FILED October 28, 2011 INDIANA UTILITY REGULATORY COMMISSION

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 FAC 91 S1

TESTIMONY OF

ERIC M. HAND – PUBLIC'S EXHIBIT NO. 1

DUANE P. JASHEWAY – PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

OCTOBER 28, 2011

Respectfully Submitted,

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

DIRECT TESTIMONY

OF

ERIC M. HAND - PUBLIC'S EXHIBIT NO. 1

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

October 28, 2011

TESTIMONY OF OUCC WITNESS ERIC M. HAND CAUSE NO. 38708 FAC91S1 <u>VECTREN SOUTH - ELECTRIC</u>

r.,

I. Introduction

	1	Q:	Please state your name and business address.
	2	A:	My name is Eric Mark Hand, and my business address is 115 W. Washington Street,
	3		Suite 1500 South, Indianapolis, IN, 46204.
	4	Q:	By whom are you employed and in what capacity?
	5	A:	I am employed as a Utility Analyst in the Electric Division for the Indiana Office of
••	6		Utility Consumer Counselor ("OUCC").
	7	Q:	Would you summarize your educational background?
	8	A:	I graduated from Rose-Hulman Institute of Technology with a Bachelor of Science
	9		degree in Mathematical Economics. I received a Masters in Business Administration
	10		from Indiana University with majors in Management, Marketing, and International
	11		Business.
	12	Q:	Please describe your professional experience.
	13	A:	I was a Manufacturing Engineer for 5 years with a steel components company
	14		followed by a 30-year automotive industry career with Allison Transmission Division
	15		of General Motors in administrative positions in Manufacturing, Engineering, and
	16		Contracts, culminating in management positions in Finance, Contracts and
	17		Information Technology. I have had considerable experience with Request for

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1		Proposal ("RFP") procurements in multiple business arenas such as steel products,
2		transportation equipment components, U.S. Defense equipment, engineering services,
3		and information technology (services, equipment, software). I have participated at
4		multiple stages of RFP processes including preparation, writing, issuance, bid
 5		evaluation, winner selection, contract award and post-award compliance. My RFP
6		and contract experiences have been from both the issuer and bidder perspectives as
7		well as from the contractor and subcontractor roles.
8	Q:	What is the purpose of your testimony?
9	A:	I will discuss the following issues relevant to this sub-docket and Vectren South -
10		Electric's ("Vectren", "Applicant", or "VSE") coal procurement activities:
11 12 13 14 15 16		 Reasons why this sub-docket was created; Brief history of VSE's coal procurement from Vectren Fuels ("VF"); RFP practices and VSE's 2008 and 2011 RFPs; Concerns about Vectren affiliate issues; Implications of Vectren management decisions; and Recommendations for future coal procurement activities.
17 18	Q:	Please describe the review and analysis you conducted in order to prepare your testimony.
19	A:	I read the testimony submitted by VSE in this proceeding as well as the testimony of
20		Ronald Jochum in Cause No. 43839 and the testimony of Ronald Jochum and
21		Michael D. Eckert from several recent FAC proceedings as it pertained to VSE's coal
22		procurements. In addition, I attended portions of the hearing during March 8-12,
23		2010, in Cause 43839, including portions dealing with coal procurement. I prepared
24		several data requests and reviewed responses. I have read published articles

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	1		regarding VSE and its coal procurement activities. I have reviewed information on
	2		various industry recognized websites and discussed aspects of this case with other
	3		OUCC personnel.
	4	Q:	Why was this sub-docket created?
	5	A:	The sub-docket was created by the Commission in its Final Order from the most
	6		recent VSE rate case:
•-7	7		However, the timing of the 2008 RFP and the fact that Vectren South
	8		placed itself in a position where all of its coal supply was exposed to
	9		market prices at effectively one point in time is concerning. While we
1	0		recognize that Petitioner has taken steps to avoid a recurrence of this
1	1		scenario, we are obligated to ensure such steps are more fully
1	2		reviewed. Accordingly, we direct Vectren South to prepare for and
1			request the creation of a sub-docket in its first FAC filing following
1			the effective date of this Order for the purpose of reviewing its coal
1	5		supply activities on a going forward basis.
	6 7		Vectren South, Cause 43839 Final Order 4 at p. 16, ¶1 (Ind. Util. Regulatory n'n Apr. 27, 2011).
1	8		This sub-docket was therefore created to review VSE's coal procurement practices
1	9		and procedures. The issues that need to be addressed regarding coal procurement
2	0		practices include competitive bidding, pricing, timing, sourcing and the implications
2	1		of affiliate relationships.
			II. VSE Coal Procurement History and 2008 Coal RFP
2	2	Q:	Why is it important to review VSE's coal procurement history?
2	3	A:	It is important to review VSE's coal procurement history because it is the basis for
2	4		analyzing the current coal RFP process and developing procedures and process

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improvements for future coal RFPs. Hopefully, the successes will be replicated and
 the failures avoided.

