

**FILED**

**June 12, 2017**

Petitioner's Exhibit No. 13  
Vectren South  
Page 1 of 16

**INDIANA UTILITY**

**REGULATORY COMMISSION**

**SOUTHERN INDIANA GAS AND ELECTRIC COMPANY  
d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.  
(VECTREN SOUTH)**

**IURC CAUSE NO. 44910**

**REBUTTAL TESTIMONY  
OF  
SCOTT E. ALBERTSON  
VICE PRESIDENT, REGULATORY AFFAIRS AND GAS SUPPLY**

**ON**

**TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE  
("TDSIC") RATE DESIGN**

**SPONSORING PETITIONER'S EXHIBIT NO. 13**

**REBUTTAL TESTIMONY OF SCOTT E. ALBERTSON**

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Scott E. Albertson. My business address is One Vectren Square,  
5 Evansville, Indiana 47708.

6

7 **Q. Are you the same Scott E. Albertson that provided direct and settlement  
8 testimony in this Cause?**

9 A. Yes, I am.

10

11 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

12 A. My rebuttal testimony will address certain issues within the direct testimony of  
13 Citizens Action Coalition of Indiana, Inc. ("CAC") and Valley Watch (collectively,  
14 "Joint Intervenors") witnesses Karl R. Rabago and Kerwin L. Olson regarding  
15 Vectren South's Transmission, Distribution, and Storage Improvement Charge  
16 ("TDSIC") rate design proposal supported by the Stipulation and Settlement  
17 Agreement ("the Settlement") entered into between Vectren South, the Indiana Office  
18 of Utility Consumer Counselor, and the Vectren Industrial Group (collectively, the  
19 "Settling Parties").

20

21 **Q. Are you sponsoring any exhibits with your rebuttal testimony?**

22 A. No. I am not.

23

24

25 **II. RATE DESIGN**

26

27 **Q. Do the Settling Parties conceptually agree, as a general matter, on rate design  
28 principles regarding the use of fixed charges for electric utilities?**

29 A. No. As indicated in the settlement testimony of OUCC Witness Rutter, the OUCC  
30 has reserved the right to debate fixed charge recovery issues in future  
31 proceedings. Further, I expect the OUCC may not agree with many of the  
32 arguments Vectren South believes are reasonable justifications for recovering a

1 portion of TDSIC costs via fixed charges. The Settlement is a result of compromise  
2 between the parties, with no party achieving a full measure of what they believe to be  
3 justified. Rather, in spite of disagreements, the Settling Parties believe the  
4 Settlement falls within a range of reasonable outcomes for the issues presented in  
5 this case, including use of a fixed charge as agreed upon in this proceeding. The  
6 testimony I present below represents Vectren South's response to Joint Intervenor  
7 witnesses, including arguments Vectren South believes to be valid and appropriate,  
8 but that should not be interpreted as a policy position held by any of the Settling  
9 Parties other than Vectren South.

10  
11 **Q. Please briefly summarize the direct testimony of Joint Intervenor witnesses**  
12 **Rabago and Olson related to the Company's proposed TDSIC rate design.**

13 A. Witnesses Rabago and Olson argue against the use of a fixed charge for the  
14 recovery of a portion of the TDSIC distribution revenue requirement, as proposed by  
15 Vectren South and provided for, to a lesser extent, in the Settlement. More  
16 specifically, Witness Rabago claims that recovering distribution-related costs through  
17 a fixed charge is at odds with long-established principles of regulatory ratemaking,  
18 ignores the impact customer demand has on future costs, eliminates price signals for  
19 residential customers, is "potentially" regressive, and will adversely impact the  
20 economics of energy efficiency, demand response, and distributed generation.  
21 Witness Olson argues that rate design can only be fairly and fully considered in the  
22 context of a full base rate case.

