

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 97

APPROVED: JAN 30 2013

ORDER OF THE COMMISSION

Presiding Officers:

James D. Atterholt, Chairman

David E. Veleta, Administrative Law Judge

On November 21, 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, Vice President, Regulatory Affairs; Wayne D. Games, Applicant's Vice President, Power Supply; and J. Cas Swiz, Applicant's Director, Regulatory Implementation and Analysis. 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 December 21, 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 January 17, 2013 at 9:30 a.m., 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 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.

Mr. Games described the status of the contract with Foresight which became effective October 31, 2011. As a result of a test burn, Vectren South determined that the ash produced from burning Foresight coal did not meet its specifications. Vectren South provided notice to Foresight that it was suspending the Agreement pursuant to the terms of the contracts test burn provisions. The parties have commenced negotiations to resolve the issues related to ash quality.

OUCC witness Mr. Eckert reviewed the contract cancellation and reserved the right to further investigate this recent development. 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 June, July and August 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 June, July and August 2012.

Applicant's witness Games stated that Applicant incurred purchased power costs in June 2012 in excess of the daily benchmarks in the amount of \$116,270.38; incurred costs in July 2012 in excess of the daily benchmarks of \$133,711.27; and incurred costs in August 2012 in excess of the daily benchmarks in the amount of \$53,302.08. 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. OUCC witness Eckert concurred that Applicant should be allowed to recover the \$303,283.73 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 August 2012, and the latest three months for which such figures were available were June, July and August 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 June, July and August was \$0.027966. 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, 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 August 31, 2012 was \$270,796,000, while the actual operating and maintenance expense, excluding fuel amounted to \$295,929,000. 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 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 August 31, 2012 of \$97,859,000. 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 \$9,699,284, 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 \$1,449,179 and is included as a reduction to fuel costs recoverable in the current FAC period.

8. **Estimation of Fuel Cost.** Applicant estimates that its prospective fuel cost for the months of February, March and April 2013 will be \$40,560,048. Exhibit 2, Schedule 1, Line 23. Applicant reduced the fuel costs recoverable by the refund amount of \$1,449,179 resulting in a total fuel cost including refund for excess earnings of \$39,110,869. Exhibit 2, Schedule 1, Line 25. Applicant had estimated its weighted average fuel cost for June, July and August 2012

would be \$0.027551 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 \$0.027966 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of \$(0.000415) per kWh or (1.48)%. 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 2013 should be accepted.

9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During June, July and August 2012, Applicant's actual incremental cost of fuel incurred was \$(10,200,374) (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 \$11,023,037 (*id.*, Column H), resulting in an under recovery for the reconciliation period, in the amount of \$822,633 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for June, July and August 2012 is proper and when combined with the estimated three months of February, March and April 2013 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 February, March and April 2013, in the amount of \$0.029021 per kWh as reflected on Exhibit 2, Schedule 1, Line 26 plus the variance of \$0.000770 per kWh (*id.*, Line 30) results in the cost of fuel supplied of \$0.029791. 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)	29.791	29.791	29.791	29.791	29.088
Estimated Loss %	7.850866%	7.804892%	4.950138%	1.897212%	2.014245%
Fuel Cost Adjusted for losses And Estimated Co. Use	32.130	32.116	31.266	30.356	29.674
Less Base Cost of Fuel Included in Rates	<u>38.295</u>	<u>38.275</u>	<u>37.123</u>	<u>35.883</u>	
Fuel Cost Charge including IURT for Nov & Dec 2012	(6.094)	(6.088)	(5.786)	(5.456)	29.745
Fuel Cost Charge including IURT for Jan 2013	(6.188)	(6.182)	(5.875)	(5.540)	30.204

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during February, March and April 2013.

11. **Effect on Customers.** The average residential standard customer using 1,000 kWh per month will experience an increase of \$1.63 or 1.13% on his or her electric bill for February, March and April 2013 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

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 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. 12 above.

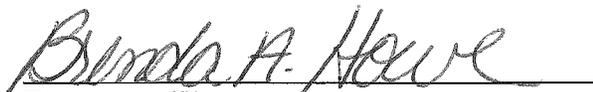
3. Applicant shall file with the Electricity Division of this Commission, prior to placing in effect the fuel cost adjustment herein approved, a separate amendment to its rate schedules with a reasonable reference therein reflecting that such fuel cost adjustment is applicable to all of its filed rate schedules.

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

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

APPROVED: **JAN 30 2013**

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


Brenda A. Howe
Secretary to the Commission