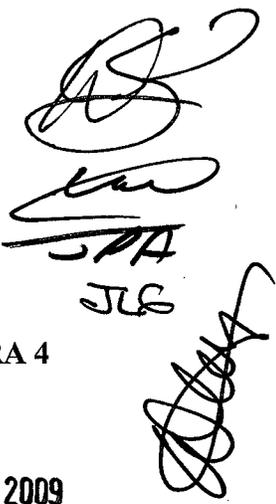


ORIGINAL

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 RELIABILITY 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. 43406 RCRA 4

APPROVED: SEP 16 2009

BY THE COMMISSION:

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

On June 16, 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 in this Cause for approval of its Reliability Cost and Revenue Adjustment ("RCRA") as authorized in this Commission's August 15, 2007 Order in Cause No. 43111.

The Applicant filed with its Verified Application the testimony of Scott E. Albertson, Director of Regulatory Affairs and Ronald G. Jochum, Vice President of Power Supply. The Indiana Office of the Utility Consumer Counselor ("OUCC") filed its report and the testimony of Stacie R. Gruca, Utility Analyst, on July 28, 2009. On August 14, 2009, Vectren South filed Supplemental Testimony containing revised schedules and testimony of Scott E. Albertson and Ronald G. Jochum.

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 August 21, 2009 at 9:30 A.M., in Room 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. At that time the prefiled testimony and exhibits of Applicant and the OUCC were admitted into evidence. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented herein, 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 is a "public utility" as defined in Ind. Code § 8-1-2-1 and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, and 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. **Requested Relief.** The Commission's August 15, 2007 Order in Cause No. 43111, authorizes the Applicant to seek approval of an RCRA on a semi-annual basis to allow Vectren South to adjust its rates for Non-firm Wholesale Power Margins, Municipal Wholesale Margins, Environmental Emission Allowance Credits, Interruptible Sales billing credits and Purchased Power Non-Fuel Costs. To the extent that purchased power non-fuel costs and interruptible sales billing credits differ from base rate level amounts for those charges, those differences will be tracked under the RCRA. Non-firm wholesale power margins that differ from the base rate level are shared 50/50 with customers. In this Cause, Applicant seeks approval of an RCRA for the six month period September 1, 2009 through February 28, 2010.

4. **Wholesale Power Marketing Margin Sharing.** The Order in Cause No. 43406 RCRA 3 directed Vectren South to consider and address changing the recognition of sharing margins from Wholesale Power Marketing ("WPM") sales on an annual basis to a semi-annual basis. Vectren South witness Albertson testified that due to the volatile and unpredictable nature of WPM transactions, attempting to recognize WPM margin sharing on a basis other than the current annual basis would not necessarily reduce volatility but could replace one type of volatility with another.

Mr. Albertson stated that WPM margins for a six-month period might exceed a prorated base rate amount for that six-month period; if that were the case and WPM margins were recognized semi-annually, customers would be credited for their share of the benefit of that difference at that time in the RCRA. However, he stated it is also possible that in the following six-month period, WPM margins might fall below the prorated base rate amount for that six-month period and result in a total annual level that is less than the annual base rate amount of approximately \$10.5 million. In this scenario, the Company would (in the subsequent semi-annual RCRA) need to recover from retail customers not only the shortfall from the second 6-month period, but also the shortfall from the annual level. Hence, the Company would be recovering amounts that had been credited to customers in the previous RCRA.

Mr. Albertson indicated that after its evaluation, Vectren South concluded that a semi-annual recognition of WPM margin sharing would add complexity to its RCRA process and provide no greater guarantee of reducing volatility in the RCRA's. The OUCC offered no evidence on the issue.

5. **Emission Allowance Margin Sharing.** OUCC witness Gruca testified that a slight error had been made by Applicant in calculating the amount of Emission Allowance Margin provided to retail customers, and supported approval of the RCRA if an adjustment was made to correct that error in Environmental Emission Allowance Margin for January and March 2009.

The supplemental testimony of Vectren South witness Jochum indicated that the difference between the amount Vectren South had included in this RCRA and the amount the OUCC calculated was due to differing interpretations of the language in the Order issued in Cause No. 43111 as it pertains to emission allowance sharing. Mr. Jochum explained the transactions that occurred in January and March 2009, when Vectren South's WPM purchased, rather than used, NO_x allowances as a strategy to hedge NO_x allowances. The purchase was made prior to the use of the allowances by WPM and was

treated by Applicant as a sale of allowances rather than a use of allowances by WPM to support sales already made. As an allowance sale at a market price occurring before any actual sale of wholesale energy creating an emission to offset, the transaction was treated by Vectren South like any other outright sale of allowances subject to the 80/20 sharing of proceeds. Mr. Jochum stated, in Vectren South's opinion, this is different from the situation where WPM makes an energy sale and attributes a utility held allowance to the sale, and after the fact Vectren South transfers an allowance from the utility account to the WPM account to offset the emission that has occurred. Based on its position that what occurred was a sale and not the use of allowances to back energy sales, Vectren South applied the 80/20 sales proceeds sharing agreement, which resulted in a credit to retail customers of \$1,405,188 in this RCRA.

