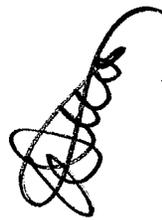


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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA GAS COMPANY, INC.)
d/b/a VECTREN ENERGY DELIVERY OF)
INDIANA, INC. FOR APPROVAL OF AN)
ADJUSTMENT TO ITS RATES THROUGH ITS)
PIPELINE SAFETY ADJUSTMENT APPROVED)
IN THE COMMISSION'S ORDER IN CAUSE NO.)
42598 AND MODIFIED BY THE COMMISSION'S)
ORDER IN CAUSE NO. 43412)

CAUSE NO. 43576

APPROVED: JAN 07 2009

BY THE COMMISSION:

Gregory D. Server, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On September 24, 2008, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner") filed its Petition in this Cause for approval of adjustments to its rates through its Pipeline Safety Adjustment ("PSA") as approved by the Commission's Order in Cause No. 42598, dated November 30, 2004 ("2004 Rate Order") and as modified by the Commission's Order in Cause No. 43298, dated February 13, 2008 ("2008 Rate Order"). On the same day, Petitioner filed the prepared testimony and exhibits constituting its case-in-chief. On December 5, 2008, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed a Notice of Intent Not to Prefile Testimony.

Pursuant to the Prehearing Conference on October 29, 2008, the Prehearing Conference Order dated November 12, 2008, and notice of hearing given as provided by law, proof of which was incorporated into the record and placed in the official files of the Commission, a public hearing in this Cause was held on December 22, 2008, at 1:30 p.m., E.S.T., in Room 224 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the prepared testimony and exhibits of Petitioner's Witnesses Scott E. Albertson (Petitioner's Exhibits SEA-1 through SEA-5) and James M. Francis (Petitioner's Exhibits JMF-1 through JMF-4) were admitted into the record. The OUCC participated in the Evidentiary Hearing, but did not present any witnesses. No members of the public appeared or participated at the hearing.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Petitioner published notice of the filing of its Petition in newspapers of general circulation in each county in which Petitioner has retail gas customers. Petitioner is a "public utility" as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of this Commission in the manner and to the extent provided by Indiana law. The Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a public utility incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of

Evansville. Petitioner provides retail gas utility service to the public in Indiana and owns, operates, manages and controls plant and equipment used to provide such service.

3. **Petitioner's PSA.** The 2004 Rate Order approved a Stipulation and Settlement Agreement ("2004 Settlement") between Petitioner, the OUCC, Citizens Action Coalition of Indiana, Inc., and the Indiana Gas Industrial Group, which, among other things, authorized Petitioner to implement the PSA to recover on a timely basis prudently incurred, incremental non-capital expenses ("PSA expenses") caused by the requirements of the Federal Pipeline Safety Improvement Act of 2002 (the "Act") and the regulations of the United States Department of Transportation ("DOT Rules") adopted thereunder. The Act imposes new requirements on pipeline operators with the intent of enhancing pipeline and public safety, including annual submission of transmission pipeline maps to the National Pipeline Mapping System, public education programs, pipeline integrity assessments and a pipeline integrity management program.

The 2004 Settlement provided that Petitioner may defer PSA expenses beginning as of March 26, 2004 and recover them through the PSA subject to an annual cap of \$2,500,000. Any amounts in excess of the cap will continue to be deferred until they can be recovered in the PSA without exceeding the cap or until such time as they are included in base rates. On September 7, 2005, Petitioner filed its petition in Cause No. 42909 requesting approval of its first adjustment under the PSA to recover over a twelve-month period PSA expenses deferred during the period of March 31, 2004 through July 31, 2005. The Commission approved the first adjustment in its Order dated January 11, 2006.

On February 13, 2008, the Commission issued its Order in Cause No. 43298 ("2008 Rate Order") approving a Stipulation and Settlement Agreement that, among other things, provided for the continuation of the PSA with the following modifications:

- a. The annual cap was increased to \$4,500,000. Amounts above the cap will be deferred and be eligible for future base rate or PSA recovery.
- b. The amount of the deferred balance as of July 31, 2007 that exceeded the amount that would otherwise be recovered in the PSA for the twelve months ended July 31, 2007 will be amortized over a three year period without regard to the annual cap.
- c. Recovery variances will not be subject to the annual cap.
- d. Rate schedule margins as updated in Cause No. 43298 will be used as the basis for allocating eligible deferred expenses.
- e. The PSA will continue through the annual PSA filing for the twelve months ended July 31, 2010.

