

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH (“CEI SOUTH”) FOR APPROVAL OF A RELIABILITY COST AND REVENUE ADJUSTMENT FOR ELECTRIC SERVICE IN ACCORDANCE WITH THE ORDERS OF THE COMMISSION ISSUED IN CAUSE NO. 43111 DATED AUGUST 15, 2007, CAUSE NO. 43839 DATED APRIL 27, 2011, AND CAUSE NO. 43406 RCRA-15 DATED MAY 16, 2018

CAUSE NO. 43406 RCRA 21

APPROVED:

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Kehinde Akinro, Administrative Law Judge

On July 17, 2023, Petitioner, Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South (“CEI South”), filed its *Verified Petition* in this Cause with the Indiana Utility Regulatory Commission (“Commission”). CEI South also filed the direct testimony and attachments of the following witnesses:

- F. Shane Bradford, Vice President Power Generation Operations,
- Jason D. Perry, Manager, Market Settlements, and
- Brian K. Ankenbrand, Manager, Regulatory and Rates.

On August 2, 2023, CEI South filed revisions to Messrs. Bradford’s, Perry’s, and Ankenbrand’s direct testimony.

On September 19, 2023, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the direct testimony and attachments of Kaleb G. Lantrip, Utility Analyst in the OUCC’s electric division.

On September 25, 2023, CEI South filed the rebuttal testimony of Mr. Ankenbrand.

The Commission held an Evidentiary Hearing in this Cause at 10:00 a.m. on October 10, 2023, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. CEI South and the OUCC appeared at and participated in the hearing, by counsel, and their respective exhibits were 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 by the Commission 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 changes, including tracking provisions approved by the Commission. The Commission, therefore, has jurisdiction over the parties and the subject matter of this proceeding.

2. **CEI South's Characteristics.** CEI South is a public utility incorporated under the laws of the State of Indiana with its principal office at 211 NW Riverside Drive, Evansville, Indiana. CEI South is engaged in the business of rendering retail electric service to the public and owns, operates, manages, and controls, among other things, plants, property equipment, and facilities that are used and useful for the production, storage, transmission, distribution, and furnishing of electric service to approximately 150,000 electric consumers in southwestern Indiana. Its service territory is spread throughout seven counties: Pike, Gibson, Dubois, Posey, Vanderburgh, Warrick, and Spencer.

3. **Requested Relief.** The Commission's October 17, 2012, Order, issued in CEI South's RCRA 10 filing, authorizes CEI South to seek approval of a RCRA on an annual basis to allow CEI South to adjust its rates for Non-Firm Wholesale Power Margins, Municipal Wholesale Margins, Environmental Emission Allowance Credits, Interruptible Sales billing credits, and Purchased Power Non-Fuel Costs. To the extent that Purchased Power Non-Fuel costs and Interruptible Sales billing credits differ from base rate level amounts for those charges, those differences will be tracked under the RCRA. Non-Firm Wholesale Power margins that differ from the base rate level are shared 50/50 with customers.

In this Cause, CEI South seeks approval of an RCRA for the 12-month period November 1, 2023, through October 31, 2024.

4. **Wind Power Related Costs.** Mr. Perry testified for CEI South regarding the RCRA inclusion of energy costs from the Fowler Ridge II Renewable Energy Purchase Agreement ("REPA"), approved in the Commission's June 17, 2009, Order in Cause No. 43635. (Petitioner's Exh. 1, p. 9). He testified that REPA costs included in the reconciliation period were \$1,489,065 for the 12-month period May 2022 to April 2023. (*Id.*).

