SOUTHERN INDIANA GAS AND ELECTRIC COMPANY

d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.

(VECTREN SOUTH)

IURC CAUSE NO. 44910

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

ON

TDSIC COST ALLOCATION AND RATE DESIGN

SPONSORING PETITIONER'S EXHIBIT NO. 7,

ATTACHMENT SEA-1

DIRECT TESTIMONY OF SCOTT E. ALBERTSON

I. INTRODUCTION

Q. Please state your name and business address.

A. Scott E. Albertson
One Vectren Square
Evansville, Indiana 47708

Q. What position do you hold with Petitioner Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "the Company")?

A. I am Vice President, Regulatory Affairs and Gas Supply for Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of Vectren South. I hold the same position with the three utility subsidiaries of VUHI – Vectren South, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") and Vectren Energy Delivery of Ohio, Inc. ("Vectren Ohio").

Q. Please describe your educational background.

A. I received a Bachelor of Science degree in mechanical engineering from Rose-Hulman Institute of Technology in 1984. I have been a professional engineer in Indiana since 1990.

Q. Please describe your professional experience.

A. I have over 30 years' experience in the utility industry. I began my career with Ohio Valley Gas Corporation in a project engineering position. I have worked at VUHI and its predecessor companies since 1987 in a variety of positions including Operations Staff Manager, Assistant Chief Engineer, Director of Engineering Projects, Director of Engineering, and Director of Technical Services. I was named Director of Regulatory Affairs for VUHI in 2004, and was promoted to my current position effective July 1, 2012.

Q. What are your present duties and responsibilities as Vice President, Regulatory Affairs and Gas Supply?

A. I have responsibility for coordinating regulatory and rate matters of the regulated utilities within VUHI in proceedings before the Indiana and Ohio utility regulatory commissions. In addition, I am also responsible for overseeing the gas supply and gas transportation functions for VUHI's three gas utilities.

Q. Have you previously testified before this Commission?

A. Yes. I testified in Vectren South's two most recent gas general rate cases (Cause Nos. 43112 and 42596), in Vectren North's two most recent general rate cases (Cause Nos. 43298 and 42598), and in Vectren South's most recent electric general rate case (Cause No. 43839). I have also testified in numerous Gas Cost Adjustment ("GCA"), Fuel Adjustment Clause ("FAC"), and other regulatory proceedings on behalf of Vectren North and Vectren South.

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

A. My testimony supports Vectren South's proposal to implement a rate adjustment mechanism for the recovery of costs incurred pursuant to Ind. Code Ch. 8-1-39 ("TDSIC Statute") (the "TDSIC Plan"). Vectren South witness J. Cas Swiz sponsors testimony regarding the Company's proposed Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") adjustment for recovery of costs under the TDSIC Statute, including the proposed filing schedules to be included in each semi-annual TDSIC filing as well as the proposed additions to Vectren South's Tariff for Electric Service. My testimony will describe the Company's proposal for the allocation of TDSIC costs, along with its proposed rate design for the recovery of those costs.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibit in this proceeding:

- Petitioner's Exhibit No. 7, **Attachment SEA-1**: Vectren South's proposed rate schedule allocation percentages for the recovery of TDSIC costs.

Q. Please summarize Vectren South's cost allocation and rate design objectives in this filing.

A. Regarding the allocation of TDSIC costs among rate schedules, Vectren South's

proposed methodology achieves two key objectives: appropriately allocating TDSIC costs according to cost causation principles, and avoiding increases to subsidies between rate schedules. Vectren South is proposing to allocate the TDSIC revenue requirement among rate schedules using allocation percentages based on the transmission and distribution revenue requirements from the compliance cost of service study in its last general rate case, Cause No. 43839.

