

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 93

APPROVED: JAN 25 2012

BY THE COMMISSION:

Larry S. Landis, Commissioner
David E. Veleta, Administrative Law Judge

On December 5, 2011, in accordance with Indiana 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. Applicant included with its Verified Application a Stipulation and Settlement Agreement ("Settlement Agreement") with the Indiana Office of the Utility Consumer Counselor ("OUCC") that provides for levelization of the cost of coal used in generation. The Applicant filed with its Verified Application the testimony of Scott E. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc. ("VUHI"); Wayne D. Games, Applicant's Vice President of Power Supply; J. Cas Swiz, Manager, Regulatory and Utility Accounting for VUHI; and M. Susan Hardwick, Applicant's Vice President, Controller and Assistant Treasurer. Applicant filed a motion for substitution of exhibits on December 9, 2011. On December 19, 2011, the Presiding Officers granted Applicant's motion for substitution of exhibits. Applicant filed the revised direct testimony of Mr. Albertson and revised Applicant's Exhibit No. 4 on January 10, 2012. The 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 January 9, 2012. On January 12, 2012, the Presiding Officers issued a docket entry requesting information from the Applicant. On January 13, 2012, Applicant filed a response to the January 12, 2012 docket entry.

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 January 17, 2012 at 1:30 P.M., EDT, in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant and the OUCC appeared by counsel. Applicant and the OUCC offered their respective prefiled testimony and exhibits, which were admitted into evidence without objection.

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, as amended. 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 engaged in rendering electric utility service to the public in Indiana and owns and operates an 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, as discussed further herein, 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. **Settlement Agreement.** Applicant requests approval in this proceeding of a Settlement Agreement that provides for levelization of the cost of coal used in generation. Applicant's witness Games explained that while Vectren South estimates that its 2012 fuel costs based on existing inventory and contracts will average over \$70 per ton, as a result of recent re-pricing and new contracts beginning in 2013 its delivered coal costs will drop to approximately \$53 to \$55 per ton. Applicant discussed these circumstances with the OUCC and both parties agreed that it would be beneficial to find a way to accelerate the benefit of this lower cost supply to reduce customer bills in 2012. Therefore, the Parties agreed upon the creation of a regulatory asset to be amortized and recovered over a six (6) year period, without carrying charges, which consists of the reduction to both existing inventory and 2012 delivered coal costs, resulting in an FAC approximating the projected 2013 average supply costs of \$54 per ton. The Settlement Agreement is attached hereto and incorporated herein by reference.

The Commission has previously approved a similar proposal in Cause No. 37470. In that proceeding a ten year coal contract of Indiana Michigan Power Company ("I&M") had declining pricing over the period. Rather than reflect the upfront cost increase, the Commission approved the I&M proposal to levelize costs over the period. As with the I&M proposal, Applicant's proposal in this Cause accelerates the price decrease to customers and similarly smoothes costs over time.

As previously noted, settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.*, quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens*

Action Coalition, 664 N.E.2d at 406. Examinations of the public interest may include the impact of a given decision on customers of various classes, the interests of the utility and its stakeholders, and the impact on the State. The interest of the State may be “more comprehensive and take a longer range view than any of the parties’ interests.” *Nextel West Corp. v. Ind. Util. Regulatory Comm’n*, 831 N.E.2d 134, 156-57 (Ind. App. 2005.)

The Commission is not required to accept a settlement simply because the parties have agreed to it, and agreements filed by some or all of the parties must still be supported by probative evidence. *Id.* Furthermore, any Commission decision, ruling, or order – including the approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795, citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991). The Commission’s own procedural rules require that settlements be supported by probative evidence. 170 I.A.C. 1-1.1-17(d). Therefore, before the Commission can approve any Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the settlement is reasonable, just, and consistent with the purpose of Indiana Code § 8-1-2, and that such agreement serves the public interest. Based on the evidence presented, we conclude that the Settlement Agreement is reasonable and is in the public interest.

5. Purchased Power Costs for June, July and August 2011. Applicant’s witness Games testified that a Settlement Agreement approved by this Commission in Cause No. 43414 is effective from May 1, 2008 through April 30, 2012. That Settlement Agreement 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 2011.

Applicant’s witness Games stated that the Applicant incurred purchased power costs in June 2011 in excess of the daily benchmarks in the amount of \$124,584.96; incurred costs in July 2011 in excess of the benchmarks of \$295,462.07; and incurred costs in excess of the August 2011 benchmarks in the amount of \$247,421.13. 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 reported that \$920.27 for July over-benchmark purchases are non-recoverable. *Id.* OUCC witness Eckert concurred that Applicant should be allowed to recover the \$666,547.89 of purchased power that exceeded the benchmark.

6. Available Data on Actual Fuel Cost. At the time of the filing of the Verified Application, the latest month for which Applicant’s actual fuel costs were available was August 2011, and the latest three months for which such figures were available were June, July and August 2011.

