

**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 105**

**APPROVED:**

**JAN 28 2015**

**ORDER OF THE COMMISSION**

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

On November 14, 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 Wayne D. Games, Applicant's Vice President of Power Supply; J. Cas Swiz, Applicant's Director of Regulatory Implementation and Analysis; and Shawn M. Kelly, Applicant's Director of Regulatory Affairs. 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 December 19, 2014. On December 23, 2014, Applicant filed corrections to the testimony of Wayne D. Games. The Commission issued a Docket Entry requesting information from the Applicant on December 31, 2014, to which the Applicant responded on January 5, 2015. The Commission issued a second Docket Entry requesting additional information from the Applicant on January 5, 2015, to which the Applicant responded on January 6, 2015.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 11:30 a.m. on January 7, 2015, in Room 222, 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. Applicant 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 Petitioner 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 OUCC. 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.

OUCC 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 recommended that the Commission continue to monitor Vectren South's fuel cost, coal inventory, and its mix of power supply sources.

Based on the evidence presented, 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 June, July, and August 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. 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, Applicant requests the recovery of certain purchased power costs in excess of the daily benchmarks for the months of June, July, and August 2014.

Applicant's witness Games stated that Applicant incurred purchased power costs in June 2014 in excess of the daily benchmarks in the amount of \$60,558.84, incurred costs in July 2014 in excess of the daily benchmarks of \$9,762.60, and incurred costs in August 2014 in excess of the daily benchmarks of \$4,745.41. 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. 1, Attachment WDG-1, Schedule 3. Mr. Games explained that these costs were incurred pursuant to MISO's security constrained economic dispatch across its footprint, because MISO elected to utilize other generation when Vectren South needed additional power. The majority of the over benchmark purchases were due to unplanned outage time and repairs. Applicant provided support for its position that all over-benchmark costs included

in this proceeding are recoverable *Id.* OUCC witness Eckert agreed with Applicant's calculations and conclude that Applicant should be allowed to recover the \$75,066.85 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 August 2014, and the latest three months for which such figures were available were June, July, and August 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 June, July, and August 2014 was \$0.026913, Petitioner's Exhibit No. 3, Attachment SMK-2, Schedule 5, page 4 of 4, line 26

**6. Fuel Cost/Other Operating Expenses.** Actual increases in Applicant's fuel cost through August 31, 2014 have not been offset by actual decreases in other operating expenses.<sup>1</sup> As shown in Applicant's Exhibit No. 2, Attachment JCS-1, Page 1 of the Verified Application, the authorized operation and maintenance expense, excluding fuel cost, for the 12 months ended August 31, 2014 was \$274,032,000, while the actual operating and maintenance expense, excluding fuel amounted to \$319,159,000. 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. 2, Attachment JCS-2 shows net electric operating income applicable to retail customers for the 12 months ended August 31, 2014 of \$97,226,000. Therefore, Applicant did exceed the allowed return for the 12 months ended August 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 \$12,136,200, as reflected on Applicant's Exhibit No. 2, Attachment JCS-2, Line 21. Thus, by the mechanics of the applicable statutes it is not appropriate to require a refund of any return earned by Applicant during the 12 month period ending August 31, 2014.

**8. Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the

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<sup>1</sup> Applicant's fuel cost through August 31, 2014 have actually decreased from that authorized.

months of February, March, and April 2015 will be \$40,999,158. Applicant's Exhibit No. 3, Attachment SMK-2, Schedule 1, Line 24. Applicant had estimated its weighted average fuel cost for June, July, and August 2014 would be \$0.028353 per kWh supply. Exhibit No. 3, Attachment SMK-2, Schedule 5, page 4 of 4, Line 26. The actual weighted average fuel cost experienced for this three month period was \$0.026913 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of \$0.001440 per kWh or 5.35%. Exhibit No. 3, Attachment SMK-2, Schedule 5, Page 4 of 4, Line 27.

Based on the evidence presented, the Commission finds that Applicant's estimating techniques are reasonable, and its estimates for February, March, and April 2015 should be accepted.

**9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During June, July, and August 2014, Applicant's actual incremental cost of fuel incurred was \$(11,747,526) (Applicant's Exhibit No. 3, Attachment SMK-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 \$(9,002,545) (*id.*, Column H), resulting in an over-recovery for the reconciliation period, in the amount of \$2,744,981 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for June, July, and August 2014 is proper and when combined with the estimated three months of February, March, and April 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 February, March, and April 2015 in this filing, in the amount of \$0.030747 per kWh as reflected on Applicant's Exhibit No. 3, Attachment SMK-2, Schedule 1, Line 25 plus the variance of \$(0.002587) per kWh (*id.*, Line 29) results in the cost of fuel supplied of \$0.028160 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.

	<b>RS, B, SGS, OSS, SL, OL</b>	<b>DGS</b>	<b>LP</b>	<b>HLF</b>	<b>Special Contracts</b>
<b>Cost of Fuel Supplied</b>	28.160	28.160	28.160	28.160	30.819
<b>Estimated Loss %</b>	7.646754%	7.603769%	4.823998%	1.848886%	1.980799%
<b>Fuel Cost Adjusted for Losses</b>	30.313	30.301	29.518	28.681	31.429
<b>Estimated Cost of Company Use</b>	0.076	0.076	0.076	0.076	0.076
<b>Total Estimated Cost of Fuel (mills/kWh Sold)</b>	30.389	30.377	29.594	28.757	31.505
<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>	(8.026)	(8.018)	(7.644)	(7.235)	31.985

The Fuel Cost Adjustments shown above will be applied to the usage billed by Petitioner during February, March, and April 2015.

**11. Effect on Customers.** Based on the Applicant's filing, the average residential standard customer using 1,000 kWh per month will experience a decrease of \$4.43 or 2.98% on his or her electric bill for February, March, and April 2015 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

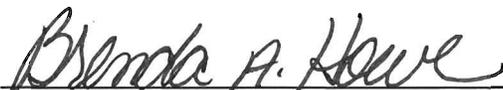
**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

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 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:**            JAN 28 2015

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

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