23  
24 **Q. Witness Rabago states that Vectren South's residential rate design proposal**  
25 **would increase the Company's fixed charge by 123% (as filed) and 64% as a**  
26 **result of the Settlement. Is this a fair representation of the Company's**  
27 **proposal?**

28 A. Witness Rabago has highly sensationalized the impact of the Company's proposal,  
29 disregarding the fact that the fixed TDSIC charge, whether as proposed by Vectren  
30 South or as provided for in the Settlement, will increase gradually over a period of  
31 seven (7) years. With the caps agreed to in the Settlement, the fixed monthly charge  
32 will not increase by more than \$1 each year, or less than a 10% increase per year in  
33 the total fixed charge (TDSIC plus base rates). When considering the annual

1 increases, *inclusive of volumetric charges*, presented by the Company in Settlement  
2 testimony (1 to 2% per year), the annual increases presented later in my rebuttal  
3 testimony by usage level (1% to 3%), and the overall annual revenue increase cap  
4 defined in the TDSIC Statute (no more than 2% annually), the characterization of  
5 these increases in Witness Rabago's testimony is simply an attempt to  
6 sensationalize the impact of the agreed to rate design in the Settlement.

7

8 It should also be noted that at the end of the 7 year TDSIC period, the Company's  
9 fixed charges under the Settlement will have increased by a maximum of \$7,  
10 resulting in an overall fixed charge that is consistent with prior Commission orders  
11 and at a similar level as many utilities' existing fixed charges.

12

13 **Q. If the Settlement rate design is approved, at year 7 of the TDSIC plan period,**  
14 **Vectren South's overall fixed charge will be no more than \$18. What are your**  
15 **observations of the utility data provided by Witness Rabago in his Attachment**  
16 **KRR-43 in light of this Settlement outcome?**

17 A.

My observations can be summarized as follows:

18

• Of the 91 cases presented by Witness Rabago, there are 18 instances in which  
19 the utility agreed to a settlement in their proceeding that included no increase in  
20 the fixed charge, and 2 cases in which the utility settled for a decrease in the  
21 fixed charge –all of which I would characterize as outcomes of (rather than  
22 “actions taken in”) those cases.

23

• Of the 91 cases, approximately 27% of the utilities have received approval of a  
24 fixed monthly charge in the \$14 to \$21 range (within \$3-4 per month of the \$18  
25 agreed to in the Settlement).

26

• 43 of the cases listed in Attachment KRR-43 did not result in a settlement; of  
27 those 43 cases, 22 resulted in a fixed charge increase of 20% or more – the  
28 highest of which was a 96% increase. Based on historical trends regarding rate  
29 case frequency, which may be governed by legislative or regulatory  
30 requirements, a number of these utilities may have rate cases before the end of  
31 the seven (7) year TDSIC period and may propose additional fixed charge  
32 increases.

33

• In addition, 13 states, many of which have had decisions noted on Attachment

1 KRR-43, have approved electric decoupling mechanisms, which in many cases  
2 lessens the focus on cost-based rate design (i.e. increases in fixed charges) in  
3 base rate proceedings because the appropriate level of fixed costs will be  
4 recovered via the decoupling mechanism.

- 5 • Finally, Attachment KRR-43 accurately reflects the outcomes of two recent  
6 Indiana rate cases, which are discussed in more detail later in my rebuttal  
7 testimony. As shown by Witness Rabago, the Commission approved 55% and  
8 27% increases in the fixed charge for Indianapolis Power and Light ("IPL") and  
9 NIPSCO, respectively. In each of the orders in those cases, the Commission  
10 noted that "this structure does not violate principles of gradualism, because  
11 **gradualism is best considered in the context of the entire customer bill and**  
12 **not discrete charges within the bill.**"<sup>1</sup> (emphasis added) The Commission's  
13 notations further demonstrate that Witness Rabago's characterization of the  
14 percentage increase in the fixed charge, as noted above, is misdirected.

15  
16 The fixed charge rate design, including caps, agreed to in the Settlement, as well as  
17 the 7 year increase to get there, reflects the unique opportunity the TDSIC provides  
18 to align cost recovery and cost causation in a gradual manner.

