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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY d/b/a VECTREN)
ENERGY DELIVERY OF INDIANA, INC. FOR)
APPROVAL OF AN ADJUSTMENT TO ITS)
RATES THROUGH ITS PIPELINE SAFETY)
ADJUSTMENT PREVIOUSLY APPROVED IN)
THE COMMISSION'S ORDER IN CAUSE NO.)
42596 and 43112)

CAUSE NO. 43689

APPROVED: DEC 09 2009

BY THE COMMISSION:

David E. Ziegner, Commissioner
Angela Rapp Weber, Administrative Law Judge

On May 15, 2009, Southern Indiana Gas and Electric Company 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 Indiana Utility Regulatory Commission's ("Commission") Orders in Cause No. 42596, dated June 30, 2004 ("2004 Rate Order"), and Cause No. 43112, dated August 1, 2007 ("2007 Rate Order").

Pursuant to notice as provided by law, proof of which was incorporated into the record, a public hearing in this Cause was held on September 1, 2009, at 10:00 A.M. in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. At the Evidentiary Hearing, the prepared testimony and exhibits of Petitioner's Witnesses Scott E. Albertson (Petitioner's Exhibits SEA-1 through SEA-4) and James M. Francis (Petitioner's Exhibits JMF-1 through JMF-6) and Indiana Office of the Utility Consumer Counselor's ("OUCC") Witness Mark H. Grosskopf (Public's Exhibit MHG) were admitted into the record. No member of the public appeared.

On August 31, 2009, the Commission issued a Docket Entry requesting additional information associated with the costs of regulator station painting reflected on Petitioner's exhibit reporting on distribution maintenance program expenses. On September 3, 2009, Petitioner responded to the Commission's August 31, 2009 Docket Entry by providing additional information on the painting costs including a schedule showing a breakdown of the costs by station. By agreement of the parties made at the public hearing, this exhibit was admitted as Petitioner's Late-Filed Exhibit No. 1.

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, Indiana. Petitioner provides electric and gas utility service to the public in nine counties in Indiana. It 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 and the OUCC that, among other things, authorized Petitioner to implement the PSA to recover on a timely basis prudently incurred, incremental non-capital expenses ("Eligible Costs") 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 many new requirements on pipeline operators with the intent of enhancing pipeline and public safety. This includes 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 Eligible Costs beginning March 26, 2004. On May 10, 2005, Petitioner filed its Petition in Cause No. 42855 requesting approval of its first adjustment under the PSA to recover over a twelve-month period of Eligible Costs deferred during the period of March 26, 2004 through March 31, 2005. The Commission approved the first adjustment in its Order in Cause No. 42855 dated October 12, 2005.

The 2007 Rate Order approved a Stipulation and Settlement Agreement ("2007 Settlement") resolving Petitioner's request for approval of an increase in its gas rates and charges. The 2007 Settlement provided that Petitioner would be authorized to continue to recover incremental expenses caused by the Act, through the PSA, subject to the following modifications:

- (a) Deferred expenses eligible for inclusion in each annual PSA filing will be capped at one million dollars.
- (b) Incremental deferred expenses above the one million dollar annual cap may be included in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap. Amounts above the cap will be deferred and be eligible for future rate case or PSA recovery.
- (c) Any deferred balance existing on March 31, 2007 will be amortized over a three-year period within the PSA, without carrying costs. This amortized amount will be considered incremental to the one million dollar annual cap (i.e. the amortized amount does not count toward expenses that are deferred in each twelve-month period that may be recovered under the cap). The amortized amount will be removed from the PSA at the end of the three-year period.

(d) In each annual PSA filing, recoveries will be reconciled with recoverable costs. Recovery variances will be included in subsequent annual PSA filings. Such variances will also be considered incremental to the one million dollar annual cap (i.e. variances do not count toward expenses that may be recovered under the cap).

(e) Rate schedule margins as updated in Cause No. 43112 shall be used as the basis for allocating eligible deferred expenses in future annual PSA filings.

(f) The PSA will continue through the annual PSA filing for the twelve months ending March 31, 2010. At that time, the parties will review the PSA to consider the appropriateness of the annual cap, whether the PSA should continue, whether expenses have levelized sufficiently to be included in base rates, and any other related matters.

Petitioner's current PSA factors were placed in effect pursuant to the Commission's Order in Cause No. 43511 dated October 29, 2008 and reflect incremental PSA costs deferred during the twelve-month period ended March 31, 2008. Pursuant to the Order in Cause No. 43511, the PSA factors were reduced on March 13, 2009 due to completion of the recovery of certain costs authorized in Cause No. 43384.

4. Petitioner's Request. In this Cause, Petitioner seeks approval of revised PSA factors to recover actual incremental costs deferred between April 1, 2008 and March 31, 2009, a portion of its prior period deferrals not previously recoverable because of the caps provided in the 2004 Settlement and 2007 Settlement, continuation of the three-year amortization of the excess deferred balance as of March 31, 2007 provided for in the 2007 Settlement, and reconciliation of over and under recoveries from prior periods.

