

**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. ("VECTREN )  
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 110

APPROVED: APR 20 2016

ORDER OF THE COMMISSION

**Presiding Officer:**

**Gregory R. Ellis, Administrative Law Judge**

On February 17, 2016, in accordance with Ind. Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Petitioner") filed its Verified Petition in this Cause for approval for a change in its fuel cost charge ("FAC"). Along with its Verified Petition, Vectren South filed the testimony of Wayne D. Games, Vectren South's Vice President of Power Supply and J. Cas Swiz, Director of Rates and Regulatory Analysis of Vectren Utility Holdings, Inc., the immediate parent company of Vectren South. Also on February 17, 2016, Vectren South submitted its Motion for Protection of Confidential and Proprietary Information seeking a determination that designated confidential information ("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 Confidential Information was granted protection on a preliminary basis through a docket entry on February 29, 2016. On March 22, 2016, Petitioner filed the corrected testimony and exhibits of Mr. Swiz. The Office of the Utility Consumer Counselor ("OUCC") filed its report and the testimony of Gregory Guerretaz, a Certified Public Accountant with Financial Solutions Group, Inc., and Michael D. Eckert, a Senior Utility Analyst, in this matter on March 23, 2016. On March 30, 2016, Vectren South filed the responsive testimony of Wayne D. Games.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 1:00 p.m. on April 6, 2016, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Vectren South and the OUCC were present and participated. The testimony and exhibits of Vectren South and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

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(a). 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 Cause.

2. **Petitioner's Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Its principal office is located at One Vectren Square in Evansville, Indiana. Petitioner is engaged in rendering electric utility service to the public and owns and operates electric generating plant and distribution system for the production, transmission, delivery and furnishing of this service.

3. **Source of Fuel and Purchased Power.** 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 the MISO on an economic basis. Petitioner has contracted through competitive bidding 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.

Consistent with the Commission's instructions in Cause No. 38708 FAC 102-S1, Vectren South provided a detailed discussion of its coal procurement plan for both the current calendar year and the following calendar year. This coal supply plan was presented in the testimony of Mr. Games. Based on the evidence presented, we find that Applicant has met the requirement to present its 2016-2017 coal supply plan and demonstrated that its plan supports its reasonable efforts to procure coal at the lowest cost reasonably possible.

OUCC witness Eckert testified that Vectren South's steam generation costs are comparable to other Indiana investor owned utilities ("IOUs") and its monthly cost of fuel is comparable to the other IOUs in Indiana.

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.

4. **Purchased Power Costs For September 2015, October 2015, and November 2015.** Petitioner's witness Games testified that a Settlement Agreement approved by this Commission in Cause No. 43414 establishes daily benchmarks 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 gas-fired 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 months of September 2015, October 2015, and November 2015.

Petitioner's witness Games stated that Petitioner incurred purchased power costs in September 2015 in excess of the daily benchmarks in the amount of \$114,993.66, incurred costs in October 2015 in excess of the daily benchmarks of \$16,592.37, and incurred costs in November 2015 in excess of the daily benchmarks of \$6,199.67. Petitioner provided the Commission with evidence regarding 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. Petitioner's Exhibit No. 1, Attachment WDG-1, Schedule 3. Mr. Games explained the majority of the over benchmark

purchases were due to unplanned outage time and repairs. Petitioner provided support for its position that all over-benchmark costs included in this proceeding are recoverable. OUCC witness Eckert agreed with Petitioner's calculations and concluded that Petitioner should be allowed to recover \$137,785.70 of purchased power costs that exceeded the benchmark. Based on the evidence, we find that Petitioner's identified purchased power costs are properly included in the fuel cost reconciliation.

5. **Available Data on Actual Fuel Cost.** At the time of the filing of this Petition, the latest month for which Petitioner's actual fuel costs were available was November 2015, and the latest three months for which such figures were available were September 2015, October 2015, and November 2015.

The Order in Petitioner's most recent electric base rate case, Cause No. 43839, was issued on April 27, 2011 ("April 27, 2011 Order") 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 months of September 2015, October 2015, and November 2015 was \$0.028962. Petitioner's Exhibit No. 2, Attachment JCS-2, Schedule 5, page 4 of 4, line 26.

