ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANA GAS COMPANY, INC. D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN NORTH") FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENTS IN ACCORDANCE WITH I.C. § 8-1-2-42(g) AND 8-1-2-42.3.	CAUSE NO. 37394 GCA 131 APPROVED: AUG 24 2016

ARW

ORDER OF THE COMMISSION

Presiding Officer:
David E. Veleta, Administrative Law Judge

On July 1, 2016, in accordance with Indiana Code § 8-1-2-42, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Applicant" or "Vectren North") filed its Application for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the months of September 2016 through November 2016 with the Indiana Utility Regulatory Commission ("Commission"). Applicant also pre-filed the verified testimony of Perry M. Pergola, Director, Gas Supply, and J. Cas Swiz, Director, Regulatory Implementation and Analysis on July 1, 2016. On July 21, 2016 Applicant pre-filed revised exhibits supporting the proposed GCA factors. On July 26, 2016 Applicant filed corrected schedules. On August 1, 2016, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Pamela Sue Sargent Haase, Partner with London Witte Group, LLC.

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 Commission, the Commission held an Evidentiary Hearing in this Cause at 9:30 a.m., on August 3, 2016, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicant and the OUCC were present and participated. The testimonies and exhibits of both 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 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.

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 its Order dated March 21, 2013 in Cause No. 37394 GCA 116 S1, the Commission approved Applicant's proposal to adjust the hedging percentages associated with its fixed winter gas supply purchases and annual fixed 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 the relatively 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%.

Additionally, pursuant to the Commission's Order in Cause No. 44021, Applicant has increased the Advance Purchase Plan from six calendar quarters (18 months) duration to eight calendar quarters (24 months) in duration and incorporated both physical fixed priced purchases and financial hedges including caps to fulfill the quarterly volumes. In GCA 121, Applicant obtained 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 has entered into long-term gas supply contracts pursuant to the Commission's Order in Cause No. 37394 GCA 116 S1 issued on March 21, 2013, which approved Vectren North's proposal for two long-term transactions. He described the first long-term fixed-price purchase as a five-year transaction for the term July 2013 through March 2018 at a fixed-price of $4.06 per Dth for 500,000 Dth per month, which equates to approximately 10% of the annual commodity purchases for Applicant. He described the second long-term fixed-price purchase as a ten-year transaction for the term August 2013 through March 2023 at a fixed-price of $4.70 for 80,000 Dth per month, which equates to approximately 1.6% of the annual commodity purchases for Vectren North. He testified that both contracts utilized the industry standard North American Energy Standards Board contract.

Mr. Pergola testified that Applicant was granted authority to enter into two long-term contracts for a portion of its portfolio of supply in the Commission's Order in Cause No. 37394 GCA 121.

He testified that Applicant entered into a five-year transaction for the term April 2014 – March 2019 at a fixed price of $4.000 per Dth. The volume is 250,000 Dth per month. This volume represents approximately 5% of the projected annual GCA supply in normal weather to be purchased by Applicant. Additionally, Applicant entered into a ten-year transaction for the term April 2014 – December 2023 at a fixed price of $4.335 per Dth. The volume is 150,000 Dth per month and represents approximately 3% of the projected annual GCA supply in normal weather to be purchased by 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 February 13, 2008 in Cause No. 43298. The Commission authorized Applicant to earn a net operating income ("NOI") of $61,827,974. The Commission's Orders in Cause No. 44430 TDSIC, TDSIC 2 and TDSIC 3 authorized a cumulative increase of $8,720,558 to the authorized NOI for the GCA Earnings Test based on the schedules provided in said proceedings. Therefore, Applicant's authorized NOI for this GCA proceeding is $70,548,532.

Applicant's evidence herein indicates that for the months ending May 31, 2016, Applicant's actual NOI was $59,812,181. 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.

In the Commission's Order in Cause Nos. 42943 and 43046 approved on December 1, 2006, Applicant was ordered, along with the statutory earnings test, to also perform the return on equity ("ROE") test calculation as proposed by the Applicant in the above mentioned Causes. As illustrated (Applicant's Exhibit No. 2, Attachment JCS-2), Applicant's ROE test results in a net income excess of $7,963,000 compared to the $10,736,351 deficit pursuant to the statutorily required earnings test. This computes to an actual ROE of 12.06% compared to Applicant's authorized ROE of 10.20%. The Commission finds the Applicant has complied with the required 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 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 positive 4.26% for the twelve-months ending March 2016. 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 current proceeding established that the commodity variance for the reconciliation period of January through March 2016 ("Reconciliation Period") is an over-collection of $446,072 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 a decrease in the estimated net cost of gas is $80,579. The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of $870,510. Combining this amount with the Reconciliation Period commodity variance results in a total under-collection of $789,931 to be applied in this GCA as an increase in the estimated net cost of gas.

The evidence presented established that the demand variance for the Reconciliation Period is an under-collection of $78,542 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 an increase in the estimated net cost of gas is $14,188. The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $1,136,413. Combining this amount with the Reconciliation Period demand variance results in a total under-collection of $1,150,601 to be applied in this GCA as an increase in the estimated net cost of gas

B. Refunds. Applicant has $33,574 in nomination and balancing charges that are reflected as new refunds during the Reconciliation Period and has $11,770 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $17,835 as reflected on Schedule 12A.

8. Resulting Gas Cost Adjustment Factor. The estimated net commodity cost of gas to be recovered during the application period is $36,463,592. Adjusting this total for the demand costs, variances, bad debt costs, and refund amounts yields gas costs to be recovered through the GCA of $52,313,421. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Applicant's recommended GCA factors are as follows:

Estimated GCA Factors Per Therm

Rate **Schedule**	**Sept 2016**	Oct **2016**	Nov **2016**
210	$0.5262	$0.4520	$0.4406
211	$0.5262	$0.4520	$0.4406
220	$0.5262	$0.4520	$0.4406
225	$0.0002	$0.0004	$0.0002
229	$0.5262	$0.4520	$0.4406
240	$0.4556	$0.3814	$0.3701
245	$0.0002	$0.0004	$0.0002
260	$0.0002	$0.0004	$0.0002
270	$0.0002	$0.0004	$0.0002

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicant requests authority to approve the GCA factor of $5.262/Dth for September 2016, $4.520/Dth for October 2016, and $4.406/Dth for November 2016. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dth of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (July 2016 - $6.887/Dth) and a year ago (September 2015 - $4.977/Dth, October 2015 - $4.337/Dth, and November 2015 - $3.996/Dth). The table solely 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**	**Gas Costs (10 Dth)**	**Difference**
September, 2016	$52.62	$68.87	($16.25)	$49.77	$2.85
October, 2016	$45.20	$68.87	($23.67)	$43.37	$1.83
November, 2016	$44.06	$68.87	($24.81)	$39.96	$4.10

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 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 that 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 Indiana Gas Company, Inc. d/b/a 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 authorized rates, Applicant shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.

3. This Order shall be effective on and after the date of its approval.

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: AUG 2 4 2016

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission