

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

*AS*  
*[Signature]*  
*ADW*  
*set*

PETITION 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 ) CAUSE NO. 38708 FAC 112  
FUEL COST ADJUSTMENT FOR ELECTRIC )  
SERVICE IN ACCORDANCE WITH THE ORDER ) APPROVED: OCT 26 2016  
OF THE COMMISSION IN CAUSE NO. 37712 )  
EFFECTIVE JUNE 18, 1986 AND SENATE BILL NO. )  
529 EFFECTIVE APRIL 11, 1979 )

ORDER OF THE COMMISSION

**Presiding Officer:**  
**David E. Veleta, Senior Administrative Law Judge**

On August 18, 2016, 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 "Petitioner") filed its Petition in this Cause for approval for a change in its fuel adjustment charge ("FAC"). Petitioner filed with its Petition the testimony of Wayne D. Games, Petitioner's Vice President, Power Supply, and J. Cas Swiz, Petitioner's Director, Rates and Regulatory Analysis of Vectren Utility Holdings, Inc., the immediate parent company of Vectren South, as well as, 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. 5-14-03. The Confidential Information was granted protection on a preliminary basis through a docket entry on August 23, 2016 and submitted on September 12, 2016. 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 with the OUCC, on September 22, 2016. Vectren South filed rebuttal testimony of Patricia A. Banet, Manager, Large Customer Billing, on September 30, 2016.

A public hearing was held on October 17, 2016, at 10:30 a.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Petitioner and the OUCC appeared by Counsel and offered their respective pre-filed testimony and exhibits, which were admitted into evidence without objection.

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

- 1. Notice and Jurisdiction.** Notice of the public hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1. Under Indiana Code § 8-1-2-42, the Commission has jurisdiction over changes to Petitioner's rates and charges related to adjustments in fuel costs. Therefore, the Commission has

jurisdiction over Petitioner and the subject matter herein.

2. **Petitioner's Characteristics.** Vectren South is a corporation organized and existing under the laws of the State of Indiana with its principal office located at One Vectren Square in Evansville, Indiana. Petitioner 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.** Petitioner utilizes coal and natural gas for its electric generation and incurs the costs of purchasing those fuels, including fuel related transportation and storage costs. Petitioner utilizes Indiana coal as its primary fuel source for electric generation. Petitioner's generating units are offered into the Midcontinent Independent System Operator's ("MISO") Day Ahead and Real Time markets and are dispatched by MISO on an economic basis. Petitioner has contracted through competitive bidding to purchase its coal requirements from nearby mines, which helps minimize transportation costs. Petitioner has made specific data concerning its coal purchases available to the auditors for the OUCC.

Vectren South described its elevated coal inventory position and the on-going steps it has taken in response. Vectren South continued to take the contractual minimum coal deliveries and has exercised its annual option right to reduce all delivered volumes by the maximum contractual percentage from its supplier for 2017. Vectren South also continued to reduce the offer price to MISO on all coal-fired generators by the amount of the avoided coal storage cost in order to increase the probability MISO would clear those generators in the Day Ahead and Real Time market. According to Petitioner's witness Mr. Games, Vectren South was able to manage its coal inventories to the point that it elected to end its decrement pricing in early May and continues to take the minimum coal deliveries as allowed in its contracts.

The OUCC's witness Mr. Guerrettaz testified that in reviewing the use of decrement pricing the OUCC had requested that Petitioner complete a worksheet in order to evaluate MISO market prices if Petitioner had made its offer without the decrement. In rebuttal testimony Ms. Banet indicated that the Petitioner could not complete the OUCC's worksheet because it lacked information to conduct some of the analysis required. She also explained that providing some of the information would be burdensome, and that the speculative results of such an effort would not yield any useful information. She stated that Petitioner would provide the underlying data in Petitioner's possession to the OUCC that would enable it to engage in such analysis. Given the decrement pricing is no longer in use, it appears there is no controversy to be addressed at this time.

The OUCC's witness Mr. Eckert testified that Vectren South's steam generation costs and monthly cost of fuel are comparable to its Indiana peer utilities.

