Docket Entry issued April 28, 2015. On May 1, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and attached exhibits of Stacie R. Gruca, Senior Utility Analyst.

The Commission held an Evidentiary Hearing in this Cause on May 20, 2015 at 11:00AM, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant's and OUCC's testimony and exhibits were admitted into the record without objection. No member of the public participated in the hearing.

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the commencement of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as that term is defined in Ind. Code § 8-1-2-1. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant's rates and charges. The Commission, therefore, has jurisdiction over Applicant and the subject matter herein.

2. **Applicant's Characteristics.** Vectren South is a public electric generating

utility corporation organized and existing under the laws of the State of Indiana with its principle office located at One Vectren Square, Evansville, Indiana. Applicant is engaged in rendering electric utility service to the public and owns and operates an electric generating plant and distribution system for the production, transmission, delivery, and furnishing of this service.

3. **Calculation of the MCRA Factors.** As approved in the Order in Cause No. 43111 and modified in the Order in Cause No. 43839, the MCRA allows for the recovery of charges by the Midcontinent Independent System Operator, Inc. ("MISO") not recovered in quarterly fuel adjustment clause ("FAC") filings. The MCRA is calculated on a semi-annual basis for each of Applicant's rate schedules based on the calculation of non-fuel cost ("NFC") and MISO revenue amounts ("MRA"). For purposes of this calculation, the NFC consists of MISO Schedule 10, Schedule 16, Schedule 17, Schedule 24, Schedule 26, Schedule 1, Schedule 2, and Schedule 9 charges and costs not otherwise recovered by MISO that are socialized for recovery from all market participants. Vectren South also included projected MISO Multi-Value Projects ("MVP") costs associated with MISO Schedule 26-A.

As modified in the Order in Cause No. 43839, transmission revenues of $5,371,424 are included as a credit in Vectren South's base rates. The Order also provides that Applicant may retain increases in the transmission revenues from MISO Schedules 7, 8, and 9 ("MISO Attachment O Revenues") in excess of the base rate level of $3,333,682. The base rate level of transmission revenues subject to tracking is the total transmission revenues ($5,371,424) less the MISO Attachment O Revenues ($3,333,682). Customers will receive all actual transmission revenues from Schedules 1, 2, and 24, and from ALCOA. If the actual level of the Schedule 1, 2, 24, and ALCOA revenues exceeds the level included in base rates ($2,037,741 per year), customers will receive the amount in excess in a future MCRA. If such actual revenues are less than $2,037,741, Applicant will not recover the shortfall. For that reason, no projected revenues are included on Schedule 3 of Applicant's exhibits.

To determine MCRA factors for this period, the calculation of the estimated MISO Charges in the amount of $7,954,499 (Applicant's Exhibit No. 1, Attachment SMK-2, Schedule 3, Line 17), is reduced by the base rate amount included for those MISO costs in Cause No. 43839. This results in a NFC of $6,077,494 (Line 19). The resulting amount of $6,077,494 (Line 21), plus the adjusted ending MCRA Regulatory Asset balance as of December 31, 2014, in the amount of ($238,662) (Applicant's Exhibit No. 1, Attachment SMK-2, Schedule 4, Page 1 of 2, Line 10) is then multiplied by the rate schedule allocation percentages approved in Cause No. 43839. This result is then divided by the estimated rate schedule sales quantities for the six-month MCRA period (Applicant's Exhibit No. 1, Attachment SMK-2, Schedule 1, Page 1 of 1, Line 7).

Based on these calculations the resulting MCRA Factors per kWh, modified to include Indiana Utility Receipts Tax, are shown on Applicant's Exhibit No. 1, Attachment SMK-2, Schedule 1, Line 7 as follows:

Rate RS	$0.003312
Rate B	$0.002059
Rate SGS	$0.003072
Rate DGS/MLA	$0.002480
Rate OSS	$0.002672
Rate LP	$0.001105
Rate HLF	$0.001241

Based on the foregoing, the average Residential-Standard customer using 1,000 kWh per month will experience an increase of $0.38 each month between June 1, 2015 and November 30, 2015 (Applicant's Exhibit No. 1, Attachment SMK-2, Schedule 5).

4. Evidence Presented by the Parties. Vectren South witness Mr. Shawn M. Kelly testified in support of the content and the calculation of the MCRAs noted above. He testified the MCRA is calculated twice annually for each rate schedule as follows:

$$\text{MCRA} = \frac{(\text{NFC} - \text{MRA}) \times \text{"Rate Schedule Allocation \%"}}{\text{"Rate Schedule Sales Quantities"}}$$

Mr. Kelly also explained that Vectren South did not include actual transmission revenues in this MCRA because Vectren South will include a schedule comparing actual transmission revenues for the 12-month period ending April 30, 2015, to the actual base rate levels of such revenues in the next MCRA, when the month of April is included in the reconciliation period. Mr. Kelly testified that Vectren South did not include a revenue projection for the MRA because the terms of the Order dated April 27, 2011, in Cause No. 43839, the revenue projection is no longer applicable. Mr. Kelly stated that Vectren South did estimate the MCRA for future periods as required by the Commission's Order in Cause No. 43111. He noted that Applicant's Exhibit No. 1, Attachment SMK-3 includes the estimated incremental MCRA amounts for the periods December 2015 through May 2016 (Cause No. 43354 MCRA 17) and June 2016 through November 2016 (Cause No. 43354 MCRA 18).

Vectren South witness Ms. Patricia Banet described the estimated and actual NFCs related to MISO Energy and Operating Reserves Market changes. Ms. Banet testified Vectren South included actual NFC charges in the reconciliation period (July – December 2014) and an estimate of the NFC charges for the June 2015 – November 2015 period in this filing. Ms. Banet also described Regional Expansion Criteria and Benefit ("RECB"), MISO's cost sharing or cost allocation for transmission project revenue requirements. Noting that MISO's RECB program is part of the MISO Transmission Expansion Plan ("MTEP"), Ms. Banet explained that the fundamental goal of the MTEP process is to reduce wholesale cost of energy delivery for the consumer by addressing local and regional reliability needs. Ms. Banet testified that Applicant has five projects approved by MISO for RECB treatment as follows:

- MISO Project ID 1004, a 345/138 kV substation near Francisco, IN, and related 138 kV lines. It was placed in service on July 11, 2007, at a cost of $25,061,496;

- MISO Project ID 1257, a 345 kV line and terminals that will connect Duke Energy's Gibson plant with Applicant's A. B. Brown plant and Big Rivers Electric Corp. Reid Station in Sebree, Kentucky. It was placed in service on December 19, 2012, at a cost of $107,207,254;

- MISO Project ID 1259, a 138 kV line connecting Applicant's Dubois Substation to its Newtonville Substation. This project was placed in service on July 9, 2007, at a cost of $15,998,866;

- MISO Project ID 1970, a 345/138 kV substation located near West Franklin, Indiana. It was placed in service on November 22, 2010, at a cost of $7,750,909; and

- MISO Project ID 3212, a 138 kV Z84-3 transmission line from IPL's Petersburg plant to Vectren South's Duff substation, allowing more power to flow on the upgraded Breed-Wheatland-Petersburg 345 kV line. This project was placed in service July 25, 2013, at a cost of $1,608,213.

