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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 MISO COST AND)
REVENUE ADJUSTMENT FOR ELECTRIC)
SERVICE IN ACCORDANCE WITH THE)
ORDER OF THE COMMISSION IN CAUSE)
NO. 43111 EFFECTIVE AUGUST 15, 2007)
PURSUANT TO I.C. § 8-1-2-42(a))

CAUSE NO. 43354 MCRA 4

APPROVED: MAY 27 2009

BY THE COMMISSION:

David E. Ziegner, Commissioner
Loraine L. Seyfried, Administrative Law Judge

On March 19, 2009, in accordance with Ind. Code § 8-1-2-42(a), Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Applicant") filed with the Indiana Utility Regulatory Commission ("Commission") its Application and case-in-chief in this Cause for approval of a Midwest ISO Cost and Revenue Adjustment ("MCRA") as authorized in this Commission's August 15, 2007 Order in Cause No. 43111. Submitted with the Application was the prefiled testimony and exhibits of Scott E. Albertson, the Director of Regulatory Affairs for Vectren South's parent company; Patricia Banet, the Manager of Large Customer Billing for Vectren South's parent company; Michael W. Chambliss, Vectren South's Director of Network Operations and Dispatch. On April 23, 2009, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the prefiled testimony and exhibits of Stacie R. Gruca, a Utility Analyst. Vectren South's rebuttal testimony of Scott E. Albertson was filed on April 28, 2009. And, on April 29, 2009, Vectren South filed its response to the Presiding Officers' April 29, 2009 Docket Entry.

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 May 1, 2009 at 9:30 a.m., in Room 222, National City Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Applicant's and the OUCC's testimony and exhibits were admitted into the record without objection, along with Vectren South's response to the April 29, 2009 Docket Entry. No member of the public participated in the hearing.

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 engaged in rendering electric utility service to the public and owns and operates an electric generating plant and distribution system for the production, transmission, delivery and furnishing of this service.

3. **Calculation of the MCRA Factors.** As approved in the Final Order in Cause No. 43111, the MCRA allows for the recovery of Midwest ISO ("MISO") charges not recovered in quarterly FAC filings. The MCRA is calculated on a semi-annual basis for each of Applicant's rate schedules based on the calculation of non-fuel cost ("NFC") and MISO revenue amounts ("MRA"). For purposes of this calculation, the NFC consists of MISO Schedule 10, Schedule 16, Schedule 17, Schedule 24, Schedule 26 and Schedule 2 charges and costs not otherwise recovered by MISO that are socialized for recovery from all market participants. Likewise, the MRA is based on transmission revenues corresponding to revenue credits reflected in Applicant's Attachment O, less the base rate level of such transmission revenue credits. It is also based on the transmission revenues received from the application of MISO's transmission rates to wholesale loads that sink within Applicant's control area less the base rate level of such transmission revenues. The calculation is described in more detail in Applicant's Tariff for Electric Service (Sheet No. 73, Page 1).

Based on the evidence presented, to determine MCRA factors for this period, the calculation of the estimated MISO Charges in the amount of \$4,550,053 (Exhibit SEA-3, Schedule 3, Line 12), is reduced by the base rate amount included for those MISO costs in Cause No. 43111. This results in NFCs of \$2,595,624 (*Id.* at Line 14). The balance is then reduced by the MRA of \$848,889 (*Id.* at Line 16) and increased by the Amortization of Deferred MISO Costs in the amount of \$554,243 (*Id.* at Line 17). The resulting amount of \$2,300,978 (*Id.* at Line 18), plus the prior period variance in the amount of \$(8,772,502) (Exhibit SEA-3, Schedule 4, Page 1 of 4, Line 14 and Page 2 of 4, Line 12) is then multiplied by the rate schedule allocation percentages approved in Cause No. 43111. This result is then divided by the estimated kilowatt hour sales by rate class for the six month MCRA period (Exhibit SEA-3, Schedule 1, Line 7).

Based on these calculations the resulting MCRA Factors, modified to include Indiana Utility Receipts Tax, are shown on Applicant's Exhibit No. SEA-2 as follows:

Rate A	\$(0.003350)
Rate EH	\$(0.002556)
Rate B	\$(0.001513)
Rate SGS	\$(0.000529)
Rate DGS/MLA	\$(0.003137)
Rate OSS	\$(0.002796)
Rate LP	\$(0.001633)
Rate HLF	\$(0.002041)
Billing Demand First 4500 kVa	\$(5,510.70) per month
Billing Demand Over 4500 kVa	\$(1.225) per kVa

Based on the foregoing, the average residential customer using 1,000 kwh per month will experience a decrease of \$3.18 or 2.68% between June 1, 2009 and November 30, 2009 (Exhibit

No. SEA-3, Schedule 5).

