

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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

**PETITION OF SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY D/B/A)
CENTERPOINT ENERGY INDIANA SOUTH)
("CEI SOUTH") FOR APPROVAL OF A) CAUSE NO. 38708 FAC 136
CHANGE IN ITS FUEL COST ADJUSTMENT)
FOR ELECTRIC SERVICE IN ACCORDANCE) APPROVED: OCT 26 2022
WITH THE ORDER OF THE COMMISSION)
IN CAUSE NO. 37712 EFFECTIVE JUNE 18,)
1986 AND SENATE BILL NO. 529 EFFECTIVE)
APRIL 11, 1979)**

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Greg S. Loyd, Administrative Law Judge

On August 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, CEI South 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, Inc., the ultimate parent company of CEI South.

On September 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 the testimony of Gregory Guerrettaz, a Certified Public Accountant.

The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause on October 11, 2022, at 11:00 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. It 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. CEI South serves customers in seven Indiana counties, including Vanderburgh County.

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, Petitioner must demonstrate it complied 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.

Mr. 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. He noted that the current reserve falls below the target range because calendar years 2021 and 2022 have been exceptionally strong years for coal burn. He provided a summary of the steps CEI South undertook in 2021 and 2022 to address this shortage. He then testified regarding CEI South’s 2022 and 2023 coal supply 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. Mr. Games noted that Petitioner was able to increase its short-term coal supply because the boiler feed pump turbine (“BFPT”) at Culley Unit 3 went off-line on June 24, 2022.

Mr. Games explained that Culley Unit 3 is expected to be unavailable for approximately the next 6–12 months. He described the proposed plan to repair the BFPT, noting CEI South had engaged the Original Equipment Manufacturer General Electric to help evaluate the damage and identify the best repair and/or replacement options. While we understand the issue with Culley Unit 3 has positively impacted CEI South’s coal inventory shortage, it will also impact CEI South’s forecasted coal generation, depending on the extent of the outage. Therefore, the Commission directs Petitioner to provide an update on the repairs to Culley Unit 3, including any root cause analysis (“RCA”) regarding this failure, in its next FAC filing.

OUCC witness Eckert testified that as of July 31, 2022, CEI South’s coal inventory was 253,371 tons, which is approximately 96,292 tons lower than what was reported in FAC 135. 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 noted that the OUCC recommends 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 uses a hedging strategy to procure natural gas and that it has undergone changes since Petitioner's last FAC. Gas Supply took responsibility for Petitioner's gas purchases for peaking units starting in April 2022, during which time Gas Supply has implemented incremental changes to the processes that it inherited from Petitioner's prior vendor. Mr. Guerrettaz testified that the OUCC and CEI South discussed future winter hedges, and CEI South informed the OUCC that it was in the middle of a hedging RFP and the results would not be known for 2-3 weeks. As a result, the OUCC requested CEI South provide real time updates on its hedging RFP. Additionally, CEI South told the OUCC that the excess congestion amounts the company received were allocated back to the FAC. The OUCC does not oppose the amount allocated back to the FAC. He recommended that the Commission continue to require CEI South to provide testimony on natural gas hedges made by CEI South for the summer and winter of 2022-2023 and how the strategy evolves.

Based on the evidence presented, the Commission finds that Petitioner has made every reasonable effort to acquire fuel so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible. We also find the recommendations proposed by Mr. Eckert and Mr. Guerrettaz to be reasonable. 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. CEI South shall also provide an update on the repairs and any RCA performed concerning Culley Unit 3. 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. Lastly, CEI is directed to provide testimony on natural gas hedges made by CEI South for the summer and winter of 2022-2023 and how the strategy evolves.

B. Purchased Power Costs for March, April, and May 2022 (“Reconciliation Period”). Mr. 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 purchased power costs in excess of the Daily Benchmarks for the Reconciliation Period. 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 (IURC Order Aug. 18, 1999).

Mr. Games stated that Petitioner incurred purchased power costs in excess of the daily benchmarks in the amount of \$8,214.97 in March 2022, \$42,644.86 in April 2022, and \$0.00 in May 2022. 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 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 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 \$50,859.83 of purchased power costs that exceeded the benchmark.

