ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH ("CEI 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 135** **APPROVED: JUL 27 2022**

ORDER OF THE COMMISSION

Presiding Officer:
Greg S. Loyd, Administrative Law Judge

On May 16, 2022, in accordance with Ind. Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("CEI South" or "Petitioner") filed its Verified Petition ("Petition") in this Cause for approval of a change in its fuel adjustment charge ("FAC"). In support of its Petition, Petitioner filed the testimony of Wayne D. Games, Petitioner's Vice President, Power Generation Operations; Ryan M. Wilhelmus, Petitioner's Manager, Regulatory and Rates; and Chrissy M. Behme, Manager of Regulatory Reporting of CenterPoint Energy Service Company, LLC, a subsidiary of CenterPoint Energy, Inc.

On May 16, 2022, Petitioner requested confidential treatment of certain documentation that it intended to submit into evidence. On May 26, 2022, the Presiding Officer preliminarily granted this motion, after which Petitioner submitted the confidential information on June 1, 2022. On June 20, 2022, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Michael D. Eckert, Director of the Electric Division for the OUCC and also the testimony of Gregory Guerrettaz, a Certified Public Accountant.

The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause on July 6, 2022, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Petitioner and the OUCC appeared by counsel, and the testimony and attachments of Petitioner and the OUCC were admitted into the record without objection.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1. Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to

Petitioner's rates and charges related to adjustments in fuel costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** CEI South is a corporation organized and existing under the laws of the State of Indiana with its principal office located at 211 NW Riverside Drive in Evansville, Indiana. Petitioner is engaged in rendering electric utility service to the public and owns and operates electric generating, transmission, and distribution plant, property, and equipment and related facilities for the production, transmission, delivery, and furnishing of this service.

3. **Efforts to Acquire Fuel and Generate or Purchase Power to Provide Electricity at the Lowest Reasonable Cost (Ind. Code § 8- 1-2-42(d)(1)).** As a condition of receiving its requested fuel adjustment cost, Applicant must demonstrate compliance with the statutory requirements of Ind. Code § 8-1-2-42(d)(1) by making every reasonable effort to acquire fuel and generate or purchase power, or both, so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

A. **Efforts to Acquire Fuel.** Petitioner utilizes coal and natural gas for its electric generation and incurs the costs of purchasing those fuels, including fuel related transportation and storage costs. Petitioner utilizes Indiana coal as its primary fuel source for electric generation. Petitioner's generating units are offered into the Midcontinent Independent System Operator's ("MISO") Day Ahead and Real Time markets and are dispatched by MISO on an economic basis. Petitioner has contracted through competitive processes to purchase its coal requirements from nearby mines, which helps minimize transportation costs. Petitioner has made specific data concerning its coal purchases available to the auditors for the OUCC.

Petitioner's witness Games described CEI South's coal inventory position and the on-going steps it has taken to manage its coal inventory. Mr. Games testified that CEI South has a coal inventory reserve target to ensure reliability, and the current reserve falls below the target range because calendar years 2021 and 2022 have been an exceptionally strong years for coal burn. He then testified regarding CEI South's 2022 and 2023 coal plans, including an update on its projected coal burn, coal purchases, and coal inventory. Mr. Games also provided a detailed calculation of Petitioner's expected coal inventory.

OUCC witness Eckert testified that as of April 30, 2022, CEI South's coal inventory was 349,663 tons, which is approximately 129,044 tons higher than what was reported in FAC 134. He added that CEI South has taken actions to increase its coal inventory. Mr. Eckert recommended that CEI South continue to provide inputs to its calculation of the coal inventory, as well as update the Commission on its projected coal burn, coal purchases, and coal inventory.

Mr. Eckert testified that CEI South is not currently using coal decrement pricing. He described coal decrement pricing generally and recommended that CEI South file testimony, schedules, and workpapers to justify any actual or anticipated need for coal decrement pricing in future FAC filings. He added that CEI South's steam generation costs and monthly fuel costs are comparable to or lower than its Indiana peer utilities.

Mr. Games explained that Petitioner utilized a hedging strategy to procure natural gas for the winter of 2021-2022. He explained that the winter gas hedging strategy included two products: baseload gas (used primarily for igniters at the coal generators) and a call option. He noted that CEI South has historically purchased firm capacity, but that CEI South did not receive any offers for this product. He further noted that CEI South placed its excess baseload gas in storage due to an unfavorable contract price; however, he added that CEI South made additional spot purchases.

Mr. Guerrettaz stated that Petitioner's testimony did not fully describe CEI South's hedging strategy that developed since the last FAC. He added that CEI South may use hedges during the summer of 2022 that may be in place during the following winter. Mr. Guerrettaz further noted that according to CEI South, CenterPoint Energy will be in charge of CEI South's hedging as of April 2, 2022. He recommended that CEI South be required to provide testimony on natural gas hedges made by it for Summer and Winter of 2021-2022 and how the strategy is evolving with CenterPoint Energy as the lead.

