

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 96

APPROVED:

OCT 31 2012

ORDER OF THE COMMISSION

Presiding Officers:

Kari A.E. Bennett, Commissioner

David E. Veleta, Administrative Law Judge

On August 17, 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 September 20, 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 October 15, 2012 at 1:30 p.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 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 described Vectren South's recent modifications to its supply portfolio. He testified regarding Vectren South's ability to reach agreement with two suppliers to defer contract price re-openers until late 2013, with no obligation to take coal in 2013 or beyond. Mr. Games also described a revision to the Warrick Unit 4 contract whereby Vectren South avoided payment of coal quality premiums and instead extended the contract. During the final two years of the Unit 4 contract, Vectren South is only obligated to negotiate in good faith regarding a price for coal. Any pricing agreement for the final two years, if negotiated, would be at market price and subject to regulatory review at that time.

The OUCC's witness Mr. Eckert reviewed Mr. Games' testimony regarding the deferred contract price re-openers and the revision to the Warrick 4 contract and expressed no concerns. 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 March, April and May 2012.** Applicant's witness Games testified that a Settlement Agreement approved by this Commission in Cause No. 43414 establishes 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 March, April, and May 2012.

Applicant's witness Games stated that Applicant incurred purchased power costs in March 2012 in excess of the daily benchmarks in the amount of \$82,986.38; incurred costs in April 2012 in excess of the daily benchmarks of \$23,241.72; and incurred costs in May 2012 in excess of the daily benchmarks in the amount of \$24,394.90. 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 \$130,623 of purchased power costs that exceeded the

benchmark.

5. **Midwest Independent Transmission System Operator (“MISO”).** Applicant’s witness Games testified on new and modified charge types that will appear in future FACs as a result of FERC Order 719 (issued on October 17, 2008) and FERC Order 745 (issued on March 15, 2011). These charge types are not effective until June 12, 2012, and thus not included in FAC96 period of March, April and May 2012. FERC Order 719 reforms aspects of the operation of organized wholesale electric markets in the area of demand response. FERC Order 745 addresses the demand response compensation in the organized wholesale Energy Markets. The new charge type includes “Real Time Demand Response Allocation Uplift Amount”. The modified charge types include: Real Time Asset Energy Amount, Real Time Distribution of Losses, Real Time Revenue Sufficiency Guarantee First Pass Distribution Amount, Real Time Market Administration Amount, Real Time Revenue Neutrality (RNU) which includes a new component of RNU: Demand Response Compensation Uplift. Currently RT Asset Energy Amount, RT Distribution Losses, and RT Revenue Sufficiency Guarantee First Pass Distribution Amount are covered through the FAC. The remaining modified charge types listed above are currently recovered through the MISO Cost and Revenue Adjustment (“MCRA”). Vectren South intends to continue to include the modified charge types in the recovery mechanism currently used. The RT Demand Response Allocation Uplift Amount will be treated as a MISO fuel component and submitted for recovery through the FAC. This treatment is based on the impact Demand Response has on lowering wholesale prices as described by FERC in Order No. 745-A.

6. **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 May 2012, and the latest three months for which such figures were available were March, April and May 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 March, April and May was \$0.028040. Exhibit 2, Schedule 5, page 4 of 4, line 25.

7. **Fuel Cost/Other Operating Expenses.** Actual increases in Applicant’s fuel cost through May 31, 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 May 31, 2012 was \$270,795,000, while the actual operating and maintenance expense, excluding fuel amounted to \$299,223,000. 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.

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 FAC96 of \$94,450,297. Applicant's Exhibit No. 3 shows net electric operating income applicable to retail customers for the twelve months ended May 31, 2012 of \$101,139,000. Further, 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 positive amount of \$2,719,125, as reflected on Applicant's Exhibit No. 4, Line 21. Thus, a refund is required as both the current period and the sum of the differentials for the relevant period results in an amount greater than zero. As explained by Applicant's Witness J. Cas Swiz, the refund amount totals \$1,162,409 and is included as a reduction to fuel costs recoverable in the current FAC period.