Petitioner's current PSA factors were approved by the Commission's Order in Cause No. 43412 dated May 7, 2008, and reflect PSA expenses deferred between August 1, 2006 and July 31, 2007, up to the \$2,500,000 cap, an under recovery variance relating to the period through July 31, 2007 and the amortization of the excess deferred PSA expenses at July 31, 2007 as provided in the 2008 Rate Order.

4. **Petitioner's Request.** In this proceeding, Petitioner seeks approval of PSA factors that will recover over a 12-month period: (a) actual incremental costs deferred between August 1, 2007 and July 31, 2008 up to the \$4,500,000 cap; (b) under recovery variances from prior causes; (c) allowed deferred expenses approved for recovery in Cause No. 43412; and (d) continuation of the three-year amortization provided for in the 2008 Rate Order.

5. **PSA Expenses.** Mr. Francis, Director of Engineering and Asset Management for Vectren Utility Holdings, Inc., described the activities Petitioner has undertaken under its Integrity Management Program ("Program") during the period of August 1, 2007 through July 31, 2008. Mr. Francis stated that total PSA expenses during the period were \$7,100,702.

Mr. Francis described the Program activities completed by Petitioner to comply with the Act and the DOT Rule. The majority of the completed activities related to field activities, which included: vegetation management and maintenance of Petitioner's rights-of-way along its High Consequence Area ("HCA") pipelines; indirect inspection corrosion surveys and corresponding direct examination excavations; pipeline casing removals and direct examinations; hydrostatic pressure testing assessments of pipeline segments; in-line inspection of a river crossing; and pipeline centerline and depth surveys to support internal corrosion assessments. Mr. Francis testified that Petitioner completed the assessment of approximately 37 HCA pipeline miles and is currently in the process of assessing an additional 12 HCA pipeline miles. Mr. Francis stated that the assessment of many of Petitioner's transmission stations and equipment was completed. Mr. Francis also noted that Petitioner has completed its Public Awareness requirements, provided an update to the National Pipeline Mapping System and provided training to employees responsible for carrying out various Program tasks.

Mr. Francis testified that the Program expenses from August 1, 2007 through July 31, 2008 represent incremental work, and that labor expenses being recovered through base rates have been excluded from the amounts for which Petitioner seeks cost recovery in its PSA. Mr. Francis testified that the total incremental Program expenses of \$7,100,702 are net of the non-incremental expenses of \$83,386.

Mr. Francis testified that the Pipeline and Hazardous Materials Safety Administration has formally issued a Notice of Proposed Rulemaking on Distribution Integrity Management Programs ("DIMP"). Mr. Francis expects a final rule will be in place between December 2008 and May 2009. The proposed rule currently requires operators to develop and implement a DIMP plan within 18 months after the rule has been finalized. Mr. Francis testified that Petitioner is participating in workshops and general meetings through the American Gas Association in preparation for the DIMP rule, and that Petitioner plans in 2009 to add additional staff of four engineers and hire a contractor to begin the development of its DIMP plan.

Mr. Francis also provided an update on Petitioner's maintenance activities during the period from February 14, 2008 through August 31, 2008 as provided in the Settlement Agreement approved by the 2008 Rate Order. These activities included gas storage, distribution, regulator station and meter maintenance. He also discussed additional maintenance activities pursued between September 1, 2008 and December 31, 2008.

6. **Derivation of PSA.** Mr. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc., testified regarding the derivation of Petitioner's proposed adjustments for the various rate schedules. Mr. Albertson testified that the Settlement Agreement in Cause No.

