

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 APPROVED QUALIFIED POLLUTION)
CONTROL PROPERTY CONSTRUCTION)
COST ADJUSTMENT APPLICABLE TO)
APPROVED PROJECTS TO COMPLY WITH)
THE MULTIPOLLUTANT RULES)
PURSUANT TO THE COMMISSION'S)
ORDER IN CAUSE NO. 42861)

CAUSE NO. 42861 ECR 6

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 requesting approval of changes in its Qualified Pollution Control Property ("QPCP") Construction Cost Adjustment ("QPCP-CC2") approved by the Commission's Order in Cause No. 42861 dated February 22, 2006 ("2006 Order").

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 hearing was held on November 8, 2010, 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, Scott E. Albertson and M. Susan Hardwick were admitted in 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 was admitted into the record.

Based upon the applicable law and 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 published notice of the filing of its Petition in newspapers of general circulation in each county in which Petitioner has retail electric customers. 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 Proposed Adjustments. 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, namely (a) installation of a fabric filter at Culley Unit 3 and (b) 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 a return on the capital costs associated with the Projects (including while they are under construction) with the return fixed at 7.98%. The 2006 Order approved ongoing review of the Projects as construction proceeds as part of Petitioner's periodic QPCP-CC2 filings. The Order also approved an adjustment mechanism for Petitioner to recover operating expenses relating to the Projects. The Warrick Unit 4 FGD is the only project currently included in the QPCP-CC2 tracker because the Culley Unit 3 fabric filter was rolled into base rates in Petitioner's last electric rate case (Cause No. 43111).

4. Relief Requested. Petitioner requests that the Commission approve QPCP-CC2 adjustments that will provide a return on construction costs for the Warrick Unit 4 FGD incurred through June 30, 2010, pending an Order in Petitioner's pending electric base rate case (Cause No. 43839) in which Petitioner proposes to include the Warrick Unit 4 FGD in its rate base for purposes of setting base rates.

5. Status of the Warrick Unit 4 FGD Project. Ronald G. Jochum, Petitioner's Vice President-Power Supply, testified that the FGD at Warrick Unit 4 (a unit for which Petitioner and Alcoa Power Generating Co. ("Alcoa") share ownership on a 50/50 basis) was placed in service on January 1, 2009. Mr. Jochum testified that Alcoa was ultimately responsible for the management of the project and Fluor Inc. ("Fluor") provided engineering, procurement and construction management services. Mr. Jochum said Petitioner and Alcoa established a construction committee that was the means for Petitioner's input into the project. The construction committee had responsibility to track the cost of the project through interface with the Fluor and Alcoa team members.

Mr. Jochum testified that Petitioner has incurred capital costs for the FGD of approximately \$95.64 million, excluding allowance for funds used during construction ("AFUDC") and capitalized overheads. He stated that the total project cost, including AFUDC and capitalized overheads, amounts to approximately \$98.83 million, as shown on the exhibits included with the testimony of Ms. Hardwick. Mr. Jochum stated that he reviewed the cost data and verified that the information is accurate. Mr. Jochum asserted that the total project costs were prudently incurred and appropriate for a project of this nature.

Mr. Jochum testified that the actual amount of the project costs was less than the approved total project cost estimate of \$98.3 million, exclusive of AFUDC and capitalized overheads, approved by the Commission's Order in Cause No. 42861 ECR 5.

6. **OUCC Review.** Wes R. Blakley, a Senior Utility Analyst for the OUCC, testified regarding his examination and analysis of Petitioner's testimony and schedules. He explained that because the QPCP projects are complete and the investment and expenses associated with them have been rolled into base rates in Vectren South's current pending rate case, the recovery of return on investment in the QPCP tracker should cease once the rate order is approved. He stated that nothing came to his attention that would indicate Petitioner's calculation of the adjustment factors for the relevant period is unreasonable.

7. **Compliance with Applicable Requirements.**

A. **Amount of QPCP Construction Costs.** Petitioner's witness M. Susan Hardwick, Petitioner's Vice President, Controller and Assistant Treasurer, sponsored Petitioner's Exhibit MSH-2, Schedule 1, setting forth the actual project costs incurred as of June 30, 2010 for which Petitioner seeks ratemaking treatment in this Cause. Petitioner also submitted an exhibit showing a detailed breakdown of this amount. Petitioner's Exhibit MSH-2, Schedule 3. The gross plant total including AFUDC and capitalized overheads is \$98,831,842. The amount net of accumulated depreciation is \$90,264,806. Petitioner's Exhibit MSH-2, Schedule 1.

