

FILED
September 18, 2018
INDIANA UTILITY
REGULATORY COMMISSION

OFFICIAL EXHIBITS

Petitioner's Exhibit No. 8
Vectren South
Page 1 of 10

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

IURC CAUSE NO. 45086

IURC
PETITIONER'S
EXHIBIT NO. 8
DATE 11-19-18 REPORTER AT

**REBUTTAL TESTIMONY
OF
THOMAS L. BAILEY
DIRECTOR OF INDUSTRIAL SALES & ECONOMIC DEVELOPMENT, VECTREN UTILITY
HOLDINGS, INC.**

ON

**SOLAR RENEWABLE ENERGY CREDITS AND
CUSTOMER DESIRE FOR RENEWABLE RESOURCES**

SPONSORING PETITIONER'S EXHIBIT NO. 8

1 **REBUTTAL TESTIMONY OF THOMAS L. BAILEY**

2 **I. INTRODUCTION**

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

4 A. My name is Thomas L. Bailey. My business address is One Vectren Square, Evansville,
5 Indiana 47708.

6
7 **Q. By whom are you employed and in what capacity?**

8 A. I am Director of Industrial Sales & Economic Development for Vectren Utility Holdings,
9 Inc. ("Vectren"), the immediate parent company of the Petitioner in this Cause, Southern
10 Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren
11 South" or the "Company").

12
13 **Q. Are you the same Thomas L. Bailey that previously testified on behalf of Vectren
14 South in this proceeding?**

15 A. Yes, I am.

16
17 **Q. What is the purpose of your rebuttal testimony?**

18 A. My rebuttal testimony discusses Vectren South's decision to retain the Renewable
19 Energy Credits ("RECs") associated with the Solar Project. I also provide additional
20 insight into why owning renewable energy-generating facilities as part of Vectren South's
21 resource portfolio is important to customers both small and large. My rebuttal testimony
22 also addresses the alternative solar development structures proposed by John E.
23 Haselden in his testimony submitted by the Indiana Office of Utility Consumer Counselor
24 ("OUCC") and the alternatives proposed by Charles S. Griffey in testimony submitted by
25 Alliance Coal LLC ("Alliance").

26
27
28 **II. VECTREN SOUTH WILL RETAIN RECs GENERATED BY THE SOLAR PROJECT**

29 **Q. A number of Mr. Haselden's criticisms relate to Mr. Games' Direct Testimony that
30 Vectren South could sell RECs through an open market. At this time, does**

Vectren South intend to sell RECs available as a result of the production of solar energy?

A. No. Vectren South currently sells RECs obtained through its wind energy contracts and uses the proceeds to reduce contract costs. However, after further consideration of the significant customer desire for local renewable generation, i.e. "green power," Vectren South has elected to not sell RECs on the open market. Vectren South agrees with Mr. Olson's testimony on behalf of Citizens Action Coalition of Indiana, Inc. ("CAC"). Vectren South wants to be able to factually represent to its customers that they are receiving green power from the Solar Project.

By retaining the RECs, Vectren South will have the ability in the future to sell them to interested large customers who want them to meet their carbon reduction and renewable energy goals. As I testified previously, certain customers remain interested in this possibility, which would entail selling the RECs at a negotiated price.

As Mr. Olson referenced, if, for example, the REC market becomes very lucrative in the future, Vectren South would have flexibility to sell some RECs and use the revenue to reduce customer costs.

Q. Do you believe this addresses a number of concerns raised by Mr. Haselden?

A. Yes. Vectren South's retention of the RECs addresses Mr. Haselden's concern that Vectren South's customers would not receive green power. It also addresses his concerns that selling RECs on the open market may enable multiple customers to claim consumption of the same REC and that this strategy would undermine the commitments of Walmart and Berry Global to purchase green energy at rates that reflect the net costs and benefits to the system, per the Corporate Renewable Energy Buyer's Principles.

Q. Did Vectren South consider the significant desire for renewable energy by Vectren South's large customers in making this determination?

