

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

APPLICATION OF SOUTHERN INDIANA GAS AND )  
ELECTRIC COMPANY D/B/A VECTREN ENERGY )  
DELIVERY OF INDIANA, INC. ("VECTREN )  
SOUTH") FOR APPROVAL OF A CHANGE IN ITS )  
FUEL COST ADJUSTMENT FOR ELECTRIC )  
SERVICE IN ACCORDANCE WITH THE ORDER )  
OF THE COMMISSION IN CAUSE NO. 37712 )  
EFFECTIVE JUNE 18, 1986 AND SENATE BILL NO. )  
529 EFFECTIVE APRIL 11, 1979 )

**CAUSE NO. 38708**  
**FC 102 S1**

**TESTIMONY OF**

**MICHAEL D. ECKERT – PUBLIC'S EXHIBIT NO. 1**

**ON BEHALF OF THE**

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**SEPTEMBER 12, 2014**

Respectfully Submitted,



Lorraine Hitz-Bradley, Atty. No. 18006-29  
Deputy Consumer Counselor

## CERTIFICATE OF SERVICE


This is to certify that a copy of the **OUCC Testimony of Michael D. Eckert** has been served upon the following by electronic mail on September 12, 2014.

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**TESTIMONY OF OUCC WITNESS MICHAEL D. ECKERT  
CAUSE NO. 38708 FAC-102-S1  
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY  
(VECTREN SOUTH)**

**I. INTRODUCTION**

1   **Q:   Please state your name and business address.**

2   A:   My name is Michael D. Eckert and my business address is 115 W. Washington  
3       St., Suite 1500 South, Indianapolis, Indiana 46204.

4   **Q:   By whom are you employed and in what capacity?**

5   A:   I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC")  
6       as a Senior Utility Analyst in the Electric Division.

7   **Q:   Please describe your educational background and experience.**

8   A:   I graduated from Purdue University in West Lafayette, Indiana in December  
9       1986, with a Bachelor of Science degree, majoring in Accounting. I am licensed  
10      in the State of Indiana as a Certified Public Accountant. Upon graduation, I  
11      worked as a Field Auditor with the Audit Bureau of Circulation in Schaumburg,  
12      Illinois until October 1987. In December 1987, I accepted a position as a Staff  
13      Accountant with the OUCC. In May 1995, I was promoted to Principal  
14      Accountant and in December 1997, I was promoted to Assistant Chief  
15      Accountant. As part of the OUCC's reorganization, I accepted the position of  
16      Assistant Director of its Telecommunications Division in July 1999. From  
17      January 2000 through May 2000, I was the Acting Director of the  
18      Telecommunication Division. As part of an OUCC reorganization, I accepted a

1 position as a Senior Utility Analyst. As part of my continuing education, I have  
2 attended the National Association of Regulatory Utility Commissioners'  
3 ("NARUC") two-week seminar in Lansing, Michigan. I attended NARUC's  
4 Spring 1993 and 1996 seminar on system of accounts. In addition, I attended  
5 several CPA sponsored courses and the Institute of Public Utilities Annual  
6 Conference in December 1994 and December 2000.

7 **Q: Have you previously testified before the Indiana Utility Regulatory**  
8 **Commission ("Commission")?**

9 A: Yes.

10 **Q: Please describe the review and analysis you conducted in order to prepare**  
11 **your testimony.**

12 A: I read Vectren South Electric's ("Applicant" or "Vectren South") prefiled  
13 testimony in this proceeding, as well as relevant Commission Orders. I also  
14 reviewed Applicant's responses to OUCC data requests and pertinent sections of  
15 Title 8 of the Indiana Code and Title 170 of the Indiana Administrative Code. I  
16 participated in meetings with other OUCC staff members in developing issues  
17 identified in this Cause.

## **II. PURPOSE OF TESTIMONY**

18 **Q: What is the purpose of your testimony in this cause?**

19 A: I discuss the OUCC's perspective on Vectren South's new long-term coal  
20 contracts and long term coal procurement plans. Coal procurement issues that  
21 will be discussed include 1) coal prices, 2) Vectren's historical coal procurement  
22 practices, 3) take away supply coal agreements, 4) Vectren's reliance on sole-

1 source contracts, 5) length of coal contracts, 6) price reopeners, and 7) [REDACTED]

2 [REDACTED].

