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 COST ADJUSTMENTS IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g) AND 8-1-2-42.3	)	CAUSE NO. 37366 GCA 119
	)	APPROVED: JUL 31 2013

ORDER OF THE COMMISSION

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

On May 31, 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" or "Vectren South") filed its Application for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of August through October 2013. On July 3, 2013, Applicant prefiled the direct testimony of Perry M. Pergola, Director, Gas Supply; and J. Cas Swiz, Director, Regulatory Implementation and Analysis supporting the proposed GCA factors. On July 10, 2013, Applicant filed a revised page 10 to Mr. Pergola's prefiled direct testimony. On July 11, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the statistical report and direct testimony of Brian D. Cherry, Manager with London Witte Group. On July 15, 2013, Applicant filed the rebuttal testimony of Perry M. Pergola. The Presiding Officers issued a Docket Entry on July 16, 2013 ordering Applicant to respond to certain questions, which Applicant responded to on July 17, 2013.

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 10:00 a.m. on July 18, 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. <u>Statutory Notice and Commission Jurisdiction</u>. 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. <u>Applicant's Characteristics</u>. Applicant is a corporation 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.

Mr. Pergola testified that Indiana Gas Company, Inc. ("Vectren North") obtained authority to buy long-term gas supply under the Commission's Order in Cause No. 37394-GCA 116 S1 on March 21, 2013 ("LT Gas Purchase Order"). He testified that Vectren South now proposes to similarly add long-term gas contracts to its portfolio. Specifically, Vectren North received approval to enter into two long-term contracts: a five-year contract for the term of April 2013 – March 2018 at a fixed price not to exceed \$4.50/Dth for 500,000 Dth per month (approximately 10% of its annual supply), and a ten-year contract for the term of April 2013 – March 2023 at a fixed price not to exceed \$5.00/Dth for slightly more than one BCF per year. Mr. Pergola indicated that the current natural gas environment continues to provide an opportunity to place some longer-term supply commitments into Applicant's portfolio of gas supplies. Mr. Pergola indicated that ample volumes of low-priced gas production from numerous thriving domestic shale gas supply basins has allowed for lower annual commodity prices and the flattening of the differential between summer and winter monthly pricing. Mr. Pergola stated that this current price environment is providing opportunities that have not been available for many years in regards to multi-year pricing commitments. Specifically, he explained that long-term gas contracts address the risk of price escalation and volatility at a level that should never be far above current market price. Mr. Pergola explained that Vectren South has analyzed the New York Mercantile Exchange ("NYMEX") strip to assess the market's view of future gas prices. Based on this opportunity to obtain discounted pricing, as well as reference to recent price forecasts by external experts such as PIRA Energy Group, Wood Mackenzie Research and Consulting, and IHS CERA that support the reasonableness of the proposed pricing, Vectren South proposes to enter into two transactions: a five-year contract for the term of November 2013 – October 2018 at a fixed price not to exceed \$4.45 for approximately 3,000 Dth per day (approximately 10% of its annual supply), and a ten-year contract for the term of November 2013 – March 2023 at a fixed price not to exceed \$5.00 for 500 Dth per day.

In response, OUCC witness Cherry testified that Vectren South had not proposed the long term transaction in its Application as provided by Vectren North in its GCA proceeding and did not provide supporting documentation or analysis for these transactions. Based on these deficiencies, the OUCC opposed approval of the proposed purchases.

On rebuttal, Mr. Pergola testified that the terms of Vectren South's proposed long-term purchases were similar to or better than the terms associated with Vectren North's proposed long-term purchases approved in the LT Gas Purchase Order, and that the parties to the proceeding understood Vectren South would be seeking similar approval in its own GCA proceeding. He also indicated that if Vectren South proposes additional long-term transactions, with different proposed commercial terms, in the future, those will be included in the Application filed in the applicable GCA proceeding. He also explained that support for these transactions is exactly the same as was relied on by Vectren North.

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 a current and forward-looking basis. Vectren North attempted to accomplish this goal partly through the use of long-term contracts. In the LT Gas Purchase Order, the Commission found this approach to be part of a reasonable approach to mitigating price volatility. Now, Vectren South seeks to take a similar approach in this proceeding. The transactions proposed in this proceeding are similar to the transactions, which were approved by the Commission in the LT Gas Purchase Order. Based on the testimony submitted, we find that the transactions proposed by Vectren South represent a reasonable approach to volatility mitigation. Further, the evidence presented by Applicant demonstrates that the contracts it has proposed will protect customers from price spikes at a price that is reasonable given NYMEX futures prices, past history, and projections. Additionally, the proposed long-term contracts would be a small portion of a portfolio program that works to mitigate gas price volatility on a current and forward-looking basis and thus, represents an ideal opportunity to protect retail gas users from the risk of increasing prices with relatively little risk.

For these reasons, we find that Applicant may proceed with these contracts as they are part of a reasonable approach to mitigate price volatility. However, in the future, proposed transactions should be submitted with the Application for a Gas Cost Adjustment with a appropriate caption that reflects all relief requested in accordance with 170 IAC 1-1.1-9(a)(1) so as to provide the Commission and the OUCC with additional time to review such transactions.

4. <u>Purchased Gas Cost Rates</u>. 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. <u>Earnings Test</u>. 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 March 31, 2013, Applicant's actual net operating income was $8,665,904. Therefore, based on the evidence of record, the Commission finds that Applicant is not earning in excess of that authorized in its last rate case.

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 December 2012 through February 2013 ("Reconciliation Period") yielded an under-estimated weighted average error of 0.352%. 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. **Reconciliations.**

A. **Variances.** 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 $2,494,819 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 $255,220. The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of $114,781. Combining this amount with the Reconciliation Period commodity variance, results in a total under-collection of $370,001 to be applied in this GCA as an increase in the estimated net cost of gas.

The demand variance for the Reconciliation Period is an over-collection of $1,187,998 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 a decrease in the estimated net cost of gas is $121,532. The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $198,757. Combining this amount with the Reconciliation Period demand variance, results in a total under-collection of $77,225 to be applied in this GCA as an increase in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated commodity cost of gas to be recovered for the application period is $3,967,622. Adjusting this total for the demand costs, variances, refunds, and bad debt costs yields gas costs to be recovered through the GCA factor of $5,745,301. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Applicant's recommended GCA factors are as follows:

Estimated GCA Per Therm

Rate Schedule	**Service**	**August 2013**	**September 2013**	**October 2013**
110	Sales	$ 0.5245	$ 0.5141	$ 0.5102
120	Sales	$ 0.5245	$ 0.5141	$ 0.5102
125	Transportation	$ -	$ -	$ -
129	Sales	$ 0.5245	$ 0.5141	$ 0.5102
145	Transportation	$ -	$ -	$ -
160	Transportation	$ -	$ -	$ -
170	Transportation	$ -	$ -	$ -

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicant requests authority to approve the GCA factor of $5.245/Dth for August 2013, $5.141/Dth for September 2013, and $5.102/Dth for October 2013. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (May 2013 - $5.141/Dth) and a year ago (August 2012 - $4.177/Dth, September 2012 - $3.840/Dth, and October 2012 - $3.989/Dth). The table reflects costs approved through the GCA process. It does not include Applicant's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	Proposed Gas Costs (10 Dth)	Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
August	$52.45	$51.41	$1.04	$41.77	$10.68
September	$51.41	$51.41	$0.00	$38.40	$13.01
October	$51.02	$51.41	$(0.39)	$39.89	$11.13

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, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:

APPROVED: JUL 31 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