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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 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 116 APPROVED: NOV 28 2012

ORDER OF THE COMMISSION

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

On October 1, 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 December, 2012 through February, 2013 with the Indiana Utility Regulatory Commission ("Commission"). On November 8, 2012, Petitioner prefiled the direct testimony and revised schedules of Perry M. Pergola, Director, Gas Supply and J. Cas Swiz, Manager, Regulatory and Utility Accounting, supporting the proposed GCA factor. On November 13, 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. On November 15, 2012, Petitioner prefiled the direct testimony and revised schedules of Perry M. Pergola supporting the proposed GCA factor. On November 16, 2012, the Presiding Officers issued a Docket Entry requesting a response from Petitioner. On November, 19, 2012, Petitioner filed its response to the Docket Entry.

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 11:00 a.m., on November 19, 2012 in Suite 220, 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.

Witness Pergola also testified to Petitioner's proposal to enter into two transactions: a five year contract for the term of January 2013 – December 2017 at a fixed price not to exceed $4.60/dth for 500,000 dth per month, (approximately 10% of its annual supply), and a ten year contract for the term of January 2013 – December 2022 at a fixed price not to exceed $5.25/dth for one BCF per year. In this proceeding, Petitioner seeks input and a determination that the contracts, in light of current market conditions, represent a reasonable approach to gas procurement to mitigate price volatility. Further, Petitioner seeks this guidance before entering into the proposed contracts.

In response, OUCC witness Hasse stated that based on the Commission's recent rejection of a proposed non-GCA pre-approval framework for longer term purchase contracts in Cause No. 44021, the OUCC recommends that the Commission not provide the requested guidance and not make any finding regarding the reasonableness of these two specific transactions until an unspecified later time.

However, the expedited nature of this proceeding does not afford the opportunity to understand and fully evaluate the specific nature and details of Petitioner's request and the OUCC's position regarding Petitioner's request. Thus, we are opening a subdocket to further address Petitioner's request. In addition, we are scheduling a preliminary hearing and technical conference for December 18, 2012, so that we can receive further clarification.

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 August 31, 2012, Petitioner's actual net operating income was $56,231,138. 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 Swiz who testified that the result of the NOI return test was a shortfall of $ 5.6 million whereas the result of the ROE calculation was an excess of $ 4.7 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. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of April through June, 2012 ("the Reconciliation Period") yielded an under-estimated weighted average error of 10.785%.

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 $2,351,388 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 $1,357,480.

The commodity variance from prior recovery periods applicable to the current recovery period is an over-collection of $415,450. Combining this amount with the Reconciliation Period commodity variance results in a total under-collection of $942,030 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 $5,825,055 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 $3,362,863.

The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $1,785,963. Combining this amount with the Reconciliation Period demand variance results in a total under-collection of $5,148,826 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has $5,986 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 $3,456. This amount will be combined with $8,458 of refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $11,914 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 Adjustment Factor.</u> The estimated net cost of to be recovered during the application period is $ 151,917,124. Adjusting this total for the commodity variance of $942,030, a demand variance of $5,148,826, bad debt of $1,366,519, and refunds of ($11,914), yields gas costs to be recovered through the GCA of $ 159,362,585. 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	December 2012	January 2013	February 2013
210	$0.4679	$0.4905	$0.4898
211	$0.4679	$0.4905	$0.4898
220	$0.4679	$0.4905	$0.4898
225	$0.0004	$0.0005	$0.0006
229	$0.4679	$0.4905	$0.4898
240	$0.4068	$0.4294	$0.4288
245	$0.0004	$0.0005	$0.0006
260	$0.0004	$0.0005	$0.0006
270	$0.0004	$0.0005	$0.0006

9. <u>Effects on Residential Customers.</u> The proposed GCA factor for December 2012 of $4.679/Dth represents a decrease of $0.063/Dth from the current GCA factor of $4.742/Dth. The proposed GCA factor for January 2013 of $4.905/Dth represents an increase of

$0.163/Dth from the current GCA factor of $4.742/Dth. The proposed GCA factor for February 2013 of $4.898/Dth represents an increase of $0.156/Dth from the current GCA factor of $4.742/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

TABLE 1
December 2012
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	$ 48.77	$ 49.08	$ (0.31)	-0.64%
10	$ 82.72	$ 83.35	$ (0.63)	-0.76%
15	$116.68	$117.63	$ (0.95)	-0.81%
20	$150.64	$151.90	$ (1.26)	-0.83%
25	$184.59	$186.17	$ (1.58)	-0.85%

TABLE 2
January 2013
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	$ 49.90	$ 49.08	$ 0.82	1.68%
10	$ 84.98	$ 83.35	$ 1.63	1.96%
15	$120.07	$117.63	$ 2.44	2.07%
20	$155.16	$151.90	$ 3.26	2.15%
25	$190.24	$186.17	$ 4.07	2.18%

TABLE 3
February 2013
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	$ 49.86	$ 49.08	$ 0.78	1.59%
10	$ 84.91	$ 83.35	$ 1.56	1.87%
15	$119.97	$117.63	$ 2.34	1.99%
20	$155.02	$151.90	$ 3.12	2.05%
25	$190.07	$186.17	$ 3.90	2.09%

The proposed GCA factor for December 2012 of $4.679/Dth represents a decrease of $0.605/Dth from the prior year GCA factor of $5.284/Dth. The proposed GCA factor for January 2013 of $4.905/Dth represents a decrease of $0.242/Dth from the prior year factor of $5.147/Dth. The proposed GCA factor for February 2013 of $4.898/Dth represents a decrease of $0.071/Dth from the prior year factor of $4.969/Dth. The effects of these changes for various consumption levels of residential bills are shown in the following tables:

TABLE 4
December 2012
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	$ 48.77	$ 52.18	$ (3.41)	-6.54%
10	$ 82.72	$ 89.55	$ (6.83)	-7.63%
15	$116.68	$126.92	$(10.24)	-8.07%
20	$150.64	$164.29	$(13.65)	-8.31%
25	$184.59	$201.66	$(17.07)	-8.47%

TABLE 5
January 2013
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption (Dth)	Bill at New GCA	Bill at GCA One Year Ago	Dollar Change	Percent Change
5	$ 49.90	$ 51.49	$ (1.59)	-3.08%
10	$ 84.98	$ 88.18	$ (3.20)	-3.62%
15	$120.07	$124.86	$ (4.79)	-3.84%
20	$155.16	$161.55	$ (6.39)	-3.96%
25	$190.24	$198.23	$ (7.99)	-4.03%

TABLE 6
February 2013
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption (Dth)	Bill at New GCA	Bill at GCA One Year Ago	Dollar Change	Percent Change
5	$ 49.86	$ 50.60	$ (0.74)	-1.47%
10	$ 84.91	$ 86.40	$ (1.49)	-1.72%
15	$119.97	$122.19	$ (2.22)	-1.81%
20	$155.02	$157.99	$ (2.97)	-1.88%
25	$190.07	$193.78	$ (3.71)	-1.92%

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

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. A subdocket is hereby created consistent with Finding No. 3 above. A preliminary hearing and technical conference in the subdocket, Cause No. 37394 GCA 116-S1, is scheduled for 1:30 p.m. on December 18, 2012 in Room 222 of the PNC center, 101 West Washington Street, Indianapolis, Indiana.

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

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

APPROVED: NOV 28 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