

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND)
ELECTRIC COMPANY D/B/A VECTREN)
ENERGY DELIVERY OF INDIANA, INC. FOR)
APPROVAL OF AN ADJUSTMENT TO ITS)
RATES THROUGH ITS QUALIFIED POLLUTION)
CONTROL PROPERTY OPERATING EXPENSE)
ADJUSTMENT APPLICABLE TO APPROVED)
PROJECTS TO COMPLY WITH THE)
MULTIPOLLUTANT RULES PURSUANT TO THE)
COMMISSION'S ORDER IN CAUSE NO. 42861)

CAUSE NO. 42861 OER 3

APPROVED: NOV 30 2010

BY THE COMMISSION:

James D. Atterholt, Chairman
Loraine L. Seyfried, Administrative Law Judge

On September 10, 2010, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner") filed its Petition in this Cause for approval of an adjustment to its rates through its approved Qualified Pollution Control Property ("QPCP") Operating Expense Adjustment ("QPCP-OE2") approved by the Commission's Order in Cause No. 42861 dated February 22, 2006 ("2006 Order"). On November 3, 2010, the Commission issued a docket entry ordering Petitioner to respond to two questions. Petitioner filed its response to the docket entry on November 5, 2010.

Pursuant to notice of hearing given as provided by law, proof of which was incorporated into the record and placed in the official files of the Commission, a public evidentiary hearing was held on November 8, 2010, at 10:00 A.M., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana.

At the evidentiary hearing, the prepared testimony and exhibits of Petitioner's witnesses Ronald G. Jochum (Petitioner's Exhibits RGJ-1 through RGJ-3) and Scott E. Albertson (Petitioner's Exhibits SEA-1 through SEA-3) were admitted into the record. The Indiana Office of Utility Consumer Counselor ("OUCC") also participated in the hearing and the prefiled testimony of OUCC witness Wes R. Blakley (Public's Exhibit No. 1) was admitted into the record.

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

- 1. **Notice and Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Petitioner is a "public utility" as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of this Commission in the manner and to the extent provided by Indiana law. The Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a public utility incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of Evansville. Petitioner provides electric and gas utility service to the public in Indiana and owns, operates, manages and controls plant and equipment used to provide such service.

3. **Petitioner's QPCP Operating Expense Adjustment.** The 2006 Order granted Petitioner a Certificate of Public Convenience and Necessity for two core environmental projects ("Projects") designed to comply with new and more stringent rules of the United States Environmental Protection Agency. The two Projects included: (a) the installation of a fabric filter at Culley Unit 3 and (b) the construction of a flue gas desulfurization system ("FGD") at Warrick Unit 4.

The 2006 Order approved a Settlement Agreement ("Settlement") between Petitioner and the OUCC that, among other things, determined the Projects to be Clean Coal Technology, Qualified Pollution Control Property and Clean Coal and Energy Projects as defined in Ind. Code § 8-1-8.8-2. The Settlement provides a mechanism for Petitioner to adjust its rates to timely recover incremental operating expenses relating to the Projects, including depreciation expense ("Qualifying Expenses"). The Settlement provides that Petitioner may depreciate Project investment over an 18-year period, with a 5% negative net salvage factor for the Culley Unit 3 fabric filter and a 10% negative net salvage factor for the Warrick Unit 4 FGD. With certain specified exceptions, expenses associated with the purchase of SO₂ allowances to comply with environmental regulations restricting SO₂ emissions from Petitioner's generating units are includable in the adjustment mechanism, subject to the sharing of any proceeds from the sale of SO₂ allowances, with Petitioner's customers receiving credit for 90% of the proceeds and Petitioner retaining 10% of the proceeds.

In its Order in Cause No. 42861 OER 1 dated February 14, 2007, the Commission approved QPCP-OE2 adjustment factors that reflected operating expenses relating to the Culley Unit 3 fabric filter. The Culley Unit 3 fabric filter was completed and placed in service in December 2006 and operating expenses relating to the fabric filter were included in Petitioner's base rates as a result of the Commission Order in Cause No. 43111 dated August 15, 2007. With the implementation of the new base rates pursuant to the Order in Cause No. 43111, the QPCP-OE2 factors reflecting the fabric filter operating expenses were terminated.

In its Order in Cause No. 42861 OER 2 dated December 23, 2008, the Commission approved QPCP-OE2 adjustment factors to recover operating expenses projected to be incurred during the twelve months ended December 31, 2009, related to the Warrick Unit 4 FGD. The FGD was placed in service in January 2009.

4. **Petitioner's Request.** In this proceeding, Petitioner seeks approval of QPCP-OE2 adjustments reflecting Qualifying Expenses related to the Warrick Unit 4 FGD projected to be incurred during the twelve month period ended December 31, 2011 (the "Recovery Period"), pending an Order in Petitioner's pending electric rate case (Cause No. 43839) in which Petitioner proposes to roll these expenses into its base rates. Petitioner also proposes to reconcile prior period variances during the period from January 2009 through June 2010 ("Reconciliation Period").

5. **Qualifying Expenses.** Ronald G. Jochum, Petitioner’s Vice President -- Power Supply, testified regarding the projected operation and maintenance (“O&M”) expenses related to the Warrick Unit 4 FGD. Mr. Jochum explained that the Warrick Generating Station is adjacent to Alcoa’s aluminum manufacturing facility in Warrick County. It consists of four units, three of which are wholly owned by Alcoa and used to supply energy for its smelting and fabricating process. Unit 4 is jointly and equally owned by Petitioner and Alcoa. Mr. Jochum testified that Petitioner projects incremental O&M expenses of \$3.317 million for the Warrick Unit 4 FGD during the Recovery Period. Mr. Jochum provided an exhibit (Petitioner’s Exhibit RGJ-3) which breaks this amount down by month and type of expense. Mr. Jochum further testified that Petitioner does not currently project the purchase or sale of SO₂ or mercury allowances during the Recovery Period.

