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 RATES THROUGH A GAS COST ADJUSTMENTS IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g) AND 8-1-2-42.3	)))))))	CAUSE NO. 37394 GCA 115 APPROVED: AUG 29 2012

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
David E. Veleta, Administrative Law Judge

On June 29, 2012, 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, 2012 through November, 2012 with the Indiana Utility Regulatory Commission ("Commission"). On July 31, 2012, Petitioner prefiled the direct testimony and revised schedules of Perry M. Pergola, Director, Gas Supply and Janice M. Barrett, Director, Regulatory and Plant Accounting, supporting the proposed GCA factor. On August 9, 2012, 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 2:00 p.m., on August 16, 2012, in Suite 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and 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. **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 Petitioner 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. **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 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.

In the Order dated August 8, 2012 for Cause No. 44021, the Commission approved Vectren's proposal to adjust the hedging percentages associated with its fixed winter gas supply purchases and annual fixed gas supply purchases. These modifications allow Petitioner the flexibility to take advantage of favorable market conditions when the opportunity is available. Furthermore, the Commission granted Petitioner 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 when price increases are expected. The Hedging Program percentages were adjusted as follows: winter deliveries from 75% to 70% and summer deliveries from 60% to 50%.

Also, per the Order in Cause No. 44021, Petitioner will increase the Advance Purchase Plan from six calendar quarters (eighteen months) duration to eight calendar quarters (twenty-four months) in duration and incorporate both physical fixed priced purchases and financial hedges including caps to fulfill the quarterly volumes.

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 of $61,827,974. Petitioner's evidence herein indicates that for the twelve (12) months ending May 31, 2012, Petitioner's actual net operating income was $57,589,119. Therefore, 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 approximately $4.2 million, whereas the result of the ROE calculation was an excess of $4.7 million. The Commission finds 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. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of January, 2012 through March, 2012 ("the Reconciliation Period") yielded an over-estimated weighted average error of 3.086%. 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 that 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 under-collection of $725,575 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 variance to be included in this GCA as an increase in the estimated net cost of gas is $124,741.

The commodity variance from prior recovery periods applicable to the current recovery period is an over-collection of $248,742. Combining this amount with the Reconciliation Period commodity variance, results in a total over-collection of $124,001 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 $3,635,077 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 $624,942.

The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $2,049,821. Combining this amount with the Reconciliation Period demand variance, results in a total under-collection of $1,424,879 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner received $2,571 in new refunds from nomination and balancing charges during the Reconciliation Period ending November 2012. 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 $442.

Petitioner has $2,695 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $3,137 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 $47,513,542. Adjusting this total for the commodity variance of ($124,001), demand variance of $1,424,879, bad debt cost, and a refund of ($3,137), yields gas costs to be recovered through the GCA of $49,238,692. 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 2012	October 2012	November 2012
210	$0.5137	$0.4760	$0.4660
211	$0.5137	$0.4760	$0.4660
220	$0.5137	$0.4760	$0.4660
225	$0.0002	$0.0002	$0.0002
229	$0.5137	$0.4760	$0.4660
240	$0.4547	$0.4170	$0.4070
245	$0.0002	$0.0002	$0.0002
260	$0.0002	$0.0002	$0.0002
270	$0.0002	$0.0002	$0.0002

9. **Effects on Residential Customers.** The proposed GCA factor for September of $5.137/Dth represents an increase of $0.005/Dth from the current GCA factor of $5.132/Dth. The proposed GCA factor for October of $4.760/Dth represents a decrease of $0.372/Dth from

the current GCA factor of $5.132/Dth. The proposed GCA factor for November of $4.660/Dth represents a decrease of $0.472/Dth from the current GCA factor of $5.132/Dth. The effects of these changes for the three months and for various consumption levels of residential customer bills are shown in the following tables:

Table 1
September, 2012
Effect on Residential Customer
Proposed vs. Current

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 51.31	$ 51.29	$ 0.02	0.05%
10	87.81	87.76	0.05	0.06%
15	124.32	124.24	0.08	0.07%
20	160.82	160.72	0.10	0.06%
25	197.32	197.19	0.13	0.06%

Table 2
October, 2012
Effect on Residential Customer
Proposed vs. Current

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 49.43	$ 51.29	$ (1.86)	-3.63%
10	84.04	87.76	(3.72)	-4.24%
15	118.66	124.24	(5.58)	-4.49%
20	153.28	160.72	(7.44)	-4.63%
25	187.89	197.19	(9.30)	-4.72%

Table 3
November, 2012
Effect on Residential Customer
Proposed vs. Current

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 48.93	$ 51.29	$ (2.36)	-4.60%
10	83.04	87.76	(4.72)	-5.38%
15	117.16	124.24	(7.08)	-5.70%
20	151.28	160.72	(9.44)	-5.87%
25	185.39	197.19	(11.80)	-5.98%

The proposed GCA factor for September 2012 of $5.137/Dth represents a decrease of $0.513/Dth from the prior year GCA factor of $5.650/Dth. The proposed GCA factor for October 2012 of $4.760/Dth represents a decrease of $0.499/Dth from the prior year GCA factor of $5.259/Dth. The proposed GCA factor for November 2012 of $4.660/Dth represents a decrease of $0.521/Dth from the prior year GCA factor of $5.181/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

Table 4
September, 2012
Effect on Residential Customers
Proposed vs. Prior Year

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 51.31	$ 54.01	$ (2.70)	-4.99%
10	87.81	93.21	(5.40)	-5.79%
15	124.32	132.41	(8.09)	-6.11%
20	160.82	171.61	(10.79)	-6.29%
25	197.32	210.81	(13.49)	-6.40%

Table 5

October, 2012
Effect on Residential Customers
Proposed vs. Prior Year

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 49.43	$ 52.05	$ (2.63)	-5.05%
10	84.04	89.30	(5.26)	-5.88%
15	118.66	126.54	(7.88)	-6.23%
20	153.28	163.79	(10.51)	-6.42%
25	187.89	201.03	(13.14)	-6.54%

Table 6

November, 2012
Effect on Residential Customers
Proposed vs. Prior Year

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 48.93	$ 51.66	$ (2.74)	-5.30%
10	83.04	88.52	(5.47)	-6.19%
15	117.16	125.37	(8.21)	-6.55%
20	151.28	162.23	(10.95)	-6.75%
25	185.39	199.08	(13.69)	-6.88%

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.

12. **Unaccounted For Gas.** The Commission's Order in Cause No. 43298 approved Petitioner's recovery of unaccounted-for gas in its quarterly GCA filings. Pursuant to that Order, the amount of unaccounted-for gas that Petitioner may recover is capped at 0.8% and will be reflected in Schedule 11B. In addition, the Order in Cause No. 43298 permitted Petitioner's annual unaccounted for gas to be reviewed after August 31st of each year and reflected on Schedule 11B. The Commission finds that the methodology employed by Petitioner in this GCA filing to be appropriate and in accordance with the Order in Cause No. 43298. Petitioner will continue to file Schedule 11A for informational purposes.

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. Petitioner 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, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:

APPROVED: AUG 29 2012

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