ORIGINAL

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 CHANGES IN ITS GAS RATES THROUGH A GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g) AND 8-1-2-42.3	)))))))	CAUSE NO. 37366 GCA 118 APPROVED: APR 24 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
David E. Veleta, Administrative Law Judge

On February 28, 2013, in accordance with Ind. Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Applicant") filed its Application for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of May through July, 2013. On April 5, 2013 Applicant pre-filed the verified testimony and exhibits of Perry M. Pergola, Director of Gas Supply; and J. Cas Swiz, Director, Regulatory Implementation and Analysis for Vectren Utility Holdings, Inc., Applicant's parent company, supporting the proposed GCA factors. On April 9, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Partner with the London Witte Group.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Indiana Utility Regulatory Commission ("Commission"), an Evidentiary Hearing was held in this Cause at 1:30 p.m. on April 17, 2013, in Suite 220, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicant and the OUCC were present and participated. The testimony and exhibits of Applicant and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented, the Commission finds:

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Applicant's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. **Applicant's Characteristics.** Applicant is a corporation duly organized and existing under the laws of the State of Indiana. Applicant's principal office is located at One Vectren Square, Evansville, Indiana. Applicant renders natural gas utility service to the public in the State of Indiana and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

3. **Source of Natural Gas.** Ind. Code § 8-1-2-42(g)(3)(A) requires Applicant to make every reasonable effort to acquire long-term gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

According to the testimony of Applicant's Witness Pergola, a portion of Applicant's gas purchases are made in advance of the heating season, pursuant to the Advance Purchases Plan as described in his testimony. Witness Pergola also described Applicant's financial hedging plan and provided details regarding the financial hedges and associated premiums to date for this GCA quarter. Applicant relies upon certain contracts for the provision of firm interstate supply services to its city gate in providing firm supply to customers. As part of his testimony, Witness Pergola presented detail regarding Applicants firm transportation services utilized on pipeline systems.

In the Order dated August 8, 2012 for Cause No. 44021, the Commission approved Vectren's proposal to adjust the hedging percentages associated with its fixed winter gas supply purchases and annual fixed gas supply purchases. These modifications allow Applicant the flexibility to take advantage of favorable market conditions when the opportunity is available. Furthermore, the Commission granted Applicant permission to enter into long-term contracts with terms up to ten years allowing the opportunity to take advantage of low prices available for future gas supply when price increases are expected. The Hedging Program percentages were adjusted as follows: winter deliveries from 75% to 70% and annual purchases from 60% to 50%.

Also, per the Order in Cause No. 44021, Applicant will increase the Advance Purchase Plan from six calendar quarters (eighteen months) in duration to eight calendar quarters (twenty-four months) in duration and incorporate both physical fixed priced purchases and financial hedges including caps to fulfill the quarterly volumes.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both current and forward-looking bases. Based on the evidence offered, we find that Applicant has demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, we find that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Ind. Code § 8-1-2-42(g)(3)(B) requires that Applicant's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factor. The evidence of record indicates that the proposed gas costs include transport rates that have been filed by Applicant's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Applicant earning a return in excess of the return authorized by the last Commission Order in which Applicant's basic rates and charges were approved. Applicant's current basic rates and charges were approved on August 1, 2007 in Cause No. 43112. The Commission authorized Applicant to earn a net operating income of $8,760,160.

Applicant's evidence indicates that for the twelve (12) months ending December 2012, Applicant's actual net operating income was $9,289,115. Therefore, based on the evidence of record, we find that Applicant is earning a return in excess of that authorized in its last rate case.

Because Applicant's return exceeds the amount authorized, Ind. Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded to customers through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Ind. Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence of record, we find the sum of the differentials during the relevant period is less than zero, and therefore, it is not appropriate to require a refund of any of the amount over earned in this Cause.

