

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 100

APPROVED:

OCT 30 2013

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
David E. Veleta, Administrative Law Judge

On August 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. SIGECO Industrial Group ("Industrial Group") filed a Petition to Intervene on August 26, 2013. The Presiding Officers issued a docket entry granting the Petition to Intervene for the Industrial Group on September 10, 2013. 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 September 26, 2013. Applicant filed the supplemental testimony of Wayne D. Games on October 2, 2013.

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 October 10, 2013 at 1:30 p.m., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant, 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.

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

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 coal and natural gas for 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 Operation ("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. 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. 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.

Based on the current projected coal burn for 2013, and as indicated in Applicant's 2013-14 Coal Procurement Plan presented in FAC 98, Applicant has proceeded to acquire coal through spot purchases during the remainder of 2013. Applicant has entered into a spot purchase agreement with Sunrise Coal to buy 50,000 tons of coal in 2013. Applicant also continues to negotiate with another non-affiliate Indiana producer for a potential spot purchase in 2013 of 30,000 tons of coal, with an option to increase the quantities by an additional 20,000 tons. These spot purchases do not create a term commitment and are based on near term prices. These spot purchases should allow Applicant to assess the coal quality of these suppliers and make future procurements less contingent upon test burns. Applicant has not previously bought from either of these suppliers. If the test burns are successful, Applicant will be able to evaluate future bids from the supplier with the knowledge that their coal is compatible with Applicant's boilers.

Mr. Games stated Applicant has negotiated with Alliance and Vectren Fuels under contractual price re-opener provisions for coal delivered in 2014 and 2015. The Alliance re-opener concerns a contract for 250,000 tons of coal per year for A.B. Brown power plant. Applicant has agreed in principle to re-opener terms with Alliance for deliveries in 2014 and 2015. Mr. Games further said the Vectren Fuels re-opener concerns a contract for 410,000 tons of coal per year for the A.B. Brown power plan. The contract provides Applicant with

the option to reduce or increase the contract volume by 15%. Applicant has agreed in principle to re-opener terms with Vectren Fuels for delivery in 2014 and 2015. The suppliers agreed to prices that are reasonable and consistent with prevailing market prices.

OUCS Senior Utility Analyst Mr. Eckert testified that Applicant is purchasing 100% of its long-term contract coal from Vectren Fuels in 2013. This is as a result of the cancellation of the Foresight agreement and the deferral of take from the Alliance Coal Contract in 2013. Mr. Eckert expressed the OUCS's continuing concern that Applicant is over-relying on its affiliate Vectren Fuels for coal supply. He expressed his opinion that in the past certain coal purchases had been made at above market prices. He also stated that the Commission and Applicant should not rely solely on the RFP process in the future, but should review future RFP responses in conjunction with past, present and future coal markets. Mr. Eckert also recommended that if Applicant's future RFP process does not provide competitive responses, the Commission may want to revisit a cost-plus contract between Applicant and Vectren Fuels.

4. **Purchased Power Costs For March, April and May 2013.** 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 March, April and May 2013.

Applicant's witness Games stated that Applicant incurred purchased power costs in March 2013 in excess of the daily benchmarks in the amount of \$26,650.15; incurred costs in April 2013 in excess of the daily benchmarks of \$2,526.43; and incurred costs in May 2013 in excess of the daily benchmarks in the amount of \$192,699.85. 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.* OUCS witness Eckert concurred that Applicant should be allowed to recover the \$221,846.43 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 May 2013, and the latest three months for which such figures were available were March, April and May 2013.

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 March, April and May 2013 was \$0.032592 as reflected on Applicant's Exhibit 2, Schedule 5, page 4 of 4, line 25.

6. **Fuel Cost/Other Operating Expenses.** Actual increases in Applicant's fuel cost through May 31, 2013 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 May 31, 2013 was \$270,796,000, while the actual operating and maintenance expense, excluding fuel amounted to \$306,127,000. Based on the evidence, increases in fuel costs have not been offset by decreases in other operating expenses.

7. **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 FAC 100 of \$94,450,297. Applicant's Exhibit No. 3 shows net electric operating income applicable to retail customers for the twelve months ended May 31, 2013 of \$89,817,000. Therefore, Applicant did not exceed the allowed return for the twelve months ended May 31, 2013.

8. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of November and December 2013 and January 2014 will be \$42,972,714. Exhibit 2, Schedule 1, Line 23. Applicant reduced the fuel costs by an estimated MISO Resettlement amount of \$1,600,000 resulting in a total fuel cost including the MISO resettlement of \$41,372,714. Applicant had estimated its weighted average fuel cost for March, April and May 2013 would be \$0.029930 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 \$0.032592 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of \$(0.002662) per kWh or (8.17)%. 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 November and December 2013 and January 2014 should be accepted.

9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.

During March, April and May 2013, Applicant's actual incremental cost of fuel incurred was \$(2,916,480) (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 \$(6,247,962) (*id.*, Column H), resulting in an under recovery for the reconciliation period, in the amount of \$3,331,482 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for March, April and May 2013 is proper and when combined with the estimated three months of November and December 2013 and January 2014 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 November and December 2013 and January 2014, in the amount of \$0.028573 per kWh as reflected on Exhibit 2, Schedule 1, Line 26 plus the variance of \$0.002910 per kWh (*id.*, Line 30) results in the cost of fuel supplied of \$0.031483 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.

	<u>RS, B, SGS,</u> <u>OSS, SL</u> <u>and OL</u>	<u>DGS</u>	<u>LP</u>	<u>HLF</u>	<u>Special</u> <u>Contracts</u>
Cost of Fuel Supplied (Incl. prior Variance)	31.483	31.483	31.483	31.483	28.573
Estimated Loss %	7.813010%	7.777736%	4.936273%	1.891635%	2.001460%
Fuel Cost Adjusted for losses	33.943	33.932	33.037	32.079	29.207
Estimated Cost of Company Use	<u>0.064</u>	<u>0.064</u>	<u>0.064</u>	<u>0.064</u>	<u>0.064</u>
Total Estimated Fuel Cost (mills/kWh Sold)	34.007	33.996	33.101	32.143	29.271
Less Base Cost of Fuel Included in Rates (mills/kWh Sold)	<u>38.295</u>	<u>38.275</u>	<u>37.123</u>	<u>35.883</u>	
Fuel Cost Charge including IURT (mills/kWh Sold)	(4.354)	(4.345)	(4.084)	(3.798)	29.723

The Fuel Cost Adjustments shown above shall be applied to the usage billed by Applicant during November and December 2013 and January 2013.

11. Effect on Customers. The average residential standard customer using 1,000 kWh per month will experience an increase of \$1.04 or 0.71% on his or her electric bill for November and December 2013 and January 2014 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

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 shall be and hereby is approved.

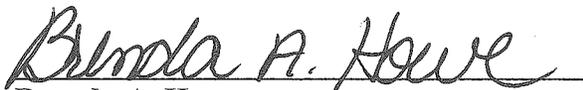
2. Applicant shall file with the Electricity Division of this Commission, prior to placing in effect the fuel cost adjustment herein approved, a separate amendment to its rate schedules with a reasonable reference therein reflecting that such fuel cost adjustment is applicable to all of its filed rate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

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

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

APPROVED: **OCT 30 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**