19  
20 **Q. Page 5, lines 4-5 of Witness Rabago's testimony states "the Company's**  
21 **proposal to recover distribution-related costs through a fixed customer charge**  
22 **is at odds with long-established principles of regulatory ratemaking." Has the**  
23 **Indiana Utility Regulatory Commission ("IURC") provided any guidance on its**  
24 **perspective regarding recovery of distribution-related costs via a fixed**  
25 **charge?**

26 A. Yes, as mentioned in my direct testimony<sup>2</sup>, in the IURC's March 2016 order in Cause  
27 No. 44576, IPL's 2015-2016 rate case ("IPL Order"), the Commission stated "cost  
28 recovery design alignment with cost causation principles sends efficient price signals  
29 to customers, allowing customers to make informed decisions regarding their  
30 consumption of the service being provided." (IPL Order, Page 72). The Commission  
31 also referenced in the IPL Order its conclusion in Cause No. 43180 (in which the

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<sup>1</sup> Commission Order, Cause No. 44576 (IPL), page 72; Commission Order, Cause No. 44688 (NIPSCO), page 88.

<sup>2</sup> Petitioner's Exhibit No. 7, Page 16, line 25 through Page 17, line 7.

1 Commission investigated rate design alternatives for natural gas utilities): “the  
2 Commission finds straight-fixed variable rate designs attractive as they align basic  
3 cost causation principles of ratemaking...Issues of rate shock could be tempered in a  
4 phased manner through a steady transition, reducing volumetric rate design by a  
5 fixed percentage in each case.” (Order in Cause No. 43180, Page 10). In the IPL  
6 Order, the Commission stated “the general premise established in Cause No. 43180  
7 [i.e. fixed costs recovered through fixed charges] is reasonably applicable to electric  
8 utilities in the context of distribution-related costs.” (IPL Order, Page 72).

9

10 Subsequent to the IPL Order, the Commission approved a settlement in Northern  
11 Indiana Public Service Company’s (“NIPSCO”) base rate case in Cause No. 44688  
12 (“NIPSCO Order”) which once again approved an increase in the fixed charge, citing  
13 the IPL Order directly. Vectren South’s TDSIC rate design proposal included in the  
14 Settlement is consistent with the Commission’s language in the IPL Order. It  
15 appears Witness Rabago has chosen to ignore the Commission’s recent decisions  
16 on this issue.

17

18 **Q. Please further describe the Commission’s Order in IPL’s Rate Case, Cause No.**  
19 **44576.**

20 A. As stated in the IPL Order, “there were only two arguments presented in opposition  
21 to IPL’s customer charge proposal [\$11 per month increasing to \$17 per month for  
22 customers using over 325 kWh per month]: (1) [the] contention that all costs are  
23 variable in the long run and therefore [straight fixed variable] rates represent  
24 inefficient pricing, and (2) [that IPL’s] rate design produces a disproportionate impact  
25 on low-income customers.” (IPL Order, Page 71). In its order the Commission noted  
26 that IPL’s proposal to “move toward a more fixed and variable rate design consistent  
27 with cost causation principles” was “demonstrably short of straight fixed variable  
28 rates.” (IPL Order, Page 72). The Commission stated further that “there is no  
29 evidence that [IPL’s] customer charge as designed even reaches the level of full  
30 distribution system fixed cost recovery.” (Ibid.). Regarding low-income customers,  
31 the Commission’s order recognized that not all low income customers would  
32 experience the same impact from IPL’s proposal; recognizing that, in fact, “many  
33 low-income customers use more than the residential average amount.” (Ibid.).

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**Q. Did the Indiana Court of Appeals consider the Commission's findings in the IPL Order?**

A. Yes, in a decision issued April 5, 2017, the Indiana Court of Appeals affirmed (Opinion 93A02-1604-EX-804, "IPL Appeal") the Commission's decision in the IPL case, which, as stated above, found that a gradual increase to the fixed charge from \$11 per month to \$17 per month was reasonable. The Court of Appeals repeated the Commission's acknowledgement that "an ideal rate scheme would closely align recovery of fixed costs with fixed rates and variable costs with variable rates based upon usage" (IPL Appeal, Page 18) and that there was sufficient evidence that IPL and the Commission had appropriately considered gradualism when approving the increase.

