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 103 APPROVED: AUG 2 6 2009

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

On June 30, 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 September 2009 through November 2009 with the Indiana Utility Regulatory Commission ("Commission"). On July 31, 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 GCA factor. On August 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, a Certified Public Accountant 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 9:00 a.m. on August 13, 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. It 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 Petitioner to make every reasonable effort to acquire long-term gas supplies in order to provide gas to its retail 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. 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. Petitioner 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 Petitioner's firm transportation services utilized on pipeline systems.

Mr. Pergola also described the addition of a Long-Term Purchases component to its Advanced Purchases Program, which will 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 will be made when the long-term market seemed favorable. He testified that these longer-term purchases will be another useful tool to assist with the mitigation of price volatility.

Mr. Pergola explained that in order to accommodate this Long-Term Purchases Program, the Vectren Risk Management Committee agreed to allow the targeted maximum percentage ranges for the second thru the sixth quarter in the Advance Purchase Plan to be increased by 10% each to allow for any potential long term purchases. The resulting modifications to the targeted quantities and timing of the Advance Purchase Program consist of 70-100% of the Base Load to be fixed by the end of the current GCA quarter, 40-80% in the first succeeding quarter, 20-60% in the second succeeding quarter, 10-40% in the third succeeding quarter and 0-40% in both the fourth and fifth succeeding quarters.

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 factor. 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. As a result, 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 that 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 May 31, 2009, Petitioner's actual net operating income was $61,305,169 and the weather-adjusted net operating income was $61,318,357. Based on the evidence of record, the Commission finds that Petitioner 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 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 a shortfall of $0.5 million whereas the result of the ROE calculation was an excess of $0.6 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. The evidence indicates that the estimating techniques of Petitioner during the reconciliation period of January 2009 through March 2009 ("the Reconciliation Period") yielded an under-estimated weighted average error of 5.708 percent.

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.

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.

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 $13,734,642 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 $2,361,672.

The commodity variance from prior recovery periods applicable to the current recovery period is an over-collection of $2,138,932. Combining this amount with the Reconciliation Period commodity variance results in a total over-collection of $4,500,604 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 $9,932,613 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 $1,707,913.

The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $975,123. Combining this amount with the Reconciliation Period demand variance results in a total over-collection of $732,790 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner had $9,316 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 $2,252. This amount will be combined with over and under-recovery variances from GCA100, GCA101, and GCA102 resulting in a total incremental charge to the GCA of $50,022.

Petitioner has $26,715 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 $4,594. This amount will be combined with refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $12,251 in refunds to be applied in this GCA as a decrease in the net cost of gas. 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. <u>Resulting Gas Cost Adjustments.</u> The estimated net cost of gas to be recovered during the application period is $55,999,119. Adjusting this total for the commodity variance of $(4,500,604), a demand variance of $(732,790), and refunds of $12,251, yields gas costs to be recovered through the GCA of $50,753,474. 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 GCAs are:

Estimated GCA Per Therm

Rate Schedule	September 2009	October 2009	November 2009
210	$0.4837	$0.4606	$0.5085
211	$0.4837	$0.4606	$0.5085
220	$0.4837	$0.4606	$0.5085
225	$0.0007	$0.0006	$0.0006
229	$0.4837	$0.4606	$0.5085
240	$0.4237	$0.4006	$0.4485
245	$0.0007	$0.0006	$0.0006
260	$0.0007	$0.0006	$0.0006
270	$0.0007	$0.0006	$0.0006

9. **Effects on Residential Customers.** The GCA of $4.922/Dth represents a decrease of $0.565 from the current GCA of $5.487/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Proposed GCA Factor
vs.
Currently Approved GCA Factor

Monthly Consumption (Dth)	Bill at New GCA	Bill at Current GCA	Dollar Change	Percent Change
5 Dth	$49.93	$52.86	($2.93)	(5.54%)
10 Dth	$85.05	$90.91	($5.86)	(6.45%)
15 Dth	$120.17	$128.96	($8.79)	(6.82%)
20 Dth	$155.29	$167.01	($11.72)	(7.02%)
25 Dth	$190.41	$205.06	($14.65)	(7.14%)

The GCA of $4.922/Dth represents a decrease of $4.491 from the GCA of $9.413/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
Proposed GCA Factor
vs.
GCA Factor One Year Ago

Monthly Consumption (Dth)	Bill at New GCA	Bill at GCA One Year Ago	Dollar Change	Percent Change
5 Dth	$49.93	$72.82	($22.89)	(31.43%)
10 Dth	$85.05	$130.83	($45.78)	(34.99%)
15 Dth	$120.17	$188.84	($68.67)	(36.36%)
20 Dth	$155.29	$246.86	($91.57)	(37.09%)
25 Dth	$190.41	$304.87	($114.46)	(37.54%)

10. **Interim Rates.** 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.

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, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedules reflected on these amendments.

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

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

APPROVED: AUG 2 6 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