ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANA GAS COMPANY,	)	
INC. D/B/A VECTREN ENERGY DELIVERY OF	)	**CAUSE NO. 37394 GCA 110**
INDIANA, INC. ("VECTREN NORTH") FOR	)	
APPROVAL OF CHANGES IN ITS GAS COST	)	
ADJUSTMENTS IN ACCORDANCE WITH I.C.	)	**APPROVED:**
8-1-2-42(g) AND 8-1-2-42.3.	)	MAY 31 2011

<u>BY THE COMMISSION</u>:
Larry S. Landis, Commissioner
Loraine L. Seyfried, Administrative Law Judge

On April 1, 2011, 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 Application for a Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of June, 2011 through August, 2011 with the Indiana Utility Regulatory Commission ("Commission"). On May 11, 2011, Petitioner prefiled the direct testimony and exhibits of Perry M. Pergola, Director, Gas Supply and Janice M. Barrett, Director, Regulatory and Plant Accounting, supporting the proposed GCA factors. On that same day, Petitioner submitted to the Commission revised schedules and exhibits. On May 16, 2011, 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, Partner 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 9:30 a.m., on May 25, 2011 in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner 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 herein, the Commission now finds:

1. <u>Statutory Notice and Commission Jurisdiction</u>. 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 Petitioner and the subject matter herein.

2. <u>Petitioner's Characteristics</u>. 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. **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 so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

According to the testimony of Petitioner's witness, Mr. 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. Mr. 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. Mr. Pergola also presented detail regarding Petitioner's firm transportation services utilized on pipeline systems.

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, we find 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, the Commission finds 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 cost 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 ("NOI") of $61,827,974. Petitioner's evidence herein indicates that for the twelve (12) months ending February 28, 2011, Petitioner's weather-adjusted NOI was $56,907,863. 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 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 Ms. Barrett who testified that the result of the NOI return test was a shortfall of $4.9 million, whereas the result of the ROE calculation was an excess of $2.7 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 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 estimations with the eventual actual costs. Petitioner's Exhibit B, Schedule 13 indicates that the estimating techniques of Petitioner during the reconciliation period of October, 2010 through December, 2010 ("the Reconciliation Period") yielded an under-estimated weighted average error of 1.86%. 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 costs 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 $983,061 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 of $53,409.

The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of $239,857. Combining this amount with the Reconciliation Period commodity variance results in a total under-collection of $186,448 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 over-collection of $2,508,450 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 $136,284.

The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $212,473. Combining this amount with the Reconciliation Period demand variance results in a total under-collection of $76,189 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has $7,145 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 $388. This amount will be combined with refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $1,428 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. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is $18,421,296. Adjusting this total for the commodity variance of $186,448, a demand variance of $76,189, a bad debt cost of $165,496, and refunds of $1,428, yields gas costs to be recovered through the GCA of $18,848,001. 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	June 2011	July 2011	August 2011
210	$0.5701	$0.5815	$0.5935
211	$0.5701	$0.5815	$0.5935
220	$0.5701	$0.5815	$0.5935
225	$0.0005	$0.0003	$0.0002
229	$0.5701	$0.5815	$0.5935
240	$0.5086	$0.5200	$0.5319
245	$0.0005	$0.0003	$0.0002
260	$0.0005	$0.0003	$0.0002
270	$0.0005	$0.0003	$0.0002

9. **Effects on Residential Customers.** The GCA factor of $5.816/Dth represents an increase of $0.170/Dth from the current GCA factor of $5.646/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

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$ 54.84	$ 53.99	$0.85	1.57%
10	$ 94.87	$ 93.17	$1.70	1.82%
15	$134.90	$132.35	$2.55	1.93%
20	$174.93	$171.53	$3.40	1.98%
25	$214.96	$210.71	$4.25	2.02%

The GCA factor of $5.816/Dth represents a decrease of $0.349/Dth from the GCA factor of $6.165/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

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$ 54.84	$ 56.08	($1.24)	(2.20%)
10	$ 94.87	$ 97.34	($2.47)	(2.54%)
15	$134.90	$138.61	($3.71)	(2.68%)
20	$174.93	$179.87	($4.94)	(2.75%)
25	$214.96	$221.14	($6.18)	(2.79%)

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.

11. **Monthly Flex Mechanism.** Petitioner utilizes a flex mechanism each month to adjust the GCA 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 less than three (3) 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 (6) 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 (up or down) of $1.00 from the initial market price.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

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 Commission under this Cause, prior to placing in effect the gas cost adjustment

factors approved herein, or any future flexed factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedule on these amendments.

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

ATTERHOLT, LANDIS AND ZIEGNER CONCUR; BENNETT AND MAYS NOT PARTICIPATING:

APPROVED: MAY 31 2011

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

Sandra K. Gearlds

Sandra K. Gearlds,
Acting Secretary to the Commission