3 Q: What has been VSE's coal procurement history?

4 A: SIGCORP (predecessor to Vectren Corporation) entered the coal mine business in 5 1996. From 1997-2008, SIGECO (predecessor to VSE) purchased most of its coal requirements from its affiliate SIGCORP Fuels, Inc. (predecessor to VF) and about 6 7 10% from non-affiliated suppliers. In August 2008, VSE conducted a RFP coal solicitation in which 8 potential bidders (7 large producers and 1 broker) were 8 9 contacted. A majority of the potential bidders had no coal available, and only three bidders submitted timely bids. In regard to this RFP, Alliance was awarded a four 10 year contract for providing 250,000 tons/year and VF was awarded the rest, 11 contracting to provide VSE approximately 3 million tons/year. 12

Q: Mr. Games describes VSE's procurement history in his direct testimony. Do you have any concerns about its history?

- 15 A: Yes. I have five concerns regarding VSE's coal procurement history. Those concerns
- 16 are:

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- 17 I) Sole-source contracting;
- 18 2) Planning;
- 19 3) Market conditions;
- 20 4) Competitiveness of VSE's RFP process; and
- 5) Affiliate relationships between VSE, VF and Vectren Corporation (VC).

A. Sole-Source Contracting

Q: Please explain your concerns regarding the apparent sole-sourcing of coal contracts between VSE and VF. A: Although not 100%, VSE is effectively sole-sourced and has basically relied on the same provider. VF, for nearly all its coal requirements for over 10 years. This

same provider, VF, for nearly all its coal requirements for over 10 years. This
historical pattern sets a precedent that would be known to other coal suppliers within
the regional coal industry. Thus, the long term coal supply and affiliated relationship
between VSE and VF creates a business environment in which prospective bidders on
a VSE coal RFP may be reluctant to bid because they perceive the outcome to be
predetermined. Potential bidders also may be concerned about providing sensitive or
confidential bid information to a competitor's (VF) affiliate (VSE).

B. Planning Process

11Q:As previously stated, Mr. Games describes VSE's 2008 coal procurement12process. Please explain your concerns regarding the planning process relative to13the VSE August 2008 Coal RFP.

A: 14 Although VSE has repeatedly contended that the August 2008 RFP was competitively 15 bid, the coal market conditions at the time precluded a competitive sourcing outcome. Due to poor planning, VSE allowed all its contracts to expire at the same time, and 16 17 therefore it had to solicit its entire coal supply when coal prices were peaking due to the lack of coal availability (peak demand at low supply). The timing of the August 18 19 2008 Coal RFP was terrible if one were a coal buyer, but great if one were a coal 20 seller and actually had coal to sell. Through its affiliates, VC was both buyer and seller, since VSE was buying from VF. Thus, VC was selling its own coal to itself 21

during a period of historically high coal market prices, passing on those costs to the
 electric utility's customers.

C. Market Conditions and Affiliate Relationships

3 Q: Please explain your concerns regarding the market conditions.

Through VSE, VC awarded multiple-year coal contracts to VF at high, historical 4 A: 5 near-peak market prices. VC could have chosen to acquire only its then-current basic requirements on the spot market or through a 1-year contract while waiting to see if 6 7 the market stabilized at more reasonable prices. Market pricing information (such as shown in Exhibit 12 on page 19 of Ms. Medine's testimony) up to the August 2008 8 RFP and subsequent contract awards, shows significant abnormal price spiking; 9 10 experienced purchasers would have known, or should have known, that market prices would likely decline in the future, which is exactly what happened. In my opinion, if 11 12 VSE had been an independent company separate from VC and VF, and was to 13 procure its own coal supply for its own operations, VSE would never have contracted 14 on a multi-year basis for full annual requirements at a time when market prices were 15 near a record high. Given the affiliate structure of VC, VSE, and VF, and VSE's 16 regulated monopoly status, VC and VF stood to benefit greatly and VSE would not be harmed by VSE contracting (from VF) for large quantities of very expensive coal for 17 18 multiple years. By contracting the purchase of coal at high market rates, VC and VF 19 locked in high profits by virtue of the high cost of fuel to VSE that would be fully 20 recovered from VSE's customers through the FAC proceedings.