### III. VECTREN SOUTH'S COAL PROCUREMENT PROPOSAL

3 **Q: What is Vectren South proposing in this proceeding?**

4 A: Vectren South recently executed several long term supply contracts with local  
5 Indiana producers<sup>1</sup> (Vectren Fuels and Sunrise Coal) to secure coal with  
6 specifications that meet its generation needs.<sup>2</sup> These coal company's mines meet  
7 the specifications of Vectren's coal procurement needs.

8 **Q: What is the Applicant's coal procurement strategy?**

9 A: In general, Vectren South purchases coal under multi-year contracts, with volume  
10 optionality, and supplements its long-term coal supply purchases with spot  
11 purchases that allow it to maintain a reliable source of coal. Vectren South  
12 believes that by staggering contract terms and price reopeners, it is able to obtain  
13 current market pricing for a portion of its contract supply to mitigate potential  
14 market volatility.

15 **Q: Who will be providing Vectren South's long-term coal supply?**

16 A: Sunrise Coal will be providing the majority of Vectren South's long-term coal  
17 supply needs, as Vectren Corporation has sold Vectren Fuels to Sunrise.

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<sup>1</sup> Three contracts between Southern Indiana Gas and Electric Company d/b/a Vectren Power Supply, Inc, ("Vectren South") and Vectren Fuels, Inc. (collectively the "Contracts") and the contract between Southern Indiana Gas and Electric Company d/b/a Vectren Power Supply, Inc, and Sunrise Coal LLC. (The "Carlisle Contract").

<sup>2</sup> A.B. Brown, F.B. Culley, and Warrick.

**IV. VECTREN'S HISTORICAL COAL PROCUREMENT PRACTICES**

1   **Q:   What has been Vectren South's historical coal procurement practice?**

2   A:   In general, Vectren South has sole-sourced the majority, if not all, of its long term  
3       coal supply. Vectren South has generally relied on the same provider for its long-  
4       term coal supply, Vectren Fuels, for nearly all of its coal requirements for over 10  
5       years. In August 2008, Vectren South entered into long-term coal supply  
6       contracts with its affiliated company Vectren Fuels for the majority of its coal  
7       when market prices were at or near an all-time high.

8   **Q:   Can you explain the impact of the August 2008 long-term supply agreements**  
9       **on Vectren South's fuel costs and generation?**

10   A:   Yes. At that point in time, coal prices were nearly \$30.00-\$40.00 per ton higher  
11       than historical prices had been. Six months after Vectren entered the contract,  
12       prices dropped back to near normal levels. Vectren South was then saddled with  
13       high fuel prices that impacted MISO's dispatching of Vectren South's generation  
14       fleet.

15   **Q:   What did the Commission have to say about Vectren South's coal**  
16       **procurement practices in Cause No. 43839?**

17   A:   In its Final Order in Vectren's most recent base rate case, the Commission stated  
18       the following:

19               However, the timing of the 2008 RFP and the fact that Vectren  
20               South placed itself in a position where all of its coal supply was  
21               exposed to market prices at effectively one point in time is  
22               concerning. While we recognize that Petitioner has taken steps to  
23               avoid a recurrence of this scenario, we are obligated to ensure such  
24               steps are more fully reviewed. Accordingly, we direct Vectren  
25               South to prepare for and request the creation of a sub-docket in its  
26               first FAC filing following the effective date of this Order for the  
27               purpose of reviewing its coal supply activities on a going forward  
28               basis.

1 *In re Vectren South*, Cause 43839 Final Order 4 at p. 16, (Ind. Util.  
2 Regulatory Comm'n Apr. 27, 2011).  
3 The Commission thereafter created a sub-docket<sup>3</sup> to review Vectren South's coal  
4 procurement practices and procedures, including competitive bidding, pricing,  
5 timing, sourcing and the implications of affiliate relationships.

#### V. RFP PROCESS

6 **Q: Did Vectren South utilize a RFP process to lengthen and change the terms of**  
7 **the current coal contracts?**

8 A: No.

#### VI. COAL PRICES

9 **Q: Did you review the initial prices established for the new long-term coal**  
10 **contracts that Vectren South entered into with Vectren Fuels and Sunrise**  
11 **Coal?**

12 A: Yes. The initial coal contract prices for both the Vectren Fuels and Sunrise coal  
13 contracts are reasonable when compared to current and future coal prices at this  
14 time. In addition, sales data and contract purchases support the reasonableness of  
15 the contract prices.