A. Yes. Vectren South believes in working with its customers to meet their needs, so the significant desire for renewable energy by Vectren South's large customers certainly factored into Vectren South's decision to retain RECs generated by the Solar Project for local use. As Mr. Haselden acknowledged, several of Vectren South's large customers

1 have publicly announced renewable energy and carbon reduction goals and initiatives
2 that require a certain percentage of their future energy consumption be green power. As
3 discussed further below, these customers are extremely supportive of the Solar Project
4 because they prefer to work with their local utility partner to meet their goals. As Vectren
5 South's large customers are the primary employers in the service territory, it is vital to
6 the communities in Vectren South's territory that the Company is receptive to feedback
7 from large customers. If these companies cannot find a solution with their local utility
8 partner, they could consider making a strategic decision to locate production to other
9 facilities or construct onsite renewable energy which in turn reduces fixed cost recovery
10 while shifting costs to other customers.

11
12 **Q. How does this decision make the Solar Project even more appealing to those large**
13 **customers?**

14 A. Vectren South's decision to retain RECs generated by the Solar Project for local
15 consumption assures its large customers that Vectren South is fully committed to
16 delivering the green power they want and need. Large customers appreciate that
17 Vectren South is working to diversify its portfolio and to give customers options. As
18 discussed, many of Vectren South's large customers are committed to meeting public
19 renewable energy and carbon reduction goals. However, given the option between
20 entering a Purchase Power Agreement ("PPA") with a merchant entity or partnering with
21 Vectren South, large customers have expressed to me that they would prefer to work
22 with Vectren South to meet their goals. The partnership between customers and their
23 utility gives large customers the benefit of a longstanding relationship, direct contacts,
24 and a sense of connection to local resources.

25
26 **Q. How does the decision not to sell RECs impact Vectren South's other customers?**

27 A. The financial impact on Vectren South's other customers is minimal, and is further
28 described in the testimony of Petitioner's witness J. Cas Swiz. To the extent Vectren
29 South's large customers decide to purchase RECs, this additional revenue will benefit all
30 customers.

1 **III. ALL CUSTOMER CLASSES WANT VECTREN SOUTH TO ADD RENEWABLE**
2 **ASSETS TO ITS GENERATION PORTFOLIO**

3 **Q. You indicated that many of Vectren South's large customers have publicly**
4 **announced carbon reduction and renewable energy goals. How does this trend**
5 **among large corporations affect the area's economic development strategy?**

6 A. Corporate renewable energy and carbon reduction goals are increasingly commonplace
7 among large companies across the country. Within Vectren South's service territory
8 alone, approximately twenty corporations have publicly created sustainability goals or
9 support efforts taken by Vectren South to construct the Solar Energy Project. Overall,
10 as of 2016, 71 Fortune 100 companies and 215 Fortune 500 companies have set
11 renewable energy or energy related sustainable commitments. (*Advanced Energy*
12 *Economy Institute, 2016*). As a result, the availability of renewable energy in a given
13 region is a key factor in convincing businesses to relocate or expand in a given area.
14 Utilities are expected to offer or provide solutions to assist with manufacturers' and
15 other large businesses' renewable energy goals.

16
17 **Q. Since submitting your direct testimony, has Vectren South continued to receive**
18 **requests from its current customer base, as well as from site selectors reviewing**
19 **land options for new industrial customers to the area, regarding the availability of**
20 **green power?**

21 A. Yes. Since filing this proceeding, Vectren South has had two site selectors inquire as
22 part of their RFI process whether the utility has solar assets and is willing to allow a
23 prospective customer to enter into an agreement to purchase renewable energy
24 generated by those assets. Another large customer recently contacted Vectren South
25 and indicated it would like to discuss purchasing power from the proposed Solar Project.
26 This inquiry is in addition to the discussions Vectren South has had with Toyota and
27 Astra Zeneca. In my opinion, it is undeniable that the availability of green power in
28 Vectren South's portfolio, as well as the visibility of the Solar Project in the community,
29 will be extremely helpful in attracting employers to the area.

30
31 **Q. Mr. Haselden states that the only Vectren South customers who "have expressed**
32 **a need for renewable energy" are several large customers and "a small but vocal**
33 **group of residential customers." Is that correct?**