D. <u>Competitiveness of VSE's RFP Process</u>

~	1 2	Q:	Please explain your concerns regarding the competitive aspect of VSE's RFP process.
	3	A:	VSE has contended that its August 2008 RFP and resultant coal contracts were
	4		competitively market priced. For example, in Cause 38708 FAC 83, VSE's witness
	5		testified as follows:
:	6 7 8 9 10		EIA publishes reported data for spot and contract purchases. February 2009 is the latest available month of reported data. For February 2009, when Vectren South received delivered coal from Vectren Fuels at around \$63/ton, and from Alliance Coal at \$75-76/ton, other Indiana utilities made the following contract (non spot) purchases:
	11 12 13 14 15 16 17 18 19		118,584 tons at \$66.74; 9,489 tons at \$85.96; 8,309 tons at \$65.25; 14,362 tons at \$63.15; 35,889 tons at \$55.96; 43,444 tons at \$73.95; 123,832 tons at \$64.20; 33,252 tons at \$60.08; 53,075 tons at \$61.33.
	20 21 22 23 24 25 26		Thus, in February 2009, almost 450,000 tons of coal were procured by other Indiana utilities at non-spot contract prices ranging from \$56-86 per ton. The average price per ton of these contracts is \$66, about \$3 higher than the delivered cost Vectren South paid Vectren Fuels in that same month. These transactions reflect 2009 contract prices, and provide further evidence that Vectren South is paying a market price for its coal.
	27 28		In re Vectren, Cause No. 38708 FAC 83, Rebuttal Testimony of Ronald Jochum at pp. 6-7.
:	29		However, the statistics cited by VSE's Witness Jochum in that proceeding are
	30		for contracts with relatively small tonnage. In addition, the lengths of the contracts
	31		were not included. These contracts may have been short-term in nature (due to high

price and limited coal availability). These nine contracts were for a combined 440
thousand tons, whereas VSE was locking in 3 million tons/year in multi-year
contracts with its affiliate (VF) at the highest price range within at least the previous 5
years (2004-2008). VSE selectively used certain statistics to create a misperception
of competitiveness.

III. VSE's 2011 Coal RFP

6 Q: Mr. Games also describes VSE's 2011 coal RFP. Do you have concerns
 7 regarding VSE's April 2011 RFP?

- 8 A: Yes. My concerns include:
- 9 1. The affiliate relationship of VSE, VF, and VC and the inherent conflicts of interest
- 10 that still exist. I continue to be concerned that the affiliate relationship will continue
- 11 to impact VSE coal procurement strategy to the benefit of VF and the detriment of
- 12 VSE's customers, as I have testified and further explain later in my testimony.
- 13 2. A lack of pre-screening assessment by VSE of its initial RFP bidders list prior to
- 14 distribution. Pre-screening of the potential bidders list could provide the following
- ... 15 benefits:
 - 16 Α. It narrows the candidate list to those that are or may be able to be qualified bidders; 17 Β. It does not mislead potential bidders, does not waste their time 18 and minimizes ill-will over being rejected later during bid 19 evaluation: 20 It demonstrates sincerity and validity of the RFP (not just a 21 С. 22 pricing "fishing trip"); and It reduces the time required for the bid evaluation phase, 23 D. 24 subsequent negotiations and ultimate contract award.

A. Affiliate Relationships

1 Q: Please explain your continuing concerns as to affiliate relationships in the 2 Vectren Family.

A: 1. My first concern relates to the issue of perception. In general, a bidder's
perception will be negatively impacted when it knows or suspects that affiliates of the
sourcing entity will also be bidding. Thus, potential bidders may decide not to
participate due to the potential for preferential treatment between affiliates.

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2. The second issue relates to inside information between affiliates. If inside
8 information is known, the affiliate has an inherent advantage in the bid process. The
9 inside information need not be about the specifics of the RFP, but could cover a wide
10 range of general matters that the other non-affiliated parties would not know or to
11 which such parties would not have access.

12 3. The third issue relates to the different motivations within the VC, VSE, and VF structure and the ramifications that extend externally from that structure. 13 VF 14 naturally wants to sell its coal assets at the highest price possible. However, this is at odds with VSE's obligation under Ind. Code § 8-1-2-42(d) to make "...every 15 reasonable effort to acquire fuel and generate or purchase power or both so as to 16 provide electricity to its retail customers at the lowest fuel cost reasonably possible." 17 18 VC is naturally interested in making the highest profits possible for its shareholders, 19 so financially it would tend to support VF. However, VC is legally responsible for VSE's compliance with I.C. § 8-1-2-42(d), resulting in a conflict for VC due to its 20 21 affiliate relationships and internal business transactions.

1	The conflicts of most concern to the OUCC are those that have a direct
2	adverse impact on VSE operations, or costs to be borne by electric customers. High
3	coal cost means high cost of generation, which in turn, means high rates for
~ 4	customers and a lower probability of off-system sales ("OSS"). When examining Ms.
5	Medine's Exhibit 12 Historical Coal Prices, VSE's late 2008 multi-year procurements
6	from VF at about \$60/ton ¹ were very high. In my opinion, VSE would not have
7	locked in so much coal in adverse market conditions but for the fact that its parent
8	corporation stood to benefit through VF's profits. These actions to lock in high coal
9	prices for multi-year contracts at abnormally high coal market prices and recoup the
10	resultant higher costs from its electric customers provided significant financial gain to
11	VF and VC at the expense of the electric utility's (VSE's) customers. These facts
12	underscore my continuing concerns.

IV. Conclusions and Recommendations

13	Q:	Do you agree that some progress has been made as a result of the 2011 RFP?
14	А.	Yes. Some progress has been made by VSE, at least compared to VSE's
15		disappointing 2008 procurement process. For example:
16		1. The 2011 RFP did result in lower coal prices than would likely have been
17		attained without the RFP;
18		2. The RFP did result in a new low bidder; and

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¹Based on the 4 VSE contracts to VF for 2009-2011.

- 1 3. The appearance of competitive sourcing has improved due to an award to a non-affiliate.
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Q: Do you believe that these improvements fully resolve the OUCC's concerns?

A: No. While some progress has been made, it is unknown if it will continue. The
Commission should order VSE not to return to the type of non-competitive
procurement practices that occurred in 2008. OUCC witness Jasheway documents in
his testimony that VSE's coal costs in 2009 and 2010 have become out of line with
utilities like IPL.

9 Q: Should VSE strive to continue making progress in the future?

A: Yes, absolutely. VSE must look for ways to improve upon its April 2011 RFP
process. This is a decision that must not only be made by VSE but also its affiliates
VF and Vectren Corporation. VSE must do the right thing for the ratepayers in
Southwest Indiana and make "every reasonable effort to acquire fuel and generate or
purchase power or both so as to provide electricity to its retail customers at the lowest
fuel cost reasonably possible" as required by law.

16 Q: What if VSE does not continue to improve its procurement process?

17 A: 18

If VSE does not continue to improve, then I make the following recommendations for the Commission to consider:

Place a cap on the percentage of VSE's coal needs that can be sourced to VF
 so that VSE is not effectively sole-sourced to VF. VSE should not be a
 "captive" buyer nor should VF be a "captive" seller;

2. Require VSE to outsource an RFP during the next 2-3 years to a neutral and
 2 confidential third party such as a coal broker or other independent agent. The
 3 third party would conduct all aspects of the RFP such that VSE would be
 4 unidentified.

3. Determine a weighted average of coal prices based on purchases made 5 by other Indiana Electric Utilities as a benchmark and request that Vectren 6 7 voluntarily agree that VF is not to charge VSE more than the determined 8 benchmark, or that no more than the benchmark price will be charged to 9 ratepayers. Since VSE has the highest electric rates in the state and coal cost is 10 a large part of the total cost, limiting coal cost to a statewide average could eventually provide some rate relief to VSE customers. These actions would 11 level the playing field and alleviate some consumers' concerns that Vectren 12 • • 13 has an unfair advantage.

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Q: Do you have any other recommendations?

A: Yes. The Commission should require VSE to make a filing similar to the one in this
docket in 2012 relating to its future 2012 procurement. That would assist the
Commission to determine if VSE is continuing to make progress in its coal
procurement practices.

19 Q: Does this conclude your direct testimony?

20 A: Yes.

AFFIRMATION

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

En m Hand

By: Eric M. Hand Indiana Office of Utility Consumer Counselor

October 28, 2011_____ Date

Cause No. 38708-FAC-91S1

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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

