

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

[Handwritten initials/signature]

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 98

APPROVED: APR 24 2013

ORDER OF THE COMMISSION

Presiding Officers:

Kari A.E. Bennett, Commissioner

David E. Veleta, Administrative Law Judge

On February 22, 2013, in accordance with Indiana 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. Applicant filed with its Verified Application the testimony of Scott E. Albertson, Vice President, Regulatory Affairs; Wayne D. Games, Applicant's Vice President, Power Supply; and J. Cas Swiz, Applicant's Director, Regulatory Implementation and Analysis. The City of Rockport, Indiana ("Rockport") filed a Petition to Intervene on March 6, 2013. SIGECO Industrial Group ("Industrial Group") filed a Petition to Intervene on March 20, 2013. The Presiding Officers issued docket entries granting the Petitions to Intervene for Rockport and the Industrial Group on March 18, 2013 and April 3, 2013, respectively. 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 April 1, 2013. On April 8, 2013, Vectren South filed rebuttal testimony of Emily Medine, a principal in the consulting firm of Energy Ventures Analysis, Inc. ("EVA").

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause on April 16, 2013 at 9:30 a.m., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant, Rockport, the Industrial Group and the OUCC appeared by counsel. Applicant and the OUCC offered their respective prefiled testimony and exhibits which were admitted into evidence without objection.

On April 23, 2013, Vectren South submitted a document, under seal, purporting to be an update to Rockport's Cross-Examination Exhibit 1. However, the record in this Cause is closed, and Vectren South did not file a Motion to Reopen the Record. Therefore, the Commission will not consider the additional evidence.

1. **Notice and Jurisdiction.** Due legal and timely notice of the commencement of the public hearing in this Cause was given and published by the Commission as required by law.

Applicant operates a public electric utility as defined in Indiana Code § 8-1-2-1. Under Indiana Code § 8-1-2-42, the Commission has jurisdiction over the approval of a change in the fuel cost adjustment. The Commission, therefore, has jurisdiction over the Applicant and the subject matter herein.

2. **Applicant's Characteristics.** Applicant is a public 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 Indiana coal as its primary fuel source for electric generation. Applicant has made specific data concerning its coal purchases available to the auditors for the OUCC. Applicant's evidence indicated that through its fuel purchase policies and its purchase of power, Applicant endeavors to obtain available fuel or power as economically as possible.

With respect to Vectren South's terminated contract with Foresight, Mr. Games explained that as a result of a test burn, Vectren South determined that the ash produced from burning Foresight coal did not meet the specifications of its ash customer, Holcim. Vectren South met with Foresight to attempt to resolve the ash quality issues, but did not arrive at an arrangement that would allow Vectren South to receive coal that produced ash that would consistently meet the specifications required by the Holcim contract. As a result, the contract was terminated on November 27, 2012. No evidence has been submitted to question Vectren South's decision to terminate that contract in order to protect its ability to continue to ship its fly ash to Holcim. 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. **2013-14 Coal Procurement Plan.** Pursuant to the Commission's Order in Cause No. 38708 FAC 91 S1 (the "FAC Subdocket"), Vectren South provided a discussion of its coal procurement plan for 2013 and 2014. Mr. Games described Vectren South's inventory targets, supply needs, and opportunities to re-negotiate contract prices over the next several years, including conducting good faith price re-opener negotiations with two suppliers during 2013 and potentially buying spot coal later in the year.

OUCC witness Mr. Eckert reviewed the previously discussed Foresight contract termination and stated that Vectren South will now be purchasing 100% of its long-term contract coal from Vectren Fuels. Mr. Eckert testified that the OUCC remains concerned about Vectren South's overreliance on its affiliate Vectren Fuels for coal purchases, given Vectren South's history of buying coal from Vectren Fuels at above market prices. He indicated that the Commission should continue to review Vectren South's future requests for proposals ("RFP") and fuel costs in conjunction with past, present, and future coal market prices. Mr. Eckert stated the OUCC believes third-party suppliers may not bid or provide competitive bids on future RFPs, as they may consider the RFP a sole source supply.

On rebuttal, Vectren South witness Emily Medine testified that Vectren South's contract with Foresight reserved the right to cancel subject to a successful test burn in order to allow Vectren South the ability to meet specifications necessary to provide its ash for beneficial reuse. She also testified that

it is common for a utility entering into a long term contract with a new supplier for previously untested coal to require a successful test burn, citing a recent example in which Duke Energy terminated a Foresight contract when the test burn revealed high chloride levels. Ms. Medine testified that the termination will not harm future RFPs because industry participants are likely to understand the cancellation was related to the ash problems that arose, the soft coal market will help ensure suppliers are aggressive to secure new markets, and the market is well aware of Vectren South's desire to diversify its supply. Ms. Medine noted that the Foresight contract only had firm pricing through 2013 with future pricing negotiated two years at a time or settled through baseball arbitration. Ms. Medine concluded that the price reopener with Alliance, as well as the ability to procure new supply as contracts expire, will provide continuing opportunities for Vectren South to obtain competitively priced supply going forward.

We find that Vectren South's coal procurement plan for 2013 through 2014 satisfies the requirements of our FAC Subdocket Order. As described by Mr. Games and Ms. Medine, during 2013 Vectren South has opportunities to reopen price negotiations on two contracts and may supplement its contract purchases with spot coal purchases. Vectren South also has contracts expiring at the end of 2014 and 2015.

In this FAC, Vectren South has not sought approval of any transaction, but merely presented its forward looking procurement plan as the Commission required in the FAC Subdocket Order. We agree that there is merit in monitoring Vectren South's future RFPs for coal, and we will review Vectren South's plan to obtain market priced coal using a competitive process at the time of each future opportunity to contract for new supply. Therefore, no further review of its coal plan is required at this time. We find that Vectren South's coal procurement plan for 2013 through 2014 satisfies the requirements of our FAC Subdocket Order. However, we note that Applicants' witnesses were subject to extensive cross-examination on issues relating to coal procurement that may be more effectively addressed under a discovery process that is not constrained by the statutory timeframes required by the FAC summary proceedings.¹ While we find that the evidence in this proceeding – specifically the likely timing of future RFPs for long-term coal procurement and our ability to review the decision points in the current plan in the standard application of FAC proceedings – supports the above conclusion, we find that going forward Applicant shall file future coal procurement plans in a separate docketed proceeding at a time that is consistent with the FAC Subdocket Order.

5. Purchased Power Costs For September, October and November 2012. 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 gas 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. 2, Schedule 9 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 2012.

¹ Acknowledging the constraints of the expedited schedule for FAC proceedings, we encourage all parties to identify and raise issues as soon as possible in the schedule – through testimony, motion, or other notice-based means – to allow the Commission and the parties to better understand whether such issues deserve more time to vet such that a subdocket or other proceeding can be considered.

Applicant's witness Games stated that Applicant incurred purchased power costs in September 2012 in excess of the daily benchmarks in the amount of \$11,684.48; incurred costs in October 2012 in excess of the daily benchmarks of \$25,299.87; and incurred costs in November 2012 in excess of the daily benchmarks in the amount of \$902.26. Applicant's Exhibit No. 2, Schedule 10. 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. 2, Schedule 10. Applicant provided support for its position that all over-benchmark costs included in this proceeding are recoverable *Id.* OUCC witness Eckert concurred that Applicant should be allowed to recover the \$37,886.61 of purchased power costs that exceeded the Benchmark. Intervenor Rockport raised issues and cross-examined Mr. Games regarding purchased power costs, including those that exceeded the Benchmark. However, the issues raised by Rockport do not provide evidence to support a disallowance of the Applicant's purchase power costs above the Benchmark.

6. 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 2012, and the latest three months for which such figures were available were September, October and November 2012.

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 was \$0.030336. Exhibit 2, Schedule 5, page 4 of 4, line 25.

7. Fuel Cost/Other Operating Expenses. Actual increases in Applicant's fuel cost through November 30, 2012 have not been offset by actual decreases in other operating expenses. As shown in Applicant's Exhibit No. 3 of the Verified Application, the authorized operation and maintenance expense, excluding fuel cost, for the twelve months ended November 30, 2012 was \$270,796,000, while the actual operating and maintenance expense, excluding fuel amounted to \$302,524,000.

