

**ORIGINAL**

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

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

**PETITION OF SOUTHERN INDIANA GAS )  
AND ELECTRIC COMPANY D/B/A )  
CENTERPOINT ENERGY INDIANA SOUTH ) CAUSE NO. 38708 FAC 141  
("CEI SOUTH") FOR APPROVAL OF A )  
CHANGE IN ITS FUEL COST ADJUSTMENT ) APPROVED: JAN 31 2024  
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 )**

**ORDER OF THE COMMISSION**

**Presiding Officer:**

**Greg S. Loyd, Administrative Law Judge**

On November 15, 2023, in accordance with Ind. Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("CEI South") filed its Verified Petition ("Petition") with the Indiana Utility Regulatory Commission ("Commission") 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 F. Shane Bradford, Petitioner's Vice President, Power Generation Operations; Brian K. Ankenbrand, Manager, Regulatory and Rates at CenterPoint Energy Service Company, LLC; and Marisa J. Johnson, Manager, Regulatory Reporting at CenterPoint Energy Service Company, LLC.

On December 20, 2023, the OUCC filed the testimony of Gregory Guerrettaz, a Certified Public Accountant, and Michael D. Eckert, Director of the OUCC's Electric Division. The OUCC filed corrections to the testimony of Mr. Guerrettaz on January 9, 2024. The corrections were included in the OUCC's evidence offered at the evidentiary hearing.

The Commission held an evidentiary hearing at 10:30 a.m. on January 11, 2024, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. CEI South and the OUCC appeared by counsel at the hearing, during which their respective evidence was admitted into the record without objection.

Based on the applicable law and the evidence presented, the Commission finds:

**1. Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. CEI South 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 CEI South's rates and charges related to adjustments in fuel costs. Therefore, the Commission has jurisdiction over CEI South and the subject matter of this proceeding.

**2. CEI South'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. CEI South renders 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, storage, 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.** 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.** Mr. Bradford testified that CEI South utilizes coal and natural gas for its electric generation and incurs the costs of purchasing those fuels, including fuel related transportation and storage costs. CEI South utilizes Indiana coal as its primary fuel source for electric generation. He said CEI South'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. CEI South has contracted through competitive processes to purchase its coal requirements from nearby mines, which helps minimize transportation costs. Mr. Bradford testified that CEI South has two coal supply contracts currently in place that support re-pricing opportunities for portions of CEI South's supply, which, given volume flexibility provided for under these contracts, also leaves opportunities for spot purchases as needed. CEI South has made specific data concerning its coal purchases available to the auditors for the OUCC.

Mr. Bradford described CEI South's coal inventory position and the on-going steps it has taken to manage its coal inventory. Mr. Bradford testified that CEI South has a coal inventory reserve target to ensure reliability. He then testified regarding CEI South's 2023 and 2024 coal plans, including an update on its projected coal burn, coal purchases, and coal inventory. He stated that CEI South plans to exit the Joint Operating Agreement with Alcoa regarding Warrick Unit 4 at the end of 2023 and that the Brown units retired in October 2023. He explained that the projected 2023 yearend coal inventory is somewhat high in light of the company only having F.B. Culley Units 2 and 3 as the sole coal burning units in CEI South's fleet. Mr. Bradford also provided a detailed calculation of CEI South's expected coal inventory.

Mr. Eckert testified that as of October 30, 2023, CEI South's coal inventory was 403,397 tons, which is approximately 163,608 tons lower than what was reported in Cause No. 38708 FAC 140. 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 2024 projected coal burn, coal purchases, and coal inventory.

Mr. Eckert testified that CEI South is not currently using coal decrement pricing. He stated that the OUCC recommends CEI South file testimony, schedules, and workpapers to justify any coal decrement pricing (or any other type of pricing) in future FAC filings. He added that CEI South's steam generation costs and monthly fuel costs are comparable or lower than its Indiana peer utilities.

Based on the evidence presented, the Commission finds that CEI South 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 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 2024 projected coal burn, coal purchases, and coal inventory. Additionally, CEI South is directed to file testimony, schedules, and workpapers to justify any coal decrement pricing or any other type of pricing in future FAC filings.