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CAUSE NO. 38708 FAC91 S1

DIRECT TESTIMONY

OF

DUANE P. JASHEWAY - PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

October 28, 2011

TESTIMONY OF OUCC WITNESS DUANE P. JASHEWAY CAUSE NO. 38708 FAC91S1 <u>VECTREN SOUTH - ELECTRIC</u>

I. <u>INTRODUCTION</u>

	1	Q:	Please state your name and business address.
	2	A:	My name is Duane P. Jasheway and my business address is 115 West Washington
	3		Street, 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 Utility Analyst in the Electric Division.
	7	Q:	Please describe your educational background and experience.
	8	A:	I graduated from Indiana University with a Bachelor of Science Degree in
	9		Business with a major in Accounting and Finance. I joined the OUCC in 2009.
	10		Since then, I have attended the National Association of Regulatory Utility
	11		Commissioners ("NARUC") Annual Regulatory Studies Program sponsored by
~	12		NARUC and the Institute of Public Utilities at Michigan State University in East
	13		Lansing, Michigan. Prior to my employment with the OUCC, I worked as a Staff
	14		Accountant in public accounting. I was also employed by the Indiana Treasurer of
	15		State's Office in a variety of capacities including Chief Accountant, Investment
	16		Portfolio Manager and Deputy Treasurer.
	17	Q:	Please describe your duties and responsibilities at the OUCC.
	18	A:	I review Indiana utilities' requests for regulatory relief filed with the Indiana
	19		Utility Regulatory Commission ("Commission"). I also prepare and present

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- testimony based on my analyses, and make recommendations to the Commission
 on behalf of Indiana utility consumers.
- Q: Please describe the review and analysis you conducted in order to prepare
 your testimony.
- 5 A: I reviewed Vectren South Electric's ("Applicant" or "Vectren") pre-filed direct
- 6 testimony and exhibits in Cause No. 38708 FAC-91S1. I read the Commission's
- 7 Final Order in Cause No. 38708 FAC 91. I reviewed relevant testimony, exhibits,
- 8 and portions of the Commission's Order in Cause No. 43839. I also met with
- 9 OUCC staff members to discuss issues related to this Cause.
- 10 Q: Have you previously testified before the Commission?
- 11 A: Yes.

II. COAL MARKET ANALYSIS

- What is the purpose of your testimony? 12 Q: I provide a historical perspective of coal prices for the last few years and the 13 A: 14 impact on this Cause. I also present an analysis of Vectren's cost of coal compared with other investor owned utilities using data from SNL Financial 15 16 ("SNL") information service.¹ 17 Please provide a summary of recent coal prices. **Q**: 18 A: Coal prices rose in 2007 and peaked in the middle of 2008. "Over the period of
- 19 mid-2007 and mid-2008, global coal prices tripled."²

¹ "SNL is a premier provider of breaking news, financial data and expert analysis on business sectors critical to the global economy: Banking, Insurance, Financial Services, Real Estate, Energy and Media & Communications. SNL's information service provides investment professionals, from leading Wall Street institutions to top corporate management, with access to an in-depth electronic database, available online and updated 24/7." See SNL web site: <u>https://www.snl.com/</u>

² See Vectren Witness Emily Medine Expert Report, Cause No. 38708 FAC 97, Attachment II, July 2, 2010, Page 2.

Public's Exhibit No. 2 Cause No. 38708 FAC-91S1 Page 3 of 7

1 Q: What factors contributed to the increase in prices?

A: Several global events contributed to the spike in coal prices. Global demand for
coal increased, which impacted United States coal prices. A declining United
States Dollar, regional supply issues and escalating freight rates further
contributed to the increase in coal prices. "There were several regional supply
issues which also affected prices such as heavy rain-induced flooding in Australia
and Indonesia and there were brownouts in South Africa."³

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- Q: How does the increase in coal prices that peaked in mid-2008 impact this Cause?
- 10 A: Around the time that coal prices peaked in mid-2008,⁴ Vectren made the decision 11 to change the pricing of its coal contracts from a cost-based pricing to a market-12 based pricing.⁵ This timing was a factor cited by the Commission when it decided 13 to establish this sub-docket.⁶
 - 14 Q: How did this impact Vectren's cost of coal?

A: As my comparative analysis will demonstrate, Vectren's price for coal purchased predominately from its affiliate, Vectren Fuels, increased to the point where it ranked as the highest price paid in the State of Indiana. Vectren's cost of coal had been more comparable to other Indiana utilities prior to its switch to market-based pricing near the peak of coal prices in August 2008. This decision caused Vectren's cost of coal to be far in excess of IPL's in 2009 and 2010.

III. <u>COMPARATIVE ANALYSIS</u>

³ *Id.*, Page 5.

⁴ *Id.*, Page 3.

⁵ See Vectren Witness Ronald Jochum, Cause No. 43839, Rebuttal Testimony, Page 31.

⁶ See Cause No. 43839 Final Order issued April 27, 2011, Page 16.

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Q: Are you sponsoring any Exhibits in this Cause?

- 2 A: Yes. I sponsor Exhibit DPJ-1.
- 3 Q:

Please explain Exhibit DPJ-1.

