

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 104

APPROVED: OCT 29 2014

ORDER OF THE COMMISSION

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

On August 26, 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 Shawn M. Kelly, Applicant's Director of Regulatory Affairs; Wayne D. Games, Applicant's Vice President of Power Supply; and J. Cas Swiz, Applicant's Director of Regulatory Implementation and Analysis. On September 23, 2014, Applicant filed revised exhibits. 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 30, 2014. On October 9, 2014, Applicant filed the rebuttal testimony of Wayne D. Games.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 9:15 a.m. on October 14, 2014, 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. Vectren South 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 OUC. Applicant's evidence indicated its position that through its fuel purchase policies and its purchase of power, Applicant endeavors to obtain available fuel or power as economically as possible.

OUC 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 explained that it is the OUC's belief 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 stated the OUC believes that if the Commission determines that the any contract re-pricing, as a result of arbitration, results in a price that is unreasonable, the Commission should retain its rights and discretion to disallow coal prices that are not just and reasonable.

Mr. Games noted in his rebuttal testimony that the opinions expressed by OUC witness Eckert about price reopeners and prices determined through arbitration mirrored those expressed by the OUC in Cause No. 38708 FAC 102S1 (the "FAC Subdocket"), which is currently pending before the Commission and provided an opportunity to review significant procurement decisions made by Vectren South. Vectren South indicated that it does not oppose review by the Commission or the OUC of the contract re-pricing process and outcomes of any arbitration. However, Mr. Games testified that the actual decision of an independent decision-maker, based on its review of evidence of market pricing using a fair and impartial process, should not be subject to second guessing. He opined that contract disputes must be resolved by courts or arbitrators and those outcomes are determinative. Since these issues have been more fully addressed by both parties in the FAC Subdocket, the Commission finds that they need not be addressed here and should be handled through the FAC Subdocket.

Based on the evidence presented, and recognizing that future coal procurement activity is subject to further review, 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 March, April, and May 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. 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 2014.

Applicant's witness Games stated that Applicant incurred purchased power costs in March 2014 in excess of the daily benchmarks in the amount of \$519,954.64, incurred costs in April 2014 in excess of the daily benchmarks of \$4,421.21, and incurred costs in May 2014 in excess of the daily benchmarks of \$56,440.37. 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. A review of this schedule shows that approximately \$305,000 of the March 2014 excess occurred on March 4th. Mr. Games explained that on that day Cully 2 and 3 generating units were in previously scheduled outage and Brown unit 2 came off line with a tube leak the evening of March 3rd. On the morning of March 4th, Brown unit 1 tripped off line due to a malfunction in the switchyard. Brown unit 1 was back on line the morning of March 5th, and Brown unit 2 was back on line March 7th. Applicant provided support for its position that all over-benchmark costs included in this proceeding are recoverable *Id.* OUCG witness Eckert testified that he reviewed the scheduled outages at Culley 2 and 3 and the unscheduled outages at Brown units 1 and 2. He agreed that Applicant should be allowed to recover the \$580,816.22 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 2014, and the latest three months for which such figures were available were March, April, and May 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 March, April, and May 2014 was \$0.030610, Applicant's Exhibit No. 2, Schedule 5, page 4 of 4, line 26.

6. Fuel Cost/Other Operating Expenses. Actual increases in Applicant's fuel cost through May 31, 2014¹ have not been offset by actual decreases in other operating expenses. As

¹ Applicant's fuel costs through May 31, 2014 have actually decreased from that authorized.

shown in Applicant's Exhibit No. 3 of the Verified Application, the authorized operation and maintenance expense, excluding fuel cost, for the 12 months ended May 31, 2014 was \$274,032,000, while the actual operating and maintenance expense, excluding fuel amounted to \$318,259,000. 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 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. 3 shows net electric operating income applicable to retail customers for the 12 months ended May 31, 2014 of \$95,418,000. Therefore, Applicant did exceed the allowed return for the 12 months ended May 31, 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 \$16,827,855, as reflected on Applicant's Exhibit No.4, Line 21. Thus, it is not appropriate to require a refund of any return earned by Applicant during the 12 month period ending May 31, 2014.

8. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of November 2014, December 2014, and January 2015 will be \$42,942,499. Applicant's Exhibit 2, Schedule 1, Line 24. Applicant had estimated its weighted average fuel cost for March, April, and May 2014 would be \$0.028523 per kWh supply. Exhibit No. 2, Schedule 5, page 4 of 4, Line 26. The actual weighted average fuel cost experienced for this three month period was \$0.030610 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of (\$0.002087) per kWh or (6.82)%. Exhibit No. 2, Schedule 5, Page 4 of 4, Line 27. While the three month period error was moderate, the difference between estimated and actual cost for March 2014 was at an elevated level of (17.77)%. Applicant's witness Kelly explained that due unplanned outages and unexpected events involving repairs and substation issues, multiple generating units were rendered unavailable during March 2014. These circumstances required a large amount of power purchases at a time when the purchase price was above normal levels due to increased demand caused by colder than normal temperatures.

Based on the evidence presented, including the unplanned events of March 2014, the Commission finds that Applicant's estimating techniques are reasonable, and its estimates for November 2014, December 2014, and January 2015 should be accepted.

9. **Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During March, April, and May 2014, Applicant's actual incremental cost of fuel incurred was \$(5,419,739) (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 \$(7,692,616) (*id.*, Column H), resulting in an under recovery for the reconciliation period, in the amount of \$2,272,877² (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for March, April, and May 2014 is proper and when combined with the estimated three months of November 2014, December 2014, and January 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 November 2014, December 2014, and January 2015 in this filing, in the amount of \$0.030299 per kWh as reflected on Applicant's Exhibit No. 2, Schedule 1, Line 25 plus the variance of \$0.001985 per kWh (*id.*, Line 29) results in the cost of fuel supplied of \$0.032284 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,</u> <u>SGS, OSS,</u> <u>SL 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)	32.284	32.284	32.284	32.284	30.367
Estimated Loss %	7.412519%	7.377699%	4.683876%	1.794929%	1.980799%
Fuel Cost Adjusted for losses	34.677	34.666	33.796	32.863	30.968
Estimated Cost of Company Use	<u>0.071</u>	<u>0.071</u>	<u>0.071</u>	<u>0.071</u>	<u>0.071</u>
Total Estimated Fuel Cost (mills/kWh Sold)	34.748	34.737	33.867	32.934	31.039
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 including IURT (mills/kWh Sold)	(3.601)	(3.592)	(3.306)	(2.994)	31.515

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during November 2014, December 2014, and January 2015.

11. Effect on Customers. Based on the Applicant's filing, the average residential standard customer using 1,000 kWh per month will experience an increase of \$2.41 or 1.65% on his or her electric bill for November 2014, December 2014, and January 2015 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

² Consistent with discussion in Finding Paragraph 8 regarding the elevated estimation error in March 2014, \$2,031,044 of the under recovered amount is attributable to that month.

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

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

APPROVED: OCT 29 2014

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



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