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 101 APPROVED: JAN 29 2014

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
David E. Veleta, Administrative Law Judge

On November 15, 2013, 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 Vice President, Regulatory Affairs and Gas Supply; 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 20, 2013. Applicant filed rebuttal testimony of Scott E. Albertson on January 6, 2014.

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 15, 2014 at 9:30 a.m., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing the Applicant and the OUCC appeared by counsel. Applicant and the OUCC offered their respective pre-filed testimony and exhibits which were admitted into evidence without objection.

Based upon the applicable law and the evidence presented, the Commission now finds:

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 as defined in Indiana Code § 8-1-2-1. Under Indiana Code § 8-1-2-42, the Commission has jurisdiction over the approval of a change in the fuel cost adjustment. 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 coal and natural gas for electric generation and incurs the costs of purchasing those fuels, including fuel related transportation and storage costs. Applicant utilizes Indiana coal as its primary fuel source for electric generation. Applicant's generating units are offered into the Midcontinent Independent System Operation ("MISO") Day Ahead and Real Time markets and are dispatched by the MISO on an economic basis. Applicant has contracted through competitive bidding to purchase its coal requirements from nearby mines which helps minimize transportation costs. 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. 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.

As explained in FAC 100, Applicant entered into a spot purchase agreement with Sunrise Coal to buy 50,000 tons of coal in 2013. Mr. Games stated that because dispatch was higher than expected the first week of the test burn with some units, Applicant scheduled the delivery of some tonnage over 50,000 with Sunrise Coal in order to adequately assess Sunrise Coal fuel in a second AB Brown unit. During this FAC period, Applicant also completed negotiations with Peabody Coal for a spot purchase of 30,000 tons of coal, with an option to increase the quantity by an additional 20,000 tons. Mr. Games testified that these spot purchases would allow Applicant to assess the coal quality of these suppliers and make future procurements less contingent upon test burns. Applicant has not previously bought coal from either of these suppliers. Based on these test burns, Applicant determined that Sunrise Coal met contract requirements, as well as ash quality requirements, and could be used at AB Brown. With respect to the Peabody coal, Applicant determined that one of its stations could potentially accept Peabody coal in the future as long as there is an adequate supply of ash compliant coal to blend with it in order to meet ash specifications.

Regarding transportation of coal to Applicant's AB Brown plant, Mr. Games testified that the rail contract between Vectren Fuels and CSX Transportation, Inc. ("CSXT") expires at the end of 2013. Applicant entered into negotiations for a replacement contract with CSXT to commence on January 1, 2014. CSXT negotiated on behalf of Evansville Western in order to obtain one rate for all coal coming to the Brown plant through CSXT. Mr. Games stated that Applicant and CSXT agreed to terms.

OUCC Senior Utility Analyst Mr. Eckert testified that Vectren South is purchasing 100% of its long-term contract coal from Vectren Fuels in 2013. This is as a result of the cancellation of the Foresight agreement and the deferral of take from the Alliance Coal Contract in 2013. Mr. Eckert expressed the OUCC's continuing concern that Vectren South is over-relying on its affiliate Vectren Fuels for coal supply. He expressed his opinion that in the past certain coal purchases had been made at above market prices. He also stated that the Commission and Applicant should not rely solely on the RFP process in the future, but should review future RFP responses in conjunction with past, present and future coal markets. Mr. Eckert also recommended that if Applicant's future RFP process does not provide a competitive response, the Commission may want to revisit a cost-plus contract between Applicant and Vectren Fuels.

4. **Purchased Power Costs For June, July and August 2013.** 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 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 2013.

Applicant's witness Games stated that Applicant incurred purchased power costs in June 2013 in excess of the daily benchmarks in the amount of $36,864.82; incurred costs in July 2013 in excess of the daily benchmarks of $14,687.61; and incurred costs in August 2013 in excess of the daily benchmarks in the amount of $91,726.20. 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 stated the majority of the over benchmark purchases were due to umplanned outage time. Applicant provided support for its position that all over-benchmark costs included in this proceeding are recoverable *Id.* OUCC witness Eckert concurred that Applicant should be allowed to recover the $143,278.63 of purchased power costs that exceeded the benchmark. Based on the evidence, we find that Applicant's identified purchased power costs are properly included in the fuel cost reconciliation.

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 2013, and the latest three months for which such figures were available were June, July, and August 2013.

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 for the months of June, July, and August 2013 was $0.029233 per kWh. 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, 2013 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, 2013 was $270,796,000, while the actual operating and maintenance expense, excluding fuel amounted to $306,013,000. Based on the evidence, increases in fuel costs have not been offset by decreases in other operating expenses.

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 FAC 100 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, 2013 of $85,115,000. Therefore, Applicant did not exceed the allowed return for the twelve months ended August 31, 2013.

8. **Residual Load Adjustment.** Applicant witness Scott Albertson testified that MISO had notified it of an error in the calculation of Residual Load Adjustment ("RLA") volumes, first discussed in FAC 100, due to the submission of inaccurate data by an entity in Applicant's balancing authority area from June 12, 2012 through July 20, 2013. Mr. Albertson stated this submission of inaccurate data by the third party and the resulting calculation error caused increases to Applicant's load based settlement charges from MISO, which utilize the RLA volumes and are accumulated in the "MISO Components of Cost of Fuel" shown on Schedule 5, Line 19. Mr. Albertson testified that upon discovery of the error, Applicant worked with MISO to begin to correct the error pursuant to MISO's standard resettlement process. Data was resubmitted for the 105 day MISO resettlement period from April 19, 2013 to July 20, 2013. Since that resettlement amount had not been definitively calculated or received at the time of Applicant's FAC 100 filing, Applicant did not revise the actual recoverable fuel costs in the FAC 100 reconciliation period. Instead, in FAC 100 Applicant reduced total fuel costs by $1.6 million on Schedule 1, Line 24 to reflect the estimated impact of the MISO resettlement amount as preliminarily reported. At the time of filing of his direct testimony in this proceeding, Mr. Albertson stated that Applicant did not propose to modify the actual recoverable fuel costs reconciled in this FAC 101 because the

refund associated with the corrected RLA volumes for the 105 day resettlement period was received after the closing of the reconciliation months in both FAC 100 and FAC 101. However, the estimated total fuel costs on Schedule 1, Line 24 were reduced by an additional $1,034,898 (for the period June 1, 2013 through July 20, 2013) on Schedule 1, Line 25, resulting in a total reduction in FAC 100 and FAC 101 of $2,634,898 (the "Resettlement Refund"). This Resettlement Refund is incremental to the amount refunded to Applicant for the period of June 12, 2012 through April 18, 2013 ("Extended Period RLA Refund").

OUCC witness Gregory Guerrettaz, a consultant with Financial Solutions Group, testified in his direct testimony that the Extended Period RLA Refund (which he estimated to be $7,804,316.93) should be refunded over two FAC periods, with half of the amount ($3,902,160) included in FAC 101 and the final settlement amount (which could be more or less than an additional $3,902,160) included in FAC 102.

In his rebuttal testimony, Mr. Albertson stated that, with respect to Resettlement Refund, Applicant had further analyzed and reviewed the total of $2,634,898 received from MISO and previously included, in total, in FAC 100 and in the Application in FAC 101, and determined that a portion of that amount ($2,577,315) was to be refunded in the FAC, while the remaining portion should be refunded in the MISO Cost and Revenue Adjustment ("MCRA") and Reliability Cost and Revenue Adjustment ("RCRA").

Mr. Albertson also stated in his rebuttal testimony that without a formal MISO resettlement process for the remaining time period beyond the 105 day resettlement period (June 12, 2012 through April 18, 2013), Applicant had worked with MISO and the third party to reach agreement on the calculation of the Extended Period RLA Refund amount to be refunded to Applicant by the third party. He indicated that the calculation effort and agreement on the Extended Period RLA Refund was completed in large part on December 20, 2013, after the OUCC filed its testimony in this Cause. Mr. Albertson testified that Applicant agreed that the Extended Period RLA Refund should be reflected in the FAC even prior to Applicant actually receiving the refund.