Based on the evidence presented, the Commission finds that Petitioner 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 March, April, and May 2016.** Petitioner's witness Mr. Games testified that a Settlement Agreement approved by the 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 GT. Petitioner’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, Petitioner requests the recovery of certain purchased power costs in excess of the Daily Benchmarks for the months of March, April, and May 2016.

Mr. Games stated that Petitioner incurred purchased power costs in excess of the daily benchmarks in the amount of \$14,245.37 in March 2016, \$4,949.08 in April 2016, and \$23,297.51 in May 2016. Mr. Games stated that the majority of the over-benchmark purchases were due to unplanned outage time and repairs at Vectren South’s Brown Units. Petitioner provided evidence regarding its 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. Pet’s Ex No. 1, Att. WDG-1, Sch. 3, pp 1-3. Petitioner also provided support for its position that all over-benchmark costs included in this proceeding are recoverable. *Id.*

OUCS witness Eckert agreed that Petitioner should be allowed to recover the \$42,491.96 of purchased power costs that exceeded the benchmark.

Based on the evidence presented, we find that Petitioner’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 Petition, the latest month for which Petitioner’s actual fuel costs were available was May 2016, and the latest three months for which such figures were available were March, April, and May 2016.

The Order in Petitioner’s most recent electric base rate case, Cause No. 43839, was issued on April 27, 2011 (“43839 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 March, April, and May 2016 was \$0.029724, as reflected in Petitioner’s Exhibit No. 2, Attachment JCS-2, Schedule 5, page 4 of 4, line 26.

**6. Fuel Cost and Other Operating Expenses.** Actual increases in Petitioner’s fuel cost through May 31, 2016<sup>1</sup> have not been offset by actual decreases in other operating expenses. As shown in Petitioner’s Exhibit No. 2, Attachment JCS-3, Page 1 of 3, the authorized operation and maintenance expense, excluding fuel cost, for the 12 months ended May 31, 2016 was \$271,038,000, while the actual operating and maintenance expense, excluding fuel amounted to \$305,621,000. 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. Code § 8-1-2-42.3, generally prohibits an FAC that would result in Petitioner earning a return in excess

---

<sup>1</sup> Applicant’s fuel costs through May 31, 2016, have actually decreased from that authorized.

of the applicable authorized return. Should the FAC result in Petitioner earning a return in excess of the applicable authorized return, Petitioner 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. Petitioner's Exhibit No. 2, Attachment JCS-4 shows net electric operating income applicable to retail customers for the 12 months ended May 31, 2016 of \$93,672,000. Therefore, Petitioner did not exceed the allowed return for the 12 months ended May 31, 2016.

**8. Estimation of Fuel Cost.** Petitioner estimates that its prospective fuel cost for the months of November 2016, December 2016, and January 2017 will be \$36,964,286. Pet's Ex. No. 2, Att. JCS-2, Sch. 1, Line 24. Petitioner had estimated its weighted average fuel cost for March, April, and May 2016 would be \$0.027377 per kWh supply. Pet's. Ex. 2, Att. JCS-2, Sch. 5, p. 4, Line 26. The actual weighted average fuel cost experienced for this three month period was \$0.029724 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of \$(0.002347) per kWh or (7.90)%. (Pet's. Ex. 2, Att. JCS-2, Sch. 5, p. 4, Line 27). Mr. Swiz noted the (15.61)% difference in the month of March and identified the primary reason as the lower forecasted sales to MISO which was driven by milder weather in the spring and unusually low LMPs.

Based on the evidence presented, the Commission finds that Petitioner's estimating techniques are reasonable, and its estimates for November 2016, December 2016, and January 2017 should be accepted.

**9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During March, April, and May 2016, Petitioner's actual incremental cost of fuel incurred was \$(6,398,206), but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled \$(8,521,871), resulting in an under recovery for the reconciliation period, in the amount of \$2,123,665. Pet's Ex. 2, Att. JCS-2, Sch. 4, pp. 1-3, Line 6. Petitioner's reconciliation of the actual incremental fuel cost and the collected fuel costs for March, April, and May 2016 is proper and when combined with the estimated three months of November 2016, December 2016, and January 2017, assures that the Petitioner is reconciling actual fuel costs applicable to kWh sales.

