

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 86

APPROVED: APR 30 2010

BY THE COMMISSION:

James D. Atterholt, Commissioner
Angela Rapp Weber, Administrative Law Judge

On March 5, 2010, 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 Utility 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 April 9, 2010.

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 16, 2010 at 1:30 P.M., EST, 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. Based on the evidence presented, the Commission finds that the Applicant has made every reasonable effort to acquire fuel or purchase power so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

Vectren South witness Jochum described steps taken by Applicant to mitigate the level of its on-site coal inventory. Because of a decline in the use of Applicant's coal-fired plants, Mr. Jochum explained contracted coal deliveries have been reduced by the maximum of 15% from its primary supplier. However, additional steps have been needed to reduce on-site inventory. He described redirection of coal to alternate storage locations. Mr. Jochum included testimony that was responsive to the Commission's Docket Entry issued in Cause No. 38708-FAC-85 that related to the provision of support for Applicant's use of its affiliate, Vectren Fuels, Inc., for such alternate storage locations. Mr. Jochum also testified that vendors have agreed to defer portions of 2009 and/or 2010 deliveries to future years.

4. Purchased Power Costs for September Through November 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 September through November 2009.

Applicant's witness Jochum stated that the Applicant incurred purchased power costs in September 2009 in excess of the monthly benchmark in the amount of \$68,092.35; incurred costs in October 2009 in excess of the benchmark in the amount of \$41,914.07; and incurred costs in November 2009 in excess of the benchmark in the amount of \$48,402.27 (Applicant's Exhibit No. 2, Schedule 10). 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 (Id.). Applicant and OUCC witness Eckert concurred that all of the September through November 2009 over-benchmark

purchases were recoverable.

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 November 2009, and the latest three months for which such figures were available were September 2009 through November 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 November 2009 was \$0.029872 per kWh (Exhibit 2, Schedule 5, page 3 of 4, Line 25), and for the months of September 2009 through November 2009, the weighted average cost was \$0.031855 per kWh (Exhibit 2, Schedule 5, page 4 of 4, Line 25).

6. **Fuel Cost/Other Operating Expenses.** Actual increases in Applicant's fuel cost through November 30, 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 November 30, 2009 amounted to \$250,292,000. Thus, these figures show an increase in such expenses rather than a decrease.

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 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 and the Blackfoot Landfill Generation adjustment from Cause No. 43577, results in a total authorized return in Cause No. 38708-FAC-86 of \$83,570,825, including the prorating of the additional return allowed in Cause No. 42861. Applicant's Exhibit No. 3 shows net electric operating income applicable to retail customers for the twelve months ended November 30, 2009 of \$77,738,000. Thus, Applicant did not exceed its authorized return.

8. **Estimation of Fuel Cost.** Applicant estimates that its prospective monthly average fuel cost for the months of May 2010 through July 2010 will be \$13,828,481 (Exhibit 2, Schedule 1, Line 23). Applicant estimated its weighted average fuel cost for September through November 2009

would be \$0.034759 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 \$0.031855 per kWh (Id.) resulting in a difference between estimated and actual weighted average cost in the amount of \$0.002904 per kWh or 9.12% (Exhibit 2, Schedule 5, Page 4 of 4, Line 26). Based on the evidence presented, the Commission finds that Applicant's estimating techniques appear to be adequate, and its estimates for May through July 2010 should be accepted.

9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During September through November 2009, Applicant's actual incremental cost of fuel incurred was \$10,231,659 (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 \$13,899,315 (Id., Column H), resulting in Applicant over-recovery for the reconciliation period in the amount of \$3,667,656 (Id., Column I). Applicant's reconciliation of the actual incremental fuel cost billed September through November 2009 is proper and when combined with the estimated three months of May through July 2010 assures that the Applicant is reconciling actual fuel cost applicable to kWh sales.

10. Resulting Fuel Cost Adjustment. The estimated cost of fuel for the months of May through July 2010, in the amount of \$0.034769 per kWh (Exhibit 2, Schedule 1, Line 24) plus the variance of \$(0.003074) 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 \$0.008332 per kWh (Id., Line 29) and, when modified for the recovery of the Indiana Utility Receipts Tax, results in a fuel cost adjustment of \$0.008461 per kWh (Id., Line 30) to be applied to the usage billed by the Applicant during May, June, and July 2010. This represents an increase of \$0.002678 per kWh from the currently approved fuel cost adjustment.

11. Effect on Customers. The average customer using 1,000 kWh per month will experience an increase of \$2.68 or 2.15% on his or her electric bill for May through July 2010.

12. 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.

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. 10 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. 12 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.

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

APPROVED: APR 30 2010

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


Brenda A. Howe
Secretary to the Commission