8. Return Earned. Indiana Code § 8-1-2-42(d)(3), subject to the provisions of Indiana 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 Indiana 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 allowed return from Cause No. 43839 results in a total authorized return in Cause No. 38708 FAC98 of \$94,450,297. Applicant's Exhibit No. 3 shows net electric operating income applicable to retail customers for the twelve months ended November 30, 2012 of \$89,362,000. Therefore, Applicant did not exceed the allowed return for the twelve months ended November 30, 2012.

9. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of May, June and July 2013 will be \$43,739,677. Exhibit 2, Schedule 1, Line 23. Applicant had estimated its weighted average fuel cost for September, October and November 2012 would be \$0.028413 per kWh supply. Exhibit No. 2, Schedule 5, page 4 of 4, Line 25. The actual weighted average fuel cost experienced for this three month period was \$0.030336 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of \$(0.001923) per kWh or (6.34)%. Exhibit 2, Schedule 5, Page 4 of 4, Line 26.

Based on the evidence presented, the Commission finds that Applicant's estimating techniques are reasonable, and its estimates for May, June and July 2013 should be accepted.

10. **Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During September, October and November 2012, Applicant's actual incremental cost of fuel incurred was \$(5,458,333) (Applicant's Exhibit 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 \$(7,221,114) (*id.*, Column H), resulting in an under recovery for the reconciliation period in the amount of \$1,762,781 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for September, October and November 2012 is proper and when combined with the estimated three months of May, June and July 2013 assures that the Applicant is reconciling actual fuel costs applicable to kWh sales.

11. **Resulting Fuel Cost Adjustment.** The estimated cost of fuel supplied for the months of May, June and July 2013, in the amount of \$0.028595 per kWh as reflected on Exhibit 2, Schedule 1, Line 26 plus the variance of \$0.001413 per kWh (*id.*, Line 30) results in the cost of fuel supplied of \$0.030008. 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 fuel cost adjustments for the voltage-level groups based on their estimated loss percentages.

	<u>RS, B, SGS, OSS, SL and</u>				<u>Special</u>
	<u>OL</u>	<u>DGS</u>	<u>LP</u>	<u>HLF</u>	<u>Contracts</u>
Cost of Fuel Supplied (Incl. prior Variance)	30.008	30.008	30.008	30.008	28.665
Estimated Loss %	7.596212%	7.566379%	4.818282%	1.846929%	2.009092%
Fuel Cost Adjusted for losses	32.287	32.279	31.454	30.562	29.241
Estimated Cost of Company Use	<u>0.074</u>	<u>0.074</u>	<u>0.074</u>	<u>0.074</u>	<u>0.074</u>
Total Estimated Fuel Cost (mills/kWh Sold)	32.361	32.353	31.528	30.636	29.315
Less Base Cost of Fuel Included in Rates	<u>38.295</u>	<u>38.275</u>	<u>37.123</u>	<u>35.883</u>	
Fuel Cost Charge including IURT (mills/kWh Sold)	(6.026)	(6.013)	(5.681)	(5.328)	29.767

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during May, June and July 2013.

12. **Effect on Customers.** A residential standard customer using 1,000 kWh per month will experience an increase of \$0.16 or 0.11% on his or her electric bill for May, June and July 2013 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

13. **Interim Rates.** The Commission is unable to determine whether the Applicant will earn an excess return while this FAC is in effect. Accordingly, the Commission finds that the fuel cost adjustment approved herein should be interim subject to refund, pending reconciliation of fuel costs in a subsequent FAC in the event an excess return is earned.

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. 11 above shall be and hereby is approved.

2. The fuel cost adjustment approved herein shall be an interim rate subject to refund consistent with Finding No. 13 above.

3. 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.

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

**ATTERHOLT, BENNETT AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING;
LANDIS ABSENT:**

APPROVED: APR 24 2013

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


Brenda A. Howe
Secretary to the Commission