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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 102 APPROVED: MAY 27 2009

BY THE COMMISSION:
Jeffery L. Golc, Commissioner
Angela Rapp Weber, Administrative Law Judge

On April 1, 2009, in accordance with Indiana Code § 8-1-2-42, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of June through August, 2009 with the Indiana Utility Regulatory Commission ("Commission"). On May 1, 2009, Petitioner prefiled the direct testimony and exhibits of Scott E. Albertson, Director of Regulatory Affairs; Perry M. Pergola, Director, Gas Supply; and Janice M. Barrett, Director, Regulatory and Plant Accounting, supporting the proposed GCAs. On May 5, 2009, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, CPA with London Witte Group.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 1:30 p.m., on May 11, 2009 in Judicial Courtroom 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and the OUCC were admitted into the record. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented herein, the Commission now finds:

1. **Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner has its principal office at One Vectren Square, Evansville, Indiana. Petitioner is engaged in rendering natural gas utility service to the

public within 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 Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible.

According to the testimony of Petitioner's Witness Pergola, a portion of Petitioner's gas purchases are made in advance of the heating season, pursuant to the Advance Purchases Plan as described in his testimony. Petitioner's Exhibit B at p. 4. Witness Pergola also described Petitioner's financial hedging plan and provided details regarding the financial hedges and associated premiums to date for this GCA quarter. *Id.* at pp. 5. Petitioner relies upon certain contracts for the provision of firm interstate supply services to its city gate in providing firm supply to customers. *Id.* at pp. 9-10. As part of his testimony, Witness Pergola presented detail regarding Petitioner's firm transportation services utilized on pipeline systems. *Id.* at p. 10. Mr. Pergola explained that effective April 1, 2009, Petitioner will modify its Gas Supply Portfolio. Consistent with the Settlement Agreement in Cause No. 42973, the Demand Cost Cap is currently being negotiated with the OUCC and will be included in upcoming GCA filings by the Petitioner.

Mr. Pergola described the addition of a Long-Term Purchases component to its Advanced Purchases Program, which would provide the opportunity, but not the obligation, to fix the price for a portion of baseload purchases up to three years in advance of the delivery month. Mr. Pergola explained that recent American Gas Association survey data demonstrated that a significant number of gas distribution utilities are including longer-term purchases as one of the means of mitigating gas price volatility. He stated that these purchases would be made when the long-term market seemed favorable. He testified that these longer-term purchases would be another useful tool to assist with the mitigation of price volatility. Mr. Pergola indicated that such potential purchases would become part of Petitioner's Portfolio Approach once the Commission provided confirmation of the appropriateness of using this purchasing technique.

Petitioner has indicated it will begin considering longer term purchases immediately upon the Commission's acknowledgement of the appropriateness of Company's proposed addition to its Portfolio Approach, consistent with the Commission's findings on this proposal included in the recent Vectren South GCA102 Commission Order. The OUCC, in direct testimony stated it has no issue with the Utility's proposal to expand its Advance Purchases Portfolio Approach in order to provide the Utility the opportunity to fix the price on a portion of its baseload purchases up to three years in advance of the delivery month. However, as with all other purchases affecting the GCA, the OUCC believes that these transactions should remain subject to a reasonableness review on a quarterly basis by the OUCC and the Commission. The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. The Commission recognizes the Petitioner's price volatility mitigation efforts and views the proposed Long-Term Purchases as another reasonable component to mitigate price volatility within its Portfolio Approach to gas supply acquisition. The reasonableness of a gas utility's specific purchases is determined each time a GCA petition is filed, and the determination will be based on the facts that existed at the time the gas utility made the gas purchase decision.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that works to mitigate gas price volatility and considers market conditions and the price of natural gas on a current and forward-looking basis. Based on the evidence offered, the Commission finds that Petitioner 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 Petitioner'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. The evidence of record indicates that gas costs in this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in the Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rates and charges were approved is Cause No. 43298. The Commission's February 13, 2008 order in that Cause authorized Petitioner to earn a net operating income of $61,827,974. Petitioner's evidence herein indicates that for the twelve (12) months ending February 28, 2009, Petitioner's actual net operating income was $64,118,409, and the weather-adjusted net operating income was $64,123,140. Therefore, based on the evidence of record, the Commission finds that Petitioner is earning in excess of that authorized in its last rate case.

Because Petitioner has earned a return in excess of the amount authorized, Indiana Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Indiana Code § 8-1-2-42.3(a), is greater than zero. Based upon the evidence of record, the Commission finds the sum of the differentials during the relevant period is less than zero, and, therefore, it is not appropriate to require a refund of any of the amount over earned in this Cause.

In the Commission's Order in Cause Nos. 42943 and 43046 approved December 1, 2006, Petitioner was ordered, along with the statutory net operating income ("NOI") earnings test, to also perform the return on equity ("ROE") test calculation as proposed by the Petitioner in the above mentioned Cause. In this GCA, that comparison was made by Petitioner's Witness Barrett who testified that the result of the NOI return test was an excess of $2.3 million whereas the result of the ROE calculation was an excess of $3.5 million. The Commission finds the Petitioner has complied with the required submission of the ROE calculation.