4. **Evidence Presented by the Parties.** The evidence presented by both parties supports approval of the proposed MCRA factors. The only matter that was at issue was the treatment of non-RECB transmission revenues.

Mr. Albertson testified that per the Settlement Agreement approved in Cause No. 43111 ("Settlement"), \$4,528,024 of non-RECB transmission revenues is included as a revenue credit in Vectren South's current electric base rates. The Settlement provided that actual differences from this base rate level would be tracked during the first year of the new base electric rates. Actual non-RECB revenues in excess of the base rate amount totaling approximately \$2,801,051 were refunded to customers in the MCRA during the first year. After the first year, the settling parties were to present to the Commission a proposal regarding the future tracking of actual differences from the non-RECB revenues credited in base rates. The Settlement, at page 22, further provided that, "[a]bsent agreement by the parties, any party may file a tracking proposal and revenues will be deferred until further order of the Commission."

Mr. Albertson stated that at the time of filing Vectren South's Application in this proceeding, Vectren South and the other parties to the Settlement had not reached agreement as to the treatment of non-RECB transmission revenues. Mr. Albertson described Vectren South's proposal for the future treatment of those revenues as follows: (1) if actual annual non-RECB transmission revenues are less than \$4,528,024 base rate amount, then the difference between actual revenues and the base rate amount will be recovered from customers in the MCRA; (2) if actual annual non-RECB transmission revenues exceed the \$4,528,024 base rate credit but are less than \$6,154,264 (the actual revenues achieved from June 2007 through May 2008), then customers will receive a credit for the actual revenues in excess of \$4,528,024 in the MCRA; (3) if actual non-RECB transmission revenues exceed \$6,154,264, then customers will receive a credit of \$1,626,240 in the MCRA and Vectren South will retain the revenues in excess of \$6,154,264.

Mr. Albertson testified that it would be unfair and inappropriate to require Vectren South to continue to provide all non-RECB transmission revenue to retail customers. He pointed to the Settlement language which describes a proposal that would "...address [Vectren South's] ability to retain the portion of transmission revenues related to its non-RECB transmission investment not otherwise recovered from retail customers." He and Vectren South witness Mr. Chambliss pointed out that Vectren South continues to invest in non-RECB plant to sustain or improve reliability. Mr. Albertson testified that if Vectren South were to flow non-RECB revenues in excess of the Company's proposed \$6.1 million to its retail customers, then retail customers would receive the benefit of revenues paid by wholesale users of the system before the non-RECB transmission revenues are included in retail rates. As a result, Vectren South would not be able to retain the wholesale provided recovery of a portion of its new transmission costs during the period that this transmission plant is used by all customers but has not been included in retail rate base.

Mr. Albertson also testified that consistent with FERC approved tariffs, until non-RECB transmission revenues are included in rate base, Vectren South should have the opportunity to

collect and retain wholesale revenues on the new transmission investments installed since its last electric rate case. He stated that crediting retail customers with revenues generated by the new transmission investment and collected under the federal regulatory Attachment O structure would be the exact opposite of FERC policy because the utility would be denied timely cost recovery. Mr. Albertson pointed out that providing retail customers with a credit for all non-RECB transmission revenues would be unfair and would essentially be an inverse tracker wherein the more the Company invests, the more revenue it loses.

OUCC Witness Stacie Gruca testified that the OUCC agrees with Vectren South's calculation of and proposal to set a cap on the amount of non-RECB transmission revenues credited back to rate payers of \$6,154,264. The OUCC proposed that the \$6.1 million be a set fixed amount, in essence both a cap and a floor, in which Vectren South would be allowed to recover non-RECB transmission revenues above this fixed amount, but would not be allowed to recover any shortfall from ratepayers should non-RECB transmission revenues fall below this fixed amount. Should the Commission approve the \$6.1 million credit as an annual fixed or capped amount, the OUCC recommended that Vectren South provide workpapers that include the total non-RECB transmission revenues attributable to the reconciliation period in subsequent MCRA filings. The OUCC also recommended that the OUCC and Commission have the opportunity to re-evaluate any new treatment of non-RECB transmission revenues at the time of Applicant's next rate case. The OUCC also proposed an alternative approach of establishing a reasonable floor below which the credit for wholesale transmission revenues should not track, such as the existing \$4,528,024 established in the Settlement.

