

July 1, 2019

Re: CAC/Sierra Club ("Environmental Parties") Comments on Vectren All-Source RFP

Dear Ms. Washburn:

Thank you for your June 24, 2019 letter commending Southern Indiana Gas and Electric, d/b/a Vectren Energy Delivery, a CenterPoint Energy Company ("Vectren"), for issuing its All-Source Request For Proposal (RFP) and providing your perspective regarding certain aspects of the RFP. On June 27, 2019, Vectren received over 30 Notices of Intent to submit responsive bids, demonstrating the significant review of and interest in the RFP. Each may submit bids on multiple projects or provide more than one proposal on an individual project. With respect to your comments on the RFP, Vectren provides the following response:

1. RFP Timing. Vectren's RFP is very similar to the RFP issued by NIPSCO in 2018. That RFP reflected stakeholder input and was praised by the Environmental Parties. Prior to issuing our RFP, and after exhaustively reviewing NIPSCO's RFP and a detailed request from Environmental Parties sent to Vectren on December 4, 2018, we met with the Commission Staff, OUCC and Environmental Parties to discuss the upcoming IRP process and the use of an All-Source RFP. Vectren issued its RFP in June in order to obtain and evaluate bids in a time frame that facilitates use of those bids to inform the IRP resource modeling. Bidders are provided 49 days to craft responses, which is the same timeframe provided by NIPSCO and adequate to put together a response.

Regarding the RFP request that bidders commit to honor their bids for one year, your letter assumes no negotiations will occur until mid-2020. This is not necessarily the case. Unlike NIPSCO, Vectren's RFP is designed to obtain bids for up to approximately 70% of its baseload capacity (with Culley 3 representing the only certain remaining baseload resource after 2023). The June solicitation will likely provide valuable insight that will be useful for the next year as Vectren faces major resource choices. While Vectren will rely on its IRP to inform potential coal unit retirement decisions, as Vectren runs various IRP scenarios, it will have the bids for different types of resources available to inform the analysis with cost and quantity of resources that may be secured if coal units are retired. The portfolio will likely include both dispatchable and intermittent resources. The RFP will provide information regarding resource location, quantity, congestion risk and price. Discussion with bidders can occur throughout the IRP process.

Finally, NIPSCO's RFP resulted in bids that remained firm after its IRP submission date and until it executed on the RFP and Vectren's RFP accomplishes the same outcome. Given the bids will impact the IRP outcome, it is reasonable that they actually remain available at the end of the IRP. Vectren's approach provides our customers with a level of assurance that accurate costs are included in portfolio analysis. Moreover, sophisticated bidders can include price escalation and other contingencies to support their ability to provide firm bids for a year.

2. Operational Control. To the extent the IRP drives decisions to retire some existing units, Vectren could be replacing a significant amount of its current generation resources. As a result, Vectren will require a mix of resources that ensure reliability and mitigate risk, and as such, a portion of those resources should be owned or controlled. Indiana utilities can rely on some level of Power Purchase Agreement (PPA) resources, but it would not be prudent to overly rely on PPAs. As noted in your letter, the type and output of selected resources will be considered as decisions are made as to the preference for operational control of resources. The RFP in no way limits PPA bids, and the specific details of

each bid will be evaluated to determine how the resources fit within the overall portfolio. Moreover, operational control provides improved flexibility which could protect Vectren's customers in a changing market. For example, Vectren's current PPAs result in sales of energy to Vectren at times when grid congestion creates negative Locational Marginal Prices (LMPs) that drive up customer energy costs. Operational control provides the ability to make prudent operational decisions when it makes economic sense. Regardless, Vectren anticipates that it will receive PPA bids to evaluate.

3. Bid Evaluation. As is apparent from your comments, Vectren's RFP provides great transparency regarding bid scoring, enabling bidders to structure bids that are responsive to the scoring criteria. The scoring reflects the types of risks that may accompany certain resources. For example, the scoring clearly reflects the benefits of local resources including limited congestion risk, system voltage support and the benefits to Southern Indiana which could offset the loss of jobs and tax revenue resulting from the possible retirements of existing units. Your comments largely address speculative problems with the evaluation process that is to occur later this year. As to the concern related to the use of Aurora, Vectren would note that in its recent CPCN case the Environmental Parties criticized the use of multiple models. Vectren believes Aurora provides certain capabilities that Strategist cannot duplicate, allowing for all IRP modeling to be conducted in one tool (capacity expansion, chronological dispatch, and stochastic functions). It is also worth noting that Aurora is used by utilities across the country and the State Utility Forecasting Group.