Based on this evidence, 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. Fuel Cost and Other Operating Expenses (Ind. Code § 8-1-2-42(d)(2)). 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.” Actual increases in Petitioner’s fuel cost in the current case for the Reconciliation Period 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 May 2022, and the latest three months for which such figures were available were March, April, and May 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 \$0.032479 per kWh, as reflected in Petitioner’s Exhibit No. 2, Attachment RMW-2, Schedule 5, Page 4, Line 31. The fuel cost at approved rates in Cause No. 43839 totaled \$222,189,000 and the actual fuel costs were \$192,704,000, a difference of \$29,485,000. Petitioner’s Exhibit No. 3, Attachment CMB-1, Page 1, Line 16.

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 May

31, 2022, was \$271,038,000, while the actual operating and maintenance expense, excluding fuel, amounted to \$343,063,000, a difference of \$72,025,000.

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, the Commission 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 \$23,796,709. 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 8 of \$6,795,096, Cause No. 44910 TDSIC 9 of \$7,788,096, Cause No. 44910 TDSIC 10 of \$291,609, Cause No. 45052 ECA 1 of \$2,026,679, Cause No. 45052 ECA 2 of \$6,126,681, and Cause No. 44909 CECA 3 of \$768,549). Therefore, Petitioner's authorized return for this FAC proceeding is \$118,247,006. Petitioner's Exhibit No. 3, Attachment CMB-1, Page 1, Line 15 shows net electric operating income applicable to retail customers for the 12-months ended May 31, 2022, of \$98,998,000. Petitioner based its net operating income on its actual financial statements for this period.

Petitioner did not exceed its authorized return in the current period as reflected in Petitioner's Exhibit No. 3, Attachment CMB-2, Line 1. In accordance with Ind. Code § 8-1-2-42.3, 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) for the relevant period is a negative \$293,006,566. 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 November 2022, December 2022, and January 2023 ("Estimation Period") will be \$33,165,838 as shown on Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 1, Line 24. Petitioner estimated its weighted average fuel cost for the Reconciliation Period would be \$0.028046 per kWh supply, 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 \$0.032479 per kWh supply. Thus, the actual weighted average exceeded the estimated amount by \$0.004433 per kWh or 13.65%, as reflected in Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 5, Page 4, Line 32.

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 (\$3,857,866), but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled (\$8,414,597), resulting in an under-recovery for the Reconciliation Period, in the amount of \$4,556,731 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. Resulting Fuel Cost Adjustment. The estimated cost of fuel supplied for the Estimation Period in this filing, in the amount of \$0.027626 per kWh as reflected in Petitioner's Exhibit No. 2, Attachment RMW-2, Schedule 1, Line 25, plus the variance of \$0.004116 per kWh (*Id.* at Line 29), yields an adjusted cost of fuel supplied of \$0.031742 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	\$31.742	\$31.742	\$31.742	\$31.742	\$27.981
Estimated Loss %	7.154301%	7.135082%	4.642445%	1.832953%	1.179326%
Fuel Cost Adjusted for Losses	\$34.188	\$34.181	\$33.287	\$32.335	\$28.315
Estimated Cost of Company Use	\$0.066	\$0.066	\$0.066	\$0.066	\$0.066
Total Estimated Cost of Fuel (mills/kWh Sold)	\$34.254	\$34.247	\$33.353	\$32.401	\$28.381
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)	(\$4.041)	(\$4.028)	(\$3.770)	(\$3.482)	\$28.381

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

9. Effect on Customers. Based on Petitioner's filing, a residential customer using 1,000 kWh per month will experience a decrease of \$0.66 on his or her electric bill for the Estimation Period compared to the factor previously approved (excluding various tracking mechanisms and sales tax).

10. Confidential Information. On August 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, asserting that a portion of his testimony, 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 August 26, 2022, the Presiding Officers issued a docket entry finding such information confidential on a preliminary basis, and on that same day, 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 and update the Commission; update regarding Petitioner's 2022 and 2023 projected coal burn and coal purchases, and coal inventory; update the OUCC with detailed information on any potential coal or transport contract amendments or price changes; and provide testimony describing the impact that Petitioner's fuel inventory strategy may have on its customers. CEI South shall also provide an update on the repairs and any RCA performed concerning Culley Unit 3. CEI South shall further provide testimony on its natural gas hedges for the summer and winter of 2021-2022 and how the strategy is evolves. 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, VELETA, AND ZIEGNER CONCUR; KREVDA ABSENT:

APPROVED: OCT 26 2022

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

_____ on behalf of
Dana Kosco
Secretary of the Commission