Mr. Albertson explained that Applicant and the third party agreed the Extended Period RLA Refund amount due to Applicant, excluding some relatively small charge types impacted by the RLA error (estimated to be less than $100,000 in total) was $6,077,187. He stated that this amount is incremental to the $2,577,315 Resettlement Refund, is entirely fuel cost related, and would be credited to customers through the FAC. Mr. Albertson testified that Applicant proposes that this agreed upon amount of $6,077,187 be included in the projections in FAC 101 and FAC 102 by including in the FAC 101 projections a $3 million refund. Any remaining Extended Period RLA Refund amount, including related charges impacted by the error which are estimated to be less than $100,000, would be included in FAC 102. Accordingly, any related charges impacted by the error and applicable to the MCRA and/or RCRA will be refunded in the applicable adjustment mechanism.

We find that Applicant and the OUCC propose the same methodology regarding the

Extended Period RLA Refund by spreading the Extended Period RLA Refund over two FAC periods – first in this proceeding, FAC 101, with the remainder of the final amount in FAC 102. Applicant now has a known refund amount, agreed to by the third party, based on a calculation that was done in conjunction with MISO. The Commission finds that Applicant shall include in this FAC 101 $3 million of the Extended Period RLA Refund, with the remaining refund amount, including related charges applicable to the FAC once finalized and estimated to be slightly in excess of $3 million, to be included in FAC 102.

9. Estimation of Fuel Cost. Applicant's rebuttal filing estimates that its prospective fuel cost for the months of February, March, and April 2014 will be $42,923,040. Applicant's Exhibit No. SEA-R4, Schedule 1, Line 24. Applicant reduced the fuel costs by the remaining Resettlement Refund amount of ($977,315) and a portion of the estimated Extended Period RLA Refund amount of ($3,000,000) resulting in a total adjusted fuel cost of $38,945,725. Applicant's Exhibit No. SEA-R4, Line 26.

Applicant had estimated its weighted average fuel cost for June, July, and August 2013 would be $0.028447 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 $0.029233 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of $(0.000786) per kWh or (2.69)%. 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 2014 should be accepted.

10. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During June, July, and August 2013, Applicant's actual incremental cost of fuel incurred was $(8,283,176) (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 $(8,605,101) (*id.*, Column H), resulting in an under recovery for the reconciliation period, in the amount of $321,925 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for June, July, and August 2013 is proper and when combined with the estimated three months of February, March, and April 2014 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 February, March, and April 2014 per the rebuttal filing, in the amount of $0.028333 per kWh as reflected on Applicant's Exhibit SEA-R4, Schedule 1, Line 27 plus the variance of $0.00300 per kWh (*id.*, Line 31) results in the cost of fuel supplied of $0.028633 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.

	RS, B, SGS, OSS, SL and OL	DGS	LP	HLF	Special Contracts
Cost of Fuel Supplied (Incl. prior Variance)	28.633	28.633	28.633	28.633	28.387
Estimated Loss %	8.029948%	7.985601%	5.066253%	1.942302%	2.001460%
Fuel Cost Adjusted for losses	30.932	30.920	30.084	29.189	28.967
Estimated Cost of Company Use	0.068	0.068	0.068	0.068	0.068
Total Estimated Fuel Cost (mills/kWh Sold)	31.000	30.988	30.152	29.257	29.035
Less Base Cost of Fuel Included in Rates (mills/kWh Sold)	38.295	38.275	37.123	35.883	
Fuel Cost Charge including IURT (mills/kWh Sold)	(7.407)	(7.399)	(7.078)	(6.728)	29.480

The Fuel Cost Adjustments shown above shall be applied to the usage billed by Applicant during February, March, and April 2014.

12. **Effect on Customers.** Based on the Applicant's rebuttal filing, the average residential standard customer using 1,000 kWh per month will experience a decrease of $3.06 or 2.07% on his or her electric bill for February, March, and April 2014 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

13. **Confidential Information.** Applicant filed a motion for protective order, which was supported by an affidavit showing the document submitted to the Commission confidentially was trade secret information within the scope of Ind. Code § 5-14-3-4(a)(4) and (19) and Ind. Code § 24-2-3-2. The presiding officer issued a docket entry and made a ruling from the bench finding such information to be preliminarily confidential, after which such information was submitted under seal. We find such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

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. 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.

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

ATTERHOLT, MAYS, AND ZIEGNER CONCUR:

APPROVED: JAN 29 2014

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