

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 83

APPROVED: JUL 30 2009

BY THE COMMISSION:

James D. Atterholt, Commissioner

Angela Rapp Weber, Administrative Law Judge

On May 18, 2009, in accordance with IC 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. The Applicant filed with its Verified Application the testimony of Scott E. Albertson, Applicant's Director of Regulatory Affairs; Ronald G. Jochum, Applicant's Vice President of Power Supply; and J. Cas Swiz, Applicant's Manager, Regulatory and Plant Accounting. 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 June 23, 2009. On July 9, 2009, Vectren South filed rebuttal testimony of Ronald G. Jochum and M. Susan Hardwick, Applicant's Vice President, Controller and Assistant Treasurer.

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 July 16, 2009 at 2:30 P.M., EDT, in Room 224, National City Center, 101 West Washington Street, Indianapolis, Indiana.

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 is a public electric generating 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. Therefore, the 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.

In his prefiled testimony, OUCC witness Guerrettaz recommended that Vectren South's proposed FAC be approved, subject to refund, "pending a more detailed review of the fuel supply contract between Vectren Fuels and Vectren South in relation to current market conditions." (Public's Exhibit #1, page 8).

In response, Vectren South witness Jochum submitted rebuttal testimony wherein he referenced the prior review of the coal contracts in FAC81. Mr. Jochum also presented information from the Energy Information Administration that showed other Indiana utilities had procured contract coal in February 2009 at average non-spot prices that exceeded Vectren South's cost per ton for its contract coal. Mr. Jochum also explained that a review of contracts half a year after they became effective, which had been entered into following a competitive RFP process, would result in improper hindsight review of contracts that reflected market prices.

At the hearing, counsel for the OUCC and for Applicant informed the Commission that based on the additional information provided by the Applicant, the OUCC was withdrawing its request to make Vectren South's fuel cost recovery subject to refund.

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 February 2009, and the latest three months for which such figures were available were December 2008 and January and February 2009.

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 February 2009 was \$0.028921 per kWh (Exhibit 2, Schedule 5, page 3 of 4, Line 25), and for the months of December 2008 and January and February 2009, the weighted average cost was \$0.030501 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 February 28, 2009 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 February 28, 2009 amounted to \$257,232,000. 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. The allowed return from Cause No. 43111, when coupled with the ECR Order adjustment from Cause No. 42861, results in a total authorized return in Cause No. 38708-FAC83 of \$81,057,590, 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 February 28, 2009 of \$78,449,000.

7. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of August, September and October 2009 will be \$48,260,282 (Exhibit 2, Schedule 1, Line 23). Applicant estimated its weighted average fuel cost for December 2008 and January and February 2009 would be \$0.028597 per kWh (Exhibit 2, Schedule 5, page 4 of 4, Line 25). The actual weighted average fuel cost experienced for this three month period was \$0.030501 per kWh (Id.) resulting in a difference between estimated and actual weighted average cost in the amount of \$(0.001904) per kWh or (6.24)% (Exhibit 2, Schedule 5, Page 4 of 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 August, September and October 2008 should be accepted.

8. **Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During December 2008 and January and February 2009, Applicant's actual incremental cost of fuel incurred was \$8,854,286 (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 \$6,201,783 (Id., Column H), resulting in Applicant under billing for the reconciliation period, in the amount of \$2,652,503 (Id., Column I). Applicant's reconciliation of the actual incremental fuel cost billed December 2008 and January and February 2009 is proper and when combined with the estimated three months of August, September and October 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 August, September and October 2009, in the amount of \$0.035340 per kWh (Exhibit 2, Schedule 1, Line 24) plus the variance of \$0.001942 per kWh (Id., Line 26), less the base cost of fuel in the amount of \$0.023363 per kWh (Id., Line 28) results in a factor of \$0.013919 per kWh (Id., Line 29) and, when modified for the recovery of the Indiana Utility Receipts Tax, results in a fuel cost adjustment of \$0.014135 per kWh (Id., Line 30) to be applied to the usage billed by the Applicant during August, September and October 2009. This represents an increase of \$0.004207 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 increase of \$4.21 or 3.27% on his or her electric bill for August, September and October 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 December 2008 and January and February 2009.**

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 December 2008 and January 2009.

Applicant's witness Jochum stated that the Applicant incurred purchased power costs in December 2008 in excess of the monthly benchmark in the amount of \$1,693.51 and costs in excess of the January 2009 benchmark in the amount of \$774.70. No purchases in February 2009 were above 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 (Applicant's Exhibit No. 2, Schedule 10). Applicant and OUCC witness Eckert concurred that all of the December and January 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 Swiz, UD amounts depicted on Applicant's Exhibit No. 2, Schedule 6, Line 11, in December 2008 and January 2009 were \$458.58 and \$421.74, respectively. The MISO UD revenues for December 2008 were credits of \$626.28, while January and February 2009 were additional charges of \$15,090.51 and \$27.68, 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 No. 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. This Order shall be effective on and after the date of its approval.

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

APPROVED: JUL 30 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