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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) COST ADJUSTMENTS IN ACCORDANCE) WITH I.C. 8-1-2-42(g) AND 8-1-2-42.3.)	CAUSE NO. 37366 GCA 102 APPROVED: APR 22 2009
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BY THE COMMISSION:

**Gregory D. Server, Commissioner
Angela Rapp Weber, Administrative Law Judge**

On March 2, 2009, in accordance with Indiana Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the billing cycles of May 2009 through July 2009 with the Indiana Utility Regulatory Commission ("Commission"). On April 3, 2009, Petitioner prefiled the verified testimony and exhibits of Scott E. Albertson, Director of Regulatory Affairs; Perry M. Pergola, Director of Gas Supply; and J. Cas Swiz, Manager of Regulatory and Plant Accounting supporting the proposed GCA factors. On April 7, 2009, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Principal with the London Witte Group.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 1:45 p.m. on April 14, 2009 in Judicial Courtroom 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record. No members of the general public appeared or sought to testify at the hearing.

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

1. **Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission therefore has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and

existing under the laws of the State of Indiana, and has its principal office at One Vectren Square, Evansville, Indiana. Petitioner is engaged in rendering 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.** Indiana Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at lowest gas cost reasonably possible.

According to the testimony of Petitioner's witness Pergola, Petitioner 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 Petitioner's firm transportation services utilized on pipeline systems. Mr. Pergola explained that effective April 1, 2009, Petitioner will modify its Gas Supply Portfolio. Consistent with the Settlement Agreement in Cause No. 42973, the Demand Cost Reduction Credit is currently being negotiated with the OUCC and will be included in upcoming GCA filings by the Petitioner. The testimony of OUCC witness Haase noted the cost effect should be inclusive of all cost changes from April 1, 2009 forward, not simply from the first GCA after consensus is reached forward. Petitioner agrees that any cost effect resulting from the negotiations of Demand Cost Reduction Credit will be included in the reconciliation beginning April 1, 2009 going forward. In addition, witness Pergola explained Petitioner's gas purchases made in advance of the coming heating season, pursuant to the Advance Purchases Program as described in his testimony.

Mr. Pergola described the addition of a Long-Term Purchases component to its Advanced Purchases Program, which would provide the opportunity, but not the obligation, to fix the price for a portion of baseload purchases up to three years in advance of the delivery month. Mr. Pergola explained that a recent American Gas Association survey demonstrated that a significant number of gas distribution utilities are including longer-term purchases as one of the means of mitigating gas price volatility. He stated that these purchases would be made when the long-term market seemed favorable. He testified that these longer-term purchases should be another useful tool to assist with the mitigation of price volatility. Mr. Pergola indicated that such potential purchases would become part of Petitioner's Portfolio Approach once the Commission provided confirmation of the appropriateness of using this purchasing technique. According to the testimony of Ms. Haase, the OUCC has no issue with the Petitioner's proposal to expand its Advance Purchases Portfolio Approach to encompass the proposed longer-term purchases. However, she testified that these transactions should remain subject the GCA reasonableness review by the Commission.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. The Commission recognizes the Petitioner's price volatility mitigation efforts and views the proposed Long-Term Purchases as another reasonable component to mitigate price volatility within its Portfolio Approach to gas supply acquisition. The reasonableness of a gas utility's specific purchases is determined each time a GCA petition is filed, and the determination will be based on the facts that existed at the time the gas utility made the gas purchase decision.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that works to mitigate gas price volatility and considers market conditions and the price of natural gas on a current and forward-looking basis. Based on the evidence offered, the Commission finds that Petitioner demonstrated that it has and continues to follow a reasonable 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.** Indiana Code § 8-1-2-42(g)(3)(B) requires that Petitioner'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 gas costs in this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs to be reasonable. Accordingly, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment that results in Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rate and charges were approved is Cause No. 43112. The Commission's August 1, 2007 order in that Cause authorized Petitioner to earn a net operating income of \$8,760,160. Petitioner's evidence herein indicates that for the twelve (12) months ending December 31, 2008 Petitioner's actual net operating income was \$8,367,282. Thus, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last rate case.

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 7.93%, 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. **Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires that Petitioner'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 estimations with the eventual actual costs. The evidence presented indicates that the estimating techniques during the reconciliation period of September 2008 through November 2008 ("the Reconciliation Period") yielded an over-estimated weighted average error of 15.97%. Mr. Albertson testified that the primary component of the September and October 2008 estimating variance is the over-estimation of commodity gas costs, as commodity prices fell drastically during this period. For example, the NYMEX-based estimated price of market purchases at the time Vectren South filed its GCAs applicable to September and October 2008 were \$13.570 and \$13.650, respectively. By comparison, NYMEX settlement prices for those same months were \$8.394 and \$7.472, respectively. This led to an actual commodity cost of gas per unit sold that was \$2.04 less for September 2008 and \$2.86 less for October 2008 than the estimated

commodity cost of gas sold during the months. Absent these market-driven estimating impacts, the estimating variances for September and October 2008 would have been (5.18)% and 2.16%, respectively.

Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the commodity variance for the Reconciliation Period is an over-collection of \$2,899,797. This amount shall 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 a decrease in the estimated net cost of gas is \$207,335.

The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of \$302,504. When this amount is combined with the Reconciliation Period commodity variance, the result is a total under-collection of \$95,169 that will to be applied in this GCA as an increase in the estimated net cost of gas.

The demand cost variance for the Reconciliation Period is an under-collection of \$228,208. This amount shall be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period demand cost variance to be included in this GCA as an increase in the estimated net cost of gas is \$16,317.

The demand cost variance from prior recovery periods applicable to the current recovery period is an over-collection of \$79,557. When this amount is combined with the Reconciliation Period demand cost variance, the result is a total over-collection of \$63,240, which is to be applied to this GCA as a decrease in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period, and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Application. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period, and the gas costs recovered during that same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is \$4,765,210. When this amount is adjusted this for the variances and refund amounts, \$4,797,139 in gas costs are to be recovered in this GCA. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are as follows:

Estimated GCA Per Therm

Rate Schedule	Service	May 2009	June 2009	July 2009
110	Sales	\$0.5800	\$0.5383	\$0.5584
120	Sales	\$0.5800	\$0.5383	\$0.5584
125	Transportation	\$0.0000	\$0.0000	\$0.0000
129	Sales	\$0.5800	\$0.5383	\$0.5584
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.** The GCA factor of \$5.6220/Dth represents a decrease of \$2.2990/Dth from the current GCA factor of \$7.9210/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

TABLE 1
Effect on Residential Customers
New vs. Current

Monthly Consumption (Dth)	Bill at New Estimated GCA	Bill at Current GCA	Dollar Change	Percent Change
5	\$49.40	\$61.56	\$(12.16)	(19.75)%
10	\$86.04	\$110.33	\$(24.29)	(22.02)%
15	\$122.66	\$159.12	\$(36.46)	(22.91)%
20	\$159.30	\$207.91	\$(48.61)	(23.38)%
25	\$195.93	\$256.70	\$(60.77)	(23.67)%

The GCA factor of \$5.6220/Dth represents a decrease of \$6.0110/Dth from the GCA factor of \$11.6330/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

TABLE 2
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption (Dth)	Bill at New Estimated GCA Factor	Bill at GCA One Year Ago	Dollar Change	Percent Change
5	\$49.40	\$79.95	\$(30.55)	(38.21)%
10	\$86.04	\$147.12	\$(61.08)	(41.52)%
15	\$122.66	\$214.30	\$(91.64)	(42.76)%
20	\$159.30	\$281.47	\$(122.17)	(43.40)%
25	\$195.93	\$348.65	\$(152.72)	(43.80)%

10. **Interim Rates.** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** Petitioner proposed to utilize a flex mechanism each month to adjust the GCA for the subsequent month. The flex will apply only to estimated pricing of estimated market purchases (“the initial market price”) in the GCA. The flex will be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex will 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 will be limited to a maximum adjustment (up or down) of \$1.00 from the initial market price. This pricing and monthly flex methodology is consistent with Exhibit 2 in the Settlement Agreement in Cause No. 42890 that was approved by the Commission on October 5, 2005.

This Commission has indicated in prior orders that Indiana’s gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner’s proposal for a monthly flexing mechanism is designed to address this Commission’s concerns. In addition, the Commission authorized this mechanism for other gas utilities. Therefore, it is reasonable to authorize Petitioner to initiate a monthly flex mechanism in the manner it has here proposed.

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

1. The Petition 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 out in Finding Paragraph No. 8, shall be and hereby is approved, subject to refund in accordance with Finding
2. Petitioner is authorized to implement a monthly flex mechanism in accordance with

Paragraph 11.

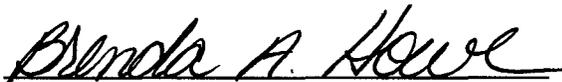
3. Petitioner shall file with the Natural Gas Division of this Commission, prior to placing in effect the gas cost adjustment factors approved herein, separate amendments to its rate schedules with reasonable references thereon reflecting that such changes are applicable to the rate schedules on these amendments.

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

GOLC, SERVER AND ZIEGNER CONCUR; HARDY AND LANDIS ABSENT:

APPROVED: APR 22 2009

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



**Brenda A. Howe
Secretary to the Commission**