**B. Purchased Power Costs for June, July, and August 2023 ("Reconciliation Period")**. In Cause No. 43414, the Commission established daily benchmarks to assess the reasonableness of purchased power costs. Mr. Bradford explained that the benchmark consists of using a generic gas-fired turbine heat rate of 12,500 BTU/kWh and the NYMEX Henry Hub Gas day-ahead price plus \$0.60/MMBTU gas transport charge. Petitioner's Exhibit No. 1, Attachment FSB-1, Schedule 2 illustrates the calculation of the daily benchmarks. Applying the daily benchmarks to individual power purchase transactions in this proceeding, CEI South requests the recovery of certain 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 Aug. 18, 1999).

Mr. Bradford stated that CEI South incurred purchased power costs in excess of the daily benchmarks in the amount of \$21,232.84 in June 2023, \$8,927.57 in July 2023, and \$66,427.35 in August 2023. He stated 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 FSB-1, Schedule 3 provided 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. CEI South also provided support for its position that all over-benchmark costs included in this proceeding are recoverable. The schedule indicates these power purchases were made due to generation facilities being on outage or reserve shutdown. Mr. Bradford testified that without the purchased power, Petitioner could not have met its retail customers' demand while complying with MISO dispatch instructions. OUCC witness Eckert agreed with CEI South's determination that the utility should be allowed to recover \$96,587.76 of purchased power costs that exceeded the benchmark.

Based on this evidence, we find that CEI South'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.** 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 CEI South’s actual fuel costs were available was August 2023, and the latest three months for which such figures were available were June, July, and August 2023.

The Order in CEI South’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 \$0.028028 as reflected in Petitioner’s Exhibit No. 2, Attachment BKA-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 \$199,468,000, a difference of \$22,721,000. Petitioner’s Exhibit No. 3, Attachment MJJ-1, Page 1, Line 17.

As shown in Petitioner’s Exhibit No. 3, Attachment MJJ-1, Page 1, Line 16, the authorized operation and maintenance expense, excluding fuel cost, for the 12 months ended August 31, 2023, was \$271,038,000, while the actual operating and maintenance expense, excluding fuel, amounted to \$355,593,000, a difference of \$84,555,000.

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 the provisions of Ind. Code § 8-1-2-42.3, generally prohibits an FAC that would result in CEI South earning a return in excess of the applicable authorized return. Should the FAC result in CEI South earning a return in excess of the applicable authorized return, CEI South 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 total of \$30,959,332. The proration for purposes of this FAC is determined on a daily basis as shown in Petitioner’s Exhibit No. 3, Attachment MJJ-3 (Cause No. 44910 TDSIC 10 of \$4,082,522, Cause No. 44910 TDSIC 11 of \$10,536,609, Cause No. 44910 TDSIC 12 of \$5,677,518, Cause No. 45052 ECA 3 of \$9,927,895, Cause No. 44909 CECA 4 of \$552,209, and Cause No. 44909 CECA 5 of \$182,579). Therefore, CEI South’s authorized return for this FAC proceeding is \$125,409,629. Petitioner’s Exhibit No. 3, Attachment MJJ-1, Page 1, Line 15 shows net electric operating income applicable to retail customers for the 12 months ended August 31, 2023, of \$72,304,000. CEI South based its net operating income on its actual financial statements

for this period.

CEI South did not exceed its authorized return in the current period as reflected in Petitioner's Exhibit No. 3, Attachment MJJ-2, Line 1. The sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period is negative \$490,952,106. As such, no refund is appropriate.

**6. Estimation of Fuel Cost.** 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's Exhibit No. 2, Attachment BKA-2, Schedule 1, Line 24 indicates that CEI South's prospective fuel cost for the months of February 2024, March 2024, and April 2024 ("Estimation Period") is \$44,842,194. Mr. Ankenbrand explained that this prospective average fuel cost estimate 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, 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. CEI South has included projections for solar generation within this FAC proceeding.