16 **Q: In the past, has the OUCC recommended that the Commission and Vectren**  
17 **South review future proposed coal contract prices in conjunction with past,**  
18 **present, and future coal market prices?**

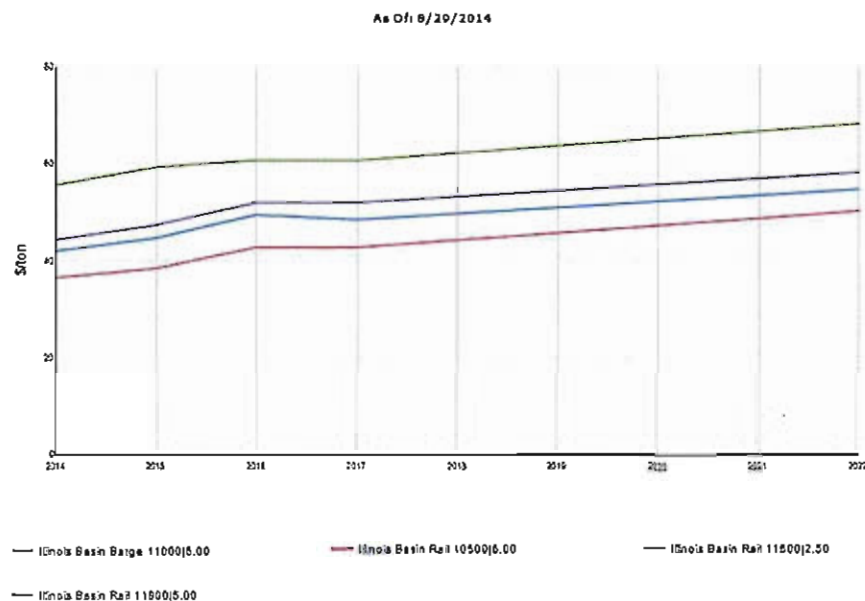
19 A: Yes. In addition, the OUCC has recommended that if Vectren South's future RFP  
20 process does not provide a competitive response, the Commission may want to  
21 revisit a cost-plus contract between Vectren South and Vectren Fuels.

22 **Q: Have you reviewed future coal prices as of August 2014 as listed on SNL?**

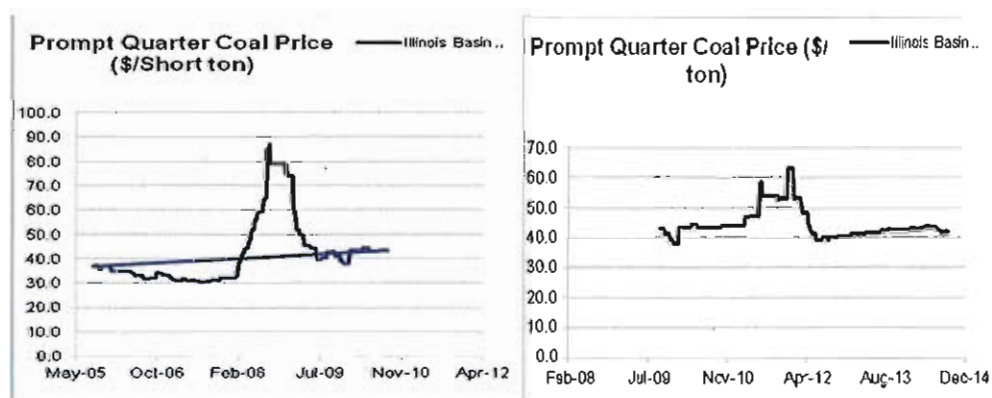
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<sup>3</sup> This proceeding is the annual version established by the rate case.

1 A: Yes. The future prices on SNL support the reasonableness of the proposed  
2 contract prices. See Chart Below.



3  
4 **Q: Have you reviewed the historical prices for the period September 9, 2005**  
5 **through September 9, 2014 as listed on SNL?**  
6 A: Yes. The historical prices on SNL support the reasonableness of the proposed  
7 contract prices. See Charts Below.