When developing its proposed TDSIC rate design, Vectren South has focused on sending appropriate price signals to customers and ensuring that TDSIC costs are recovered through rates that reflect cost causation and minimize intra-class subsidies that would result from the recovery of all fixed TDSIC costs through variable energy charges. As such, the Company has designed the proposed TDSIC rate adjustment mechanism to recover the Distribution revenue requirement amount, representing fixed costs, via a fixed monthly charge per customer for its Residential Standard and Water Heating (Rate Schedules RS and B), and Small General Service (Rate Schedule SGS) customers. The proposed Transmission revenue requirement amount will be recovered via a volumetric (kilowatt hour ("kWh")) charge for Rate RS, Rate B and Rate SGS customers. For the Company's remaining Rate Schedules – Demand General Service (DGS), Municipal Levee Authority Service (MLA), Off-Season Service (OSS), Large Power Service (LP), Backup, Auxiliary and Maintenance Power Services (BAMP), and High Load Factor Service (HLF) – both the Distribution and Transmission revenue requirement amounts will be recovered via a demand (kilowatt ("kW") or kilovolt-ampere ("kVa")) charge. Street Lighting and Outdoor Lighting (Rate Schedules SL and OL, or "Lighting") customers pay only fixed charges per light in base rates; as these lights are unmetered, Vectren South will recover all TDSIC costs from these customers through fixed monthly charges.

II. ALLOCATION OF TDSIC COSTS

Q. Please describe how Vectren South proposes to allocate TDSIC costs to its rate schedules.

A. As stated previously, the Company proposes to allocate TDSIC costs to its rate schedules based on Transmission and Distribution revenue requirements (i.e., revenues) from its last rate case, Cause No. 43839. The allocation of TDSIC costs is consistent with the compliance cost of service study filed by Vectren South following the Commission's order in that proceeding.

Q. Why is it appropriate to utilize Transmission and Distribution revenue requirements from Vectren South's last rate case?

A. The use of the revenue requirements related to Transmission and Distribution costs from Vectren South's last rate case is appropriate given that, by definition, the TDSIC Plan is comprised of Transmission and Distribution investments. Allocating TDSIC costs[1] in the same manner as Transmission and Distribution costs were allocated in the last rate case appropriately assigns those costs to the rate schedules based on cost causation principles (i.e., Transmission and Distribution costs are allocated to the rate schedules based on each rate schedule's proportionate share of the Transmission and Distribution systems, respectively). The proposed allocation methodology recognizes the appropriateness of allocating TDSIC costs by function in order to create TDSIC charges that are aligned with cost causation. Any other allocation methodology would reasonably be expected to result in additional inter-class subsidies over time. I will discuss subsidies more throughout my direct testimony.

Q. Are the allocation percentages proposed herein applicable to TDSIC Transmission and Distribution costs subject to modification at the time Vectren South files its next base rate case?

A. Yes. A cost of service study prepared at the time of the next base rate case will identify at that time how all costs should be allocated based on each rate schedule's proportionate share of each component of the electric system during the test year in that proceeding. However, use of the Company's compliance cost of service in Cause No. 43839 is a reasonable basis to reflect cost causation

[1] Ind. Code § 8-1-39-7 defines TDSIC costs as those "incurred with respect to eligible transmission, distribution, and storage system improvements incurred both while the improvements are under construction and post in service: (1) Depreciation expenses, (2) Operation and maintenance expenses, (3) Extensions and replacements to the extent not provided for through depreciation, in the manner provided for in IC 8-1.5-3-8, (4) Property taxes, and (5) Pretax returns."

in the TDSIC rates and charges proposed in this proceeding, and (as discussed later in my direct testimony) is in keeping with the requirements of the TDSIC Statute.

Q. Why is it important to allocate TDSIC costs consistent with "cost causation principles"?

A. Cost causation is a fundamental principle in utility ratemaking and simply implies that customers who cause costs to be incurred should pay for those costs through their applicable rates. To be clear, this principle applies not just to TDSIC costs, but utility costs in general. If TDSIC costs are not allocated consistent with this principle, inter-class subsidies will be created whereby one class of customers is paying an additional amount to compensate for another class of customers not paying the appropriate full allocated share of costs incurred to serve.

Q. What allocation percentages is Vectren South proposing for the recovery of TDSIC costs in this proceeding?

A. The table below reflects the proposed allocation percentages, as shown in Attachment SEA-1, that Vectren South will apply to the Transmission and Distribution revenue requirements in each TDSIC filing:

Rate Schedule	Transmission Allocation Percentage	Distribution Allocation Percentage
RS	42.62%	58.44%
B	0.13%	1.12%
SGS	1.82%	4.10%
DGS/MLA	27.33%	22.53%
OSS	2.12%	2.32%
LP	25.33%	10.59%
HLF	0.65%	0.01%
SL/OL	0.00%	0.89%

Q. Has this type of allocation methodology been approved for the recovery of TDSIC costs for any other Indiana utilities?