Mr. Ankenbrand sponsored Petitioner's Exhibit No. 2, Attachment BKA-2, Schedule 5, Page 4, which indicates CEI South had estimated its weighted average fuel cost for the Reconciliation Period would be \$0.026697 per kWh supply. This exhibit further shows the actual weighted average fuel cost experienced for this three-month period was \$0.028028 per kWh supply, resulting in a difference between estimated and actual weighted average cost in the negative amount of \$0.001331 per kWh or negative 4.75% as reflected in Petitioner's Exhibit No. 2, Attachment BKA-2, Schedule 5, Page 4, Line 32. He said the estimating deviation was negative 1.12% in June 2023, negative 2.78% in July 2023, and negative 9.94% in August 2023.

Based on the evidence presented, the Commission finds that CEI South'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, CEI South's actual incremental cost of fuel incurred was negative \$7,860,820, but its actual incremental fuel adjustment clause revenues to be reconciled with this amount equaled negative \$8,100,897, resulting in an under-recovery for the Reconciliation Period in the amount of \$239,997 as reflected on Petitioner's Exhibit No. 2, Attachment BKA-2, Schedule 4, Pages 1-3, Line 6. CEI South'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 the CEI South 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, \$0.036961 per kWh as reflected on Petitioner's Exhibit No. 2, Attachment BKA-2, Schedule 1, Line 25, plus the variance of \$0.000218 per kWh (*Id.* at Line 29), results in the cost of fuel supplied of \$0.037179 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.

	<u><b>RS, B, SGS, OSS, SL, OL</b></u>	<u><b>DGS</b></u>	<u><b>LP</b></u>	<u><b>HLF</b></u>	<u><b>Special Contracts</b></u>
<b>Cost of Fuel Supplied</b>	37.179	37.179	37.179	37.179	36.961
<b>Estimated Loss %</b>	7.420484%	7.394720%	4.818709%	1.903976%	1.179327%
<b>Fuel Cost Adjusted for Losses</b>	40.159	40.148	39.061	37.901	37.488
<b>Estimated Cost of Company Use</b>	0.089	0.089	0.089	0.089	0.089
<b>Total Estimated Cost of Fuel (mills/kWh Sold)</b>	40.248	40.237	39.150	37.990	37.577
<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 per kWh sold (mills/kWh Sold)</b>	1.953	1.962	2.027	2.107	37.577

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

**9. Effect on Customers.** Based on CEI South's filing, a residential customer using 1,000 kWh per month will experience a decrease of \$4.94 per month on his or her electric bill for the Estimation Period compared to the factor presently approved (excluding various tracking mechanisms and sales tax).

**10. Confidential Information.** On November 15, 2023, Petitioner filed its Motion for Protection of Confidential and Proprietary Information with a supporting affidavit asserting that certain information to be submitted to the Commission was trade secret information as defined in Ind. Code § 24-2-3-2 and should be treated as confidential in accordance with Ind. Code §§ 5-14-3-4 and 8-1-2-29. A Docket Entry was issued on November 27, 2023, in which the Presiding Administrative Law Judge determined the information should be held confidential on a preliminary basis, after which the information was submitted under seal. After review of the information and consideration of the affidavit, we find the information is trade secret information as defined in Ind. Code § 24-2-3-2, is exempt from public access and disclosure pursuant to Ind. Code §§ 5-14-3-4 and 8-1-2-29, and shall be held confidential and protected from public access

and disclosure by the Commission.

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

1. Prior to implementing the authorized rates, 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 subject to Division review and agreement with the amounts reflected.

2. Consistent with the recommendations of the OUCC, CEI South shall continue to provide inputs to its coal inventory calculation; update the Commission regarding Petitioner's 2024 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 continue to provide testimony regarding its natural gas hedges for the forecast period and how the strategy 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.

3. The information submitted under seal in this Cause pursuant to Petitioner's request for confidential treatment is determined to be confidential trade secret information as defined in Ind. Code § 24-2-3-2 and shall continue to be held as confidential and exempt from public access and disclosure pursuant to Ind. Code §§ 5-14-3-4 and 8-1-2-29.

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

**HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR:**

**APPROVED: JAN 31 2024**

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

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**Dana Kosco**  
**Secretary of the Commission**