4 A: Exhibit DPJ-1 is a comparative analysis that shows the coal purchase price by 5 power plant on a weighted average price per MMBtu basis (\$/MMBtu). Exhibit 6 DPJ-1 displays the five Indiana Investor Owned Utilities ("IOU"), including Duke 7 Energy Indiana ("Duke"), Indiana Michigan Power ("I&M"), Indianapolis Power 8 and Light ("IPL"), Northern Indiana Public Service Company ("NIPSCO") and 9 Vectren. Due to its proximity to Vectren, Louisville Gas and Electric ("LGE") 10 was also included for comparative purposes. Exhibit DPJ-1 compares the coal 11 purchase price by utility by power plant for the most recent five years, 2006 12 through 2010.

13 Q: How were the figures used in Exhibit DPJ-1 derived?

A: The figures presented in Exhibit DPJ-1 are taken directly from an SNL annual report entitled "Energy Analytics, Energy Contracts: Power Plant Details." SNL breaks out the coal purchase prices for utilities by power plant on a monthly basis.
 Q: Where does SNL derive the information used in this Power Plant Details report?
 A: SNL pulls its data from utility company filings with the Federal Energy

Regulatory Commission ("FERC") and/or the United States Energy Information
Administration ("EIA"). For the years 2008 to the present, SNL gathered its data
from fuel delivery information contained in the EIA-923 Power Plant Operations
Report Filings. For the years 2007 and before, SNL gathered its data from fuel

Public's Exhibit No. 2 Cause No. 38708 FAC-91S1 Page 5 of 7

	1		delivery information contained in the FERC/EIA 423 Cost and Quality of Fuels
	2		for Electric Plants Filings.
	3	Q:	What does Exhibit DPJ-1 show with regard to coal prices in Indiana?
	4	A:	Using an average of the SNL information provided, IPL consistently ranks as the
	5		lowest of the utilities in coal purchase prices for the entire period of 2006 through
	6		2010.
	7	Q:	How does the coal source compare for IPL and Vectren?
	8	A:	While perhaps not an exact comparison, like Vectren, IPL also has relied heavily
	9		on Illinois Basin coal.
	10	Q:	How does Vectren compare with the other utilities' prices for coal?
	11	A:	Based on the yearly average of coal purchase prices shown on Exhibit DPJ-1,
	12		Vectren's cost of coal ranked on a per \$/MMBtu basis as the 4 th lowest when
	13		compared to the five Indiana IOU's and LGE in 2006 and 2007. In 2008,
	14		Vectren's cost of coal ranked as the 3 rd lowest among the 6 utilities compared. In
	15		2009, Vectren's cost of coal became the most expensive among the utilities
-	16		compared. In fact, in 2009, Vectren had an average cost of coal per MMBtu of
	17		\$2.60 which was on average \$1.00 higher than IPL's average cost of coal of
	18		\$1.60. In 2010, Vectren again had the highest cost of coal on a \$/MMBtu basis
	19		among the 6 utilities compared. ⁷
	20	Q:	Has the OUCC previously compared the five Indiana IOU's fuel prices?
	21	A:	Yes. Each quarter, OUCC Witness Michael Eckert prepares a schedule that
	22		compares the five Indiana IOU's actual costs of fuel on a mills/kWH basis using
	23		figures derived directly from the quarterly FACs. Mr. Eckert most recently filed

⁷ See Exhibit DPJ-1.

1		testimony with the Commission in Cause No. 38708 FAC-92 on October 4 th ,
2		2011. Mr. Eckert's Attachment MDE-1 demonstrates the sharp increase in
3		Vectren's fuel cost in 2009 and 2010. For convenience, I have included a copy of
4		Mr. Eckert's most recently filed Attachment MDE-1 as Exhibit DPJ-2.
5 6	Q:	How does your comparative analysis differ from the one provided by Mr. Eckert in his FAC filings?
7	A:	The analysis shown in Exhibit DPJ-1 relies on filings with FERC and EIA as
8		compiled by SNL. The analysis is also somewhat expanded in that it contains
9		plant by plant data rather than data aggregated to the utility level. I have also
10		included a Kentucky Utility (LGE) that has power plants on the Ohio River and
11		serves a major territory just across the Ohio River from Indiana.
12 13	Q:	Is the OUCC concerned about the reasons Vectren's coal prices increased so dramatically?
14	A:	Yes. The OUCC's concerns regarding Vectren's coal costs, caused by its affiliate
15		relationship with Vectren Fuels, still remain. The raw data that SNL provides
16		monthly on a plant-by-plant basis assists in the objective analysis of Vectren's
17		coal costs. Exhibit DPJ-1 utilizes the SNL data and provides an additional and
18		reasonable basis to track, monitor and compare coal costs.
19 20	Q:	Does the OUCC contend that the comparison shown in Exhibit DPJ-1 is a perfect, "apples-to-apples" comparison of coal costs?
21	A:	No. For example, I understand that some of the plants shown in Exhibit DPJ-I
22		burn coal from outside the Illinois Basin region. Nevertheless, the OUCC finds
23		Exhibit DPJ-1 to be a useful tool in comparing the coal costs of Indiana's IOU's. I
24		have provided all the data from SNL that was used to develop Exhibit DPJ-1 as
25		work papers. However, the OUCC is also open to input from the Commission and