**Q. Is the Settlement rate design consistent with the findings of the Commission and the Court of Appeals in the IPL case, as related to fixed charge rate design?**

A. Yes. The IPL Order and the related appellate order capture two main points:

1. Cost recovery alignment with cost causation (fixed cost recovery in fixed charges) results in efficient price signals, especially when considering distribution-related costs.
2. A phased-in approach to increases in fixed charges (gradualism) helps temper rate shock.

The Settlement rate design is consistent with these key findings.

**Q. How does the Company's proposed rate design in the Settlement compare to the results of the IPL Order?**

A. Vectren South's rate design, as agreed to in the Settlement in this proceeding, would result in a maximum \$7 increase to the fixed charge over a period of 7 years (\$1 increase per year), and, when adding the TDSIC costs to the Company's last cost of service study, 85% of Vectren South's total fixed costs at year 7 will still be recovered in a volumetric charge. Also, as per its most recent cost of service study, 95% of Vectren South's fixed distribution costs approved in its last rate case are

1 currently recovered in a volumetric charge. Under the Settlement, at year 7 of the  
2 TDSIC plan, it is estimated that 74% of Vectren South's fixed distribution costs (base  
3 rates plus TDSIC) will be recovered in a volumetric charge. This is far short of full  
4 distribution system fixed cost recovery via a fixed charge as described by the  
5 Commission in the IPL Order.

6  
7 In addition, the Settlement supports gradualism by limiting the fixed TDSIC charge  
8 increase in each semi-annual filing to no more than \$0.50 per customer per month  
9 (or a \$1 increase per year). As discussed throughout my rebuttal testimony, this is  
10 not an immediate increase of \$7 in the fixed charge as would typically be  
11 experienced in a base rate case. The Settlement in this proceeding is consistent  
12 with the Commission's findings in the IPL Order and incorporates gradualism to an  
13 even greater degree.

14  
15 **Q. Please describe the Commission's Order in NIPSCO's Rate Case, Cause No.**  
16 **44688.**

17 A. In this Cause, NIPSCO had proposed to increase its customer charge for residential  
18 customers from \$11 per month to \$20 per month. The terms of a settlement  
19 agreement in this Cause called for NIPSCO to increase its customer charge from  
20 \$11 per month to \$14 per month. In approving the customer charge increase  
21 included in the settlement, the Commission restated its opinion in the IPL Order,  
22 stating "the increase to the customer charge was a move toward a more fixed  
23 variable design consistent with traditional cost causation principles, while being  
24 demonstrably short of straight fixed variable rates." (NIPSCO Order, Page 88). The  
25 Commission further restated the finding in the IPL Order that "cost recovery design  
26 alignment with cost causation principles sends efficient price signals to customers,  
27 allowing customers to make informed decisions regarding their consumption of the  
28 service being provided." (NIPSCO Order, Page 88).

29  
30 **Q. Did the Indiana Court of Appeals consider the Commission's findings in the**  
31 **NIPSCO Order?**

32 A. Yes, in a decision issued April 19, 2017, the Indiana Court of Appeals affirmed  
33 (Opinion 93A02-1608-EX-1854, "NIPSCO Appeal") the IURC's order approving the



1 settlement agreement in that Cause, which included a monthly customer charge  
2 increase of \$3, from \$11 per month to \$14 per month. The Court of Appeals stated  
3 that “while the CAC may genuinely believe that a different rate design is preferable,  
4 and some reasonable ratepayers may agree with that belief, the evidence in the  
5 record readily supports the IURC’s decision to accept the settlement agreement”  
6 (NIPSCO Appeal, Page 17), and hence the increase to NIPSCO’s fixed charge. The  
7 Court of Appeals further stated that “the IURC has the expertise to analyze and  
8 weigh the complex competing evidence on this issue, and [that it could] only  
9 conclude that there is substantial evidence supporting [the Commission’s] decision to  
10 accept the proposed rate design, including the increase in the fixed charge.”  
11 (NIPSCO Appeal, Page 17).

12

13 **Q. Did Witness Rabago and/or the Joint Intervenors file testimony in the IPL and**  
14 **NIPSCO cases arguing against an increase to the Company’s monthly**  
15 **customer charge?**

16 A. The CAC was a party to both of these cases. Witness Rabago specifically  
17 participated in NIPSCO’s rate case, Cause No. 44688. As stated in the discussion  
18 and findings of the NIPSCO Order, “Mr. Rabago was the only witness in opposition  
19 to the proposed settlement agreement increase to the customer charge.” (NIPSCO  
20 Order, Page 88).