1 A. No. In the summer of 2016, Vectren South conducted a series of focus groups with
2 electric customers in southwestern Indiana, including residential customers. Various
3 topics covered in the 2-hour session included the current electric generation portfolio
4 and where that generation mix should be over the next ten years. Participants were
5 asked how they believe the current allocation of resources should change by 2025, with
6 the understanding that all energy sources don't cost the same. Most expressed the view
7 that Vectren South should begin switching from coal. Many of the respondents
8 expressed concerns about quality of life. One respondent stated that we live in the
9 dirtiest area in the United States for air pollutants and cancer rates due to coal power
10 plants. Many believe Vectren South should be moving toward renewable energy
11 sources, such as solar and wind and possibly hydroelectric power. Most believe it is
12 important for Vectren South to diversify its power generation mix. Focus group
13 respondents' ranked natural gas and wind/solar as "the best" options for Vectren South's
14 future generation mix. Natural gas was cited as a happy medium between cost and less
15 pollution, while renewable resources were noted as least damaging to the environment
16 and worth the high up-front costs. Mr. Haselden acknowledges in his testimony that
17 Vectren South's focus groups ranked natural gas and wind/solar as "the best" options for
18 the Company.

19
20 **Q. Have any other groups expressed a need for an increase in renewable resources**
21 **in Vectren South's portfolio?**

22 A. Yes. Multiple stakeholders and a number of individual customers also participated in
23 Vectren South's IRP process in 2016. Participating stakeholders were asked to develop
24 two portfolios, which would then undergo the modeling process. In both cases,
25 stakeholders chose portfolios with a significant percentage of renewable and energy
26 efficiency resources demonstrating a desire to move from coal even though costs for
27 these renewable-heavy portfolios are higher over the 20-year period.

28
29 **Q. Mr. Haselden states that there is no urgency to complete the Solar Project by 2020**
30 **in order to satisfy customer needs. Do you agree?**

31 A. No. In his testimony, Mr. Haselden acknowledges that Astra Zeneca has a rapidly
32 approaching deadline to reach its corporate renewable energy goal. He also
33 acknowledges that other Vectren South customers, including Toyota, Walmart, and
34 Berry Global, have set similar deadlines, and as previously stated, approximately twenty

corporations in Vectren South's service territory have publicly created sustainable and renewable energy goals or support efforts taken by Vectren South to construct the Solar Project. Many other invaluable community institutions, including St. Vincent and Deaconess Health Networks and the Evansville Vanderburgh School Corporation, are also participating in efforts to set and reach renewable energy goals. As stated in the above testimony, site selectors and their representative companies are increasing their awareness of utilities offering renewable sources of energy. It is likely utilities that are not active, aggressive and deliberate with renewable decision making may miss out on important economic development projects. Due to the increasing interest in renewable energy, it is very timely to add this local project as part of Vectren South's portfolio in part because it allows Vectren South to affirmatively respond to questions from prospective customers that the Company will have a significant solar resource for the long term. Providing the green power necessary for these customers to reach their goals involves planning and execution – a process that takes years. As noted by Mr. Joiner, it can take approximately 2½ years to be approved for MISO interconnection. To support the goals these customers, Vectren South has identified and moved forward with a local project that, if approved, will be available in 2020.

IV. ALTERNATIVE STRUCTURES

Q. OUCC witness Mr. Haselden proposes that Vectren use a letter of intent model to commit solar energy generation to certain large customers. Did Vectren South consider this option?

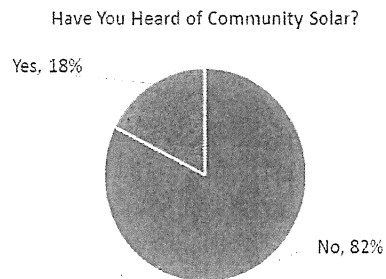
A. Yes. In fact, Vectren South tried this strategy and engaged ten of its large customers in discussions. Of these, Astra Zeneca has currently signed a letter of intent, which is attached to my direct testimony as Petitioner's Exhibit No. 3, Attachment TLB-2. Toyota, although interested, was unable to enter this type of commitment before the Solar Project is approved and built. However, once the Solar Project is built, Vectren South believes there is a possibility that Toyota also will enter into a letter of intent to purchase power generated by the Solar Project.

That said, there is no one-size-fits-all solution for all customers. Vectren South is willing to work with customers to determine the best approach for each; however, a letter of

intent model is inadequate to support development of the Solar Project. Accordingly, Vectren South has conceived the solar project as a utility-owned asset that can be dispatched as needed to the benefit of all customers.

Q. Mr. Haselden also proposes a variety of opt-in solutions, including a subscription-based “Community” solar farm, a customer-centric project open only to certain customers, or a DSM program “wherein customer-sited projects are subsidized, leased or integrated into a micro grid configuration for those customers desiring and willing to pay for this type of service.” Meanwhile, Mr. Griffey, testifying on behalf of Alliance, suggests a buy-through tariff “to assign the cost of the Solar Project directly to those customers desiring more renewables.” Do you agree that these approaches would work?