A. Yes, as part of the approved settlement in NIPSCO's last general rate case,

Cause No. 44688, separate allocation percentages were established for the Transmission and Distribution costs to be recovered within NIPSCO's electric TDSIC adjustment mechanism. In addition, as part of the settlement within Duke Energy Indiana's electric TDSIC proceeding, Cause No. 44720, Transmission and Distribution TDSIC costs have been identified to produce separate Transmission and Distribution revenue requirements, which are then allocated to the rate schedules using the applicable separate Transmission and Distribution allocation percentages. While these settlements are not precedential upon future TDSIC proceedings, they do indicate a willingness among Indiana energy stakeholders to agree in principle that it is appropriate to allocate Transmission and Distribution TDSIC costs separately, based on each class of customer's (or rate schedule's) responsibility for the electric system.

Q. Does Vectren South's proposed TDSIC cost allocation methodology comply with the TDSIC Statute?

A. Yes it does. Ind. Code § 8-1-39-9(a) ("Section 9(a)") prescribes that a TDSIC petition (and, it follows, TDSIC cost recovery) "use the customer class revenue allocation factor based on firm load approved in the public utility's most recent retail base rate case order." The proposed allocation methodology uses the customer class revenue allocation factors specific to transmission and distribution from the Company's last rate case.

III. RATE DESIGN

Q. What rate design principles do you believe are relevant in designing TDSIC rates and charges?

A. The Company's TDSIC rate design proposal is based on the following key principles/objectives:

- Rate design should provide accurate price signals to customers based upon the costs attributed to service; and

- Rate design should eliminate, or at the very least mitigate to a great extent, any intra-class subsidies that would result from how customers with the same or similar power requirements use energy differently.

These rate design principles are important for several reasons. If a rate is designed whereby the cost of the service provided is not linked directly to the result of that service (e.g., a rate based on energy usage designed to recover costs that do not vary by energy consumed), the customer erroneously believes that adjusting usage will impact the overall cost of the service provided. This customer might make investments to help reduce his or her bill, justifying the investment with perceived savings. In actuality, the customer's decision to reduce usage (and therefore their bill) does not directly impact the costs to provide that service, and simply (1) shifts the costs to another customer (intra-class subsidy), or (2) delays the costs until the utility can adjust its rates. Conversely, if a customer increases usage and fixed cost recovery is linked to that usage, that customer will overpay for service. Changes in fixed costs should be reflected in changes to fixed charges, and likewise changes in variable costs should be linked to variable charges. Fuel costs are a good example: when a customer's usage increases or decreases, the fuel costs on their bill reflect the higher or lower variable costs incurred by the utility. In contrast to fuel cost recovery, however, changes in usage do not impact the fixed costs the utility has incurred. Said differently, fixed cost recovery through variable charges is akin to variable (e.g. fuel) cost recovery via a fixed charge. Obviously legacy utility rate designs include fixed cost recovery in variable charges. Vectren South is proposing in this proceeding to not perpetuate that rate design.

Q. How does Vectren South propose to recover its TDSIC costs from customers?

A. Generally speaking, for customers with demand meters[2] the Company proposes to recover 100% of its TDSIC costs through demand charges. For customers that do not have demand meters, the Company proposes to recover 100% of

[2] Demand-metered customers include those receiving service pursuant to Rates DGS, MLA, OSS, LP, BAMP, and HLF.

Distribution costs through a fixed monthly charge, with Transmission costs recovered via a volumetric (energy) charge. As stated previously, all TDSIC costs will be recovered from Lighting customers through fixed monthly charges. This approach satisfies Vectren South's rate design objectives.

Q. How does the recovery of TDSIC Distribution costs from smaller customers (i.e Rates RS, B and SGS) through a fixed monthly charge and TDSIC Transmission costs via a volumetric energy charge promote the rate design principles you have articulated?

A. The Distribution costs included in Vectren South's TDSIC Plan are fixed costs that do not vary in the short-term based on changes in customer usage. Recovering these costs through a volumetric energy charge would maintain, and potentially increase, a level of intra-class subsidization within Vectren South's residential rate schedule, violating the ratemaking principle of cost causation, a central tenet of proper rate design.