6. **Fuel Cost/Other Operating Expenses.** Actual increases in Petitioner's fuel cost through November 30, 2015, have not been offset by actual decreases in other operating expenses.<sup>1</sup> As shown in Petitioner's Exhibit No. 2, Attachment JCS-3, Page 1 of the Verified Petition, the authorized operation and maintenance expense, excluding fuel cost, for the 12 months ended November 30, 2015, was \$272,101,000, while the actual operating and maintenance expense, excluding fuel amounted to \$311,647,000. Based on the evidence, increases in fuel costs have not been offset by decreases in other operating expenses.

7. **Return Earned.** Ind. Code § 8-1-2-42(d)(3), subject to the provisions of Ind. Code § 8-1-2-42.3, generally prohibits a fuel cost adjustment charge which would result in Petitioner earning a return in excess of the applicable authorized return. Should the fuel cost adjustment 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.

The authorized return from Cause No. 43839 results in a total authorized return in this Cause of \$94,450,297. Petitioner's Exhibit No. 2, Attachment JCS-4 shows net electric operating income applicable to retail customers for the 12 months ended November 30, 2015, of \$95,869,000. Therefore, Petitioner did exceed the allowed return for the 12 months ended November 30, 2015. However, the sum of the differentials between the actual earned return and the authorized return for the relevant period as defined in Ind. Code § 8-1-2-42.3 for Vectren South is a deficit of \$9,139,083, as reflected on Petitioner's Exhibit No. 2, Attachment JCS-4, Line 21. Thus, by the mechanics of the applicable statutes it is not appropriate to require a refund of any return earned by Petitioner during the 12 month period ending November 30, 2015.

8. **Estimation of Fuel Cost.** Petitioner estimates that its prospective fuel cost for the months of May 2016, June 2016, and July 2016 will be \$43,734,733. Petitioner's Exhibit No. 2, Attachment JCS-

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<sup>1</sup> Applicant's fuel costs through November 30, 2015 have actually decreased from that authorized.

2, Schedule 1, Line 24. Petitioner had estimated its weighted average fuel cost for September 2015, October 2015, and November 2015 would be \$0.029757 per kWh supply. Petitioner's Exhibit No. 2, Attachment JCS-2, Schedule 5, page 4 of 4, Line 26. The actual weighted average fuel cost experienced for this three-month period was \$0.028962 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of \$0.000795 per kWh or 2.74%. Petitioner's Exhibit No. 2, Attachment JCS-2, Schedule 5, Page 4 of 4, Line 27. Based on the evidence presented, the Commission finds that Petitioner's estimating techniques are reasonable, and its estimates for May 2016, June 2016, and July 2016 should be accepted.

**9. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue.** During September 2015, October 2015, and November 2015, Petitioner's actual incremental cost of fuel incurred was \$(7,425,601) (Petitioner's Exhibit No. 2, Attachment JCS-2, Schedule 4, pages 1-3, Line 6) but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled \$(7,218,510), (*id.*), resulting in an over-recovery for the reconciliation period, in the amount of \$207,091 (*id.*). Petitioner's reconciliation of the actual incremental fuel cost and the collected fuel costs for September 2015, October 2015, and November 2015 is proper and when combined with the estimated three months of May 2016, June 2016, and July 2016, assures that the Petitioner is reconciling actual fuel costs applicable to kWh sales.

**10. Resulting Fuel Cost Adjustment.** The estimated cost of fuel supplied for the months of May 2016, June 2016, and July 2016 in this filing, in the amount of \$0.028101 per kWh as reflected on Petitioner's Exhibit No. 2, Attachment JCS-2, Schedule 1, Line 25 plus the variance of \$(0.000139) per kWh (*id.*, Line 29) results in the cost of fuel supplied of \$0.027962 per kWh. Adjustments for system losses are applied to the rate schedules based on voltage-level losses, as approved in the April 27, 2011 Order. The table below illustrates the calculation of the FACs for the voltage-level groups based on their estimated loss percentages.