21

22 **Q. Did the IURC provide any comments regarding Witness Rabago’s position in**  
23 **the NIPSCO rate case that the increase to the customer charge, as per the**  
24 **settlement, was inconsistent with sound ratemaking principles?**

25 A. Yes, the Commission’s Order states that it disagrees with Witness Rabago and  
26 found “that the increase in the monthly customer charge from \$11 to \$14 for  
27 residential customers...is cost-based based upon the evidence presented, consistent  
28 with gradualism, and is reasonable and should be approved.” (NIPSCO Order, Page  
29 88).

30

31 **Q. Has Vectren South evaluated the impact of the Settlement rate design on low-**  
32 **income customers?**

33 A. Yes. As stated in its response to CAC data request 5.7(a)(iv), Vectren South

1 identified a sample of 5,009 premises, approximately 4% of total residential  
2 customers who received bills for 11 of the 12 months ending September 2016 and  
3 also received energy assistance payments. The average residential bill for this  
4 sample of 5,009 premises during the TDSIC plan period is expected to increase by  
5 approximately 1.57% per year, while the overall average residential bill is expected  
6 to increase by approximately 1.46% per year during the same period. At the very  
7 least, these relative impacts are very similar.

8

9 Further, as reference previously in my rebuttal testimony, the Commission observed  
10 in the IPL Order at page 72, that many low-income customers use more energy than  
11 the average residential customer. Those higher use customers clearly benefit from  
12 fixed charges.

13

14 **Q. In NIPSCO's rate case Cause No. 44688, the CAC appealed the Commission's**  
15 **Order stating the Commission failed to consider the impact of the settlement,**  
16 **including the increased fixed charge, on NIPSCO's low income customers.**  
17 **What was the Court of Appeals' conclusion on that issue?**

18 A. The Court of Appeals ruled in the NIPSCO Appeal that the IURC is under "no  
19 requirement [to] make specific findings related to particular sub-groups of ratepayers"  
20 and if the Commission "found the rate design just and reasonable as a whole related  
21 to all ratepayers, [the Court] is compelled to defer to that conclusion as there is  
22 substantial evidence supporting it." (NIPSCO Appeal, Pages 21-22).

23

24 **Q. Witness Rabago states on Page 11, lines 20-21, that "over the long term, all**  
25 **costs are variable; just as over the very short term, one could argue all costs**  
26 **are fixed." Are utility rates set in the short term or long term?**

27 A. Utility rates are set in the short term and recover, among other things, historical  
28 investments made to serve customers. The utility is not currently proposing, nor has  
29 previously proposed, to include future investments and costs as part of the basis to  
30 set TDSIC rates.

31

32 **Q. Witness Olson states on Page 5, lines 12-13 that "the Commission should find**  
33 **that such a dramatic change in fundamental rate design process is beyond the**

1 **scope of this proceeding.” Does the TDSIC statute propose a specific rate**  
2 **design for a TDSIC mechanism?**

3 A. Indiana Code Ch. 8-1-39, in Section 9, provides for a “periodic automatic adjustment  
4 of the public utility’s basic rates and charges to provide for timely recovery of eighty  
5 percent (80%) of approved capital expenditures and TDSIC costs.” The TDSIC  
6 statute does not specify the rate design to be used for that adjustment to base rates.

7

8 **Q. Has the Commission authorized a rate design similar to that proposed here in**  
9 **any other TDSIC proceedings?**

10 A. Yes, in Cause Nos. 44429/44430, Vectren South and Vectren North’s gas TDSIC  
11 proceedings, the Commission’s Order, issued August 27, 2014, authorized both  
12 Vectren South and Vectren North to implement a fixed TDSIC charge applicable to  
13 residential customers. This fixed TDSIC charge recovers both distribution-related  
14 and transmission-related costs.