5. **Calculation of the RCRA Rates.** Mr. Ankenbrand sponsored Petitioner's Exhibit 2, Attachment BKA-3 consisting of the schedules calculating the proposed RCRA rates and associated bill impacts. Based on the evidence presented, the RCRA rates for this period are based on the following inputs (*see* Petitioner's Exh. 3, Attachment BKA-2, Schedule 3):

Cost/Revenue Category	Amount
Non-Fuel Component of Purchased Power Cost	\$(1,889,944)
Interruptible Sales Billing Credits	\$(1,658,607)
Estimated PJM Costs	\$2,026,462
Environmental Emission Allowance Costs	\$(135,627)
Estimated Net Capacity Proceeds	\$28,781,131
Total Reliability Cost	\$27,123,416
Net Emission Allowance Margin	\$(817)
Incremental RCRA Amounts to be Tracked	\$27,122,599
Under (Over) Recovery Variance * (May 2022-April 2023 and includes Wholesale Power Market Margin Sharing credit of \$6,659,621)	\$4,893,288
Total Charge/(Credit)	\$32,015,887

Mr. Ankenbrand testified that the proposed RCRA rates, as shown on Petitioner's Exhibit 3, Attachment BKA-2, Schedule 1, Line 6, are as follows:

Applicable RCRA Rates (per kWh)

Rate Schedule

RS	\$0.009088
B	\$0.005606
SGS	\$0.009490
DGS/MLA	\$0.008877
OSS	\$0.008556
LP	\$0.003638
BAMP	\$0.009204
HLF	\$0.003465

Mr. Ankenbrand stated that a typical Residential-Standard customer using 1,000 kWh per month will see an increase of \$16.55 per month compared to the currently effective RCRA. (Petitioner's Exh. 2, p. 7).

6. Base Rate Amounts. Mr. Ankenbrand testified that the cost/revenue projections shown in the table above reflect the changes to annual base rate amounts in CEI South's previous base rate order in Cause No. 43839 ("Rate Order"), including Purchased Power non-fuel costs of \$7,804,072, Interruptible Sales billing credits of \$1,686,350, and Environmental Emission Allowance costs of \$135,627, as shown on Petitioner's Exhibit 3, Attachment BKA-2, Schedule

3. Non-firm wholesale power margins that differ from the base rate level continue to be shared 50/50 with customers. (*Id.*, p. 7) The base rate level applicable to the reconciliation period is \$7,500,000. (*Id.*).

7. **Allocation Factors**. Mr. Ankenbrand explained the basis for the allocation of RCRA costs and revenues used updated 4CP percentages presented in the Stipulation and Settlement Agreement (“Settlement Agreement”) approved in Cause No. 43354 MCRA 21 S1 on September 2, 2020. (*Id.*, p. 5). The Settlement Agreement provided allocation percentages for CEI South’s RCRA proceedings beginning with RCRA 18 until further changes are authorized by the Commission in CEI South’s next base electric rates case. (*Id.*, pp. 5-6). The Settlement Agreement only addressed the allocation factors for the RCRA and did not impact any other provisions of the RCRA. (*Id.*, p. 6). The resulting updated 4CP allocation factors are reflected in Petitioner’s Exhibit No. 3, Attachment BKA-2, Schedule 2.

8. **Capacity Purchases and Unit Retirements**. Mr. Perry testified that CEI South made capacity purchases related to the 2023-2024 Planning Year. (Petitioner’s Exh. 1, p. 5).

Mr. Bradford testified regarding the need for Petitioner to secure bilateral capacity purchases for the 2023-2024 and 2024-2025 planning seasons to provide capacity for the period of time between the retirement of Petitioner’s A.B. Brown units 1 and 2 and exit of the joint operating agreement for Warrick unit 4, and when the new natural gas combustion turbines and renewable projects come online (Petitioner’s Exh. 2, p. 4). Mr. Ankenbrand testified that these capacity purchases are the primary driver behind the proposed rate increase in this RCRA 21 filing. (Petitioner’s Exh. 3, p. 7).

9. **OUC’s Direct Testimony**. Mr. Lantrip testified for the OUC. He reviewed the total Reliability Costs breakdown and stated that he agreed with the figures and that the “figures used in the RCRA tracker for the period May 2022 through April 2023 are supported by the books, records, and source documents of Petitioner for the period reviewed.” (Public’s Exh. 1, pp. 2-3). Ultimately, Mr. Lantrip concluded that “CEI South’s requested changes to its RCRA are accurate and within the scope of what is statutorily allowed.” (*Id.* p. 1).