In his rebuttal testimony, Mr. Albertson testified that Vectren South and the OUCC agree that there should be a prospective split of non-RECB revenues between retail customers and Vectren South. However, at the time of Mr. Albertson's rebuttal, there was not yet complete agreement between the parties as to the details of that sharing. Mr. Albertson testified that Vectren South could have recommended continued use of the \$4.5 million base rate credit amount as the appropriate level of revenue to provide to retail customers, with Vectren South retaining any incremental wholesale revenue above that amount to provide a return on its growing post rate case transmission investment. He indicated that while this would have reflected a more traditional ratemaking position with the utility funding new investment through an uncertain amount of wholesale revenues, Vectren South instead chose to replace the \$4.5 million base rate credit with the larger \$6.1 million credit based upon twelve (12) months of actual wholesale revenues associated with an updated Attachment O asset value.

Mr. Albertson testified Vectren South does not agree with the OUCC's modification of Vectren South's proposal which would fix the \$6.1 million credit, thus making it both a cap and a floor. He stated that instead of increasing the retail customer opportunity to obtain "up to" \$6.1 million, the OUCC's proposal guaranteed \$6.1 million regardless of the amount of wholesale revenue actually achieved. Mr. Albertson explained that the OUCC's proposal of fixing the credit at \$6.1 million annually would not provide Vectren South with any return on new transmission investment if transmission revenues were to decline. Such a decline in transmission revenues might even require Vectren South to pay out of its own pocket to reach the level of the \$6.1 million credit. Mr. Albertson explained that while Attachment O creates cost based rates for transmission plant resulting in increases in the wholesale rate, there are three reasons why

Vectren South's non-RECB revenues could drop. First, wholesale users of the Vectren South system are primarily municipal customers. To the extent their load drops, Vectren South's revenues may also fall. Second, to the extent that use of all MISO facilities drops, Vectren South's revenue share drops. Third, while Alcoa is a power producer, it is also connected directly to Vectren South's transmission system and brings power to its plant through that system. Recently Alcoa had reduced its use of Vectren South's transmission system resulting in lower revenues.

By the time of the evidentiary hearing in this Cause, the OUCC and Vectren South had reached agreement on the treatment of non-RECB transmission revenues based upon the OUCC's alternative recommendation. They agreed on the record and in a Joint Proposed Order that:

1. The \$4,528,024 non-RECB revenue credit will remain in base rates.
2. To the extent Vectren South does not earn \$4,528,024 million of annual non-RECB revenue, the shortfall below \$4,528,024 will not be recovered from retail ratepayers.
3. Actual annual non-RECB revenue between \$4,528,024 and \$6,154,264 will be credited to retail ratepayers in the MCRA.
4. Actual annual non-RECB revenue in excess of \$6,154,264 will be retained by Vectren South.
5. Vectren South will make available with each MCRA filing work papers related to the calculation of non-RECB revenue.
6. At the time of Vectren South's next base retail rate case, all parties are free to re-evaluate and make different proposals regarding the treatment of non-RECB revenue.
7. As used above, references to "annual" revenues are those revenues received during the twelve (12) months ending August 31 each year.

5. **Commission Findings.** Having reviewed the evidence of both parties, the Commission finds that the agreed upon treatment of non-RECB revenues is reasonable and provides fair consideration to both the interests of retail customers and Vectren South for its continuing investment in transmission plant. Accordingly, the Commission finds that it should be approved. Further, the evidence of record also supports approval of Applicant's proposed MCRA factors as set forth in Paragraph No. 3 above. Accordingly, the requested MCRA factors described herein should be approved.

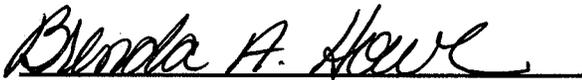
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Application of Vectren Energy Delivery of Indiana, Inc. for the approval of its MISO Cost Revenue Adjustment factor for each of its rate classes as set out in Finding Paragraph No. 3 above shall be and hereby is approved.
2. Applicant shall file with the Electricity Division of the Commission, prior to placing into effect the MCRA factors approved in this matter, a revised rate schedule under Tariff Sheet No.73 consistent with the findings set forth herein.
3. The treatment of non-RECB revenues described in Finding Paragraph 4 herein is hereby approved.
4. This Order shall be effective on an after the date of its approval.

GOLC, LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT:

APPROVED: MAY 27 2009

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



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