15

16 **Q. On page 5, Lines 13 and 14, Witness Olson states “to grant a rate design**  
17 **proposal in this proceeding would constitute a denial of due process to a wide**  
18 **range of stakeholders and interested parties who would not expect this**  
19 **proceeding to be used for such a purpose.” Would you care to comment?**

20 A. Witness Olson’s claim that making a rate design proposal outside of a base rate  
21 case violates the CAC’s due process rights is grossly inaccurate. In this proceeding,  
22 the CAC has engaged a consultant, filed voluminous testimony, issued discovery,  
23 and will have full hearing rights. The Company’s proposal to implement a fixed  
24 charge has been highly public and was discussed at a local field hearing. In  
25 addition, these investments will be evaluated again in a cost of service study in  
26 Vectren South’s next rate case. This rate design is addressing only TDSIC costs,  
27 not costs already included in base rates. To say that the CAC has been deprived of  
28 its due process rights is simply untrue.

29

30 **Q. On page 9, line 18 through page 10, line 8, Witness Rabago discusses the**  
31 **likelihood of a real risk to the Company’s financial integrity due to some**  
32 **customers using less energy than the utility had forecast in the interval**  
33 **between rate cases. Would you care to comment?**

1 A. Yes. As stated in my direct testimony<sup>3</sup>, the Company is financially indifferent to how  
2 the approved TDSIC revenue requirement amount is collected from customers, as  
3 any variances to the authorized levels will be reconciled in a subsequent period. The  
4 Company's rate design proposal addresses intra-class subsidies within non-demand  
5 metered rate schedules; recovery of all TDSIC costs through a volumetric rate would  
6 only serve to exacerbate the intra-class subsidies that exist today, in addition to  
7 perpetuating inaccurate price signals as I have discussed and on which the  
8 Commission has commented in the IPL and NIPSCO Orders referenced previously.  
9

10 **Q. On page 9 of his testimony, Witness Rabago states the Company did not**  
11 **evaluate any alternative rate designs to its current proposal. Can you please**  
12 **respond to this comment?**

13 A. Yes. The Company is aware of alternative rate designs. The Company described  
14 potential rate design options in response to CAC discovery. However, since the  
15 Company has not yet deployed advanced metering infrastructure, the alternative rate  
16 designs the Company cited and that others are currently utilizing are not feasible at  
17 this time; therefore, the Company has not had the ability to properly evaluate the  
18 impact of such rate design options. Obviously the Company does have experience  
19 with other forms of cost recovery as evidenced by its proposal to recover TDSIC  
20 costs from demand-metered customers via demand charges. In addition, Company  
21 personnel participate in industry seminars and conferences, and engage with  
22 industry experts such as Mr. Feingold in order to stay informed on rate design and  
23 associated regulatory activities and developments taking place across the country.  
24

25 **Q. On page 30, Witness Rabago presented Table KRR-1<sup>4</sup>, reflecting the customer**  
26 **impacts as a result of the Company's proposed rate design. With the changes**  
27 **to both the TDSIC Plan spend level and the rate design resulting from the**  
28 **Settlement, would the Average Annual TDSIC Increase to the Monthly Bill**  
29 **amount still indicate that the customers in the highest usage percentile group**  
30 **will now be paying more than three times the TDSIC costs as the customers in**  
31 **the lowest usage percentile group?**

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<sup>3</sup> Petitioner's Exhibit No. 7, page 17.

<sup>4</sup> Table KRR-1 was originally presented in Petitioner's Exhibit No. 7, Page 13.

1 A. Yes, it would. Originally (as shown on page 13 of my direct testimony), customers in  
 2 the highest and lowest usage percentile groups reflected an estimated average  
 3 increase of \$3.76 and \$2.07, respectively, per year. Under the Settlement, and as  
 4 shown in the table below, the average annual increases are now \$4.27 and \$1.27,  
 5 respectively. The divergence of the Settlement impacts on these two groups is due  
 6 to more TDSIC costs being recovered in a per kWh charge under the Settlement  
 7 than originally proposed by Vectren South. As expected, lower use customers have  
 8 benefited from the Settlement rate design.