|                                                                  | <b>RS, B, SGS,<br/>OSS, SL, OL</b> | <b>DGS</b> | <b>LP</b> | <b>HLF</b> | <b>Special<br/>Contracts</b> |
|------------------------------------------------------------------|------------------------------------|------------|-----------|------------|------------------------------|
| <b>Cost of Fuel Supplied</b>                                     | 27.962                             | 27.962     | 27.962    | 27.962     | 27.595                       |
| <b>Estimated Loss %</b>                                          | 6.524002%                          | 6.499995%  | 4.232014% | 1.665032%  | 1.179324%                    |
| <b>Fuel Cost Adjusted for Losses</b>                             | 29.914                             | 29.906     | 29.198    | 28.435     | 28.500                       |
| <b>Estimated Cost of Company Use</b>                             | 0.066                              | 0.066      | 0.066     | 0.066      | 0.066                        |
| <b>Total Estimated Cost of Fuel (mills/kWh Sold)</b>             | 29.980                             | 29.972     | 29.264    | 28.501     | 28.566                       |
| <b>Less Base Cost of Fuel Included in Rates (mills/kWh Sold)</b> | 38.295                             | 38.275     | 37.123    | 35.883     |                              |
| <b>Fuel Cost Charge Incl. IURT (mills/kWh Sold)</b>              | (8.442)                            | (8.429)    | (7.979)   | (7.494)    | 29.001                       |

The FACs shown above will be applied to the usage billed by Petitioner during May 2016, June 2016, and July 2016.

**11. Effect on Customers.** Based on Petitioner's filing, a residential customer using 1,000 kWh per month will experience an increase of \$2.97 on his or her electric bill for May 2016, June 2016, and July 2016 compared to the factor presently approved (excluding various tracking mechanisms and sales tax).

**12. Coal Decrement Pricing.** OUCC witness Eckert testified that Vectren South implemented coal decrement pricing beginning February 25, 2016. Vectren South's coal price decrement pricing methodology does not impact actual or forecasted costs in this FAC, but it will impact its next FAC filing. He recommended that Vectren South file testimony, schedules, and workpapers as appropriate to support the need for and utilization of coal decrement pricing. In Vectren South's responsive testimony, Mr. Games indicated Vectren South will file appropriate testimony, schedules, and workpapers to justify and support the need for and utilization of coal decrement pricing in its FAC 111 filing. Accordingly, the Commission finds that Vectren South shall file the appropriate testimony and exhibits in support of the need for and utilization of coal decrement pricing.

**13. AB Brown Unit 2 Outage.** Mr. Games discussed a fire that occurred during a scheduled maintenance outage on Vectren South's AB Brown generating station unit 2 on Oct 27, 2015. He indicated that after chimney repairs the unit was released to operate at 90 MWs on December 14, 2015. The south absorber tower and duct repairs were completed and the unit was released for full load and brought back on-line January 17, 2016. He noted that Vectren South is currently in the process of working with the contractor's insurance carrier regarding reimbursement for repair related costs. Mr. Eckert testified that the OUCC will continue to monitor this situation to determine if any of the insurance claims should be used to offset any increases in the cost of purchased power. He recommended that the Commission require Vectren South provide an update on the status of other insurance claims for all damages incurred by Vectren South as a result of the contractor error at its AB Brown Unit 2. In his responsive testimony, Mr. Games stated Vectren South will continue to provide the most current information available on the status of all insurance claims related to the contractor error at Vectren South's AB Brown Unit 2 to the Commission and the OUCC in subsequent FAC proceedings. Accordingly, the Commission finds that in future FAC proceedings Vectren South shall file testimony on the status of the insurance claims relating to the AB Brown Unit 2 fire.

**14. Confidential Information.** Vectren South sought a determination that 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 Mr. Games. By the February 29, 2016 docket entry, the Presiding Officer granted Vectren South's request, finding the Confidential Information to be preliminarily confidential after which such information was submitted under seal. After reviewing the 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. Vectren South takes reasonable steps to maintain the secrecy of the information and disclosure of such information would cause harm to Vectren South. 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.

**THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. The Petition of Southern Indiana Gas and Electric Company for approval of fuel cost adjustments for electric service as set out in Finding No. 10 above is approved.
2. Prior to implementing the authorized rates, Petitioner shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.
3. Petitioner's coal procurement plan for 2016 and 2017 has met the requirements of the Commission's Order in Cause No. 38708 FAC 102-S1.
4. In the next FAC proceeding, Petitioner shall file the appropriate testimony and exhibits in support of the need for and utilization of coal decrement pricing as set out in Paragraph No. 12.
5. As set out in Paragraph No. 13, Petitioner shall file testimony regarding the status of insurance claims relating to the AB Brown Unit 2 fire in the next FAC proceeding and any subsequent proceeding in which claims for damages remain open.
6. 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.
7. This Order shall be effective on and after the date of its approval.

**STEPHAN, HUSTON, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:**

**APPROVED:**

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

  
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Mary M. Becerra  
Secretary of the Commission