However, Mr. Lantrip recommended that the Commission spread the recovery of 50% of the proposed recovery over two RCRA periods (RCRA-21 and -22) to mitigate rate shock and address affordability concerns. (*Id.*, p. 9). He noted that “the Commission recently took similar action in Cause No. 38708 FAC-140, where it ordered CEI South to recover 75% of its variance in FAC-139 and the remaining 25% in FAC-140.” (*Id.*).¹ Mr. Lantrip recommended that his mitigation treatment be implemented by reducing CEI South’s requested increase of \$16.55 on a residential customer using 1,000 kWh by 50% to an amount of \$8.27 for the initial recovery period, making the proposed increase for RCRA 21 a \$0.81 charge to the customer. (*Id.*, pp. 9-10).

¹ Mr. Lantrip’s testimony references FAC 140, but based on the context of the sentence appears to be referring to FAC 139.

10. CEI South's Rebuttal Testimony. Mr. Ankenbrand testified in response to Mr. Lantrip's proposal to spread the recovery of 50% of CEI South's proposed recovery over two RCRA periods. (Petitioner's Exh. 3-R). He noted that Mr. Lantrip agreed that CEI South's requested RCRA increase is consistent with what the statute allows. (*Id.*, p. 2). He also stated that the OUCC's proposal is not reasonable for several reasons. (*Id.*, p. 3). First, because the proposal does not relate to any actual cost, variance, or revenue requirement, but rather the OUCC proposes that the Commission defer 50% of the monthly bill impact the RCRA rate would have on a typical, but hypothetical, residential customer. (*Id.*). He clarified that CEI South's residential customers do not all receive bills based on 1,000 kWh of usage per month, and customers who use more or less electricity than 1,000 kWh would not actually experience a \$16.55 monthly bill impact. (*Id.*). He also pointed out that the OUCC did not provide any calculations or schedules showing how its proposal would be implemented, making it difficult to understand how the OUCC's proposal would be applied to an actual customer's bill. (*Id.*).

Second, Mr. Ankenbrand testified that the OUCC's proposal appears to apply only to the residential customer class, presumably leaving all other customer classes to pay the full RCRA factor, which would not be equitable to the other customer classes. (*Id.*). Third, he stated that the OUCC's proposal would inflate the residential customer impact of the RCRA rate in RCRA 22 by approximately \$8.26 per 1,000 kWh for a residential customer. (*Id.*). He said that this time period coincides with CEI South's likely implementation of Phase I base rates following the conclusion of its December 2023 base rate case, which could further exacerbate the effect of deferring the RCRA 21 recovery. (*Id.*).

Mr. Ankenbrand testified that the OUCC's proposal in this case differs from its proposals in FACs 137 and 139, in which the OUCC recommended that the Commission defer recovery of the variance amount, not the residential bill impact. (*Id.*). In addition, he said that the proposed 12-month deferral of recovery proposed by the OUCC in this case is four times as long as the 3-month deferral of recovery proposed in the FAC cases. (*Id.*). He also pointed out that the Commission rejected the OUCC's proposal in FAC 137, finding in part that the deferral would "only serve to increase the impact on customers." (*Id.*, p. 4). Discussing FAC 139, Mr. Ankenbrand said that the Commission's decision was based, in part, on its finding that there was a reduced likelihood that CEI South would be exposed to the same market volatility that affected the higher-than-normal variance in FAC 139, and he noted that the OUCC has not pointed to any similar circumstances in this case. (*Id.*).

