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)	))))))	**CAUSE NO. 37366 GCA 125** **APPROVED:** JAN 28 2015

ORDER OF THE COMMISSION

Presiding Officer:
David E. Veleta, Administrative Law Judge

On December 3, 2014, 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 months of February, March, and April 2015. On December 3, 2014, 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 factor. On December 29, 2014, Applicant filed revised testimony and schedules. On January 6, 2015, in conformance with the statute, the Indiana Office of 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 was in this Cause at 1:30 p.m., on January 14, 2015, in Suite 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. The 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 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 for the distribution and furnishing of such service.

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 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 (eighteen months) duration to eight calendar quarters (twenty-four months) 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 in Cause No. 37366-GCA 119. The Order dated July 31, 2013 approved Vectren South'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 ("BCF") 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. 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 BCF 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. 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. 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 months ending September 30, 2014, Applicant's actual net operating income was $5,259,263. 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 3.42%, 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. 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 June through August 2014 ("Reconciliation Period") yielded an over-estimated weighted average error of 16.574%.

Mr. Pergola testified that the large variance which occurred in June 2014 was the result of a credit of $757,344 which was the demand cost true-up for the period April 2013 – March 2014 for Vectren South. The Order for Cause No. 43963 requires a true-up to occur each year for the demand charges invoiced versus the actual agreed to demand charges for the annual period. This true up resulted in the $757,344 credited to Vectren South in June 2014.

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.** 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 total demand variance for the Reconciliation Period is an over-collection in the amount of $168,124. The amount to be included in this GCA as a decrease in the estimated net cost of gas is $56,490. The demand variance from prior periods totals an over-collection of $458,469. The total demand variance to be recovered in this GCA is an over-collection of $514,959 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 $307,866. The amount to be included in this GCA as an increase in the estimated net cost of gas is $103,443. The commodity and bad debt variance from prior periods totals an under-collection of $2,255,506. The total commodity and bad debt variance to be recovered in this GCA is an under-collection of $2,358,949, 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 $12,563,184. Adjusting this total for the demand costs, variances, refunds and bad debt costs yields gas costs to be recovered through the GCA factor of $16,115,501. 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**	**February 2015**	**March 2015**	**April 2015**
110	Sales	$ 0.4681	$ 0.4750	$ 0.4636
120	Sales	$ 0.4681	$ 0.4750	$ 0.4636
125	Transportation	$ -	$ -	$ -
129	Sales	$ 0.4681	$ 0.4750	$ 0.4636
145	Transportation	$ -	$ -	$ -
160	Transportation	$ -	$ -	$ -
170	Transportation	$ -	$ -	$ -

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicant requests authority to approve the GCA factor of $4.681/Dth for February 2015, $4.750/Dth for March 2015, and $4.636/Dth for April 2015. 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 (December 2014 - $5.567/Dth) and a year ago (February 2014 - $5.578/Dth, March 2014 - $5.490/Dth, and April 2014 - $5.566/Dth). The table reflects costs 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 Gas Costs (10 Dth)	Current Difference from Current	Year Ago Gas Costs (10 Dth)	Year Ago Difference from Year Ago
February 2015	$46.81	$55.67	($8.86)	$55.78	($8.97)
March 2015	$47.50	$55.67	($8.17)	$54.90	($7.40)
April 2015	$46.36	$55.67	($9.31)	$55.66	($9.30)

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 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: JAN 28 2015

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