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 127** **APPROVED:** JUL 29 2015

ORDER OF THE COMMISSION

Presiding Officer:
David E. Veleta, Administrative Law Judge

On May 29, 2015, 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 August 2015 through October 2015. On May 29, 2015, 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 June 18, 2015, Applicant filed revised testimony and schedules. On June 25, 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 Presiding Administrative Law Judge issued docket entries requesting additional information on July 10, 2015, and July 13, 2015. Applicant filed its response to the docket entries on July 10, 2015, and July 14, 2015, respectively.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 9:30 a.m. on July 15, 2015, in 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 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 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 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 60-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 the 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 basis. 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. The Commission's Order in Cause No. 44429-TDSIC 1 authorized a $679,981[1] NOI

[1] $402,062 is attributable to the compliance component with the remaining $277,919 attributable to the TDSIC component.

Adjustment for the GCA Earnings Test based on schedules provided in said proceeding. Therefore, Applicant's authorized NOI for this GCA proceeding is $9,440,141.

Applicant's evidence indicates that for the 12 months ending March 2015, Applicant's actual net operating income was $6,300,023. 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 4.60%, 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. <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 a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Applicant's 12-month rolling average comparison was a negative 3.29% for the period ending February 2015. 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. <u>Reconciliations</u>. 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 months of December 2014 through February 2015 is an over-collection in the amount of $1,360,818. The amount to be included in this GCA as a decrease in the estimated net cost of gas is $147,241. The variance from prior periods totals an over-collection of $6,409. The total variance to be recovered in this GCA is an over-collection of $153,650 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 months of December 2014 through February 2015 is an over-collection in the amount of $1,881,010. The amount to be included in this GCA as a decrease in the estimated net cost of gas is $203,526. The variance from prior periods totals an under-collection of $180,839. The total variance to be recovered in this GCA is an over-collection of $22,687, which results in a decrease in the estimated net cost of gas.

8. <u>Resulting Gas Cost Adjustment Factor</u>. The estimated net commodity cost of gas to be recovered for the application period is $3,798,650. Adjusting this total for the demand costs, variances, refunds, and bad debt costs yields gas costs to be recovered through the GCA factor of $4,504,923. 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 2015	September 2015	October 2015
110	Sales	$ 0.4261	$ 0.4175	$ 0.4116
120	Sales	$ 0.4261	$ 0.4175	$ 0.4116
125	Transportation	$ -	$ -	$ -
129	Sales	$ 0.4261	$ 0.4175	$ 0..4116
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 $4.261/Dth for August 2015, $4.175/Dth for September 2015, and $4.116/Dth for October 2015. As illustrated in the table below, a residential customer would incur the following gas costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (May 2015 - $5.221/Dth) and a year ago (August 2014 - $5.411/Dth, September 2014 - $5.452/Dth, and October 2014 - $5.457/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**
August 2015	$ 42.61	$ 52.21	$ (9.60)	$ 54.11	$ (11.50)
September 2015	$ 41.75	$ 52.21	$ (10.46)	$ 54.52	$ (12.77)
October 2015	$ 41.16	$ 52.21	$ (11.05)	$ 54.57	$ (13.41)

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 mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, Applicant shall file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

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, AND ZIEGNER CONCUR; HUSTON AND WEBER ABSENT:

APPROVED: JUL 29 2015

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

Brenda A. Howe

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Secretary to the Commission