Given there will be opportunity to review the bid evaluation process after it actually occurs, Vectren does not perceive a need to respond to each and every concern but will address the following: (a) Fuel Risk – projects that do not need fuel will receive the 20 points for being reliable from a fuel standpoint; (b) Pre-2023 renewable projects -- to the extent resources are brought on-line before potential Vectren unit retirements, Vectren customers could pay for duplicative capacity and/or energy; while there may be reasons to proceed with such

projects, in recognition of their incremental costs, it is appropriate for such projects to not score as well in terms of timing; (c) Bidder Insight into IRP model – individual bids will be grouped together by resource type and average pricing of viable bids for each type of resource will be considered in the IRP; information regarding the bids will be shared in the IRP process.

4. Location Priority. In its last RFP, Vectren evaluated a viable resource located 100 miles from its system. That project suffered from significant congestion costs. If the IRP dictates retirement of on-system coal units, Vectren will need to add some local resources or build additional transmission to assure reliable operations and to avoid having most of its resources subject to congestion cost and deliverability risk. While there are many benefits to local resources, maintenance of system reliability is paramount. Moreover, Vectren notes that there are a number of local area projects already in the MISO queue that will likely be submitted as bids.
5. Nodal Analysis. Vectren's RFP includes a reduced but similar level of requirement as NIPSCO's RFP as it pertains to nodal analysis. NIPSCO's RFP required bidders to submit bids including nodal analysis based on N-1 and N-1-1 conditions. Vectren considered the request for N-1-1 costs, which may assure a great level of reliability, to be potentially difficult for bidders to satisfy since the grid operator Mid-continent Independent System Operator (MISO), that Vectren is a member of, does not have a study or requirement to estimate costs under N-1-1 conditions. However, an important aspect of the true resource cost to Vectren's customers is the ability to deliver energy to Vectren's load node. Bidders should expect a requirement that they provide Vectren with bids that reflect all costs associated with each resource being offered. This provides the bidder the opportunity to weigh and reflect these actual and estimated costs and perceived risks. This also allows the bidder to assume or assign potential risks, such as congestion, to Vectren and for Vectren to consider the bids while it weighs all options, all of which include the fully delivered cost of energy. The fully

delivered cost of energy is paramount to the evaluation since this is the actual cost our customers pay.

While this letter responds to many of your comments, Vectren South will reach out to you to further discuss the RFP. Once bids are received and evaluated, Vectren will share non-confidential results with stakeholders and further discussion can occur at that time related to the RFP and the IRP resource inputs.

Sincerely,



Matt Rice,  
Manager of Resource Planning

Cc: Laura Ann Arnold,  
President Indiana Distributed Energy Alliance

John Blair,  
President Valley Watch

Brad Borum,  
Director Electricity Division IURC

Wendy Bredhold,  
Senior Campaign Representative, Indiana and Kentucky  
Sierra Club, Beyond Coal Campaign

Thomas Cmar,  
Deputy Managing Attorney Earthjustice, Coal Program

Jeremy Comeau,  
Assistant General Counsel IURC

William Fine,  
Utility Consumer Counselor OUCC

Abby Gray,  
Executive Director, Legal Operations OUCC

Karol Krohn,  
Deputy Consumer Counselor OUCC

Kerwin Olson,  
Executive Director Citizens Action Coalition of Indiana

April Paronish,  
Assistant Director, Electric Division, OUCC

Bob Pauley,  
Chief Technical Advisor Electricity Division, IURC

Jeffrey Reed,  
Deputy Consumer Counselor, OUCC

Zack Schalk,  
Program Director  
Solar United Neighbors of Indiana

Barbara Ann Smith,  
Executive Director, Technical Operations, OUCC

Dale Thomas,  
Assistant Director Electricity Division IURC