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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 82

APPROVED: APR 15 2009

BY THE COMMISSION:

Gregory D. Server, Commissioner
Angela Rapp Weber, Administrative Law Judge

On February 13, 2009, 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 Application in this Cause for approval for a change in its fuel cost charge. The Applicant filed with its Application the testimony of Scott E. Albertson, Applicant's Director of Regulatory Affairs; Ronald G. Jochum, Applicant's Vice President of Power Supply; and M. Susan Hardwick, Applicant's Vice President, Controller and Assistant Treasurer. The Office of the Utility Consumer Counselor ("OUCC") filed its report and the testimony of Gregory Guerretaz, a Certified Public Accountant, and Michael D. Eckert, a Senior Utility Analyst, in this matter on March 20, 2009.

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 1, 2009 at 9:30 a.m. in Judicial Courtroom 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Applicant and the OUCC appeared and participated at the public hearing. No members of the public were present or attempted to participate at that hearing.

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 and, as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act. The provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over the parties and the subject matter herein.

2. **Applicant's Characteristics.** Applicant's principal office is located at One Vectren Square, Evansville, Indiana. Applicant is engaged in rendering electric utility service to the public in the State of Indiana. It owns, operates, manages and controls electric generating plant and equipment for the production, transmission, delivery and furnishing of this service.

3. **Source of Fuel and Purchased Power.** Applicant's witness Ronald G. Jochum indicated that Applicant utilizes Indiana coal as its primary fuel source for electric generation. Coal is acquired pursuant to long-term contracts and spot-market purchases. Mr. Jochum testified that through its fuel purchase policies and its purchase of power, Applicant endeavors to obtain available fuel or power as economically as possible. He stated that his testimony in 38708 FAC 81 explained that Applicant purchases almost all of its coal requirements from mines in close proximity to its generating stations. This practice minimizes transportation costs while providing a reliable and reasonably priced fuel source. Mr. Jochum also noted that Applicant included in this FAC the cost of purchases from the Benton County Wind Farm and purchases of natural gas used to operate the Selective Catalytic Reduction duct burners pursuant the Order issued in Cause No. 42508.

The OUCC's witness Mr. Michael Eckert reviewed the Applicant's prefiled testimony, Application, workpapers and responses to the OUCC's data requests regarding Vectren South's procurement of purchased power over the benchmark established in Cause No. 43414. The OUCC raised no issues regarding Vectren South's purchases of power and noted that Applicant did not have purchased power that exceeded the benchmark that was unrecoverable. Therefore, based on the evidence, the Commission finds that the Applicant has made every reasonable effort to purchase power or acquire fuel so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

4. **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 2008, and the latest three months for which such figures were available were September, October and November 2008.

The Applicant's cost of fuel to generate electricity and the cost of fuel included in the cost of purchased electricity in Applicant's rate Order approved August 15, 2007 in Cause No. 43111 was \$0.023363 per kWh. Applicant's cost of fuel to generate electricity and the cost of fuel included in the cost of purchased electricity in November 2008 was \$0.022083 per kWh (Exhibit 2, Schedule 5, page 3 of 4, Line 25), and for the months of September, October and November 2008, the weighted average cost was \$0.025691 per kWh (Exhibit 2, Schedule 5, page 4 of 4, Line 25).

5. **Fuel Cost/Other Operating Expenses.** Actual increases in Applicant's fuel cost through November 30, 2008 have not been offset by actual decreases in other operating expenses. In Cause No. 43111, the Commission found Applicant's annual operation and maintenance expenses, excluding fuel cost, to be \$244,883,000. As shown in Exhibit No. 3 of the Application, the actual operation and maintenance expense, excluding fuel cost, for the twelve months ended November 30, 2008 amounted to \$260,155,000. Thus, these figures show an increase in such expenses rather than a decrease.

6. **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 that 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 twelve month periods considered during the relevant period is greater than zero.

The Order in Applicant's most recent general rate case, Cause No. 43111 dated August 15, 2007, allowed a return of \$76,400,199 to be phased-in over the appropriate period that net income is affected by the earnings modification as a result of the Commission's approval of the Order in Cause No. 43111.

This Cause is the first FAC since the Order in Cause No. 43111 to reflect the full return authorized in Cause No. 43111. The allowed return from Cause No. 43111, when coupled with the ECR Order adjustment from Cause No. 42861, results in a sub-total authorized return in Cause No. 38708-FAC82 of \$80,301,000, including the prorating of the additional return allowed in Cause No. 42861. Exhibit No. 3 of Applicant's exhibits shows net electric operating income applicable to retail customers for the twelve months ended November 30, 2008 of \$80,396,000. As described in the testimony of Applicant's witness Hardwick, the authorized net operating income has been increased by \$94,978, pursuant to the Order in Cause No. 43111 and therefore a total authorized return in Cause No. 38708 FAC-82 of \$80,396,000. That Order approved an addition to the authorized return for earnings test calculation purposes of up to \$3 million per quarter but not more than the amount of Applicant's share of proceeds from wholesale power marketing margins that created the over-earnings status. Therefore, the Applicant did not exceed the allowed return for the twelve months ended November 30, 2008.

