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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 AND APPROVAL OF )  
MODIFICATION OF THE REPORTING )  
REQUIREMENTS RESULTING FROM )  
ORDERS IN CAUSE NOS. 33735-S1, 33735-S2 )  
AND 41465. )

CAUSE NO. 38708 FAC 94

APPROVED: APR 25 2012

ORDER OF THE COMMISSION

**Presiding Officers:**

**Larry S. Landis, Commissioner**

**David E. Veleta, Administrative Law Judge**

On February 24, 2012, 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 filed with its Verified Application the testimony of Scott E. Albertson, Applicant's Director of Regulatory Affairs; Wayne D. Games, Applicant's Vice President of Power Supply; and J. Cas Swiz, Applicant's Manager, Regulatory and Utility Accounting. On March 2, 2012, Applicant filed a Motion to Amend caption which was approved by Docket Entry on March 5, 2012. 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 30, 2012.

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, 2012 at 10:00 A.M., EDT, in Room 224, 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. The provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over Applicant and the subject matter herein.

2. **Applicant's Characteristics.** Applicant is a public 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, 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. **Purchased Power Costs For September, October and November 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. 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, October and November 2011.

Applicant's witness Games stated that Applicant incurred purchased power costs in September 2011 in excess of the daily benchmarks in the amount of \$44,978.16; incurred costs in October 2011 in excess of the daily benchmarks of \$159,543.54; and incurred costs in November 2011 in excess of the daily benchmarks in the amount of \$56,158.74. 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 all over-benchmark costs included in this proceeding are recoverable. *Id.* OUCC witness Eckert concurred that Applicant should be allowed to recover the \$260,680.44 of purchased power costs that exceeded the benchmark.

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 2011, and the latest three months for which such figures were available were September, October and November 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 September, October and November 2011 was \$0.034715. Exhibit 2, Schedule 5, page 4 of 4, line 25.

**6. 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 Applicant's Exhibit No. 3 of the Verified Application, the authorized operation and maintenance expense, excluding fuel cost, for the twelve months ended November 30, 2011 was \$259,351,000, while the actual operating and maintenance expense, excluding fuel amounted to \$293,161,000. 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 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.

The August 15, 2007 Order in Cause No. 43111 allowed a return of \$76,400,199. The April 27, 2011 Order allowed a return of \$94,450,298 to be phased-in over the appropriate period that net income is affected by the earnings modification as a result of the Commission's issuance of the April 27, 2011 Order. The allowed return from Cause No. 43839 results in a total authorized return in this Cause of \$90,364,015. Applicant's Exhibit No. 3 shows net electric operating income applicable to retail customers for the twelve months ended November 30, 2011 of \$93,617,000. However, the sum of the differentials for the relevant period (previous 20 FAC quarters, as defined in Indiana Code § 8-1-42.3) for Vectren South is a deficit of \$16,402,453, as reflected on Applicant's Exhibit No. 4, Line 21. Thus, Applicant did not exceed its authorized return.

**8. Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of May, June and July 2012 will be \$42,825,100. Exhibit 2, Schedule 1, Line 23. Applicant estimated its weighted average fuel cost for September, October and November 2011 would be \$0.035590 per kWh supply. Exhibit No. 2, Schedule 5, page 4 of 4, Line 25. The actual weighted average fuel cost experienced for this three month period was \$0.034715 per kWh supply, *id.*, resulting in a difference between estimated and actual weighted average cost in the amount of \$0.000875 per kWh or 2.52%. 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 May, June and July 2012 should be accepted.

**9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During September, October and November 2011, Applicant's actual incremental cost of fuel incurred was \$(902,771) (Applicant's Exhibit 2, Schedule 4, pages 1-3, Line 6, Column D) but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled \$(373,994) (*Id.*, Column H), resulting in an over recovery for the reconciliation period, in the amount of \$528,777 (*Id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for September, October and November 2011 is proper and when combined with the estimated three months of May, June and July 2012 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 May, June and July 2012, in the amount of \$0.027916 per kWh. (Applicant's Exhibit 2, Schedule 1, Line 24) plus the variance of \$(0.000422) per kWh Line 28 results in the cost of fuel supplied of \$0.027494 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.

	<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 (Incl. prior Variance)	27.494	27.494	27.494	27.494	27.916
Estimated Loss %	7.49579 9%	7.46619 1%	4.754219 %	1.822386 %	2.009092%
Fuel Cost Adjusted for losses	29.555	29.547	28.801	27.995	28.545
Estimated Cost of Company Use	<u>0.072</u>	<u>0.072</u>	<u>0.072</u>	<u>0.072</u>	<u>0.072</u>
Total Estimated Fuel Cost (mills/kWh Sold)	29.627	29.618	28.873	28.067	28.617
Less Base Cost of Fuel Included in Rates (mills/kWh Sold)	<u>38.295</u>	<u>38.275</u>	<u>37.123</u>	<u>35.883</u>	
Fuel Cost Charge (mills/kWh Sold)	(8.668)	(8.656)	(8.250)	(7.816)	
Fuel Cost including IURT (mills/kWh Sold)	(8.803)	(8.790)	(8.378)	(7.937)	29.062

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during May, June and July 2012.

11. **Effect on Customers.** The average residential standard customer using 1,000 kWh per month will experience a decrease of \$3.45 or 2.34% on his or her electric bill for May, June and July 2012 compared to the factor presently approved (excluding various tracking mechanisms and sales tax).

12. **Cause No. 38708 FAC91S1 Order and Reporting Requirements.** The Commission's Order in Cause No. 38708 FAC91S1 ("FAC91S1") requires Applicant to provide in the testimony of its first quarter FAC filing each calendar year a detailed discussion about its coal procurement plan for the current year and the following calendar year. OUCC witness Eckert testified that Applicant did not provide this information as Applicant made its first quarter FAC filing for 2012 prior to the Order in FAC91S1. Applicant's first official filing with the additional information will be in the first quarter of 2013. However, based on discussions OUCC held with Applicant's representatives, Applicant will provide information in its next FAC, Cause No. 38708 FAC95, related to 2012 and 2013 supply plans as an update to the information previously provided in testimony filed in FAC91S1.

13. **Modification of the Reporting Requirements.** Applicant requested the consolidation of reporting requirements resulting from the Commission's Orders in Cause Nos. 33735-S1, 33735-S2 and 41465. The Commission's Order dated March 24, 1976 in Cause Nos. 33735-S1 and 33735-S2 requires each generating utility to submit a verified bi-annual report to the Commission, on January 1 and July 1 of each calendar year, which states all affiliations of Applicant with any person or business involved in selling or transporting any fuel to Applicant. The Commission's order dated November 7, 2001 in Cause No. 41465 requires the utility to file annually with the Commission, and provide copies to the OUCC, information concerning Applicant's Affiliates and its non-regulated activities. The Commission finds such reporting requirements currently in place to be duplicative and unnecessary. Accordingly, authority is granted by the Commission to consolidate the two (2) reports into the annual affiliate reporting requirement under Cause No. 41465. Applicant shall continue to provide the same level of detail in its consolidated report as it previously provided in its bi-annual filings.

14. **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 Southern Indiana Gas and Electric Company for approval of fuel cost adjustments 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. 14 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 reporting requirements resulting from the Commission's Orders in Cause No. 33735-S1 and 33735-S2 shall be consolidated with the reporting requirement from the Commission's order in Cause No. 41465 and shall be filed annually with the Commission, and provided copies shall be provided to the OUCC.

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

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

APPROVED:      APR 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