Transmission costs, although fixed, do vary in the long-term based on changes in customers' demand requirements. As stated previously, the Company proposes to recover all TDSIC costs from demand-metered customers through demand charges to align the cause (demand) with the costs incurred. As the Company does not *currently* measure actual demand for its smaller customers, Vectren South proposes volumetric (energy) charges to recover TDSIC Transmission costs from smaller customers until the Company's next base rate proceeding. At that point, given some of the investments in the Company's proposed TDSIC Plan, metered demand charges can be considered for the recovery of these Transmission costs in order to better align cost recovery with cost causation.

Q. Is it more appropriate then to recover TDSIC Distribution costs from larger (demand-metered) customers through a fixed monthly charge?

A. No. There is simply too much variability in the load and service requirements of customers in each of the larger rate schedules to recover TDSIC costs through an "average" fixed monthly charge. Including TDSIC Distribution costs (along with TDSIC Transmission costs) in a demand charge is the appropriate way to

recover those costs from larger customers given the varied demand they place on the electric system, and the metering capability in place to accurately capture those customers' individual demands.

Q. What is currently happening in the electric industry to drive a focus on these key rate design principles?

A. There is a clear recognition among a variety of stakeholders around the country, including regulators and consumer advocates, that the electric utility operating landscape is transforming. As Vectren South witness Russell A. Feingold discusses in his direct testimony, the industry is changing drastically in response to new technologies: customer energy management preferences, societal expectations regarding energy conservation, commodity market dynamics, political change, and new opportunities for collaboration among electric utilities, policy makers, and other stakeholders. However, effectively addressing these challenges and taking full advantage of these opportunities will succeed only if based upon a foundation of proper rate design in which the costs of operating and maintaining the electric grid are recognized in rate design, utility costs are allocated to those customers who cause them to be incurred, and customers are presented appropriate price signals enabling them to make informed decisions about available energy technologies and their use of the electric system.

The result of these developments has been a steadily increasing change in homogeneity among residential electric customers in particular. Changing residential customer load characteristics, due to energy efficiency and distributed generation, have led to a decline in average use per customer, and the evolution of the demands individual residential customers place on the electric system – as well as the functions they require from the system -- continues, making it critical that utility rates convey appropriate price signals. Such price signals should reflect the nature of the underlying cost of service, address intra- and inter-class subsidies, create a level playing field for all emerging energy technologies and energy efficiency, encourage customers to use electricity more efficiently, and facilitate reductions in peak demands on the utility system. Recovering TDSIC

Distribution costs via a fixed monthly charge sends the appropriate price signal to residential customers.

Q. Please comment on the proposed rate design for Vectren South's other non-demand metered rate schedules.

A. Vectren South is proposing the same rate design for its other non-demand metered rate schedules (Rates B and SGS). While customers receiving service under these rate schedules are not anticipated to change their electric load/usage and service requirements to the same degree as residential customers, Vectren South's rate design objectives are no less applicable to these rate schedules than to the residential rate schedule. The Distribution costs included in Vectren South's TDSIC plan are fixed costs that do not vary based on customer usage; therefore, the appropriate price signal is to recover the distribution costs allocated to these rate schedules in the same manner as they are recovered from the residential rate schedule.

Q. Why does the Company propose to recover TDSIC Transmission costs from smaller customers through a volumetric energy charge, as opposed to a fixed charge?

A. Customers within each rate schedule use the Company's transmission system differently. While a large portion of the Company's distribution costs to serve (for example) residential customers do not vary materially based on a given customer's size (or demand), the transmission costs to serve those customers do vary based on the demand requirements of that class. In its TDSIC Plan herein, Vectren South is proposing investments in technologies that will, once implemented, allow customers to better respond to energy prices and manage the peak demand they place on the Company's electricity system. While the Company is not making such a proposal here, it may be appropriate in the next rate case to consider whether at least a portion of its transmission costs should be included in a demand charge for smaller customers. In any event, since transmission costs (while fixed in nature) do vary based on a customer's peak demand on the system, it is appropriate at this time to include those costs in an energy charge. The effect of including Transmission TDSIC costs in an energy

charge will be that the more energy a customer uses, the greater the portion of TDSIC costs that customer will pay; while perhaps imperfect this energy/demand correlation is more akin to a scenario in which more Transmission costs are recovered from (relatively) larger customers through a demand charge.

