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 95 APPROVED: JUL 31 2012

ORDER OF THE COMMISSION

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

On May 21, 2012, in accordance with I.C. § 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. 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 27, 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 July 12, 2012 at 11:00 A.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. 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 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.

Mr. Games also described Vectren South's new spot coal supply agreement with Vectren Fuels, Inc. ("Vectren Fuels") for 200,000 tons of coal in 2012. Mr. Games testified that Vectren Fuels' sales have declined at the same time it is poised to open a new mine, and as a result Vectren Fuels offered to sell low priced coal to Vectren South. Mr. Games testified that Vectren South could take advantage of this offer by deferring use of an off-site coal pile until 2013 which would have no negative impact from a cost perspective given there are no storage costs, and instead procure coal at a below market price in order to reduce costs to customers. After reviewing market data, Vectren South entered into price negotiations and the parties reached agreement that Vectren South will buy the spot coal at $38/ton.

The OUCC's witness Mr. Eckert reviewed Mr. Games' testimony regarding the spot purchase from Vectren Fuels. The OUCC raised no issues regarding the purchase. Based on the evidence presented, 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 December 2011, January and February 2012.** 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 gas-fired gas turbine ("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 2011, January and February 2012.

Applicant's witness Games stated that Applicant incurred purchased power costs in December 2011 in excess of the daily benchmarks in the amount of $59,285.15; incurred costs in January 2012 in excess of the daily benchmarks of $64,626.38; and incurred costs in February 2012 in excess of the daily benchmarks in the amount of $12,691.69. 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. Applicant's Exhibit No. 2, Schedule 10. 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 $136,603.22 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 February 2012, and the latest three months for which such figures were available were December 2011, January and February 2012.

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 December, January and February was $0.031029. Exhibit 2, Schedule 5, page 4 of 4, line 25.

6. **Fuel Cost/Other Operating Expenses.** Actual increases in Applicant's fuel cost through February 29, 2012 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 February 29, 2012 was $266,083,000, while the actual operating and maintenance expense, excluding fuel amounted to $295,745,000. 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.

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 $94,450,298 to be phased-in over the appropriate period that net income is affected by the earnings modification as a result of the Commission's approval of the April 27, 2011 Order. The allowed return from Cause No. 43839 results in a total authorized return in Cause No. 38708 FAC95 of $92,767,710. Applicant's Exhibit No. 3 shows net electric operating income applicable to retail customers for the twelve months ended February 29, 2012 of $94,769,000. 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 $8,589,243, as reflected on Applicant's Exhibit No. 4, Line 21. Thus, it is not appropriate to require a refund of any return earned by Applicant during the twelve month period ending February 29, 2012.

8. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of August, September and October 2012 will be $41,501,904. Exhibit 2, Schedule 1, Line 23. Applicant estimated its weighted average fuel cost for December 2011, January and February 2012 would be $0.033749 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 $0.031029 per kWh supply, *id.,* resulting in a difference between estimated and actual weighted average cost in the amount of

$0.002720 per kWh or 8.77%. 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 August, September and October 2012 should be accepted.

9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During December 2011, January and February 2012, Applicant's actual incremental cost of fuel incurred was $(4,942,134) (Applicant's Exhibit 2, Schedule 4, pages 1-3, Line 6, Col D) but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled $(2,138,947) (*id.*, Column H), resulting in an over recovery for the reconciliation period, in the amount of $2,803,187 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for December 2011, January and February 2012 is proper and when combined with the estimated three months of August, September and October 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 August, September and October 2012, in the amount of $0.027679 per kWh as reflected on Exhibit 2, Schedule 1, Line 24 plus the variance of $(0.002314) per kWh (*id.*, Line 28) results in the cost of fuel supplied of $0.025365. 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.

	RS, B, SGS, OSS, SL and OL	DGS	LP	HLF	Special Contracts
Cost of Fuel Supplied	25.365	25.365	25.365	25.365	27.679
Estimated Loss %	7.595065%	7.569571%	4.815146%	1.846976%	1.991553%
Fuel Cost Adjusted for losses	27.291	27.285	26.586	25.883	28.290
Less Base Cost of Fuel Included in Rates	38.295	38.275	37.123	35.883	
Fuel Cost Charge	(10.942)	(10.928)	(10.475)	(9.988)	
Fuel Cost including IURT	(11.112)	(11.098)	(10.638)	(10.143)	28.793

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during August, September and October 2012.

11. Effect on Customers. The average residential standard customer using 1,000 kWh per month will experience a decrease of $2.31 or 1.61% on his or her electric bill for August, September and October 2012 compared to the factor presently approved (excluding various tracking mechanisms and sales tax).

12. Cause No. 38708 FAC 91 S1 Order and Reporting Requirements. The Commission's Order in Cause No. 38708 FAC 91 S1 requires Vectren South 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. Because Vectren South made its first quarter FAC filing for 2012 prior to the Order in Cause No. FAC 91 S1, Vectren South provided information in this FAC related to 2012 and 2013 supply plans as an update to the information previously provided in the subdocket. OUCC witness Eckert agreed that Vectren South provided the information required in Cause No. 38708 FAC 91 S1.

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 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. 13 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, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:

APPROVED: JUL 31 2012

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission