

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)
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 103

APPROVED: JUL 30 2014

ORDER OF THE COMMISSION

Presiding Officer:
Gregory R. Ellis, Administrative Law Judge

On May 23, 2014, 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 "Applicant") filed its Verified Application in this Cause for approval for a change in its fuel cost charge ("FAC"). Along with its Verified Application, Applicant filed the testimony of Shawn M. Kelly, Applicant's Director, Regulatory Affairs; Wayne D. Games, Applicant's Vice President, Power Supply; and J. Cas Swiz, Applicant's Director, Regulatory Implementation and Analysis. The Office of the Utility Consumer Counselor ("OUCC") filed its report and the testimony of Gregory Guerrettaz, a Certified Public Accountant, and Michael D. Eckert, a Senior Utility Analyst, in this matter on June 27, 2014.

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 July 8, 2014 at 1:30 p.m., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing the Applicant and the OUCC appeared by counsel. Applicant and the OUCC offered their respective prefiled testimony and exhibits into the evidentiary 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.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Vectren South is a public utility within the meaning of Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Applicant's rates and charges related to adjustments in fuel costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. **Applicant's Characteristics.** Applicant 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. Applicant 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. Applicant utilizes coal and natural gas for its electric generation and incurs the costs of purchasing those fuels, including fuel related transportation and storage costs. Applicant utilizes Indiana coal as its primary fuel source for electric generation. Applicant'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. Applicant has contracted through competitive bidding to purchase its coal requirements from nearby mines which helps minimize transportation costs. Applicant has made specific data concerning its coal purchases available to the auditors for the OUCC. Applicant's evidence indicated its position that through its fuel purchase policies and its purchase of power, Applicant endeavors to obtain available fuel or power as economically as possible. Applicant stated its intent to file its coal procurement plan for 2014 and 2015 in the sub-docket created in Cause No. 38708 FAC 102.

OUCC witness Eckert testified that Vectren South's steam generation costs are comparable to other Indiana Investor Owned utilities, and that Vectren South's monthly cost of fuel is now among the lowest in the State of Indiana. Mr. Eckert explained that it is the OUCC's belief the Commission and Applicant should not rely solely on the RFP process in the future, but should review future RFP responses in conjunction with past, present and future coal markets. Mr. Eckert also recommended that if Applicant's future RFP process does not provide competitive responses, the Commission may want to revisit a cost-plus contract between Applicant and Vectren Fuels.

Based on the evidence presented, and recognizing that future coal procurement activity is subject to further review, the Commission finds that Applicant 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, October, and November 2013. Applicant'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. Applicant's Exhibit No. 2, Schedule 9 illustrates the calculation of the daily benchmarks. Applying the daily benchmarks to individual power purchase transactions in this proceeding, Applicant requests the recovery of certain purchased power costs in excess of the daily benchmarks for the months of January and February 2014. There were no purchased power costs exceeding the daily benchmarks for December 2013.

Applicant's witness Games stated that Applicant incurred purchased power costs in January 2014 in excess of the daily benchmarks in the amount of \$118,204.48 and incurred costs in February 2014 in excess of the daily benchmarks of \$15,153.88. Applicant 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. Applicant's Exhibit No. 2, Schedule 10. Applicant provided support for its position that all over-benchmark costs included in this proceeding are recoverable *Id.* OUCC witness Eckert agreed that Applicant should be allowed to recover the \$133,358.36 of purchased power costs that exceeded the benchmark. Based on the evidence, we find that Applicant'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 application, the latest month for which Applicant's actual fuel costs were available was February 2014, and the latest three months for which such figures were available were December 2013, January and February 2014.

The Order in Applicant'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 December 2013, January and February 2014 was \$0.029433, Applicant's Exhibit No. 2, Schedule 5, page 4 of 4, line 26.

6. Fuel Cost/Other Operating Expenses. Actual increases in Applicant's fuel cost through February 28, 2014 have not been offset by actual decreases in other operating expenses.¹ As shown in Applicant's Exhibit No. 3 of the Verified Application, the authorized operation and maintenance expense, excluding fuel cost, for the twelve months ended February 28, 2014 was \$274,032,000, while the actual operating and maintenance expense, excluding fuel amounted to \$318,922,000. 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 Applicant earning a return in excess of the applicable authorized return. Should the fuel cost adjustment result in Applicant earning a return in excess of the applicable authorized return, Applicant 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. Applicant's Exhibit No. 3 shows net electric operating income applicable to retail customers for the twelve months ended February 28, 2014 of \$96,194,000. Therefore, Applicant did exceed the allowed return for the twelve months ended February 28, 2014. However, the sum of the differentials between the actual earned return and the authorized return

¹ Applicant's fuel cost through February 28, 2014 has actually decreased from that authorized.

for the relevant period as defined in Ind. Code § 8-1-2-42.3 for Vectren South is a deficit of \$17,795,558, as reflected on Applicant's Exhibit No.4, Line 21. Thus, it is not appropriate to require a refund of any return earned by Applicant during the twelve month period ending February 28, 2014.

8. Residual Load Adjustment. Applicant's witness Kelly testified that MISO had notified it of an error in the calculation of Residual Load Adjustment ("RLA") volumes, first discussed in Cause No. 38708 FAC 100, due to the submission of inaccurate data by an entity in Applicant's balancing authority area from June 12, 2012 through July 20, 2013. Mr. Kelly stated this submission of inaccurate data by the third party and the resulting calculation error caused increases to Applicant's load based settlement charges from MISO, which utilize the RLA volumes and are accumulated in the "MISO Components of Cost of Fuel" shown on Schedule 5, Line 19. Mr. Kelly summarized, consistent with the order in Cause No. 38708 FAC 102, the agreement reached between Applicant and the entity responsible for the error, the refund amounts that have been included in Applicant's FAC, and how those refunds have been passed back to customers through Applicant's FAC.

Mr. Kelly testified that Applicant has received all refund amounts from the entity for the period the error occurred. Applicant's Exhibit No. 2, Schedule 11 provides a detailed monthly summary of the RLA refund amounts included in Applicant's FAC 100,101, and 102 filings. Mr. Kelly indicated this issue has been thoroughly reviewed with the OUCC. Applicant considers this issue resolved. Based on the evidence, the Commission finds Applicant has provided a final reconciliation of the RLA as directed by the Commission's Order in Cause No. 38708 FAC 102 and this matter is resolved.

9. Estimation of Fuel Cost. Applicant estimates that its prospective fuel cost for the months of August, September, and October 2014 will be \$44,552,260. Applicant's Exhibit 2, Schedule 1, Line 24. Applicant had estimated its weighted average fuel cost for December 2013, January and February 2014 would be \$0.028437 per kWh supply. Exhibit No. 2, Schedule 5, page 4 of 4, Line 26. The actual weighted average fuel cost experienced for this three month period was \$0.029433 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the amount of (\$0.000996) per kWh or (3.38)%. Exhibit No. 2, Schedule 5, Page 4 of 4, Line 27.

Based on the evidence presented, the Commission finds that Applicant's estimating techniques are reasonable, and its estimates for August, September, and October 2014 should be accepted.

10. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During December 2013, January and February 2014, Applicant's actual incremental cost of fuel incurred was \$(8,268,336) (Applicant's Exhibit 2, Schedule 4, pages 1-3, Line 6, Col D) but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled \$(8,119,314) (*id.*, Column H), resulting in an over recovery for the reconciliation period, in the amount of \$149,022 (*id.*, Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for December 2013, January and February 2014 is proper and

when combined with the estimated three months of August, September, and October 2014, assures that the Applicant is reconciling actual fuel costs applicable to kWh sales.

11. Resulting Fuel Cost Adjustment. The estimated cost of fuel supplied for the months of August, September, and October 2014 in this filing, in the amount of \$0.030186 per kWh as reflected on Applicant's Exhibit No. 2, Schedule 1, Line 25 plus the variance of \$(0.00126) per kWh (*id.*, Line 29) results in the cost of fuel supplied of \$0.030060 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.

	<u>RS, B, SGS,</u> <u>OSS, SL</u> <u>and OL</u>	<u>DGS</u>	<u>LP</u>	<u>HLF</u>	<u>Special</u> <u>Contracts</u>
Cost of Fuel Supplied (Incl. prior Variance)	30.060	30.060	30.060	30.060	30.251
Estimated Loss %	7.480479%	7.449834%	4.731838%	1.815474%	1.995058%
Fuel Cost Adjusted for losses	32.309	32.299	31.482	30.606	30.855
Estimated Cost of Company Use	<u>0.068</u>	<u>0.068</u>	<u>0.068</u>	<u>0.068</u>	<u>0.068</u>
Total Estimated Fuel Cost (mills/kWh Sold)	32.377	32.367	31.550	30.674	30.923
Less Base Cost of Fuel Included in	<u>38.295</u>	<u>38.275</u>	<u>37.123</u>	<u>35.883</u>	
Rates (mills/kWh Sold)					
Fuel Cost including IURT (mills/kWh Sold)	(6.009)	(5.999)	(5.658)	(5.289)	31.397

The Fuel Cost Adjustments shown above will be applied to the usage billed by Applicant during August, September, and October 2014.

12. Effect on Customers. Based on the Applicant's filing, the average residential standard customer using 1,000 kWh per month will experience an increase of \$2.36 or 1.64% on his or her electric bill for August, September, and October 2014 compared to the factor presently approved (excluding various tracking mechanism and sales tax).

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

1. The Application of Southern Indiana Gas and Electric Company for approval of fuel cost adjustments for electric service as set out in Finding No. 11 above shall be and hereby is approved.

2. Applicant shall file with the Electricity Division of this Commission, prior to

placing in effect the fuel cost adjustment herein approved, a separate amendment to its rate schedules with a reasonable reference therein reflecting that such fuel cost adjustment is applicable to all of its filed rate schedules.

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

STEPHAN, MAYS, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:

APPROVED: JUL 30 2014

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



**Shala M. Coe
Acting Secretary to the Commission**