5. Eligible Costs. James M. Francis, Director of Engineering and Asset Management for Vectren Utility Holdings, Inc., described the activities Petitioner has undertaken pursuant to its Integrity Management Program ("Program") in order to meet the requirements of the Act and DOT Rules. Mr. Francis stated that total incremental Program expenses for Petitioner during the period from April 1, 2008 through March 31, 2009 amounted to \$759,412.

Mr. Francis testified that Petitioner has completed numerous activities included in its Program, encompassing all the requirements of the Act and the DOT Rule. He reported that Petitioner completed a Global Positioning System ("GPS") survey of twenty-four miles of pipeline, which allows Petitioner to further refine its high consequence areas ("HCAs") by making adjustments to pipeline centerlines via GPS coordinates. Mr. Francis said the Integrity Management Plan was updated to support continuous improvement expectations. He asserted that these updates were communicated to field operations personnel as well as contracting resources to ensure that all work groups were aware of the changes in processes within the Program.

According to Mr. Francis, the majority of the completed activities related to field activities, which included: the vegetation management and maintenance of rights-of-way along the HCA pipelines; indirect inspection corrosion surveys and corresponding direct examination

excavations on one pipeline with pre-assessments completed on three others; three pipeline casing removals and direct examinations; and completion of preventative and mitigative measures on five regulator stations, which included improvements in the cathodic protection of the stations. Additionally, Petitioner completed its Public Awareness requirements, provided an update of the National Pipeline Mapping System, and provided training to employees who have been assigned responsibility for carrying out the various tasks within the Program.

Mr. Francis also discussed the current status of the Distribution Integrity Management Program ("DIMP") regulations being proposed by the Pipeline and Hazardous Materials Safety Administration. He testified that a DIMP final rule is expected in December 2009, with the first publication available for review in September 2009. It is presently expected that operators will be given twelve months to develop their DIMP plans and an additional six months to implement them. Mr. Francis explained that Petitioner is currently participating in workshops and general meetings through the American Gas Association and evaluating resource needs in preparation for the rule. He said significant DIMP work will likely not commence until July 2009.

Mr. Francis also provided information on the current status of Petitioner's Distribution Replacement Program and the Distribution Maintenance Programs as required by the 2007 Settlement. Mr. Francis identified the miles of bare steel and cast iron mains that were replaced by the end of 2008 and sponsored exhibits showing projects under the Distribution Replacement Program planned for 2009 and 2010. With respect to Distribution Maintenance Programs, Mr. Francis identified programs completed by March 31, 2009. In Petitioner's Late-Filed Exhibit No. 1, Petitioner provided additional information regarding regulator station painting costs.

6. Derivation of PSA. Scott E. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc., testified regarding the derivation of Petitioner's proposed adjustments. He stated that the total cost that Petitioner seeks to recover in this proceeding is \$1,222,833. This amount reflects (a) actual deferred expenses for the twelve months ending March 31, 2009; (b) deferred expenses that were in excess of the annual cap in prior periods to the extent they allow Petitioner's current recovery request to stay within the cap amount of one million dollars; (c) an over-recovery from Cause No. 43384 of \$15,933; (d) an under-recovery from Cause No. 43511 of \$2,971; and (e) continuation of the three-year amortization of the remaining deferred balance at March 31, 2007 of \$235,795.

Mr. Albertson testified that in accordance with the 2007 Rate Order and 2007 Settlement, Petitioner allocated the Eligible Costs to customer classes based on the rate schedule margins updated in Cause No. 43112. The costs per rate schedule were divided by the billing quantities by rate schedule used in Petitioner's 2009 budget to determine the volumetric rate applicable to each rate schedule. The rates were grossed-up for Indiana Utility Receipts Tax. Petitioner's Exhibit SEA-4 shows the derivation of the proposed PSA factor for each rate schedule.

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

Rate Schedule	Adjustment
110	\$.0126 / therm
120/125/129/145	\$.0060 / therm
160	\$.0018 / therm
170	\$.0002 / therm

8. **OUC Position.** OUC Witness Mark H. Grosskopf testified that he reviewed Petitioner's filing, cross-checked Petitioner's exhibits and calculations, and verified the data in Petitioner's exhibits. Mr. Grosskopf, who has been involved in each of Petitioner's prior PSA filings and the rate cases in which the PSA was approved, testified that, based on his analysis and review, Petitioner's cost calculations and the tracker rate derivation appear correct and reasonable and in compliance with the 2007 Settlement. Accordingly, he recommended that Petitioner's proposed PSA factors be approved.

9. **Approval of PSA.** The Commission finds that the proposed PSA is properly calculated in accordance with the 2007 Rate Order and the 2007 Settlement and should be approved. Petitioner should be authorized to put in effect the PSA factors contained in Petitioner's Exhibit SEA-3.

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

1. Petitioner's proposed PSA factors as set out in this Order shall be and the same 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.
3. This Order shall be effective on and after the date of its approval.

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

APPROVED DEC 09 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