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 120 APPROVED: OCT 30 2013

ORDER OF THE COMMISSION

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

On August 30, 2013, in accordance with Indiana 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 November and December 2013, and January 2014. On October 10, 2013, Applicant prefiled the revised direct testimony of Perry M. Pergola, Director, Gas Supply; and J. Cas Swiz, Director, Regulatory Implementation and Analysis supporting the proposed GCA factors. On October 15, 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. The Presiding Officers issued a Docket Entry on October 21, 2013 ordering Applicant to respond to certain questions, which Applicant responded to on October 23, 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 9:30 a.m. on October 22, 2013, in Suite 224, 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 Indiana Code § 8-1-2-1(a). Under Indiana 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. **<u>Source of Natural Gas</u>.** Indiana 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 Vectren South employs a portfolio approach that results in acquiring gas supply for a GCA quarter over a period of time using different pricing mechanisms. He testified that Vectren South blends fixed-priced gas purchased in advance of the month of delivery, with summer-purchased storage gas to be withdrawn in winter months, and gas purchased at time of delivery at current market prices. Mr. Pergola indicated that Vectren South's portfolio approach achieves two important objectives – purchasing reliable gas supply at market prices, while at the same time mitigating the price volatility of the gas sold to customers. Mr. Pergola opined that Vectren South's portfolio approach consists of the following components: fixed-price gas that is acquired in advance of the month of delivery based on a structured process, storage gas purchased at typically lower prices in the summer months for redelivery to customers during the heating season, first-of-month gas purchased and priced based on monthly indices just before the month of delivery, daily "swing" purchases acquired during the month at daily indices as needed to meet daily swings in demand, long-term purchases which allow Vectren South to fix the price of gas for a period greater than two years and up to ten years in duration, and a structured process of financial hedges to essentially cap, collar, or fix gas prices on a portion of future purchases.

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. **<u>Purchased Gas Cost Rates</u>.** Indiana 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.** Indiana 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 June 2013, Applicant's actual net operating income was $8,234,309. Therefore, based on the evidence of record, we find that Applicant is not earning a return in excess of that authorized in its last rate case.

Pursuant to the Commission's Orders in Cause Nos. 42943 and 43046, Applicant conducted a return on equity ("ROE") earnings test. As a result of the earnings test, Applicant's ROE was 6.45%, which is below the 10.15% ROE authorized in Applicant's last rate case. The Commission finds Applicant complied with the requirement for submission of the ROE calculation.

Applicant did not provide a Schedule 12A in its exhibits. Applicant's October 23, 2013 Docket Entry response noted that it did not have any refunds in this GCA. However, Applicant should still file a Schedule 12A in every GCA even if Applicant does not have refunds to return.

6. **Estimation of Purchased Gas Costs.** Indiana 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 March through May 2013 ("Reconciliation Period") yielded an over-estimated weighted average error of 4.28%. 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.** Indiana 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 demand variance for the Reconciliation Period is an over-collection of $226,922 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 $106,199.The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $17,710. Combining this amount with the Reconciliation Period demand variance, results in a total over-collection of $88,489 to be applied in this GCA as a decrease in the estimated net cost of gas.

The commodity variance for the Reconciliation Period is an under-collection of $140,579 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 $65,790. The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of $1,546,466. Combining this amount with the Reconciliation Period commodity variance, results in a total under-collection of $1,612,256 to be applied in this GCA as an increase in the estimated net cost of gas.

8. **<u>Resulting Gas Cost Adjustment Factor</u>.** The estimated commodity cost of gas to be recovered for the application period is $20,982,151. Adjusting this total for the demand costs, variances, refunds, and bad debt costs yields gas costs to be recovered through the GCA factor of $22,641,808. 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	November 2013	December 2013	January 2014
110	Sales	$ 0.4953	$ 0.4968	$ 0.5077
120	Sales	$ 0.4953	$ 0.4968	$ 0.5077
125	Transportation	$ -	$ -	$ -
129	Sales	$ 0.4953	$ 0.4968	$ 0.5077
145	Transportation	$ -	$ -	$ -
160	Transportation	$ -	$ -	$ -
170	Transportation	$ -	$ -	$ -

9. **<u>Effects on Residential Customers – (GCA Cost Comparison)</u>.** Applicant requests authority to approve the GCA factor of $4.953/Dth for November 2013, $4.968/Dth for December 2013, and $5.077/Dth for January 2014. 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 (August 2013 - $5.254/Dth) and a year ago (November 2012 - $4.305/Dth, December 2012 - $4.043/Dth, and January 2013 - $4.322/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.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
November	$ 49.53	$ 52.54	$ (3.01)	$ 43.05	$ 6.48
December	$ 49.68	$ 52.54	$ (2.86)	$ 40.43	$ 9.25
January	$ 50.77	$ 52.54	$ (1.77)	$ 43.22	$ 7.55

10. **<u>Interim Rates</u>.** 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. **<u>Monthly Flex Mechanism</u>.** 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.

<u>ATTERHOLT, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:</u>

APPROVED: OCT 30 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