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 124** **APPROVED:** OCT 29 2014

ORDER OF THE COMMISSION

Presiding Officer:
David E. Veleta, Administrative Law Judge

On August 29, 2014, 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") filed its Application for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the months of November and December 2014, and January 2015. Applicant pre-filed the verified testimony and exhibits of Perry M. Pergola, Director, Gas Supply; and J. Cas Swiz, Director, Regulatory Implementation and Analysis supporting the proposed GCA factors. On October 3, 2014, Applicant filed revised schedules. On October 8, 2014, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Brian D. Cherry, Manager with London Witte Group.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 10:00 a.m. on October 15, 2014, 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. **Applicant's Characteristics.** 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.** 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.

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 Applicant's firm transportation services utilized on pipeline systems.

In the Order dated August 8, 2012 for Cause No. 44021, the Commission approved Applicant's proposal to adjust the hedging percentages associated with its winter gas supply purchases and annual 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. 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 has increased the advance purchase plan from six calendar quarters in duration to eight calendar quarters in duration and incorporated both physical fixed priced purchases and financial hedges including caps to fulfill the quarterly volumes. The Commission's Order in Cause No. 37366-GCA 121 granted Applicant approval to modify the advance purchase plan from a quarterly approach to a seasonal approach to better align with supply planning and storage management seasons, along with the acquisition pattern of commodity purchases.

Mr. Pergola testified that Applicant obtained authority to buy long-term gas supply under the Commission's Order No. 37366-GCA 119. The Order dated July 31, 2013 approved Applicant's proposal for two specific long-term transactions.

He testified that Applicant entered into a five-year transaction for the term November 2013 – October 2018 at a fixed price of $4.16 per Dth for the sixty-month term. The volume is 1.095 billion cubic feet annually, which equates to 3,000 Dth per day. This volume represents slightly above ten percent of the projected normal weather annual GCA supply to be purchased for Applicant. Additionally, Applicant entered into a ten-year transaction for the term November 2013 – March 2023 at a fixed price of $4.76 per Dth for the ten-year term. The volume is 182,500 Dth annually, which equates to 500 Dth per day. This volume represents less than two percent of the projected normal weather annual GCA supply to be purchased for Applicant.

Mr. Pergola testified that Applicant was granted authority to enter into two more specific long-term contracts for a portion of its portfolio of supply in Commission's Order for Cause No. 37366-GCA 121.

He testified that Applicant entered into a five-year transaction for the term April 2014 – March 2019 at a fixed price of $4.255 per Dth for the sixty-month term. The volume is roughly 0.50 billion cubic feet annually, which equates to 1,350 Dth per day. This volume represents slightly below five percent of the projected normal weather annual GCA supply to be purchased for Applicant. Additionally, Applicant entered into a ten-year transaction for the term April 2014 – December 2023 at a fixed price of $4.49 per Dth for the ten-year term. The volume is 273,750 Dth annually, which equates to 750 Dth per day. The volume represents less than three percent of the projected normal weather annual GCA supply to be purchased for Applicant.

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. 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 which 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 rate 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 12 months ending June 2014, Applicant's actual net operating income was $5,335,027. 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.

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 3.25%, 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.

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 2014 through May 2014 ("Reconciliation Period") yielded an under-estimated weighted average error of 4.46%.

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 total demand variance for the Reconciliation Period is an over-collection in the amount of $29,135. The amount to be included in this GCA as a decrease in the estimated net cost of gas is $14,264. The demand variance from prior periods totals an over-collection of $178,910. The total demand variance to be recovered in this GCA is an over-collection of $193,174 to be applied to this GCA as a decrease in the estimated net cost of gas.

The total commodity and bad debt variance for the Reconciliation Period is an under-collection in the amount of $776,705. The amount to be included in this GCA as an increase in the estimated net cost of gas is $380,274. The commodity and bad debt variance from prior periods totals an under-collection of $2,463,382. The total commodity and bad debt variance to be recovered in this GCA is an under-collection of $2,843,656, which results in an increase in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered for the application period is $21,634,466. Adjusting this total for the demand costs, variance and refund amounts yields gas costs to be recovered through the GCA factor of $26,269,239. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Applicant's recommended GCA factors are as follows:

Rate Schedule	Service	November 2014	December 2014	January 2015
110	Sales	$ 0.5394	$ 0.5425	$ 0.5253
120	Sales	$ 0.5394	$ 0.5425	$ 0.5253
125	Transportation	$ -	$ -	$ -
129	Sales	$ 0.5394	$ 0.5425	$ 0.5253
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 $5.394/Dth for November 2014, $5.425/Dth for December 2014, and $5.253/Dth for January 2015. 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 2014 - $5.411/Dth) and a year ago (November 2013 - $4.940/Dth, December 2013 - $4.939/Dth, and January 2014 - $5.300/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	**Proposed Gas Costs (10 Dth)**	**Gas Costs (10 Dth)**	**Difference from Current**	**Gas Costs (10 Dth)**	**Difference from Year Ago**
November, 2014	$ 53.94	$ 54.11	$ (0.17)	$ 49.40	$ 4.54
December, 2014	$ 54.25	$ 54.11	$ 0.14	$ 49.39	$ 4.86
January, 2015	$ 52.53	$ 54.11	$ (1.58)	$ 53.00	$ (0.47)

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 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 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.

STEPHAN, MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:

APPROVED: OCT 29 2014

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