B. **Rate of Return on QPCP Construction Costs.** Petitioner's Exhibit MSH-2, Schedule 2 demonstrates that Petitioner used a rate of return of 7.98% to calculate the proposed revenue requirement relating to the construction costs for the Warrick Unit 4 FGD Project. This is consistent with the 2006 Order.

C. **Revenue Requirement.** Petitioner's Exhibit MSH-2, Schedule 2 provides the derivation of the revenue requirement, including tax calculations, associated with the ratemaking treatment for the FGD construction costs. Petitioner's exhibits show that the total annual revenue requirement as of June 30, 2010, is \$10,637,932.

D. **Net Operating Income for Fuel Adjustment Clause.** Pursuant to 170 IAC 4-6-21, Petitioner shall reflect the approved return on the FGD Project in its net operating income authorized by the Commission for the purposes of Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3) in all subsequent Fuel Adjustment Charge proceedings. However, the Commission requires that, for purposes of computing the authorized net operating income for Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3), the modification in the return shall be phased-in over the appropriate period of time that the Petitioner's net operating income is affected by the earnings modification resulting from the Commission's approval of these adjustments.

E. **Allocation of Revenue Requirement.** Petitioner's Exhibit SEA-3, Schedule 1, demonstrates the method and allocation of the QPCP-CC2 revenue requirement to Petitioner's rate schedules. In making the allocations, Petitioner used the production plant

demand allocation factors from Petitioner’s most recent electric rate case (Cause No. 43111). The Schedule also shows the derivation of the adjustments for each rate schedule.

F. Tariff Sheets. Petitioner’s Exhibit SEA-2 contains the new tariff sheet reflecting the proposed adjustments.

G. Approval of Adjustments. The Commission finds that Petitioner has complied with the rules and procedures applicable to its request, including the requirements of 170 IAC 4-6-1 *et seq.* and the 2006 Order. The Commission further finds that the proposed adjustments are properly calculated and should be approved.

8. Amount of Adjustments. Petitioner’s Exhibit SEA-3, Schedule 3 compares the annual revenues for the twelve months ended June 30, 2010 with revenues adjusted for the proposed adjustments. The overall impact is a 0.17% decrease. The following table summarizes the adjustments and the rate increases for each rate class.

Rate Schedule	Item Adjusted	Adjustment	Decrease
A	Energy	\$0.003281 / kWh	-0.19%
EH	Energy	\$0.001605 / kWh	-0.13%
B	Energy	\$0.001294 / kWh	-0.10%
SGS	Energy	\$0.001122 / kWh	-0.09%
DGS/MLA	Energy	\$0.002574 / kWh	-0.20%
OSS	Energy	\$0.002194 / kWh	-0.18%
LP	Energy	\$0.001450 / kWh	-0.14%
HLF	Energy	\$0.001368 / kWh	-0.17%
	Billing Demand: First 4,500 kva	\$3,693.26 / mo.	
	Billing Demand: Over 4,500 kva	\$0.821 / kva	

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

1. The construction work and construction costs for the Warrick Unit 4 FGD project incurred as of June 30, 2010, are hereby approved.
2. Petitioner’s proposed adjustments to its QPCP Construction Cost Adjustment as set out in this Order shall be and hereby are approved.
3. Pursuant to 170 IAC 4-6-21, Petitioner shall reflect the return on the Warrick Unit 4 FGD project construction costs approved herein in its net operating income authorized by the Commission for purposes of Ind. Code § 8-1-2-42(d)(2) and Ind. Code § 8-1-2-42(d)(3) in all subsequent Fuel Adjustment Charge proceedings. However, for purposes of computing the authorized net operating income for Ind. Code § 8-1-2-42(d) and Ind. Code § 8-1-2-42(d)(3), the modification in the return shall be phased-in over the appropriate period of time that Petitioner’s net operating income is affected by the earnings modification resulting from the Commission’s approval of these adjustments.

4. 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.

5. 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.**

A handwritten signature in cursive script that reads "Brenda A. Howe". The signature is written over a horizontal line.

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