43298 states that rate schedule margins as updated in that Cause shall be used as the basis for allocating deferred expenses in annual PSA filings. Mr. Albertson said the percentage of each Rate Schedule's margin to the total was used to determine the costs to be recovered by Rate Schedule. Mr. Albertson explained that the costs per Rate Schedule were then divided by projected billing quantities by Rate Schedule to determine the volumetric rate applicable to each Rate Schedule. Finally, these rates were grossed-up for the Indiana Utility Receipts Tax. This rate derivation is shown on Petitioner's Exhibit SEA-4, page 1 of 5. Mr. Albertson explained that this methodology differs from the methodology used in Petitioner's initial PSA filing in Cause No. 42909 in that, as in other settings such as the GCA, Petitioner is proposing to use its most current estimate of volumes in order to more closely match the deferred expenses to recoveries, thus minimizing variances to be reconciled in the future.

7. Derivation of the Under Recovery and Deferred Costs. Mr. Albertson testified that the total costs to be recovered in this filing are \$8,760,748. This amount reflects (a) the actual deferred incremental costs up to the cap of \$4,500,000; (b) under recoveries from Cause No. 42909 in the combined amount of \$47,783; (c) under recoveries from Cause No. 43412 in the combined amount of \$16,926; (d) the allowed deferred expenses for the 12 months ending July 31, 2007 (also reflected in Cause No. 43412) in the amount of \$2,500,000; (e) the under recovery from Cause No. 42909 (also reflected in Cause No. 43412), in the amount of \$176,070; and (f) the three year amortization of the remaining deferred balance at July 31, 2007 in the amount of \$1,519,969.

Mr. Albertson explained that the amounts from Cause No. 43412 (\$2,500,000 and \$176,070, totaling \$2,676,070) are included in this filing because the PSAs approved in Cause No. 43412 have been in effect for less than 12 months and, therefore, Vectren North has not had the opportunity to fully recover these costs. Mr. Albertson further testified that Petitioner proposes to file a "mid-year adjustment" to the PSA in the form of a compliance tariff sheet, to be effective May 8, 2009, to ensure that this PSA will not lead to an over recovery of costs. Mr. Albertson explained that further mid-year compliance filings should not be needed in the future because Petitioner will endeavor to maintain an annual filing schedule prospectively.

8. Tariff Sheet. Petitioner's Exhibit SEA-3 contains Petitioner's proposed Pipeline Safety Adjustment tariff sheet, Sheet No. 37, Second Revised Page 1 of 1, reflecting the proposed PSA factors. The following table summarizes the PSA factor for each rate class:

| Rate Schedule | Adjustment |
|---------------|------------------|
| 210/211 (1) | \$0.0147 / therm |
| 220/229 | \$0.0094 / therm |
| 225 | \$0.0173 / therm |
| 240 | \$0.0046 / therm |
| 245 | \$0.0039 / therm |
| 260 | \$0.0018 / therm |

(1) The PSA for Rate 211 is stated in \$ per gas lighting fixture.

9. OUC Position. In its Notice of Intent Not to Prefile Testimony, the OUC stated that it reviewed Petitioner's original filing, cross-checked Petitioner's exhibits and

calculations and verified Petitioner's exhibits. Based on its review, the OUCC said the costs and the tracker rate derivation appear correct and reasonable and in compliance with the terms of the most recent Settlement in Cause No. 43298.

10. **Approval of PSA.** The Commission finds that the proposed PSA is properly calculated and should be approved. Petitioner should be authorized to put in effect the PSA factors contained in Petitioner's Exhibit SEA-3. Petitioner is authorized to implement the mid-year adjustment on May 8, 2009 by filing the tariff sheet contained in Petitioner's Exhibit SEA-5.

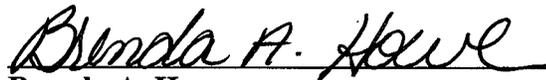
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. Petitioner's proposed PSA factors as set out in this Order, are hereby approved.
2. Prior to putting the PSA factors in effect, Petitioner shall file with the Natural Gas Division of the Commission an amendment to its tariff reflecting the approved PSA in the form of Petitioner's Exhibit SEA-3. Prior to implementing the mid-year adjustment to be effective May 8, 2009, Petitioner should file with the Natural Gas Division of the Commission an amendment to its tariff in the form of Petitioner's Exhibit SEA-5.
3. This Order shall be effective on and after the date of its approval.

HARDY, GOLC, LANDIS AND ZIEGNER CONCUR; SERVER ABSENT:

APPROVED: JAN 07 2009

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



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