Petitioner’s witness Scott E. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc., testified regarding the derivation of the proposed adjustments. Mr. Albertson sponsored Petitioner’s Exhibit SEA-3, Schedule 1 which sets forth the projected Qualifying Expenses for the Recovery Period. Mr. Albertson testified that the total projected expense amount, including both O&M expense and depreciation expense and adjusted to include Indiana Utility Receipts Tax (“IURT”), amounted to \$9,501,473. Petitioner’s Exhibit SEA-3, Schedule 2, Column (e), Line 5. When the prior period variance of (\$1,647,417) is included, the total amount to be recovered is \$7,854,055. Petitioner’s Exhibit SEA-3, Schedule 6, Column (c) Line 11. Mr. Albertson said that in allocating the expenses to the rate classes, Petitioner used the Commission-approved demand allocation factors from Cause No. 43111.

The following table, derived from Petitioner’s testimony and exhibits, shows the computation of this amount:

	Projected O&M Expense	Projected Depreciation Expense	Total Expenses
Warrick Unit 4	\$ 3,317,484	\$ 6,038,616	\$ 9,356,100
Minus (-) Emission Allowance Sale Proceeds	n/a	n/a	n/a
Total Operating Expense w/o IURT			\$ 9,356,100
Plus (+) IURT			145,373
Total Company Operating Expense			\$ 9,501,473
Minus (-) Non-Jurisdictional Amount	n/a	n/a	n/a
Total Indiana Operating Expense			\$ 9,501,473
Minus Reconciliation Period Variance	n/a	n/a	(1,647,417)
Total Indiana Recovery Period Amount			\$ 7,854,055

Mr. Albertson testified that in its pending rate case Petitioner proposed to include Warrick Unit 4 FGD operating expenses in its base rate revenue requirement and thereafter to reconcile any remaining variance in Petitioner’s Reliability Cost and Revenue Adjustment.

6. **Derivation of Rider Adjustments.** Petitioner’s Exhibit SEA-3, Schedule 6 shows the derivation of the proposed adjustments for each customer class.

7. **Tariff Sheet.** Petitioner’s Exhibit SEA-2 contains Petitioner’s proposed tariff sheet reflecting the proposed adjustments.

8. Petitioner's Response to Commission's Docket Entry. On November 3, 2010, the Commission issued a Docket Entry requesting that Petitioner explain whether, in the event new base rates are approved in Cause No. 43839 that include expenses now recoverable in the QPCP-OE2 adjustment and QPCP-OE2 variances are included in the first RCRA filing following the approval of new rates in that Cause, Petitioner intends to make an adjustment to the QPCP-OE2 variance amount to reflect the fact that the new QPCP-OE2 adjustments were not filed annually and thus Petitioner was able to retain some of the over-collection depicted in Petitioner's Exhibit SEA-3 for a longer period of time than it otherwise would have. In its November 5, 2010 Response, Petitioner indicated that it will make an adjustment to the variance to account for the longer period of time the existing QPCP-OE2 adjustments were in effect and will calculate the adjustment using the interest rate applicable to customer deposits for electric service applied to the over-recovery balance between January 1, 2010 (the estimated date new QPCP-OE2 adjustments would have been implemented assuming a November 1, 2009 filing based on a September 30, 2009 cutoff) and the date new QPCP-OE2 adjustments are approved in this proceeding. Petitioner also indicated that it will prepare and make available to the Commission and the OUCC a workpaper supporting the calculation of the adjustment.

9. OUCC's Evidence. Wes R. Blakley, Senior Utility Analyst for the OUCC, testified that he had reviewed Petitioner's testimony and exhibits and that nothing came to his attention that would indicate that Petitioner's calculation of estimated adjustment factors for the relevant period is unreasonable.

10. Approval of Rider Adjustments. The Commission finds that the proposed adjustments are properly calculated in accordance with the 2006 Order and should be approved. Petitioner should be authorized to put into effect the QPCP-OE2 adjustments contained in Petitioner's Exhibit SEA-2.

11. Amount of Proposed Adjustments. Petitioner's Exhibit SEA-3, Schedule 7 compares the bill impacts resulting from the QPCP-OE2 adjustments. The overall impact is a 0.57% decrease. The following table summarizes the proposed adjustments and the rate decreases for each rate class.

Rate Schedule	Item Adjusted	Adjustment	Decrease
A	Energy	\$0.002422 / kWh	-0.64%
EH	Energy	\$0.001185 / kWh	-0.45%
B	Energy	\$0.000956 / kWh	-0.33%
SGS	Energy	\$0.000828 / kWh	-0.29%
DGS/MLA	Energy	\$0.001900 / kWh	-0.66%
OSS	Energy	\$0.001620 / kWh	-0.62%
LP	Energy	\$0.001070 / kWh	-0.46%
HLF	Energy	\$0.001010 / kWh	-0.58%
	Billing Demand: Over 4,500 kva	\$0.606 / kva	
	Billing Demand: First 4,500 kva	\$2,726.76 / mo.	

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Petitioner's proposed QPCP-OE2 adjustments as set out in this Order shall be and the same hereby are approved.

2. Prior to implementing the adjustments, Petitioner shall file with the Electricity Division of the Commission an amendment to its tariff reflecting the approved adjustments in the form of Petitioner's Exhibit SEA-2.

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

ATTERHOLT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:

APPROVED: NOV 30 2010

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



**Brenda A. Howe
Secretary to the Commission**