Q. Is Vectren South proposing a straight fixed-variable rate design for residential customers in this proceeding?

A. No it is not. Rather, Vectren South's proposal takes advantage of the unique opportunity enabled by the TDSIC Statute to incrementally move over time toward a rate design that recovers appropriate fixed costs via fixed charges, consistent with the often-cited, and very salient, ratemaking principle of gradualism which recognizes the need to mitigate potential adverse customer bill impacts that can occur when significant changes to rate design are made in a single step. Gradual movement to recovering a greater amount of fixed costs via fixed charges should not be misconstrued as a proposal to implement a full straight fixed variable rate design.

IV. CUSTOMER IMPACTS

Q. How will the Company's proposed TDSIC cost allocation and rate design impact Vectren South's customer bills?

A. The applicable fixed, demand, and volumetric TDSIC charges will grow throughout the TDSIC Plan period as investments are placed in service over time. Witness Swiz presents projected rates and charges for each rate schedule in Petitioner's Exhibit No. 9, Attachment JCS-2.

Q. Has Vectren South evaluated the impact of its TDSIC rate design proposal on its smallest residential customers, as gauged by those customers' average monthly energy usage?

A. Yes. In the table below, Vectren South has divided its residential customers[3] into

[3] The table includes residential customers having 11 or 12 bills in the consecutive 12-month period ending September 30, 2016.

10 equally sized groups. The table shows the average annual usage by residential customer group and the potential impacts of the proposed TDSIC rates and charges through 2024, as presented by witness Swiz, on each residential customer group. While the average residential customer's monthly bill is projected to increase by about 1.65% per year, the smallest 10% of residential customers (as determined by annual energy usage) will see increases of about 4.4% per year.

Group (Percentile)	Customer Count	Cumulative Customer Count	Average Monthly kWh	Average Annual TDSIC Increase to Monthly Bill $	Average Annual TDSIC Increase to Monthly Bill %
10.00%	11,923	11,923	200	$2.07	4.38%
20.00%	11,923	23,846	440	$2.25	2.67%
30.00%	11,923	35,769	580	$2.36	2.25%
40.00%	11,923	47,692	700	$2.45	2.00%
50.00%	11,924	59,616	820	$2.54	1.81%
60.00%	11,924	71,540	950	$2.64	1.65%
70.00%	11,924	83,464	1,100	$2.76	1.51%
80.00%	11,924	95,388	1,300	$2.91	1.39%
90.00%	11,924	107,312	1,600	$3.13	1.28%
100.00%	11,924	119,236	2,400	$3.76	1.13%
	119,236				1.65%

Q. Please explain why these percentage increases are so different.

A. The differences are a function of Vectren South's current rate design, in which most of its fixed costs (about 90%) are recovered via energy charges. Under the Company's TDSIC rate design proposal, each residential customer will pay the same amount for TDSIC Distribution costs. Since distribution costs paid currently by smaller users are by definition lower than the average customer pays for the same costs (because those costs are for the most part recovered via energy charges), the same dollar impact on the bill will result in a larger percentage increase to the bill.

Q. At the end of the TDSIC Plan period, what percentage of Vectren South's fixed costs will be recovered via energy charges?

A. The gradual increase in fixed charges over time in the TDSIC is projected to result in about 80% of the Company's fixed costs being recovered in an energy charge at that time.

Q. Can you provide an example to illustrate the relative customer impacts you have described above?

A. Yes. Using data presented in Petitioner's Exhibit No. 9, Attachment JCS-2, in year 1 of the TDSIC, a residential customer using 1,000 kWh per month is projected to pay total TDSIC costs of $1.61 per month. $1.19 of that amount, which will be applicable to each residential customer, will recover TDSIC Distribution costs. That $1.61 per month equates to a monthly bill increase of about 1.0% for this customer.

By comparison, a residential customer using 200 kWh per month is projected to pay total TDSIC costs of $1.27 per month in year 1 of the TDSIC. Again, $1.19 of that amount will recover TDSIC Distribution costs. The $1.27 per month equates to a monthly bill increase for this particular customer of about 3.2%.

In summary, larger energy users will still pay more TDSIC costs ($1.61 minus $1.27, or $0.34 in the example) under the Company's TDSIC rate design proposal than smaller users since Transmission TDSIC costs are proposed for recovery through an energy charge. As discussed previously, this outcome reflects the premise that Transmission costs are higher for larger energy users since they impose higher demands on the system. As the table above further illustrates, even though the annual percentage increases for larger customers are smaller than the increases for smaller customers throughout the TDSIC Plan period, the increases to larger customers' bills are higher.