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other stakeholders about ways to conduct further comparative analyses in the
 future.

IV. OUCC RECOMMENDATION

3 Q: Please summarize your recommendations in this Cause.

A: The OUCC recommends that the Commission continue to carefully monitor and
scrutinize Vectren's coal procurement practices. The most recent RFP process
initiated by Vectren since the time the OUCC raised concerns shows signs of
improvement, but the situation warrants continued monitoring at least in the near
term due to Vectren's recent coal costs and its affiliate relationships with Vectren
Fuels, its principal coal provider.

- 10 Q: Does this conclude your testimony?
- 11 A: Yes.

<u>Duke:</u> Cayuga		2006	2	2007	2	2008	2	2009	2	<u>2010</u>	<u>Av</u>	<u>erage</u>
					1							
Cayuga												
	\$	1.36	\$	1.60	\$	1.85	\$	2.50	\$	2.69		
Edwardsport	\$	1.45	\$	1.38	\$	1.62	\$	1.49	\$	1.49		
Gibson	\$	1.38	\$	1.41	\$	1.86	\$	2.03	\$	2.03		
Gallagher	\$	1.96	\$	1.95	\$	3.08	\$	2.63	\$	2.90		·· · · ·
Wabash River	\$	1.23	\$	1.50	\$	1.68	\$	1.64	\$	1.67		
Duke Avg:	\$	1.48	\$	1.57	\$	2.02	\$	2.06	\$	2.16	\$	1.86
<u>I&M:</u>												
Rockport	\$	1.67	\$	1.96	\$	2.13	\$	2.14	\$	1.80		
Tanners Creek	\$	1.64	\$	1.78	\$	2.71	\$	2.55	\$	2.74		
I&M Avg:	\$	1.66	\$	1.87	\$	2.42	\$	2.35	\$	2.2 7	\$	2.11
IPL:			·····.	1.0, A								
Eagle Valley	\$	1.65	\$	1.76	\$	1.92	\$	1.88	\$	1.92		
Harding Street	\$	1.56	\$	1.42	\$	1.73	\$	1.62	\$	1.72		
Petersburg	\$	1.11	\$	1.11	\$	1.31	\$	1.31	\$	1.86		
retersburg	Ŷ	1,11	Ŷ	1,11	Ŷ	1.51	<i></i>	1.51	Ŷ	1.00		
IPL Avg:	\$	1.44	\$	1.43	\$	1.65	\$	1.60	\$	1 .85	\$	1.60
NIPSCO:												
Bailly	\$	1.39	\$	1.77	\$	2.00	\$	2.02	\$	2.13		
Michigan City	\$	1.63	\$	1.87	\$	1.98	\$	2.38	\$	2.16		
Shahfer	\$	1.77	\$	1.85	\$	2.07	\$	2.46	\$	2.39		
NISPCO Avg:	\$	1.60	\$	1.83	\$	2.02	\$	2.29	\$	2.23	\$	1.99
Vectren:												
Brown	\$	1.65	\$	1.74	\$	1.84	\$	2.93	\$	3.11		
Culley	\$	1.61	\$	1.75	\$	1.82	\$	2.93	\$	3.11		
Warrick	\$	1.54	\$	1.67	\$	1.87	\$	1.95	\$	1.86		
Vectren Avg:	\$	1.60	\$	1.7 2	\$	1.84	\$	2.60	\$	2.69	\$	2.09
Louisville G&E			-,	harta anti ti Masandana								
Cane Run	\$	1.55	\$	1.57	\$	1.74	\$	1.73	\$	2.01		
Mill Creek	\$	1.50	\$	1.56	\$	1.71	\$	1.73	\$	1.81		
Trimble	\$	1.46	\$	1.50	\$	1.97	\$	1.90	\$	2.12		
Louisville Avg:	\$	1.50	\$	1.55	\$	1.81	\$	1.79	\$	1.98	\$	1.72