Applicant's Witness M. Susan Hardwick testified that the Applicant, in compliance with the Order in Cause No. 38708-FAC78-S1, included reductions in the calculated return. As a result of the reduction of the earned return, Applicant included a total refund to retail customers in the amount of \$230,477 in this FAC (Exhibit 2, Schedule 1, Line 27). As explained by Ms. Hardwick, \$193,724 of the refund is applicable to the adjustment for FAC78 and \$36,753 is applicable to FAC79. The Applicant has complied with the Order in Cause No. 38708-FAC78-S1.

7. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of May, June and July 2009 will be \$52,021,041 (Exhibit 2, Schedule 1, Page 1, Line 23). Applicant estimated its weighted average fuel cost for September, October and November 2008 would be \$0.027276 per kWh (Exhibit 2, Schedule 5, page 4, Line 25). The actual weighted average fuel cost experienced for this three month period was \$0.025691 (Id.) per kWh resulting in a difference between actual and estimated weighted average cost in the amount of \$0.001585 per kWh or 6.17% (Exhibit 2, Schedule 5, Page 4, Line 26) weighted average error. Based on the evidence presented, the Commission finds that Applicant's estimating techniques appear to be adequate, and its estimates for May, June and July 2009 should be accepted.

8. **Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During September, October and November 2008, Applicant's actual incremental cost of fuel incurred was \$2,761,910 (Exhibit 2, Schedule 4, total of Column D, pages 1-3), but its actual incremental fuel adjustment revenues to be reconciled with this amount equaled \$6,027,544 (Id., Column H), resulting in Applicant over billing for the reconciliation period in the amount of \$3,265,634 (Id., Column I). Applicant's reconciliation of the actual incremental fuel cost billed September, October and November 2008 is proper and when combined with the estimated three months of May, June and July 2009 assures

that the Applicant is reconciling actual fuel cost applicable to kWh sales.

9. **Resulting Fuel Cost Adjustment.** The estimated cost of fuel for the months of May, June and July 2009, in the amount of \$0.035526 per kWh (Exhibit 2, Schedule 1, Line 24) plus the variance of \$(0.002230) per kWh (Id., Line 26), plus the refunds from the Weather Normalization Adjustment from FAC78-S1 of \$(0.000157) per kWh (Id., Line 27), less the base cost of fuel in the amount of \$0.023363 per kWh (Id., Line 28) results in a factor of \$0.009776 per kWh (Id., Line 29) and, when modified for the recovery of the Indiana Utility Receipts Tax, results in a fuel cost adjustment of \$0.009928 per kWh (Id., Line 30) to be applied to the usage billed by the Applicant during May, June and July 2009. This represents an increase of \$0.000508 per kWh from the currently approved fuel cost adjustment.

10. **Effect on Customers.** The average customer using 1,000 kWh per month will experience an decrease of \$0.51 or 0.39% on his or her electric bill for May, June and July 2009.

11. **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.

12. **Purchased Power Costs For June, July and August, 2008.** Applicant's witness Jochum testified that a Settlement Agreement approved by this Commission in Cause No. 43414 is effective from May 1, 2008 through April 30, 2010. The agreement approved in Cause No. 43414 established Daily Benchmarks using a generic 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 June, July and August, 2008.

Applicant's witness Jochum stated that the Applicant incurred purchased power costs in September in excess of the monthly benchmark in the amount of \$2,711.58 and costs in excess of the November benchmark in the amount of \$24,139.38. He further testified that purchased power costs in October did not exceed the Daily Benchmarks. Consistent with the Commission's Order in Cause No. 43414, Vectren South has an opportunity to request recovery of and justify the reasonableness of purchased power costs above the respective Monthly Standards and Daily Benchmarks, which are benchmarks, not recovery caps. 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 (Exhibit 2, Schedule 10). Applicant and OUCC witness Eckert concurred that all of the September and November over-benchmark purchases were recoverable.

13. **Uninstructed Deviation Amounts.** A Stipulation and Agreement between the

OUCC and Applicant regarding ongoing recovery of Uninstructed Deviation ("UD") amounts was approved by this Commission in FAC73. As described by Applicant's witness Hardwick, UD Amounts depicted on Applicant's Exhibit No. 2, Schedule 6, Line 11, in September, October and November 2008 were \$1,868.96, \$1,241.54 and \$1,085.86, respectively. The Midwest Independent System Transmission Operator UD revenues for September, October and November 2008 were credits of \$11,103.99, \$2,814.44 and \$10,681.66, respectively, as shown on Applicant's Exhibit No. 2, Schedule 6, Line 10. OUCC witness Eckert agreed that the net effect of UD charges and revenues should be flowed through. The evidence of record demonstrates, and this Commission finds, that the requested UD amount treatment is reasonable and should be approved.

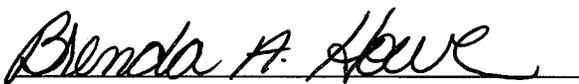
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Application of Vectren Energy Delivery of Indiana, Inc. for approval of a fuel cost adjustment for electric service as set out in Finding No. 9 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 Nos. 11 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. The Subject to Refund provisions of FACs 78, 79, 80 and 81 related to the weather normalization of actual earnings are hereby removed.
5. This Order shall be effective on and after the date of its approval.

GOLC, LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT:

APPROVED: APR 15 2009

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



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