Group (Percentile)	Customer Count	Cumulative Customer Count	Average Monthly kWh	Average Annual TDSIC Increase to Monthly Bill	
				\$	%
10.00%	11,923	11,923	200	\$1.27	2.82%
20.00%	11,923	23,846	440	\$1.60	1.94%
30.00%	11,923	35,769	580	\$1.78	1.73%
40.00%	11,923	47,692	700	\$1.95	1.61%
50.00%	11,924	59,616	820	\$2.11	1.51%
60.00%	11,924	71,540	950	\$2.29	1.44%
70.00%	11,924	83,464	1,100	\$2.49	1.37%
80.00%	11,924	95,388	1,300	\$2.76	1.32%
90.00%	11,924	107,312	1,600	\$3.16	1.29%
100.00%	11,924	119,236	2,400	\$4.27	1.28%
	119,236				1.46%

9

10

11 **Q. Are you aware of any differences in the distribution system cost to serve**  
 12 **among the ten customer groups presented in the table above and in your**  
 13 **direct testimony?**

14 A. No, I am not aware that distribution costs to serve these groups of customers vary  
 15 from group to group.

16

17

18 **III. ENERGY EFFICIENCY**

19

20 **Q. Witness Rabago claims the Company's rate design proposal will "create**  
 21 **powerful price signals against investment in energy efficiency" (page 40, lines**  
 22 **13-14) and "destroy investment-backed savings expectations of energy users**  
 23 **who have made significant prior investments in order to lower bills" (page 42,**  
 24 **lines 24-25). Do you agree?**

1 A. No. The Company's current rate design, which recovers 90% of the Company's  
2 fixed costs through volumetric charges, provides customers a highly inaccurate price  
3 signal by significantly burdening the energy charge with fixed costs. Customers that  
4 reduce consumption under this type of rate design only increase the cost per kWh for  
5 all other customers. The Company's proposal in this case, as well as the Settlement  
6 rate design, makes a gradual move toward mitigating this effect.

7

8 As stated previously, at the end of the 7 year period, 85% of Vectren South's fixed  
9 costs will remain in a volumetric (or variable) energy charge, along with all defined  
10 variable costs. In addition, the Company is not modifying base rates in this  
11 proceeding; therefore, any investments in energy efficiency or distributed generation  
12 that were cost-effective prior to the filing of this TDSIC will remain cost-effective. The  
13 fixed TDSIC charge only impacts the recovery of distribution-related TDSIC costs –  
14 in the case of the Settlement, only about *half* of the distribution-related costs – and  
15 transmission investments will be recovered 100% volumetrically. There is no impact  
16 on generation costs in this case, which is the true focus of demand response and  
17 energy efficiency programs.

18

19 Furthermore, and as mentioned previously, a ruling in the NIPSCO Appeal that the  
20 IURC is under "no requirement [to] make specific findings related to particular sub-  
21 groups of ratepayers", when considering low income customer impacts, reasonably  
22 translates to other sub-groups of customers such as those who invest in energy  
23 efficiency.

24

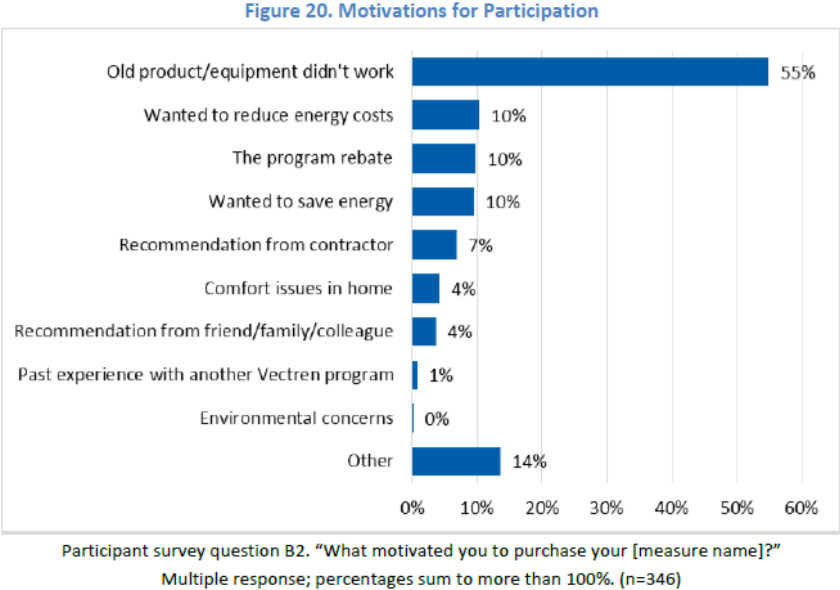
25 **Q. Is it appropriate to use subsidies in rates to justify policies?**