9. Estimation of Fuel Cost. Applicant estimates that its prospective fuel cost for the months of November and December 2012 and January 2013 will be \$42,386,997. Exhibit 2, Schedule 1, Line 23. Applicant reduced the fuel costs recoverable by the refund amount of \$1,162,409 resulting in a total fuel cost including refund for excess earnings of \$41,224,588. Exhibit 2, Schedule 1, Line 25. Applicant had estimated its weighted average fuel cost for March, April and May 2012 would be \$0.028834 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 \$0.028040 per kWh supply, *id.*, resulting in a difference between estimated and actual weighted average cost in the amount of \$0.000794 per kWh or 2.83%. 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 November and December 2012 and January 2013 should be accepted.

10. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During March, April and May 2012, Applicant's actual incremental cost of fuel incurred was \$(8,205,723) (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 \$(7,682,246) (*id.*, Column H), resulting in an over recovery for the reconciliation period, in the amount of \$523,477 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for March, April and May 2012 is proper and when combined with the estimated three months of November and December 2012 and January 2013 assures that the Applicant is reconciling actual fuel costs applicable to kWh sales.

11. Resulting Fuel Cost Adjustment. The estimated cost of fuel supplied for the months of November and December 2012 and January 2013, in the amount of \$0.028829 per kWh as reflected on Exhibit 2, Schedule 1, Line 26 plus the variance of \$(0.000455) per kWh (*id.*, Line 30) results in the cost of fuel supplied of \$0.028374. 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)	28.374	28.374	28.374	28.374	28.829
Estimated Loss %	7.603238%	7.567318%	4.805773%	1.841455%	2.012145%
Fuel Cost Adjusted for losses And Estimated Co. Use	30.597	30.587	29.804	28.896	29.538
Less Base Cost of Fuel Included in Rates	38.295	38.275	37.123	35.883	
Fuel Cost Charge including IURT for Nov & Dec 2012	(7.818)	(7.807)	(7.433)	(7.029)	29.997
Fuel Cost Charge including IURT for Jan 2013	(7.817)	(7.807)	(7.432)	(7.028)	29.994

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during November and December 2012 and January 2013.

12. Fuel Cost Levelization. The Commission approved on January 25, 2012 the Stipulation and Settlement Agreement (“Settlement”) in Cause No. 38708-FAC93 between the Applicant and OUCC to create a regulatory asset of \$42.4 million to be amortized and recovered over a six (6) year period, without carrying costs. As of July 31, 2012, the regulatory asset balance was \$41.8 million, with a projection that the deferred regulatory asset balance will reach the \$42.4 million cap in August. Once the regulatory asset reaches \$42.4 million, the cost of coal in inventory will increase as no further reductions to purchases will be deferred. For this FAC period, the estimated cost of coal is approximately \$57 per ton, approximately a \$3 per ton increase from the \$53.81 per ton used in FAC94 and FAC95. Customers have received the benefit of reduced fuel costs in the FAC as a result of the deferral of \$42.4 million of coal inventory costs. Mr. Games discussed that the mild winter resulted in more inventory on hand than projected at the end of 2011, and so the initial “buy down” amount was somewhat larger than anticipated. Also, the per ton delivered costs in 2012 have been higher than projected due to increased quality resulting in quality premiums and increased fuel surcharges as a result of higher fuel prices which has accelerated the “buy down” of coal purchases. Both of these factors have contributed to Vectren South reaching the cap more quickly than anticipated.

13. Effect on Customers. The average residential standard customer using 1,000 kWh per month will experience an increase of \$3.29 or 2.33% on his or her electric bill for November and December 2012, and an increase of \$3.30 or 2.33% for January 2013 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

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. 11 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 continue to include the modified MISO charge types in the recovery mechanism currently use and shall treat the RT Demand Response Allocation Uplift Amount as a MISO fuel component and recover through the FAC.
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, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:

APPROVED: OCT 31 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