Ms. Banet also described the basis for recovery of those costs in this proceeding. She testified that the basis is the Settlement Agreement approved in Cause No. 43111 and reaffirmed in Vectren South's most recently approved electric rate case. She explained that RECB costs are tracked and non-RECB costs are not tracked. RECB costs are charged to Vectren South under MISO Schedule 26, which includes charges related to its own RECB projects as well as its allocation of costs related to other third-party RECB projects. Ms. Banet went on to explain that Vectren South will receive partial cost recovery for its projects from other transmission providers in the MISO footprint on an allocated basis and that Vectren South will be authorized to retain its allocated portion of cost recovery from native load customers as well as revenues received from other MISO transmission owners under Schedule 26. Further, she testified that all Schedule 26 recoveries will be treated as non-jurisdictional and outside the earnings test to allow Vectren South to recover its costs and Vectren South's RECB projects will not be included in retail rate base.

In the Commission's Order issued June 26, 2013, in MCRA 12, Vectren South was ordered to include a status update on the Beaver Channel Market-to-Market Re-settlement ("Beaver Channel"), and any other disputes, as well as a refund dollar amount, if applicable, in all future MCRA filings. Ms. Banet provided an overview of the settlement negotiations between the disputing parties in the Beaver Channel matter. She explained that the disputing parties recently reached a settlement agreement that was approved on February 9, 2015, by the Federal Energy Regulatory Commission ("FERC"). Ms. Banet described the terms of the settlement agreement, which includes a $2 million refund from PJM to MISO to be distributed to the MISO transmission owners based upon their Load Ratio Share. Ms. Banet said Vectren South accrued a $22,913 credit on its books in December 2014, which represents its estimated share of the $2 million settlement refund, tentatively scheduled for April 2015.

Ms. Banet provided an update on another pending Alternative Dispute Resolution ("ADR") matter, the Quad Cities Market-to-Market Settlement ("Quad Cities Settlement"). Ms. Banet testified that the Quad Cities Settlement consists of the following issues: 1) an

incorrect calculation of Market Flows from June 2013 to December 2013, resulting in a refund to MISO of $1,438,369; and 2) a unit ownership percentage issue, which impacted Firm Flow Entitlement from April 2013 to February 2014 and resulted in an additional PJM refund to MISO of $9,936,643. Ms. Banet noted that the total refund of $11,375,012 will be received over a four-month period starting in December 2014. According to Ms. Banet, Vectren South's total share would be $113,856, which was accrued by Vectren South in December 2014.

Ms. Banet noted that Vectren South will include status updates to the Beaver Channel and Quad Cities Settlement and any other ADR matters, as well as refund dollar amounts, if applicable, in future MCRA filings. Ms. Banet explained that the following two settlement issues may impact future Vectren South MCRA filings: 1) FERC Enforcement Refund IN12-2 issued December 30, 2014; and 2) MISO originated Re-settlement due to errors in a December 2014 code release. Ms. Banet described these issues in detail in her testimony and agreed to provide an update in future filings.

Ms. Banet provided testimony regarding the impact on Vectren South from the termination of the Big Rivers Electric Corporation's ("Big Rivers") Coleman Unit System Support Resource ("SSR") Agreement. She explained that the net impact on Vectren South was a credit of $6,239, which was received in September 2014, and included in this filing's reconciliation period for the Big Rivers SSR Agreement. In addition, Ms. Banet provided an update on the settlement negotiations between MISO and Southwest Power Pool, Inc. ("SPP"), including the estimated financial impact on Vectren South of $397,000 based upon the $44,052,789 in transmission charges SPP has billed to MISO. Ms Banet explained that until the dispute is resolved and the actual charges determined, Vectren South will not include any charges associated with this issue in the non-fuel cost projections.

5. <u>OUCC's Evidence</u>. OUCC witness Ms. Stacie Gruca described how Applicant calculated its estimated MISO Administrative Costs and explained that her calculation of the volume of MISO costs to be tracked in this Cause matched Applicant's proposed recovery amount of $5,838,831. Ms. Gruca testified that the effect is an increase of approximately $0.000382 per kWh and a typical residential customer using 1,000 kWh per month would experience a bill of approximately $155.66, which equates to an average cost per kWh of 15.57 cents. Ms. Gruca testified that Applicant followed the Revenue Sufficiency Guarantee ("RSG") Benchmark methodologies as approved in Cause Nos. 43475 and 43672.