6. **Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires

that Petitioner's estimate of prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimations with the eventual actual costs. Petitioner's Exhibit No. 2, Schedule 13 indicates that the estimating techniques of Petitioner during the reconciliation period of October, 2008 through December, 2008 ("the Reconciliation Period") yielded an overestimated weighted average error of 5.702 percent. Petitioner testified that the primary component of November 2008 estimating variance is the over estimation of commodity gas costs resulting from significant gas price volatility. The estimated commodity cost of gas per unit sold exceeded the actual commodity cost of gas per unit sold by $1.712 for November 2008. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas is reasonable.

Petitioner proposed to file a monthly flex (the "flex") each month to adjust the GCA for the subsequent month. The flex will apply only to estimated pricing of estimated market purchases in the GCA. The flex will be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex will 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 will be limited to a maximum adjustment (up or down) of $1.00 from the initial market price. This pricing and monthly flex methodology is consistent with Exhibit 2 in the Settlement Agreement in Cause No. 42890 that was approved by the Commission on October 5, 2005.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires the Petitioner reconcile its estimation 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 is an over-collection of $12,145,485 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 $680,147.

The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of $509,448. Combining this amount with the Reconciliation Period commodity variance results in a total over-collection of $170,699 to be applied in this GCA as a decrease in the estimated net cost of gas.

The evidence presented established that the demand variance for the Reconciliation Period is an over-collection of $3,689,201 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 $206,595.

The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of $85,775. Combining this amount with the Reconciliation Period demand variance results in a total over-collection of $292,370 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner had $7,896 in company use variances to be returned to transportation customers. This over-recovery variance shall be returned, based on quarterly transportation volumes, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be returned in this GCA is $1,530. This amount will be combined with over and under-recovery variances from GCA99, GCA100, and GCA101 resulting in a total incremental charge to the GCA of $37,870.

Petitioner has $21,410 in nomination and balancing charges that are reflected as refunds to be returned to customers. These refunds shall be returned, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the refund to be returned in this GCA is $1,200. This amount will be combined with refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $7,021 in refunds to be applied in this GCA as a decrease in the net cost of gas (Sch. 12A, line 12). Based on the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period, and the gas costs recovered during that same period.

8. Resulting Gas Cost Adjustments. The estimated net cost of gas to be recovered during the application period is $18,772,210. Adjusting this total for the commodity variance of $(170,699), a demand variance of $(292,370), and refunds of $7,021, yields gas costs to be recovered through the GCA of $18,302,120. After dividing that amount by estimated sales, adding the demand cost per unit of sales, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are:

Estimated GCA Per Therm

Rate Schedule	June 2009	July 2009	August 2009
210	$0.5300	$0.5466	$0.5546
211	$0.5300	$0.5466	$0.5546
220	$0.5300	$0.5466	$0.5546
225	$0.0009	$0.0007	$0.0007
229	$0.5300	$0.5466	$0.5546
240	$0.4700	$0.4865	$0.4946
245	$0.0009	$0.0007	$0.0007
260	$0.0009	$0.0007	$0.0007
270	$0.0009	$0.0007	$0.0007

9. Effects on Residential Customers. The GCA of $5.435/Dth represents a decrease of $0.436 from the current GCA of $5.871/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

TABLE 1
Effect on Residential Customers
<u>New vs. Current</u>

Monthly Consumption (Dth)	Bill at New GCA	Bill at Current GCA	Dollar Change	Percent Change
5 Dth	$52.27	$55.17	($2.90)	(5.25%)
10 Dth	$89.73	$95.53	($5.80)	(6.07%)
15 Dth	$127.19	$135.89	($8.70)	(6.40%)
20 Dth	$164.65	$176.24	($11.59)	(6.58%)
25 Dth	$202.11	$216.60	($14.49)	(6.69%)

The GCA of $5.435/Dth represents a decrease of $7.331 from the GCA of $12.766/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

TABLE 2
Effect on Residential Customers
<u>New vs. One Year Ago</u>

Monthly Consumption (Dth)	Bill at New GCA	Bill at GCA One Year Ago	Dollar Change	Percent Change
5 Dth	$52.27	$89.31	($37.04)	(41.47%)
10 Dth	$89.73	$163.81	($74.08)	(45.22%)
15 Dth	$127.19	$238.31	($111.12)	(46.63%)
20 Dth	$164.65	$312.82	($148.17)	(47.36%)
25 Dth	$202.11	$387.32	($185.21)	(47.82%)

10. **<u>Interim Rates.</u>** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned. The subject to refund provisions shall be removed for the GCA99 period (October - November 2008) and for December 2008 in the GCA100 period and such Gas Cost Adjustments shall be finalized for October, November, and December 2008.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. The Petition of Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. for the gas cost adjustment for natural gas service, as set forth in Finding Paragraph No. 8, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. shall file with the Natural Gas Division of this Commission, prior to placing in effect the gas cost adjustments approved herein, Appendix A to its rate schedules with reasonable references thereon reflecting that such changes are applicable to the rate schedules reflected in the appendix.

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

GOLC, LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT:

APPROVED: MAY 27 2009

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