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 2011 was \$0.036693 (Exhibit 2, Schedule 5, page 4 of 4, line 25).

7. **Fuel Cost/Other Operating Expenses.** Actual increases in Applicant's fuel cost through August 31, 2011 have not been offset by actual decreases in other operating expenses. As shown in Exhibit No. 3 of the Verified Application, the authorized operation and maintenance expense, excluding fuel cost, for the twelve months ended August 31, 2011 was \$252,544,000, while the actual operation and maintenance expense, excluding fuel cost, for the twelve months ended August 31, 2011 amounted to \$292,446,000. Thus, these figures show an increase in such expenses rather than a decrease.

8. **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 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 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 12 month periods considered during the relevant period is greater than zero.

Applicant's Order approved on August 15, 2007 in Cause No. 43111 allowed a return of \$76,400,199. The April 27, 2011 Order allowed a return of \$94,450,297 to be phased-in over the appropriate period that net income is affected by the earnings modification. The allowed return from Cause No. 43111 and Cause No. 43839 results in a total authorized return in this Cause of \$87,933,000. Applicant's Exhibit 3 shows net electric operating income applicable to retail customers for the twelve months ended August 31, 2011 of \$86,467,000. Therefore, Applicant did not exceed its authorized return.

9. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of February, March, and April 2012 will be \$38,940,787 (Exhibit 2, Schedule 1, Line 23). Applicant estimated its weighted average fuel cost for June, July and August 2011 would be \$0.034364 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 \$0.036693 per kWh (*Id.*) resulting in a difference between estimated and actual weighted average cost in the amount of \$(0.02329) per kWh or (6.35)% (Exhibit 2, Schedule 5, Page 4 of 4, Line 26).

Based on the evidence presented, the Commission finds that Applicant's estimating techniques are reasonable, and its estimates for February, March and April 2012 should be accepted.

10. **Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During June, July and August 2011, Applicant's actual incremental cost of fuel incurred to be reconciled was \$1,411,428 (Exhibit 2, Schedule 4, pages 1-3, Line 6, Col D) but its actual

incremental fuel adjustment revenues to be reconciled with this amount equaled \$(338,753) (*Id.*, Column H), resulting in an under recovery for the reconciliation period, in the amount of \$1,750,181 (*Id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for June, July and August 2011 is proper and when combined with the estimated three months of February, March and April 2012 assures that the Applicant is reconciling actual fuel cost applicable to kWh sales.

11. Resulting Fuel Cost Adjustment. The estimated cost of fuel supplied for the months of February, March and April 2012, in the amount of \$0.028923 per kWh (Exhibit 2, Schedule 1, Line 24) plus the variance of \$0.001641 per kWh (*Id.*, Line 28) results in the cost of fuel supplied, before including the company use of \$0.030564. Adjustments for system losses and company use 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 and is presented as mills per kWh sold.

	<u>RS, B, SGS, OSS, SL and OL</u>	<u>DGS</u>	<u>LP</u>	<u>HLF</u>	<u>Special Contracts</u>
Cost of Fuel Supplied	30.564	30.564	30.564	30.564	28.923
Estimated Loss %	7.831292%	7.786316%	4.938521%	1.892953%	2.014245%
Fuel Cost Adjusted for losses	32.958	32.944	32.073	31.143	29.574
Less Base Cost of Fuel Included in Rates	38.295	38.275	37.123	35.883	
Fuel Cost Charge	(5.266)	(5.260)	(4.979)	(4.669)	29.645
Fuel Cost including IURT	(5.348)	(5.342)	(5.056)	(4.742)	30.106

The Fuel Cost Adjustments shown above will be applied to the usage billed by the Applicant during February, March and April 2012.

12. Effect on Customers. The average customer using 1,000 kWh per month will experience a decrease of \$6.61 or 4.3% on his or her electric bill for February, March and April 2012 compared to the factor presently approved (excluding various tracking mechanisms and sales tax).

13. 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 Settlement Agreement attached hereto shall be and is hereby approved.
2. 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. 11 above shall be and hereby is approved.

3. The fuel cost adjustment approved herein shall be an interim rate subject to refund consistent with Finding No. 13 above.

4. 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.

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

**ATTERHOLT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING;
BENNETT ABSENT:**

APPROVED: JAN 25 2012

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



Brenda A. Howe
Secretary to the Commission

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) CAUSE NO. 38708-FAC93
 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)

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Settlement") is made and entered into as of the 2nd day of December 2011, by and between Southern Indiana Gas and Electric Company, d/b/a Vectren Energy Delivery of Indiana, Inc., ("Vectren South" or "the Company") and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively referred to herein as the "Parties").