Mr. Jochum further testified in his supplemental testimony that following the filing of the OUCC report, Vectren South and the OUCC exchanged information and agreed to apply the ordering language in Cause No. 43111 to the allowances that had already been used to back wholesale energy sales. This results in crediting to retail customers 100% of the market value of 368 NO_x allowances used by WPM from January to June 2009 to offset emissions related to WPM's energy sales. The remaining 232 allowances that have not been used will be transferred back to Vectren South, essentially undoing any hedge transaction. Further, if WPM decides to engage in future allowance hedging, it will do so through purchases from the market rather than from Vectren South.

6. **Calculation of the RCRA Rates.** Applicant's witness Scott E. Albertson sponsored Exhibits SEA-3 and SEA-3S consisting of the schedules calculating the proposed RCRA rates and associated bill impacts. Based on the evidence presented the RCRA rates for this period are based on the following inputs:

Cost/Revenue Category	Amount
Reliability Cost: Incremental Non-Fuel Cost of Purchased Power	\$1,472,628
Reliability Cost: Incremental Cost of Interruptible Sales Billing Credits	\$10,044
Reliability Revenue: Municipal Wholesale Sales Margin	\$ 0
Reliability Revenue: Retail Portion of Emission Allowance Sales Margin	\$(990,306)
Rate Schedule Allocation Percentage	Applicant's Exhibit SEA-3
Rate Schedule Quantities	Applicant's Exhibit SEA-3
Prior Period Reconciliation Amount	\$(1,344,022) ¹
Retail Portion (80%) of Sale of NO _x Allowances	\$0

¹ Amount shown on Applicant's Exhibit No. SEA-3S, Schedule 1, Line 4. The original amount from Applicant's Exhibit No. SEA-3, Schedule 1, Line 4 was \$(1,646,693).

The proposed RCRA rates when adjusted for Indiana Utility Receipts Tax from Applicant's Exhibit No. SEA-3S Schedule 1, Line 7 are as follows:

Applicable RCRA Rates (per kWh)

Rate Schedule

A	\$ (0.000581)
EH	\$ (0.000247)
B	\$ (0.000176)
SGS	\$ (0.000244)
DGS/MLA	\$ (0.000431)
OSS	\$ (0.000316)
LP	\$ (0.000224)
HLF	\$ (0.000251)
Billing Demand: First 4,500 kVa	\$(677.70) per month
Billing Demand: Over 4,500 kVa	\$(0.151) per kVa

Based on the foregoing, the average residential customer using 1,000 kWh per month will see an increase of \$2.69 from the currently approved RCRA in each month on his or her electric bill from the effective date of this Cause through February 28, 2010.

At the hearing, the OUCC offered no opposition to Applicant's Supplemental Testimony and revised schedules. Accordingly, the Commission finds these recommendations, as amended in Applicant's August 14, 2009 supplemental filing and shown above, should be approved.

7. **Commission Findings.** The evidence of record supports approval of Applicant's proposed RCRA rates. Vectren South's explanation concerning the appropriateness of continuing to recognize the retail portion of WPM margins on an annual basis, as opposed to a semi-annual basis, is reasonable; however, given the nature of the volatility, we find that Vectren South shall again address in its next annual reconciliation the issue of whether a change to a semi-annual reconciliation would reduce RCRA rate volatility. The resolution of the amount of emission allowance margin applied to retail customers is reasonable, supported by substantial evidence and is in compliance with our prior orders. Accordingly, the requested RCRA rates 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 approval of its Reliability Cost and Revenue Adjustment for electric service as set out in Finding No. 6 above is hereby approved.

2. Applicant shall continue the annual recognition of WPM margin sharing. However, Applicant shall address in its next annual reconciliation whether a change to a semi-annual reconciliation period is more appropriate to address issues of RCRA rate volatility.

3. Applicant shall cancel the sale of 232 NO_x allowances and include adjustments to the RCRA as described herein and shall not transfer allowances to WPM in advance of the sales for which the allowances are needed.

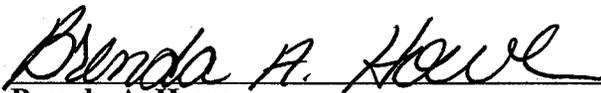
4. Applicant shall file with the Electricity Division of this Commission, prior to placing in effect the RCRA rates herein approved, a revised Tariff Sheet No.74 consistent with the findings set forth herein.

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

HARDY, ATTERHOLT, GOLC, LANDIS, AND ZIEGNER CONCUR:

APPROVED: SEP 16 2009

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


Brenda A. Howe
Secretary to the Commission