**10. Resulting Fuel Cost Adjustment.** The estimated cost of fuel supplied for the months of November 2016, December 2016, and January 2017 in this filing, in the amount of \$0.027947 per kWh as reflected on Petitioner's Exhibit No. 2, Attachment JCS-2, Schedule 1, Line 25 plus the variance of \$0.001677 per kWh (*id.*, Line 29), results in the cost of fuel supplied of \$0.029624 per kWh (*id.*, Line 30). Adjustments for system losses are applied to the rate schedules based on voltage-level losses, as approved in the 43839 Order. The table below illustrates the calculation of the FACs for the voltage-level groups based on their estimated loss percentages.

	<u>RS, B, SGS, OSS, SL, OL</u>	<u>DGS</u>	<u>LP</u>	<u>HLF</u>	<u>Special Contracts</u>
<b>Cost of Fuel Supplied</b>	29.624	29.624	29.624	29.624	28.018
<b>Estimated Loss %</b>	5.869523%	5.847056%	3.799401%	1.488298%	1.179325%
<b>Fuel Cost Adjusted for Losses</b>	31.471	31.464	30.794	30.072	28.348
<b>Estimated Cost of Company Use</b>	0.071	0.071	0.071	0.071	0.071
<b>Total Estimated Cost of Fuel (mills/kWh Sold)</b>	31.542	31.535	30.865	30.143	28.419
<b>Less Base Cost of Fuel Included in Rates (mills/kWh Sold)</b>	38.295	38.275	37.123	35.883	
<b>Fuel Cost Charge Incl. IURT (mills/kWh Sold)</b>	(6.856)	(6.843)	(6.353)	(5.827)	28.852

The FAC's shown above will be applied to the usage billed by Petitioner during November 2016, December 2016, and January 2017.

**11. Effect on Customers.** Based on the Petitioner's filing, a residential customer using 1,000 kWh per month will experience a decrease of \$0.63 on his or her electric bill for November 2016, December 2016, and January 2017 compared to the factor presently approved (excluding various tracking mechanisms and sales tax).

**12. AB Brown Unit 1 and FB Culley Unit 3 Operational Issues.** Mr. Games stated that operational issues with two generating units, at AB Brown Unit 1 and FB Culley Unit 3, resulted in extended outages of those two units and a Force Majeure notice being issued to the coal supplier. AB Brown Unit 1 tripped off line as a result of excessive wear from a Stop Valve Bypass Valve that damaged the first and second stage blades within the high pressure turbine. Also FB Culley Unit 3 tripped off line as a result of the collapse of one of six coal silos that feeds coal into the pulverizers. This caused the collapse of the feeder deck floor and subsequently extensive damage to electrical cable trays, steam lines, and communication lines. Mr. Games stated that these Force Majeure events would allow the Petitioner to defer coal deliveries during the outage periods and should be made up within the contract year or in the following contract year as reasonably practical.

**13. Confidential Information.** On August 23, 2016, Petitioner filed its motion seeking a determination that designated 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 Wayne D. Games, showing documents offered into evidence at the evidentiary hearing were trade secret information within the scope of Ind. Code § 5-14-3-4(a)(4) and Ind. Code § 24-2-3-2. On August 29, 2016, the Presiding Officer issued a docket entry

finding such information confidential on a preliminary basis. After reviewing the designated 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. Petitioner takes reasonable steps to maintain the secrecy of the information and disclosure of such information would cause harm to Petitioner. 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. Vectren South's request for approval of fuel cost adjustments for electric service as set out in Finding No. 10 above is approved.
2. Prior to implementing the rates authorized herein, Vectren South shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.
3. The material submitted to the Commission under seal shall be and hereby 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.
4. This Order shall be effective on and after the date of its approval.

**STEPHAN, FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR:**

**APPROVED:**            **OCT 26 2016**

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

  
\_\_\_\_\_  
**Mary M. Becerra**  
**Secretary of the Commission**