Q. Please describe the smallest 10% of Vectren South's residential customers.

A. The average monthly energy use of this smallest group of residential customers is about 200 kWh per month, with the largest among this group using an average of 360 kWh per month. These customers, while using the same Distribution services as all other residential customers, do not represent a typical residential customer. To put these low levels of monthly energy usage in perspective, for example, 360 kWh represents only about eight (8) 60 watt incandescent bulbs

burning continuously for a month.[4] Energy use at these levels is not representative of the energy requirements of a residence.

Q. Is the Company's proposed rate design fair for all residential customers, even the smallest residential customers?

A. Yes. The projected impacts on small energy users further illustrates the importance of ensuring that the rate design is fair for all customers. Naturally the more fixed costs recovered via a volumetric charge, the more that the largest energy users will overpay their cost of service (and, likewise, the more that the smallest users will underpay). And while the gradual increase in fixed charges proposed by the Company in this proceeding will have a greater impact, in terms of the percentage increase in the total bill, on smaller users, that outcome should not be interpreted as smaller users overpaying for service. It simply means that all customers will gradually move towards paying their cost of service. Vectren South's proposal to recover Distribution costs in the TDSIC through a fixed monthly charge for residential customers results in the same cost impact for each customer – which makes sense since the Distribution costs to serve each residential customer are essentially the same.

Simply stated, the more fixed costs included in a fixed TDSIC charge, the more residential customers who use more than the overall average use per residential customer will benefit. Importantly however, it is not a question of whether customers who use relatively less energy should receive a larger percentage increase on their bills, but rather a question of whether the costs included in the rates vary with usage. Since the Distribution TDSIC costs are fixed and do not vary with usage, the appropriate price signal is provided to customers through a fixed TDSIC charge for TDSIC Distribution costs.

Q. What rate design challenges would Vectren South be faced with at the time of its next rate case if TDSIC Distribution costs were recovered from smaller customers through kWh charges during the TDSIC Plan period?

[4] 8 bulbs times 60 Watts per bulb times 730 hours per month equals 350 kWh.

A. Since recovery of fixed TDSIC Distribution costs via a fixed monthly charge reduces intra-class subsidies, it follows that recovery of these costs via a kWh charge would increase those subsidies. In that scenario, Vectren South would have moved even further from cost-based rates that send a true price signal to customers. That would leave the Company – and the Commission – in a quandary at the time of the next rate case: either remove the intra-class subsidy at that time (resulting in a more material increase in the fixed monthly charge in a single step, which might reasonably be interpreted as rate shock) or allow the intra-class subsidy to persist even longer. Neither of those outcomes would be desirable and, importantly, they can be mitigated if Vectren South begins to gradually address intra-class subsidies by implementing fixed monthly charges to recover TDSIC Distribution costs from its non-demand metered customers.

Q. Does Vectren South currently recover its fixed costs through fixed charges from any of its smaller customers?

A. Beyond the portion of fixed costs that are recovered in the applicable monthly Customer Facilities Charge, no. However, the Company continues to support rate designs that provide for the recovery of fixed costs via fixed charges (and, likewise, variable costs via variable charges) and do not make recovery of fixed costs dependent upon customer usage. Vectren South's base rates are not at issue in this proceeding, and the Company is not proposing in this proceeding to modify the currently-effective Customer Facilities Charge applicable to Residential customers – or for that matter, any customer.

Q. Has the Commission previously supported movement toward fixed charges for the recovery of fixed costs?

A. Yes, in its March 2016 order in Cause No. 44576, Indianapolis Power and Light Company's ("IPL") 2015-2016 rate case ("IPL Order"), the Commission stated that "cost recovery design alignment with cost causation principles sends efficient price signals to customers, allowing customers to make informed decisions regarding their consumption of the service being provided." (IPL Order, page 72.) The Commission also referenced in the IPL Order its conclusion in Cause No. 43180 (in which the Commission investigated rate design alternatives for

natural gas utilities): "[the Commission] finds straight-fixed variable rate designs attractive as they align basic cost causation principles of ratemaking." In the IPL Order, the Commission stated the general premise established in Cause No. 43180 (i.e. fixed costs recovered through fixed charges) is reasonably applicable to electric utilities in the context of distribution-related costs. Finally, the Commission found that IPL's customer charge increases were "consistent with the Commission's preference for gradual changes in rate structures." (Ibid.)