Mr. Ankenbrand testified that in order to achieve a residential rate of \$0.000810 per kWh as proposed by Mr. Lantrip, CEI South would have to defer approximately 91.1% of the amount to be recovered from the residential customer class to RCRA 22 and that if the OUCC's proposal is applied equitably across all customer classes, CEI South would be deferring approximately \$29.16 million of the \$32.02 million requested for recovery in this Cause. (*Id.*, p. 6). He stated that CEI South does not think this result is just or equitable, especially considering that a large portion of the residential bill impact is due to the elimination of a substantial credit from the prior RCRA

case. (*Id.*).² Mr. Ankenbrand testified that spreading the recovery over two years would require CEI South to fund the cash flow shortfall from the under-collected reliability costs, which would impact CEI South through, at a minimum, reduced liquidity and unrecovered carrying costs. (*Id.*, p. 7).

11. Commission Findings. We find that in the evidence of record, both CEI South and the OUCC agree that CEI South's proposed RCRA rates were properly calculated and reflect appropriate costs incurred.

Regarding the OUCC's proposal to spread recovery of the RCRA rates over two RCRA periods, we agree with CEI South that it is difficult to determine exactly what the OUCC is requesting. As opposed to the referenced FAC 137 and 139 cases, where the OUCC recommended the deferral of the variance recovery, here, the OUCC appears to be proposing deferral of 50% of the RCRA rate itself. It is also unclear whether the OUCC's testimony regarding spreading the typical residential customer rate impact over two RCRA periods is a proposal or an illustration and whether the OUCC is proposing a deferral for all rate classes or only for the residential rate class. The OUCC has also not provided a reasonable basis to defer cost recovery other than a general reference to concerns about the affordability of CEI South's electric rates for its customers. In the absence of supporting schedules and clearer supporting testimony, we have no way to evaluate the reasonableness of the OUCC's proposal, and, therefore, we decline to adopt it.

Our decision is supported by Mr. Ankenbrand's rebuttal testimony that deferring 50% of the proposed RCRA rate would result in the deferral of the recovery of over 91% of the funds that CEI South requested in this case—an amount of recovery that, as stated above, both parties agree was properly calculated and reflects appropriately incurred costs. While such a large swing in a tracker rate from a credit rate to a charge rate is unusual, Mr. Bradford supported the reason for the sudden increase in capacity rates, which is due primarily to the planned retirement of CEI South's A.B. Brown units 1 and 2 and the exiting of the Warrick 4 Joint Operating Agreement. These events will necessitate the purchase of bilateral capacity contracts to ensure that CEI South can meet its MISO resource adequacy requirements. Mr. Bradford testified that the bilateral capacity purchases were prudent and necessary to meet the Commission's expectations, required by state law, and provide a financial hedge to CEI South's customers against potentially high planning resource auction prices in the future. The OUCC did not challenge Mr. Bradford's testimony.

Because the parties agree that CEI South's proposed RCRA rates were properly calculated and reflect appropriate costs incurred, and because Mr. Bradford's testimony supports the primary driver of the increased proposed RCRA rates (namely the replacement capacity purchases) we approve CEI South's proposed RCRA rates without modification, and we decline to adopt the OUCC's proposal to spread the rates over two RCRA periods.

² Mr. Ankenbrand's testimony refers to RCRA 21, but based on the context of the sentence, he appears to be referencing RCRA 20.

12. Confidentiality. CEI South filed a motion for protection of confidential and proprietary information. In the motion, CEI South demonstrated a need for confidential treatment for information disclosing Midcontinent Independent System Operator (“MISO”) and PJM capacity auction pricing information. The Presiding Officers made a preliminary determination that such information should be subject to confidential procedures. We find that such information is confidential pursuant to Ind. Code § 5-14-3-4 and Ind. Code § 24-2-3-2, is exempt from public access and disclosure by Indiana law, 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. The Petition of Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South for approval of its Reliability Cost and Revenue Adjustment for electric service, as set out in Paragraph No. 10, is approved, and shall remain in effect until replaced in a subsequent filing.

2. CEI South shall continue the annual recognition of Wholesale Power Market margin sharing.

3. CEI South shall file with the Energy Division of this Commission, prior to placing in effect the RCRA rates herein approved, revised Tariff Sheet No.74, Page 2 of 2 consistent with the findings set forth herein.

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

HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR;

APPROVED:

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

Dana Kosco
Secretary of the Commission