Atlachnuchi MDE-1 Page I of 1 Vectren Sonth - Electric Course No., 30100 FAC-92

Sterm Generation Cost Compaction

		Dako	ladiana Michigau	Indianapolir Power &		Vectral
Month	Year	Elicity	Power	Light	NIPSCO	South
	2007	1311-161	\$17,170	\$13,259	\$19,628	\$20.067
Jonniary Rebruary	2007		16,102	(3,658	19,596	20,069
March	2007		17.007	[3,24]	19,639	19,883
Min Cu	100)		11,001	12,21		
λοιί	2007		17,769	[3,688	19.540	20,585
May	2007		18,673	13.579	20,843	20,707
Juno	2007		16,973	14.096	20.389	20.(82
Juno	,		10,710			
July	2007		17,916	14,094	21,661	20.429
Augual	2007		19,025	14.530	20.498	20.422
Augen	2007					20.422
September			20.209	14,002	20.295	19.849
October	2007		28.572	14.038	20,717	20.904
November	2007		26.158	13.596	20,928	20.652
December	2007		20.936	13.583	21.647	21.612
January	2008		19,527	[4,24]	20,253	20,94B
February	2009		20,362	14,705	22,090	21.970
March	2006		23,903	(5.223	22,098	20.654
April	2008		20,990	14,687	22,363	22,476
Way	2008		22.972	15,028	22,700	22.579
June	2001		23.708	15.694	22,885	22 <i>9</i> 01
					AA - 1-	
July	2003		23,512	5,753	22,269	21.947
August	2008		26.033	16,174	22.720	21.701
September	2008		26,369	16,089	22, 392	2[.398
						01.000
Delobor	2008		28,047	16.990	20,222	2 .922
November			26.882	10.446	21,422	21,192 21,476
Decetabor	2008		25.630	[6,200	22,406	21.1/0
_					31 000	25.786
JUUTRALA	2009		25.382	16,107	25.922 28,132	28,839
Conneration of the second s	2009		24.000	15.711		29,188
March	2009		20.8[5	15.782	26,784	27.100
			a 1 3 1 4	14 (7)	26.617	30.69 B
April	2009		21.918	15,672	26,314	33.507
Mny	2009		21,705	15,791		33.307
luné	2009		23.730	15,295	26,048	32.740
			AA 3//	14.10	26,327	32,846
July	2009		22,364	15,113	25.707	13.152
August	2009		20,489	15,247	25.708	34,242
September	2009		19.544	14.968	23,705	34,414
Datal	2009		22.781	15.046	25,820	31.128
Delaber November			22.076	4.985	26,323	33.128
November December			22,543	15,117	27.094	33.067
December	2009		11,143	12,117	-1.031	
Instant	2010		21.322	15.724	27.370	3 (.800
Antiory February	2010		20,369	17.057	26,853	32,762
February March	2010		22.576	18,453	25.518	32,732
THE CIL	2010		121010	10,100		
April 1	2010		22,109	18.843	26,032	13,361
npru Mey	2010		22,244	19.986	25,762	34.854
ney Maa	2010		22,813	20,389	27.820	32,525
1110	2010		******			
inly	2010		24.191	20,687	32.402	33,720
iniy Avgust	2010		25,663	21.080	26,834	33,480
regisi September			24,650	20,205	26-115	34.401
Theme			- 110/4			
Detaber	2010		22,395	21,082	26,942	34,857
verenser Vovensber			22,491	21.118	26,585	35,410
December			27.659	20.555	28.795	35,591
DECCIPTION L	2010		24,2007	20.400		
min	2041		20.956	20,753	27.895	35.043
	2011		22.068	21,425	28,394	35.582
February March	2011		24.766	21.65	29,036	
DATE!	1011		14.100	11.007		
t malt	2011		23,263	22,169		
Apeli	2011		23,302	10,107		
May	2011		-3,372			

nany 2011 2010 2011 ** Comparable hillermetion was not available for Dake of the time of this filing. *** Juformation was oblaked from the prefixed applications of the klenified comparies.

AFFIRMATION

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

By: Duane P. Jasheway Indiana Office of Ć

Utility Consumer Counselor

October 28, 2011 _____ Date

Cause No. 38708-FAC-91S1

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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing OUCC Testimony of Eric M. Hand and Duane P. Jasheway has been served upon the following parties of record in the captioned proceeding by electronic mail on October 28, 2011.

Robert E. Heidorn Joshua A. Claybourn Vectren South One Vectren Square Evansville, Indiana 47708 <u>rheidorn@vectren.com</u> <u>jclaybourn@Vectren.com</u>

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

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