Q. Is Vectren South's proposed TDSIC rate design consistent with the Commission's stated points of view above?

A. Yes.

Q. Does Vectren South's proposed TDSIC rate design impact the Company's ability to fully recover approved TDSIC costs during the TDSIC Plan period?

A. No; specific to overall recovery of the TDSIC costs during the TDSIC Plan period, the Company is financially indifferent to *how* the approved revenue requirement amount is collected from customers, as any variances to those authorized levels will be reconciled and recovered in subsequent periods, as discussed by witness Swiz. However, as clearly explained previously in my testimony and in the testimony of witness Feingold, and noted by the Commission in the IPL Order, the TDSIC rate design proposal whereby Distribution costs are recovered via a fixed charge properly aligns Vectren South with sound ratemaking, cost causation principles, and the Commission's previous findings. The TDSIC provides for a gradual increase in fixed charges until the next base rate case; continuing to recover these types of costs via only energy charges would continue to send inaccurate price signals to customers, would exacerbate intra-class subsidies, and indeed should be considered regressive.

Q. Does Vectren South's proposed TDSIC rate design facilitate the ability to consider alternative rate designs after the conclusion of the 7-year TDSIC Plan period?

A. Yes. In the future, Vectren South will continue to evaluate potential rate design

options that improve the price signals provided to customers, allow greater customer control over energy usage and bills, are based on cost causation, promote efficient energy use, create a level-playing field for all advanced energy technologies, and aim to reduce inter- and intra-class subsidies. These options may include, but are not necessarily limited to:

- Time variant, seasonally differentiated energy charges that reflect an accurate cost of energy produced/procured during peak times of the day/year; and
- Three-part rate designs, that include metered demand charges, potentially unbundled by utility function, for all customers, similar to those currently in place for most commercial and industrial customers today;

With the deployment of advanced metering infrastructure, as described in greater detail by Vectren South witness Daniel C. Bugher and included in Vectren South's proposed TDSIC Plan, Vectren South will be able to consider any number of these rate options in the future, potentially providing customers more choices, shaving peak system demands, and creating a level playing field for all emerging advanced energy technologies.

V. CONCLUSION

Q. Please summarize your testimony.

A. My testimony identifies the benefits of allocating TDSIC costs based on each rate schedule's responsibility for the Transmission and Distribution system. Allocating Transmission and Distribution costs separately, based on the Transmission and Distribution revenues approved in the Company's last base rate case, appropriately assigns each type of cost to the rate schedules based on cost causation principles. The allocation methodology proposed by Vectren South complies with the TDSIC Statute and avoids potential inter-class subsidies that would otherwise grow during the 7-year TDSIC Plan period – subsidies that would then need to be addressed at the time of the Company's next rate case.

My testimony further identifies the benefits of the Company's proposed TDSIC rate design. Fixed TDISC Distribution charges send the appropriate price signal to smaller customers regarding the services they are receiving. Intra-class subsidies resulting from the adoption by some customers of energy efficiency measures and distributed generation technologies are mitigated to a great extent since the fixed TDSIC Distribution costs are not avoided when those customers reduce their energy consumption or purchase less of their energy requirements from the grid. Finally, the gradual nature of increases to fixed charges for smaller customers during the TDSIC Plan period are part of a framework under which customers can begin to better understand the cost of utility services over time. The provisions of the TDSIC Statute make it possible to begin to gradually transition Vectren South's rate structure to one that better matches the current and future electric industry landscape.

Q. Does this conclude your direct testimony in this Cause?

A. Yes, at this time.

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: _____

Scott E. Albertson
Vice President
Regulatory Affairs & Gas Supply

Dated: February 22, 2017

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.
VECTREN SOUTH
TRANSMISSION, DISTRIBUTION, AND STORAGE SYSTEM IMPROVEMENT CHARGE (TDSIC)
Distribution and Transmission Revenue Allocations