Pursuant to the Commission's Orders in Cause Nos. 42943 and 43046, Petitioner conducted a return on equity ("ROE") earnings test. As a result of the earnings test, Petitioner's ROE was 7.46%, which is below the 10.15% ROE authorized in Petitioner's last rate case. The Commission finds Petitioner complied with the requirement for submission of the ROE calculation.

6. <u>Estimation of Purchased Gas Costs</u>. Ind. Code § 8-1-2-42(g)(3)(D) requires that Applicant's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimates with the corresponding actual costs. The evidence presented indicates that Applicant's estimating techniques during the reconciliation period of September through November 2012 ("Reconciliation Period") yielded an under-estimated weighted average error of 2.22%. Based on Applicant's historical accuracy in estimating the cost of gas, we find that Applicant's estimating techniques are sound, and Applicant's prospective average estimate of gas costs is reasonable.

7. <u>Reconciliations</u>.

A. <u>Variances</u>. Ind. Code § 8-1-2-42(g)(3)(D) also requires that Applicant reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the commodity variance for the Reconciliation Period is an under-collection of $224,522 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period commodity variance to be included in this GCA as an increase in the estimated net cost of gas is $16,345. The commodity variance from prior recovery periods applicable to the current recovery period is an over-collection of $118,572. Combining this amount with the Reconciliation Period commodity variance, results in a total over-collection of $102,227 to be applied in this GCA as a decrease in the estimated net cost of gas.

The demand variance for the Reconciliation Period is an under-collection of $385,270 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period demand variance to be included in this GCA as an increase in the estimated net cost of gas is $28,048. The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $50,988. Combining this amount with the Reconciliation Period demand variance, results in a total under-collection of $79,036 to be applied in this GCA as an increase in the estimated net cost of gas.

B. **Refunds.** Applicant received no new refunds during the Reconciliation Period and has $1,914 from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $1,914 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is $3,122,508. Adjusting this total for the demand costs, variances, bad debt costs, and refund amounts yields gas costs to be recovered through the GCA of $4,264,627. After dividing that amount by estimated sales, adding the demand cost per unit of sales, and adjusting for Indiana Utility Receipts Tax, Applicant's recommended GCA factors are as follows:

Estimated GCA Per Therm

Rate Schedule	Service	May 2013	June 2013	July 2013
110	Sales	$0.4997	$0.5138	$0.5169
120	Sales	$0.4997	$0.5138	$0.5169
125	Transportation	$0.0000	$0.0000	$0.0000
129	Sales	$0.4997	$0.5138	$0.5169
145	Transportation	$0.0000	$0.0000	$0.0000
160	Transportation	$0.0000	$0.0000	$0.0000
170	Transportation	$0.0000	$0.0000	$0.0000

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicant requests authority to approve the GCA factor of $4.997/Dth for May, $5.138/Dth for June, and $5.169/Dth for July 2013. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (March 2013 - $4.349/Dth) and a year ago (May - $3.620/Dth, June - $3.984/Dth, and July 2012 - $4.154/Dth). The table solely reflects costs that are approved through the GCA process. It does not include Applicant's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	Gas Costs at New GCA Factor @ 10 Dths	Gas Costs at Current GCA Factor @ 10 Dths	Dollar Change New vs. Current	Gas Costs at Year Ago GCA Factor @ 10 Dths	Dollar Change New vs. Year Ago
May	$ 49.97	$ 43.49	$ 6.48	$ 36.20	$ 13.77
June	$ 51.38	$ 43.49	$ 7.89	$ 39.84	$ 11.54
July	$ 51.69	$ 43.49	$ 8.20	$ 41.54	$ 10.15

10. **Interim Rates.** We are unable to determine whether Applicant will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** The Commission indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Applicant's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Applicant may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no later than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex are to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. Changes in the market price included in the flex are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Application of Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. for the gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the GCA factors approved above or any future flexed factor, Applicant shall file with the Commission under this Cause the applicable rate schedules for the factor.

3. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING; LANDIS ABSENT

APPROVED: APR 24 2013

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission