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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 123
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 27 2014

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

David E. Veleta, Administrative Law Judge

On July 1, 2014, in accordance with Ind. Code § 8-1-2-42, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Applicant" or "Vectren North") filed its Application for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of September through November 2014. On July 31, 2014 Applicant pre-filed the verified testimony, exhibits, and revised schedules of Perry M. Pergola, Director, Gas Supply, and J. Cas Swiz, Director, Regulatory Implementation and Analysis, supporting the proposed GCA factors. On August 7, 2014, the OUCC filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Partner with London Witte Group, LLC, and the direct testimony of Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc. On August 13, 2014 Applicant filed the rebuttal testimony of Mr. Pergola and revised GCA schedules. On August 14, 2014, Applicant filed corrections to Mr. Pergola's testimony.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing was in this Cause at 9:30 a.m., on August 18, 2014, in Room 224, 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 used for the distribution and furnishing of such services.

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 natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible.

Mr. Pergola testified that 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.

In its Order dated August 8, 2012 in Cause No. 44021, the Commission approved Applicant's proposal to adjust the hedging percentages associated with its fixed winter gas supply purchases and annual fixed gas supply purchases. These modifications allow Applicant the flexibility to take advantage of favorable market conditions when the opportunity is available. Furthermore, the Commission granted Applicant 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, pursuant to the Commission's Order in Cause No. 44021, Applicant has increased the advance purchase plan from six calendar quarters duration to eight calendar quarters in duration and incorporated both physical fixed priced purchases and financial hedges including caps to fulfill the quarterly volumes. In GCA 121, Applicant obtained approval 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 Applicant has entered into long-term gas supply contracts pursuant to the Commission's Order in Cause No. 37394 – GCA 116S1 issued on March 21, 2013, which approved Vectren North's proposal for two long-term transactions. He described the first long-term fixed-price purchase as 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 ten percent of the annual commodity purchases for Applicant. He described the second long-term fixed-price purchase as 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 percent of the annual commodity purchases for Vectren North. He testified that both contracts utilized the industry standard North American Energy Standards Board ("NAESB") contract.

Mr. Pergola testified that Applicant 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 Applicant entered into a five-year transaction for the term April 2014 – March 2019 at a fixed price of \$4.000 per Dth. The volume is roughly 3 billion cubic feet ("BCF") annually, which equates to 250,000 Dth per month. This volume represents approximately five percent of the projected annual GCA supply in normal weather to be

purchased by Applicant. Additionally, Applicant entered into a ten-year transaction for the term April 2014 – December 2023 at a fixed price of \$4.335 per Dth. The volume is 1.8 billion cubic feet annually, which equates to 150,000 Dth per month and represents approximately three percent (3%) of the projected annual GCA supply in normal weather to be purchased by Applicant.

The OUCC's witness, Ms. Haase, testified that the pricing of certain gas purchases at Chicago city gate index prices were improperly handled, and not included in the Gas Cost Incentive Mechanism ("GCIM"). Ms. Haase indicated that inclusion of these purchases would result in a loss of \$5,953,592, of which \$3,858,888 would be attributable to Vectren North according to the GCIM parameters. OUCC witness Jerome D. Mierzwa evaluated the results of the GCIM during the review period. He testified that Vectren North failed to include gas supply commodity purchases delivered by the ANR Pipeline in its GCIM for the GCA-123 review period. Mr. Mierzwa indicated that inclusion of these purchases would result in a loss of \$3,858,888 assigned to Vectren North.

Mr. Pergola provided rebuttal testimony on behalf of Vectren North. He explained that while Vectren North disagrees with OUCC witness Mierzwa's testimony, Vectren North recognizes the difficulty of resolving the issues in the compressed time frame of this GCA. As a result, Mr. Pergola testified that the OUCC and Vectren North agreed to defer the issue until GCA 124 to afford the parties more time to address the issues. Pursuant to this agreement, Vectren North agreed to remove the disputed gas purchases from the GCA costs to be recovered during the period of September, October, and November, 2014. He testified that if Vectren North persuades the Commission in GCA 124 that this amount is a proper cost of gas recoverable through its GCA, the disputed gas purchases will be approved in GCA 124 and recovered through future GCA proceedings.

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 offered, and deferring issues related to the \$3,858,888 in costs raised by the OUCC until the next GCA proceeding, 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 31, 2014, Applicant's actual net operating income was \$54,258,669. 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 \$7.6 million whereas the result of the ROE calculation was an excess of \$2.5 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 2014 ("Reconciliation Period") yielded an under-estimated weighted average error of 8.51%. 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 total demand variance for the months of January through March 2014 is an over-collection in the amount of \$16,726,294. The amount included in this GCA as a decrease is \$2,847,986. The demand variance from the prior periods totals an under-collection of \$1,275,672. The total demand variance to be recovered in this GCA is an over-collection of \$1,572,314, which results in a decrease in the estimated net cost of gas.

The total commodity variance for the months of January through March 2014 is an under-collection in the amount of \$16,695,473. The amount included in this GCA as an increase is \$2,842,738. The commodity variance from the prior periods totals an under-collection of \$799,641. The total commodity variance to be recovered in this GCA is an under-collection of \$3,642,379, which results in an increase in the estimated net cost of gas.

B. Refunds. Applicant has \$366,051 in nomination and balancing charges that are reflected as new refunds during the Reconciliation Period. The amount to be refunded in this GCA is \$62,328. Applicant has \$2,896 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 \$65,224 as reflected on Schedule 12A.

8. Resulting Gas Cost Adjustment Factor. The estimated net commodity cost of gas to be recovered during the application period is \$53,665,729. Adjusting this total for the demand costs, variances, bad debt costs and refund amounts yields gas costs to be recovered through the GCA of \$56,153,290. After dividing that amount by estimated sales and adjusting

for Indiana Utility Receipts Tax, Applicant’s recommended GCA factors net of the disputed gas purchases discussed in paragraph 3 are as follows:

<u>Estimated GCA Factors Per Therm</u>			
<u>Rate Schedule</u>	<u>Sep 2014</u>	<u>Oct 2014</u>	<u>Nov 2014</u>
210	\$0.5767	\$0.5350	\$0.5346
211	\$0.5767	\$0.5350	\$0.5346
220	\$0.5767	\$0.5350	\$0.5346
225	\$0.0003	\$0.0001	\$0.0003
229	\$0.5767	\$0.5350	\$0.5346
240	\$0.5210	\$0.4793	\$0.4788
245	\$0.0003	\$0.0001	\$0.0003
260	\$0.0003	\$0.0001	\$0.0003
270	\$0.0003	\$0.0001	\$0.0003

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicant requests authority to approve the GCA factor of \$5.767/Dth for September 2014, \$5.350/Dth for October 2014, and \$5.346/Dth for November 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 (July 2014 - \$6.092/Dth) and a year ago (September 2013 - \$5.267/Dth, October 2013 - \$5.028/Dth, and November 2013 - \$5.027/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	\$57.67	\$60.92	(\$3.25)	\$52.67	\$5.00
October	\$53.50	\$60.92	(\$7.42)	\$50.28	\$3.22
November	\$53.46	\$60.92	(\$7.46)	\$50.27	\$3.19

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 Application 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.

STEPHAN, MAYS-MEDLEY AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:
APPROVED:

AUG 27 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