Revenue Requirement Allocation - Rate Case

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	
	Rate Schedule	Distribution	Transmission	Production	Other	Fuel	Miscellaneous Revenue	Total			
1	Rate RS	$ 28,733,094	$ 23,321,294	$ 106,159,155	$ 11,372,278	$ 58,049,784	$ (14,875,868)	$ 212,759,738			1
2	Rate B	$ 549,085	$ 71,249	$ 372,715	$ 239,627	$ 481,077	$ (251,720)	$ 1,462,032			2
3	Rate SGS	$ 2,013,649	$ 996,472	$ 4,540,181	$ 892,990	$ 2,481,333	$ (1,439,585)	$ 9,485,040			3
4	Rate DGS/MLA	$ 11,076,023	$ 14,952,070	$ 69,237,519	$ 1,946,065	$ 45,104,753	$ (2,873,219)	$ 139,443,211			4
5	Rate OSS	$ 1,141,031	$ 1,158,980	$ 5,434,583	$ 214,675	$ 3,917,839	$ (575,308)	$ 11,291,801			5
6	Rate LP	$ 5,169,575	$ 9,214,763	$ 46,316,827	$ 1,043,341	$ 54,105,867	$ 4,047,372	$ 119,897,745			6
7	Rate HLF	$ 41,048	$ 4,998,284	$ 25,602,960	$ 503,917	$ 33,571,145	$ 6,737	$ 64,724,092			7
8	Rate OL/SL	$ 439,069	$ -	$ 135,285	$ 2,541,695	$ 860,155	$ 26,214	$ 4,002,418			8
9	Miscellaneous Revenue	$ -	$ -	$ -	$ -	$ 12,440,364	$ 15,935,377	$ 28,375,741			9
10	Total	$ 49,162,574	$ 54,713,114	$ 257,799,226	$ 18,754,587	$ 211,012,317	$ -	$ 591,441,818			10

Large Customer Migration

	Rate Schedule	Distribution	Transmission	Production	Other	Fuel	Miscellaneous Revenue	Total			
11											11
12	Rate RS							$ -			12
13	Rate B							$ -			13
14	Rate SGS							$ -			14
15	Rate DGS/MLA							$ -			15
16	Rate OSS							$ -			16
17	Rate LP	$ 38,147	$ 4,645,032	$ 23,793,477	$ 468,303	$ 29,883,645	$ -	$ 58,828,603			17
18	Rate HLF	$ (38,147)	$ (4,645,032)	$ (23,793,477)	$ (468,303)	$ (29,883,645)	$ -	$ (58,828,603)			18
19	Rate OL/SL							$ -			19
20	Miscellaneous Revenue							$ -			20
21	Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -			21

Revenue Requirement Allocation - Adjusted

	Rate Schedule	Distribution	Transmission	Production	Other	Fuel	Miscellaneous Revenue	Total	**Distribution**	**Transmission**	
22											22
23	Rate RS	$ 28,733,094	$ 23,321,294	$ 106,159,155	$ 11,372,278	$ 58,049,784	$ (14,875,868)	$ 212,759,738	**58.44%**	**42.62%**	23
24	Rate B	$ 549,085	$ 71,249	$ 372,715	$ 239,627	$ 481,077	$ (251,720)	$ 1,462,032	**1.12%**	**0.13%**	24
25	Rate SGS	$ 2,013,649	$ 996,472	$ 4,540,181	$ 892,990	$ 2,481,333	$ (1,439,585)	$ 9,485,040	**4.10%**	**1.82%**	25
26	Rate DGS/MLA	$ 11,076,023	$ 14,952,070	$ 69,237,519	$ 1,946,065	$ 45,104,753	$ (2,873,219)	$ 139,443,211	**22.53%**	**27.33%**	26
27	Rate OSS	$ 1,141,031	$ 1,158,980	$ 5,434,583	$ 214,675	$ 3,917,839	$ (575,308)	$ 11,291,801	**2.32%**	**2.12%**	27
28	Rate LP	$ 5,207,722	$ 13,859,795	$ 70,110,304	$ 1,511,644	$ 83,989,512	$ 4,047,372	$ 178,726,348	**10.59%**	**25.33%**	28
29	Rate HLF	$ 2,901	$ 353,253	$ 1,809,484	$ 35,614	$ 3,687,500	$ 6,737	$ 5,895,489	**0.01%**	**0.65%**	29
30	Rate OL/SL	$ 439,069	$ -	$ 135,285	$ 2,541,695	$ 860,155	$ 26,214	$ 4,002,418	**0.89%**	**0.00%**	30
31	Miscellaneous Revenue	$ -	$ -	$ -	$ -	$ 12,440,364	$ 15,935,377	$ 28,375,741	**0.00%**	**0.00%**	31
32	Total	$ 49,162,574	$ 54,713,114	$ 257,799,226	$ 18,754,587	$ 211,012,317	$ -	$ 591,441,818	**100.00%**	**100.00%**	32