Based on the evidence presented, the Commission finds that Petitioner has made every reasonable effort to acquire fuel in a manner to provide electricity to its retail customers at the lowest fuel cost reasonably possible. We also find Mr. Eckert's recommendations regarding CEI South's coal inventory reasonable and appropriate. As such, we direct CEI South to continue providing inputs to its coal inventory calculation and to update the Commission on its 2022 and 2023 projected coal burn and coal purchases, as Mr. Games did in his direct testimony. Additionally, CEI South is directed to file testimony, schedules, and workpapers to justify any actual or anticipated need for coal decrement pricing or any other type of pricing in future FAC filings.

B. <u>Purchased Power Costs for December 2021, January 2022, and February 2022 ("Reconciliation Period")</u>. Petitioner's witness Games testified that a Settlement Agreement approved by the Commission in Cause No. 43414 established daily benchmarks to assess the reasonableness of purchased power costs. As Mr. Games explained, the benchmark consists of 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 GT. Petitioner's Exhibit No. 1, Attachment WDG-1, Schedule 2 illustrates the calculation of the daily benchmarks. Applying the daily benchmarks to individual power purchase transactions in this proceeding, Petitioner requests the recovery of certain purchased power costs in excess of the Daily Benchmarks for the Reconciliation Period. In the current case, Mr. Games stated that Petitioner incurred purchased power costs in excess of the daily benchmarks during the Reconciliation Period in the total amount of $144,962.40 (95,855.77 in December 2021, $48,258.46 in January 2022, and $848.18 in February 2022, $848.18). OUCC Witness Michael Eckert testified that Petitioner's workpapers support such a calculation. As the Commission previously noted, the standard to evaluate a utility's purchase that exceeds the benchmark is the "reasonableness of the decisions under the circumstances which were known (or which reasonably should have been known) at the time the purchases were made, not an after the fact focus using hindsight judgment . . ." *Treatment of Purchased Power Costs*, Cause No. 41363, 1999 WL 824451, at *8 (IURC Order Aug. 18, 1999).

Mr. Games explained that the over-benchmark purchases were incurred pursuant to

MISO's security constrained economic dispatch across its footprint because MISO elected to utilize other generation when CEI South needed additional power. Petitioner's Exhibit No. 1, Attachment WDG-1, Schedule 3, Pages 1 – 5 provides evidence regarding CEI South's 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. The schedule indicates these power purchases were made due to generation facilities being on reserve shutdown or on outage. Mr. Games testified that without the purchased power, Petitioner could not have met its retail customers' demand while complying with MISO dispatch instructions. Mr. Games added that recovery of these power purchases only reimburses CEI South for costs incurred to meet the demand of retail customers. OUCC witness Eckert agreed that Petitioner should be allowed to recover $144,962.40 of purchased power costs that exceeded the benchmark.

Based on the evidence presented, we find that Petitioner's identified purchased power costs were reasonable under the circumstances at the time of the purchases. As such, these purchased power costs are properly included in the fuel cost reconciliation.

4. <u>Fuel Cost and Other Operating Expenses (Ind. Code § 8-1-2-42(d)(2))</u>. To recover its requested fuel adjustment cost, Ind. Code § 8-1-2-42(d)(2) requires Petitioner to establish that "the actual increases in fuel cost through the latest month for which actual fuel costs are available since the last order of the commission approving basic rates and charges of the electric utility have not been offset by actual decreases in other operating expenses."

At the time of the filing of this Petition, the latest month for which Petitioner's actual fuel costs were available was February 2022, and the latest three months for which such figures were available were December 2021 and January and February 2022.

The Order in Petitioner's most recent electric base rate case, Cause No. 43839, was issued on April 27, 2011, 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 per kWh supplied for the Reconciliation Period was $0.031154 as reflected in Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 5, Page 4, Line 31.

Actual increases in Petitioner's fuel cost through February 28, 2022, have not been offset by actual decreases in other operating expenses. As shown in Petitioner's Exhibit No. 3, Attachment CMB-1, Page 1, Line 16, the authorized operation and maintenance expense, excluding fuel cost, for the 12-months ending February 28, 2022, was $271,038,000, while the actual operating and maintenance expense, excluding fuel, amounted to $309,218,000. OUCC Witness Gregory Guerrettaz agreed that Petitioner did not have a decrease in operating costs to offset the fuel costs.

Based on the evidence, the Commission finds Petitioner has met the requirement of Ind. Code § 8-1-2-42(d)(2) that increases in fuel costs have not been offset by decreases in other operating expenses.