WHEREAS, the Parties have reviewed and discussed Vectren South's current and projected fuel costs and the corresponding customer bill impacts; and

WHEREAS, the Parties have considered opportunities to reduce customer bills;

NOW, THEREFORE, based on these discussions, the Parties hereby agree as follows:

1. As a result of recent supply contracting, in 2013 Vectren South will receive delivered coal for its plants at an estimated average cost of \$53-55/ton. Once delivery commences in 2013, these prices will reduce the average cost of supply reflected in Vectren South's FAC proceedings by approximately \$20/ton.

2. During 2012, Vectren South will use its existing nearly one million tons of inventory. The Company will also receive deliveries of coal under already existing contracts. The inventory and average contract prices in 2012 are projected to exceed \$70/ton for most of the year. Deliveries of lower cost coal under several new or re-priced contracts will begin in the latter half of 2012. As a result, the FAC throughout 2012 will continue to pass through the higher costs of the existing inventory and the final year of higher contract pricing to customers.

3. Recognizing that the FAC charge will decline in 2013 as lower cost coal is delivered to Vectren South, the OUC and Vectren South have studied the ability to more quickly obtain the benefit of the known lower cost supply and thereby reduce customer bills in 2012. Given current economic conditions, if structured appropriately, the Parties have determined that the opportunity to reduce bills in 2012 is attainable and in the public interest.

4. To achieve the goal of accelerating the favorable impact on customer bills of the new lower cost coal contracts, the Parties have agreed upon the creation of a regulatory asset to be amortized and recovered over a 6 year period, without carrying charges. The regulatory asset will consist of the estimated amount of reduction to both the cost of existing inventory and 2012 delivered coal costs, resulting in 2012 costs recovered in the FAC equal to the projected 2013 average supply costs of approximately \$54/ton. Specifically, the Parties agree to the following steps:

- a. Vectren Energy will reduce the cost of its 2011 estimated year end inventory by approximately \$17 million;

- b. Vectren Energy will reduce the cost of its estimated 2012 delivered coal by approximately \$25.4 million;
- c. In total, Vectren Energy will record the 2012 lower fuel costs of approximately \$42.4 million as a regulatory asset for future recovery;
- d. Vectren Energy will amortize the regulatory asset over a period of 6 years and commence recovery of the regulatory asset beginning in FAC101 in 2014;
- e. Vectren Energy will not apply any financing costs to the regulatory asset; and
- f. The recovery of the regulatory asset will be based on a ratable (straight line) amortization of the regulatory asset over the six year period and will be included as fuel cost in the FAC, with the amortized fuel costs being allocated between retail and wholesale sales consistent with current fuel cost allocation processes such that proportionate shares of the amortized costs based on the weighting of sales are recovered through either retail sales or wholesale sales.
- g. No tax consequences are expected from the effectuation of this proposal, under current tax laws. Notwithstanding the foregoing, should such a tax event occur outside of a tax law change, Vectren South will hold its ratepayers harmless from any and all negative tax consequences related specifically to this proposal. If

a negative tax consequence occurs as a result of a future tax law change, Vectren South will inform the Commission and the OUCC of the nature and extent of the potential impacts of any such change before it may affect its ratepayers.

5. The Parties agree that time is of the essence in this proceeding and request prompt Commission acceptance and approval of this Settlement in its entirety, without any change or condition that is unacceptable to either party to this Settlement. Given the nature of this Settlement which has been entered into to reduce customer costs in 2012, in order to obtain the benefits of the Settlement, it is crucial that such approval be provided as soon as possible. Therefore, the Parties request that the Settlement be considered at the time of Vectren South's FAC hearing in January and be approved in this FAC93 proceeding.

6. The Parties agree to waive cross examination of each other's witnesses with respect to this Settlement.

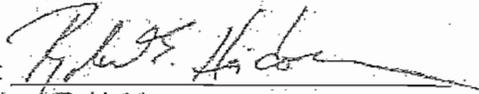
7. The Parties will work together to finalize and file testimony in support of the Settlement, as well as an agreed upon proposed order, with the Commission. The Parties will support the Settlement and proposed order in this proceeding and will request that the Commission issue an order accepting and approving this Settlement in accordance with its terms as soon as possible.

8. The Parties will support on reconsideration, rehearing or appeal a Commission Order accepting and approving this Settlement in accordance with its terms, including the submission of any applicable briefs and pleadings.

9. This Stipulation and Settlement Agreement is without prejudice to the Parties' respective positions taken in Cause No. 38708 FAC 91 S1.

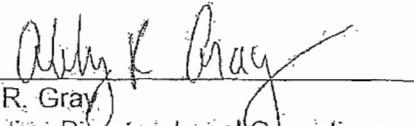
ACCEPTED AND AGREED THIS 2nd day of December, 2011.

SOUTHERN INDIANA GAS AND
ELECTRIC COMPANY D/B/A
VECTREN ENERGY DELIVERY OF
INDIANA, INC.

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