26 A. Rate design policies should not promote subsidies between other customers, which  
27 is exactly what Witness Rabago is advocating for. Vectren South has explicitly  
28 designed its TDSIC rate design proposal to better match fixed cost recovery with the  
29 customers that cause costs to be incurred, mitigating intra-class subsidies between  
30 customers within rate schedules and sending appropriate price signals.

31

32 **Q. Are cost savings the only motivation for customer investment in energy**  
33 **efficiency?**

1 A. No, as shown in the graph below, which is an excerpt from Vectren South's 2016  
2 energy efficiency program evaluation, customers are motivated by more than just  
3 reducing their energy costs.



4  
5 As shown above, the same number of customers (10% of those surveyed) claimed  
6 their participation in Vectren South's residential efficient products rebate program  
7 was primarily motivated by wanting to save energy as those wanting to reduce  
8 energy costs. Also shown in the graph is the significant number of customers (55%  
9 of those surveyed) that participated in the program due to an incentive to move to  
10 more efficient equipment at the time of replacement.

11  
12 At the end of the day, a customer's decision to invest in energy efficiency is driven by  
13 many factors, and to claim, as Witness Rabago has, that the Company's rate design  
14 proposal would become a "powerful price signal against investment in energy  
15 efficiency" is simply a mischaracterization.

16  
17 **Q. On page 42 of his testimony, Witness Rabago states that the Company's'**  
18 **proposal is a "significant reduction in the distribution energy rate" and results**  
19 **in "lower volumetric charges." Do you agree with these statements?**

20 A. No. As I previously stated, the TDSIC rate design proposal supported by the  
21 Settlement does not impact the Company's existing base rates, including energy

1 charges, previously approved by the Commission. Witness Rabago is improperly  
2 characterizing Vectren South's proposed TDSIC rate design as shifting between  
3 volumetric and fixed charges, when the Company has made no such proposal.  
4

5  
6 **IV. ADMINISTRATIVE RULES**

7  
8 **Q. On page 18 of his testimony, Witness Olson recommends "the Commission**  
9 **review the current administrative rules related to billing, disconnects, and**  
10 **other related areas and update those rules to protect consumers from the**  
11 **many capabilities AMI offers, most notably the capability of remote**  
12 **disconnections and potential prepaid offerings." Is Vectren South's TDSIC**  
13 **proceeding the appropriate forum in which to make such a recommendation?**

14 **A.** No. This recommendation by the CAC is inappropriate and entirely beyond the  
15 scope of this proceeding. While Vectren South included the deployment of AMI in its  
16 initial TDSIC plan, the Company made no proposals, as acknowledged by witness  
17 Olson, regarding prepaid service. While the Company is open to discussing the  
18 merits of remote disconnections in the proper venue, attempting to turn the review of  
19 the Settlement related to a statutory TDSIC proceeding into an attempt to address or  
20 modify the Indiana Administrative Code should be rejected.  
21

22  
23 **V. CONCLUSION**

24  
25 **Q. Does this conclude your rebuttal testimony in this Cause?**

26 **A.** Yes it does.



**VERIFICATION**

I, Scott E. Albertson, Vice President of Regulatory Affairs and Gas Supply for Vectren Utility Holdings, Inc., under penalty of perjury, affirm that the foregoing representations are true and correct to the best of my knowledge, information and belief.

SOUTHERN INDIANA GAS AND ELECTRIC  
COMPANY D/B/A VECTREN ENERGY  
DELIVERY OF INDIANA, INC.

By: 

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Scott E. Albertson  
Vice President  
Regulatory Affairs & Gas Supply

Dated: June 12, 2017