5. **Return Earned (Ind. Code § 8-1-2-42(d)(3)).** Subject to Ind. Code § 8-1-2-42.3, Ind. Code § 8-1-2-42(d)(3) requires the Petitioner to demonstrate that the requested FAC will not result in the electric utility earning a return in excess of the applicable authorized return. Should the FAC result in Petitioner earning a return in excess of the applicable authorized return, Petitioner must, in accordance with the provisions of Ind. 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. If the sum is greater than zero, then the Commission shall reduce the FAC. Ind. Code § 8-1-2-42.3(b).

The authorized return from Cause No. 43839 applicable in this Cause is $94,450,297. The Commission's Orders in Cause Nos. 44910, 45052, and 44909, including sub-dockets, authorized a return of $22,304,486. The proration for purposes of this FAC is determined on a daily basis as shown in Petitioner's Exhibit No. 3, Attachment CMB-3 (Cause No. 44910 TDSIC 7 of $2,877,592, Cause No. 44910 TDSIC 8 of $6,987,048, Cause No. 44910 TDSIC 9 of $4,108,007, Cause No. 45052 ECA 1 of $3,662,244, Cause No. 45052 ECA 2 of $3,881,045, Cause No. 44909 CECA 2 of $213,718, and Cause No. 44909 CECA 3 of $574,833). Thus, Petitioner's authorized return for this FAC proceeding is $116,754,782. Petitioner's Exhibit No. 3, Attachment CMB-1, Page 1, Line 15 shows the net electric operating income applicable to retail customers for the 12-months ended February 28, 2022, is $123,574,000. Petitioner based its net operating income on its actual financial statements for this period.[1] Petitioner therefore exceeded its authorized return in the current period by $6,819,218, as reflected in Petitioner's Exhibit No. 3, Attachment CMB-2, Line 1.

Since Petitioner's actual return exceeds the amount authorized, the Commission must determine the amount, if any, of the return to be refunded to customers. In accordance with Ind. Code § 8-1-2-42.3(b), a refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period is greater than zero. The overall earnings bank (sum of the differentials as shown on Petitioner's Exhibit 3, Attachment CMB-2, Line 44) for the relevant period is a negative $273,757,560. Therefore, it is not appropriate to require a refund in this Cause of any of the amount over-earned.

6. **Estimation of Fuel Cost (Ind. Code § 8-1-2-42(d)(4)).** Ind. Code § 8-1-2-42(d)(4) sets forth an additional requirement that must be found in order for an electric utility to recover its requested FAC. Specifically, it requires a finding that a utility's estimate of its prospective average fuel costs for each month of the estimated three calendar months is reasonable after taking into consideration the actual fuel costs experienced and the estimated fuel costs for the three calendar months for which actual fuel costs are available.

Petitioner estimates that its prospective fuel cost for the months of August, September, and October 2022 ("Estimation Period") will be $37,281,754 as shown on Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 1, Line 24. Mr. Wilhelmus explained that this amount was calculated by determining the amount of generation that would be required from each generating unit, the amount of fuel required for the generation, and the price of fuel for each generating unit,

[1] Mr. Wilhelmus testified that solar generation from its Troy Solar Project began during the first quarter of 2021. Mr. Eckert noted that, consistent with the settlement agreement approved in Cause No. 45086, Troy Solar Project revenue and expenses were excluded from the FAC earnings test.

assuming a normal weather supply plan. The price used for each coal fired generation unit is the estimated average price of all coal in inventory for each unit. He added that the estimate includes projections for solar generation from the Troy Solar Project.

Petitioner's Exhibit No. 2 also shows Petitioner's estimated and actual weighted average fuel cost for the Reconciliation Period. Petitioner's estimated weighted average fuel cost for the Reconciliation Period would be $0.027498 per kWh, as shown on Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 5, Page 4, Line 31. The actual weighted average fuel cost experienced for this three-month period was $0.031154 per kWh supply. Thus, the actual weighted average exceeded the estimated amount by 11.74%, as reflected in Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 5, Page 4, Line 32, in the amount of $0.003656 per kWh.

Based on the evidence presented, the Commission finds that Petitioner's estimating techniques are reasonable, and its estimates for the Estimation Period should be accepted.

7. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During the Reconciliation Period, Petitioner's actual incremental cost of fuel incurred was $(4,718,038), but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled $(8,891,909), resulting in an under-recovery for the Reconciliation Period, in the amount of $4,173,871 as reflected in Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 4, Pages 1-3, Line 6. Petitioner's reconciliation of the actual incremental fuel cost and the collected fuel costs for the Reconciliation Period is proper and when combined with the Estimation Period, assures that Petitioner is reconciling actual fuel costs applicable to kWh sales.