Ms. Gruca testified that Applicant incurred Contestable RSG amounts during the reconciliation period of July through December 2014. Vectren South included the Contestable RSG amounts in this filing and appropriately addressed the charges in testimony and workpapers. Ms. Gruca noted that Applicant will include a schedule in the next MCRA that compares actual transmission revenues for the 12-month period ending April 30, 2015, with the annual amount of transmission revenues included in base rates subject to tracking per the Order issued in Cause No. 43839. Ms. Gruca testified that Applicant provided support for its calculation for proposed cost recovery for its projects approved by MISO for RECB treatment and provided additional MTEP project information for the in-service projects for which it has

received approval from MISO for RECB treatment. She stated that Applicant included Schedule 26-A MVP charges in the current proceeding, but did not include, nor propose to include, any Schedule 26-A MVP revenues since Vectren South is not planning to construct any MVPs.

Ms. Gruca testified that Applicant provided a status update with respect to Beaver Channel. Ms. Gruca indicated that the settlement agreement was approved by FERC on February 9, 2015. She noted that Vectren South accrued on its books a $22,913 credit to Real Time Revenue Neutrality Uplift ("RT RNU") in December 2014 for its estimated share of settlement amount. Ms. Gruca also noted that Applicant will continue to include status updates on this topic in future filings.

Ms. Gruca acknowledged that Ms. Banet also described Quad Cities Settlement. Ms. Gruca reiterated the two issues from Ms. Banet's testimony and indicated Vectren South's share of the $11,375,012 refund equaled $113,856, and was accrued on Vectren South's books in December 2014 as a credit to RT RNU.

Ms. Gruca further testified that the impact on Vectren South with respect to the termination of the Big Rivers SSR Agreement, based on Ms. Banet's testimony, is a net credit of $6,239, which was received on September 29, 2014.

Ms. Gruca also described the potential impact on Vectren South with respect to the SPP settlement. Based on Ms. Banet's testimony, the current impact on Vectren South, estimated by MISO, is $397,000; however, due to the parties still negotiating an agreement in principle and the lack of distribution methodology, Vectren South has not included any charges associated with this issue at this time. Ms. Gruca confirmed that Vectren South will continue to provide a status update on this or any other future complaint or similar dispute should one be filed, as well as a refund dollar amount, if applicable.

Ms. Gruca testified that the OUCC recommends the Commission: 1) accept Petitioner's recovery of Contestable RSG costs for the reconciliation period of July 2014 through December 2014; 2) approve Petitioner's proposed recovery of the variance for the reconciliation period of July 2014 through December 2014 and MCRA Factors for the billing period of June 2015 through November 2015; and 3) order Petitioner to continue to provide status updates with respect to all
outstanding settlement issues and refunded dollar amounts, if applicable, in future MCRA filings.

6. <u>Commission Findings.</u> As discussed above, the evidence of record supports approval of Applicant's proposed MCRA factors. Accordingly, the requested MCRA factors described herein should be approved.

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

1. The Application of Vectren Energy Delivery of Indiana, Inc. for the approval of its MISO Cost and Revenue Adjustment factor for each of its rate classes as set forth in Paragraph 3 above is approved.

2. Vectren Energy Delivery of Indiana, Inc. shall file with the Electricity Division of the Commission, prior to placing into effect the MCRA factors approved in this matter, a revised rate schedule under Tariff Sheet No.73 consistent with the findings set forth herein.

3. Vectren Energy Delivery of Indiana, Inc. shall provide status updates in subsequent MCRA filings as recommended by the OUCC.

4. This Order shall be effective on an after the date of its approval.

MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR; STEPHAN AND WEBER ABSENT:

APPROVED: JUN 10 2015

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

Brenda A. Howe

Brenda A. Howe
Secretary of the Commission