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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) CAUSE NO. 37394 GCA 119
APPROVAL OF CHANGES IN ITS GAS RATES)
THROUGH A GAS COST ADJUSTMENT IN) APPROVED:
ACCORDANCE WITH IND. CODE §§ 8-1-2-42(g))
AND 8-1-2-42.3)

AUG 28 2013

ORDER OF THE COMMISSION

Presiding Officers:

James D. Atterholt, Chairman

David E. Veleta, Administrative Law Judge

On July 1, 2013, in accordance with Ind. Code § 8-1-2-42, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Applicant") filed its Application for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of September through November 2013. On August 2, 2013, Applicant pre-filed the verified testimony and exhibits of Perry M. Pergola, Director, Gas Supply, and J. Cas Swiz, Director, Regulatory Implementation and Analysis, supporting the proposed GCA factors. On August 6, 2013, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Partner with the London Witte Group.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Indiana Utility Regulatory Commission ("Commission"), an Evidentiary Hearing was held in this Cause at 9:30 a.m. on August 14, 2013, in Suite 220, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicant and the OUCC were present and participated. The testimony and exhibits of Applicant 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, the Commission finds:

1. Statutory Notice and Commission Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Applicant's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. Applicant's Characteristics. Applicant is a corporation organized and existing under the laws of the State of Indiana. Applicant's principal office is located at One Vectren Square, Evansville, Indiana. Applicant renders natural gas utility service to the public in the

State of Indiana and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such service.

3. **Source of Natural Gas.** Ind. Code § 8-1-2-42(g)(3)(A) requires Applicant 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 Applicant's Witness Pergola, a portion of Applicant'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 Applicant's financial hedging plan and provided details regarding the financial hedges and associated premiums to date for this GCA quarter. Applicant 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 Applicant'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 considers market conditions and the price of natural gas on both current and forward-looking bases. Based on the evidence offered, we find that Applicant 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.** Ind. Code § 8-1-2-42(g)(3)(B) requires that Applicant'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 the proposed gas costs include transport rates that have been filed by Applicant's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Applicant earning a return in excess of the return authorized by the last Commission Order in which Applicant's basic rates and charges were approved. Applicant's current basic rates and charges were approved on February 13, 2008 in Cause No. 43298. The Commission authorized Applicant to earn a net operating income of \$61,827,974.

Applicant's evidence indicates that for the twelve (12) months ending May 2013, Applicant's actual net operating income ("NOI") was \$57,201,909. Therefore, based on the evidence of record, the Commission finds that Applicant 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, Applicant was ordered, along with the statutory NOI earnings test, to also perform the return on equity ("ROE") test calculation as proposed by the Applicant in the above mentioned Causes. In

this GCA, that comparison was made by Applicant's Witness Swiz who testified that the result of the NOI return test was a shortfall of \$4.6 million whereas the result of the ROE calculation was an excess of \$6.4 million. The Commission finds the Applicant has complied with the required submission of the ROE calculation.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Applicant'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 estimates with the corresponding actual costs. The evidence presented indicates that Applicant's estimating techniques during the reconciliation period of January through March 2013 ("Reconciliation Period") yielded an under-estimated weighted average error of 2.26%. Based on Applicant's historical accuracy in estimating the cost of gas, we find that Applicant's estimating techniques are sound, and Applicant's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

A. **VariANCES.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Applicant reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the demand variance for the Reconciliation Period is an over-collection of \$13,926,242 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 \$2,451,576.

The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of \$1,787,898. Combining this amount with the Reconciliation Period variance, results in a total over-collection of \$663,678 to be applied in this GCA as a decrease in the estimated net cost of gas.

The commodity variance for the months of January through March 2013 is an under-collection in the amount of \$3,222,527. The amount included in this GCA as an increase is \$567,294. The commodity variance from the prior periods totals an under-collection of \$1,418,743. The total commodity variance to be recovered in this GCA is an under-collection of \$1,986,037, which results in an increase in the estimated net cost of gas.

B. **Refunds.** Applicant has refunds in the amount of \$121,859 from nomination and balancing charges. The amount to be refunded in this GCA is \$21,452. Applicant has prior period refunds in the amount of \$16,094 to be returned in this GCA. The total refund to be returned in this GCA is \$37,546, which results in a decrease in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is \$48,937,775. Adjusting this total for the commodity and demand variances, refunds, and bad debt costs of \$440,173, yields gas costs to be recovered through the GCA of \$50,622,761.

Estimated GCA Factors Per Therm

Rate Schedule	Sept 2013	Oct 2013	Nov 2013
210	\$0.5107	\$0.4847	\$0.4843
211	\$0.5107	\$0.4847	\$0.4843
220	\$0.5107	\$0.4847	\$0.4843
225	\$0.0002	\$0.0002	\$0.0003
229	\$0.5107	\$0.4847	\$0.4843
240	\$0.4520	\$0.4260	\$0.4256
245	\$0.0002	\$0.0002	\$0.0003
260	\$0.0002	\$0.0002	\$0.0003
270	\$0.0002	\$0.0002	\$0.0003

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicant requests authority to approve the GCA factor of \$5.107/Dth for September 2013, \$4.847/Dth for October 2013, and \$4.843/Dth for November 2013. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to the amount a residential customer paid most recently (July 2013 - \$5.667/Dth) and a year ago (September 2012 - \$4.749/Dth, October 2012 - \$4.577/Dth, and November 2012 - \$4.742/Dth). The table solely reflects costs approved through the GCA process. It does not include Applicant’s base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
September	\$ 51.07	\$ 56.67	\$ (5.60)	\$ 47.49	\$ 3.58
October	\$ 48.47	\$ 56.67	\$ (8.20)	\$ 45.77	\$ 2.70
November	\$ 48.43	\$ 56.67	\$ (8.24)	\$ 47.42	\$ 1.01

10. **Interim Rates.** We are unable to determine whether Applicant will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** The Commission indicated in prior Orders that Indiana’s gas utilities should make reasonable efforts to mitigate gas price volatility. Applicant’s approved monthly flex mechanism is designed to address the Commission’s concerns. Therefore, Applicant may utilize a monthly flex mechanism to adjust the GCA factor 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 later 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 (higher or lower) 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 Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the GCA factors approved above or any future flexed factor, Applicant shall file with the Commission under this Cause the applicable rate schedules for the factor.

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

ATTERHOLT, BENNETT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: AUG 28 2013

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



**Brenda A. Howe
Secretary to the Commission**