8. Repeal of Utility Receipts Tax ("URT"). Indiana repealed the URT, effective July 1, 2022 (2022 Ind. Legis. Serv. P.L. 138-2022 (H.E.A. 1002)). In conformity with H.E.A. 1002, CEI South, on April 29, 2022, submitted a comprehensive 30-day filing to remove the URT from the utility's applicable rates and charges. The 30-day filing was approved by the Commission on June 28, 2022, and the updated rates and charges went into effect on July 1, 2022.

The gross-up for URT previously utilized has been appropriately removed from the calculations in this Cause. We find Petitioner's proposed FAC factors are in compliance with HEA 1002 and the repeal of the URT.

9. Resulting Fuel Cost Adjustment. The estimated cost of fuel supplied for the Estimation Period in this filing, in the amount of $0.028767 per kWh as reflected in Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 1, Line 25, plus the variance of $0.03540 per kWh (*Id*. at Line 29), yields an adjusted cost of fuel supplied of $0.032307 per kWh (*Id*. at Line 30). Adjustments for system losses are applied to the rate schedules based on voltage-level losses, as approved in Cause No. 43839. The following table illustrates the calculation of the FACs for the voltage-level groups based on their estimated loss percentages, as is shown in Schedule 1 and Schedule 1a of Petitioner's Exhibit 2, Attachment RMW-2.

	RS, B, SGS, OSS, SL, OL	DGS	LP	HLF	Special Contracts
Cost of Fuel Supplied	32.307	32.307	32.307	32.307	29.518
Estimated Loss %	7.249187%	7.223606%	4.721747%	1.865597%	1.179326%
Fuel Cost Adjusted for Losses	34.832	34.822	33.908	32.921	29.871
Estimated Cost of Company Use	0.079	0.079	0.079	0.079	0.079
Total Estimated Cost of Fuel (mills/kWh Sold)	34.911	34.901	33.987	33.000	29.950
Less Base Cost of Fuel Included in Rates (mills/kWh Sold)	38.295	38.275	37.123	35.883	
Fuel Cost Charge per kWh sold (mills/kWh Sold)	(3.384)	(3.374)	(3.136)	(2.883)	29.950

The FACs shown above will be applied to the usage billed by Petitioner during the Estimation Period.

10. <u>Effect on Customers</u>. Based on Petitioner's filing, a residential customer using 1,000 kWh per month will experience an increase of $1.58 on his or her electric bill for the Estimation Period compared to the factor previously approved (excluding various tracking mechanisms and sales tax).

11. <u>Confidential Information</u>. On May 16, 2022, Petitioner filed a motion seeking a determination that designated confidential information involved in this proceeding be exempt from public disclosure under Ind. Code § 8-1-2-29 and Ind. Code ch. 5-14-3. The request was supported by the affidavit of Wayne D. Games, showing that a portion of his testimony that was later admitted into evidence as Petitioner's Exhibit No. 1C, contained trade secret information within the scope of Ind. Code § 5-14-3- 4(a)(4) and Ind. Code § 24-2-3-2. On May 26, 2022, the Presiding Officer issued a docket entry finding such information confidential on a preliminary basis. On June 1, 2022, Petitioner submitted its designated confidential information.

After reviewing the designated confidential information, we find all such information qualifies as confidential trade secret information pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2. This information has independent economic value from not being generally known or readily ascertainable by proper means. Petitioner has taken reasonable steps to maintain the secrecy of the information and disclosure of such information would cause harm to Petitioner.

Therefore, we affirm the preliminary ruling and find this information should be exempted from the public access requirements contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29 and held confidential and protected from public disclosure by this Commission.

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

1. CEI South's request for approval of fuel cost adjustments for electric service as set out in Finding No. 10 above is approved.

2. Prior to implementing the rates authorized herein, CEI South shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the date of approval.

3. Consistent with the recommendations of the OUCC, CEI South shall continue to provide inputs to its coal inventory calculation, update the OUCC with detailed information on any potential coal contract amendments or price changes, update the Commission on its 2022 and 2023 projected coal burn and coal purchases, and provide testimony describing the impact that its fuel inventory strategy may have on its customers. CEI South shall further provide testimony on its natural gas hedges for the summer and winter of 2021-2022 and how the strategy is evolving with CenterPoint Energy as the lead. CEI South shall also file testimony, schedules, and workpapers to justify any actual or anticipated need for coal decrement pricing in future FAC filings.

4. The material submitted to the Commission under seal is declared to contain trade secret information as defined in Ind. Code § 24-2-3-2 and therefore is exempted from the public access requirements contained in Ind. Code ch. 5-14-3 and Ind. Code § 8-1-2-29.

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

HUSTON, FREEMAN, KREVDA, AND ZIEGNER CONCUR:

APPROVED: JUL 27 2022

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

Dana Kosco

Digitally signed by Dana Kosco
Date: 2022.07.27 10:30:47 -04'00'

Dana Kosco
Secretary of the Commission