A. No. The data shows that those proposals have little likelihood of success. Vectren South’s customer data indicates that customers are largely unfamiliar with these concepts. For instance, in a survey of Vectren South’s customers, 82% of the 471 respondents had never heard of the “community solar concept”.



Q. If customers were familiar with the concept, do you believe they would be likely to participate in a community solar project?

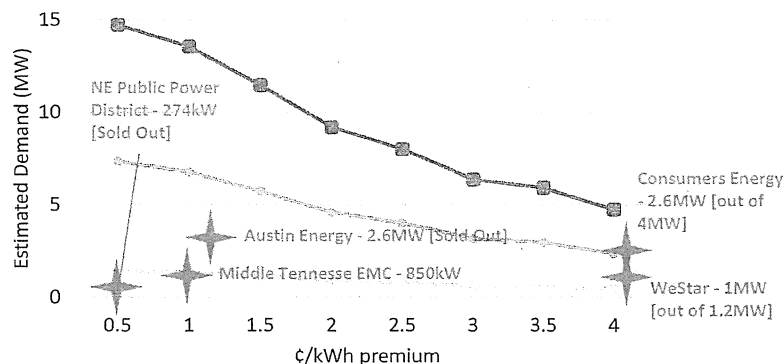
A. No. The same survey shows that most customers are unwilling to participate in a community solar program that requires them to pay an upfront fee to opt-in – perhaps because they perceive this type of commitment to be too great a financial risk if others do not likewise opt-in. In fact, only 5% of survey respondents indicated that they would be willing to pay a sufficient upfront cost to make the community solar concept feasible. Moreover, studies on REC community solar programs have shown that of those in a survey who say they would willfully pay a premium for renewable energy, only between 1% and 10% do pay in reality.

Q. Is there another reason Vectren South is opposed to the community solar model?

A. Yes. Utilities are not merchants. Vectren South is not aiming to sell green power on-demand to those customers that want it at a certain point in time; rather, Vectren South is trying to bring a diversified portfolio into reality. Vectren South's customer engagement shows that customers want renewable power on a utility-wide basis.

Q. Mr. Griffey suggests a community solar approach or certain types of tariff mechanisms where a price premium is imposed on customers that want renewable energy. Do you agree a price premium approaches would work?

A. No. In addition to imposing administrative costs on Vectren South, price premiums would discourage customers from supporting renewable sources of energy. Such tracker mechanisms have had only marginal success even among electric utilities with larger customer bases. By way of example, the graph below shows the number of subscribers in community solar decreases with the amount of the premium and shows that whether with respect to community solar or other buy-through type programs, customers do not want to individually pay a premium for renewable resources.



I would note that the utilities depicted above have more residential customers than Vectren South. In essence, the graph above suggests premiums create a barrier to access to renewable energy. Vectren South does not believe it is appropriate to create burdens to customer access to renewable energy – particularly when feedback from customers is that customers want renewable energy to be included in the Company's portfolio.

1 **V. CONCLUSION**

2
3 **Q. In sum, how will building the Solar Project be beneficial to Vectren South's**
4 **customers?**

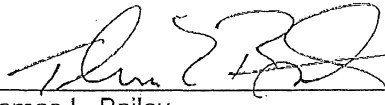
5 A. Customers large and small support the Solar Project. Large customers, who have
6 publicly committed to renewable energy goals, are eager to purchase the resulting green
7 power, while many residential customers are in favor of Vectren South diversifying its
8 portfolio and support incorporating solar power into the resource mix. In the short term,
9 the project itself will bring construction jobs to the area, while the availability of green
10 power is essential to retaining and attracting new employers to Vectren South's service
11 territory in the long term. If job growth is achieved, the utility's fixed costs will be spread
12 over a larger customer base to the benefit of all customers over time. Vectren South
13 believes the Solar Project is a significant step towards strategic alignment with our
14 customers.

15
16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes, at the present time.

VERIFICATION

I, Thomas L. Bailey, Director of Industrial Sales & Economic Development for Vectren Utility Holdings, Inc., under the penalties for perjury, affirm that the answers in the foregoing Rebuttal Testimony are true to the best of my knowledge, information and belief.



Thomas L. Bailey
Director, Industrial Sales & Economic Development