8  
9 **Q: Has the OUCC been reviewing weekly historical coal prices on a dollar**  
10 **basis?**



1 A: Yes. The OUCC has been monitoring weekly historical coal prices as published  
2 by the U.S. Energy Information Administration ("EIA") on SNL Energy.

**VII. LENGTH OF COAL CONTRACTS AND PRICE REOPENERS**

3 **Q: What is the length of the coal contracts between Vectren South and Sunrise**  
4 **Coal?**

5 A: The three long-term supply coal contracts have been extended for [REDACTED]  
6 [REDACTED],  
7 depending on the given contract. Each contract has a price reopener [REDACTED]  
8 [REDACTED]. These price reopeners are staggered [REDACTED]  
9 [REDACTED].

10 **Q: Please explain how the "Adjusted Market Base Price" is calculated.**

11 A: The Adjusted Market Base Price is negotiated between the parties [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]

17 **Q: What are the OUCC's concerns regarding the new contract extensions?**

18 A: The OUCC is concerned about how consumer's bills could be impacted as a result  
19 of the interaction between the following three provisions: 1) the length of the  
20 contract, 2) price reopener provisions, and 3) the [REDACTED] Arbitration provisions,  
21 should price reopeners occur at a time when market prices have peaked.

22 **Q: Please provide an example of one of your concerns.**

23 A: [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]

[REDACTED]

12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]

#### **IX. TAKE-AWAY COAL SUPPLY AGREEMENTS**

18 **Q:** How common are take-away coal supply agreements<sup>4</sup>?  
19 **A:** Vectren South could only identify four (4) such agreements since 2001. Those  
20 are:

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<sup>4</sup> Take Away Coal Supply Agreement – An agreement where the seller of a coal mine agrees to purchase coal or modify a coal contract with the purchaser of the coal mine.

1. AEP sold its mining operations to CONSOL Energy in 2001; AEP then agreed to purchase approximately 34 million tons;<sup>5</sup>
2. PinnOak acquired two mining complexes from U.S. Steel in 2003; U.S. Steel then contracted for coal from those mines;<sup>6</sup>
3. Montana-Dakota Utilities sold affiliate mining operation, Knife River, to Westmoreland Coal in 2001 which included a coal supply agreement;<sup>7</sup> and
4. SunCoke Energy has put its coal mining operations up for sale.<sup>8</sup>

**Q: Do you believe the new long-term coal supply agreements were part of the deal for Sunrise Coal to purchase Vectren Fuels between Vectren Corporation?**

**A:** Yes. Vectren's witness Emily Medine mentions in her testimony that this is common practice and cites two examples. In addition, the company provided two more examples through discovery.

## **X. RECOMMENDATION**

**Q: What does the OUCC recommend?**

**A:** The OUCC recommends the Commission review coal prices closely during any price reopener between Vectren South and Sunrise Coal. The Commission should review past, present, and future coal market prices. If the Commission determines that the arbitration price results in a price that is unreasonable when taking into account past, present, and future market conditions, the Commission should retain its rights and discretion to disallow coal prices that are not just and reasonable. In addition, the OUCC will continue to monitor this situation.

**Q: Does this conclude your testimony?**

**A:** Yes, it does.

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<sup>5</sup> Cause No. 38708 FAC 102-S1, Direct Testimony of Emily S. Medine, page 9, lines 19 – 21.

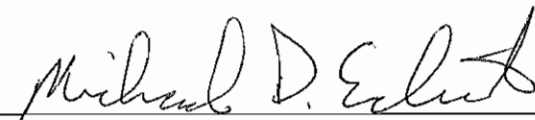
<sup>6</sup> Cause No. 38708 FAC 102-S1, Direct Testimony of Emily S. Medine, page 9, lines 21 – 22.

<sup>7</sup> Cause No. 38708 FAC 102-S1, Vectren's Response to OUCC Second Set of Data Request, Question 43.

<sup>8</sup> Cause No. 38708 FAC 102-S1, Vectren's Response to OUCC Second Set of Data Request, Question 44.

**AFFIRMATION**

I affirm, under the penalties for perjury, that the foregoing representations are true.

A handwritten signature in black ink, appearing to read "Michael D. Eckert", is written over a horizontal line.

Michael D. Eckert, Utility Analyst  
Indiana Office of Utility Consumer Counselor

September 12, 2014

Date

Cause No. 38708-FC-102 S1  
Vectren South Electric