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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANA GAS COMPANY,)
INC. D/B/A VECTREN ENERGY DELIVERY) CAUSE NO. 37394 GCA 122
OF INDIANA, INC. ("VECTREN NORTH"))
FOR APPROVAL OF CHANGES IN ITS GAS)
COST ADJUSTMENTS IN ACCORDANCE) APPROVED: MAY 28 2014
WITH I.C. 8-1-2-42(g) AND 8-1-2-42.3.)

ORDER OF THE COMMISSION

Presiding Officer:
Jeffery A. Earl, Administrative Law Judge

On April 1, 2014, in accordance with Ind. Code § 8-1-2-42, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") filed its Application for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the billing cycles of June through August 2014. On May 1, 2014 Vectren North pre-filed the verified testimony and exhibits of the following:

- Perry M. Pergola, Director, Gas Supply; and
- J. Cas Swiz, Director, Regulatory Implementation and Analysis.

On May 2, 2014, Vectren North filed revised schedules.

On May 7, 2014, the OUCC filed the statistical report and direct testimony of Pamela Sue Sargent Haase, CPA, Partner with London Witte Group, LLC.

The Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on May 15, 2014, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Vectren North and the OUCC were present and participated. 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. Vectren North 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 Vectren North's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Vectren North and the subject matter of this Cause.

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

public in 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. Ind. Code § 8-1-2-42(g)(3)(A) requires Vectren North to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at lowest gas cost reasonably possible.

Mr. Pergola testified that a portion of Vectren North'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 Vectren North's financial hedging plan and provided details regarding the financial hedges and associated premiums to date for this GCA quarter. Vectren North relies upon certain contracts for the provision of firm interstate supply services to its city gate in providing firm supply to customers. Mr. Pergola presented detail regarding Vectren North's firm transportation services utilized on pipeline systems.

In the March 21, 2013 Order in Cause No. 37394 GCA 116 S1 ("GCA 116 S1 Order"), the Commission approved Vectren North's proposal to adjust the hedging percentages associated with its fixed winter gas supply purchases and annual fixed gas supply purchases. These modifications allow Vectren North the flexibility to take advantage of favorable market conditions when the opportunity is available. The Commission also granted Vectren North permission to enter into long-term contracts with terms up to ten years allowing the opportunity to take advantage of the relatively low prices currently available for future gas supply. The Hedging Program percentages were adjusted as follows: winter deliveries from 75% to 70% and annual purchases from 60% to 50%.

Additionally, as authorized by the August 8, 2012 Order in Cause No. 44021, Vectren North has increased the Advance Purchase Plan from six calendar quarters (eighteen months) duration to eight calendar quarters (twenty-four months) in duration and incorporated both physical fixed-priced purchases and financial hedges, including caps, to fulfill the quarterly volumes. In GCA 121, the Commission authorized Vectren North to modify the Advance Purchase Plan from a quarterly approach to a seasonal approach to better align with supply planning and storage management seasons, along with the acquisition pattern of commodity purchases.

Mr. Pergola testified that Vectren North has entered into two long-term gas supply contracts as authorized by GCA 116 S1 Order. The first long-term, fixed-price purchase is a five-year transaction for the term July 2013 through March 2018 at a fixed-price of \$4.06 per Dth for 500,000 Dth per month, which equates to approximately 10% of the annual commodity purchases for Vectren North. The second long-term, fixed-price purchase is a ten-year transaction for the term August 2013 through March 2023 at a fixed-price of \$4.70 for 80,000 Dth monthly, which equates to approximately 1.6% of the annual commodity purchases for Vectren North. Both contracts utilized the industry standard North American Energy Standards Board ("NAESB") contract.

Mr. Pergola testified that Vectren North was granted authority to enter into two long-term contracts for a portion of its portfolio of supply in the Commission's Order in Cause No. 37394 GCA 121. He testified that Vectren North entered into a five-year transaction for the term April

2014–March 2019 at a fixed price of \$4.00 per Dth. The volume is roughly 250,000 Dth per month. This volume represents approximately 5% of the projected annual GCA supply in normal weather to be purchased by Vectren North. Additionally, Vectren North entered into a ten-year transaction for the term April 2014–December 2023 at a fixed price of \$4.34 per Dth. The volume is roughly 150,000 Dth per month and represents approximately 3% of the projected annual GCA supply in normal weather to be purchased by Vectren North.

Ms. Haase testified that Vectren North and the OUCC have reached an agreement in principle regarding the demand costs for the appendix services for the period April 1, 2013, through March 31, 2014. These demand costs encompass the changes made to Vectren North’s interstate capacity portfolio on April 1, 2013. Ms. Haase also stated details of the demand costs for appendix services will be included in an upcoming GCA once the agreement is finalized.

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 a current and forward-looking basis. Based on the evidence presented, we find that Vectren North 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 Vectren North’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 Application include transport rates that have been filed by Vectren North’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 costs 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 which results in Vectren North earning a return in excess of the return authorized by the last Commission Order in which Vectren North’s basic rates and charges were approved. Vectren North’s current basic rate and charges were approved on February 13, 2008 in Cause No. 43298. The Commission authorized Vectren North to earn a net operating income of \$61,827,974.

Vectren North’s evidence herein indicates that for the 12 months ending February 28, 2014, Vectren North’s actual net operating income was \$53,655,064. Therefore, based on the evidence of record, the Commission finds that Vectren North is not earning an excessive return.

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 \$8.2 million whereas the result of the ROE calculation was an excess of \$2.7 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 Vectren North'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 during the reconciliation period of October through December 2013 ("the Reconciliation Period") yielded an under-estimated weighted average error of 5.506%. Based on Vectren North's historical accuracy in estimating the cost of gas, we find that Vectren North's estimating techniques are sound, and Vectren North's prospective average estimate of gas costs is reasonable.

7. Reconciliations.

A. Variations. Ind. Code § 8-1-2-42(g)(3)(D) also requires that Vectren North reconcile its estimate 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 \$4,843,864 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 an increase in the estimated net cost of gas is \$266,268. The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of \$160,570. Combining this amount with the Reconciliation Period commodity variance results in a total under-collection of \$426,838 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 \$3,346,385 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 \$183,951. The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of \$183,235. Combining this amount with the Reconciliation Period demand variance results in a total over-collection of \$367,186 to be applied in this GCA as a decrease in the estimated net cost of gas

B. Refunds. Vectren North has \$5,020 in nomination and balancing charges that are reflected as new refunds during the Reconciliation Period and has \$7,328 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is \$7,604 as reflected on Schedule 12A.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered during the application period is \$19,897,173. Adjusting this total for the variances, bad debt costs, and refund amounts, yields gas costs to be recovered through the GCA of \$20,127,770. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Vectren North's recommended GCA factors are as follows:

Estimated GCA Factors Per Therm

<u>Rate Schedule</u>	<u>Jun 2014</u>	<u>Jul 2014</u>	<u>Aug 2014</u>
210	\$0.6180	\$0.6201	\$0.6199
211	\$0.6180	\$0.6201	\$0.6199
220	\$0.6180	\$0.6201	\$0.6199
225	\$0.0007	\$0.0005	\$0.0005
229	\$0.6180	\$0.6201	\$0.6199
240	\$0.5603	\$0.5623	\$0.5621
245	\$0.0007	\$0.0005	\$0.0005
260	\$0.0007	\$0.0005	\$0.0005
270	\$0.0007	\$0.0005	\$0.0005

9. **Effects on Residential Customers.** Vectren North requests authority to approve the GCA factor of \$6.180/Dth for June 2014, \$6.201/Dth for July 2014, and \$6.199/Dth for August 2014. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dth of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (April 2014 - \$5.745/Dth) and a year ago (June 2013 - \$6.158/Dth, July 2013 - \$5.667/Dth, and August 2013 - \$5.658/Dth). The table solely reflects costs approved through the GCA process. It does not include Vectren North’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
June	\$ 61.80	\$ 57.45	\$ 4.35	\$ 61.58	\$ 0.22
July	\$ 62.01	\$ 57.45	\$ 4.56	\$ 56.67	\$ 5.34
August	\$ 61.99	\$ 57.45	\$ 4.54	\$ 56.58	\$ 5.41

10. **Interim Rates.** The Commission is unable to determine whether Vectren North will earn an excess return while this GCA is in effect. Therefore, 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 indicated in prior Orders that Indiana’s gas utilities should make reasonable efforts to mitigate gas price volatility. Vectren North’s approved monthly flex mechanism is designed to address the Commission’s concerns. Therefore, Vectren North 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 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 (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 out 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, Vectren North 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.

STEPHAN, MAYS, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:

APPROVED:

MAY 28 2014

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



Brenda A. Howe

Secretary to the Commission