

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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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. 43298 )  
AND AUTHORIZATION TO DEFER FOR )  
FUTURE RECOVERY INCREMENTAL )  
DISTRIBUTION INTEGRITY MANAGEMENT )  
PROGRAM EXPENSES )

CAUSE NO. 43885

APPROVED:

SEP 08 2010

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**BY THE COMMISSION:**

**James D. Atterholt, Commissioner**  
**Angela Rapp Weber, Administrative Law Judge**

On April 13, 2010, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner" or "Vectren North") filed its Petition in this Cause for approval of adjustments to its rates through its Pipeline Safety Adjustment ("PSA") as previously 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 April 15, 2010, Petitioner filed the prepared testimony and exhibits of James M. Francis and Scott E. Albertson constituting its case-in-chief. On June 25, 2010, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the testimony of Mark H. Grosskopf. On July 8, 2010, Petitioner filed the rebuttal testimony of Mr. Albertson.

Pursuant to notice 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 August 2, 2010 at 1:30 P.M. in Room 224, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the prepared testimony and exhibits of Petitioner and the OUCC were admitted into the record. Both the Petitioner and OUCC participated in the evidentiary hearing. No members of the public appeared or attempted to participate 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 is a "public utility" as defined in Ind. Code § 8-1-2-1 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 many 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 the 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 placed in effect on January 8, 2009 and were modified on May 8, 2009 pursuant to the Commission's Order in Cause No. 43576 dated January

7, 2009. The current PSA factors reflect actual incremental PSA Expenses deferred between August 1, 2007 and July 31, 2008 up to the \$4,500,000 cap imposed by the 2008 Rate Order, an under recovery variance relating to the period through July 31, 2008 and the amortization of the excess deferred PSA Expenses as of 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 twelve-month period: (a) PSA Expenses deferred between August 1, 2008 and July 31, 2009; (b) a portion of its prior period deferrals not previously recoverable under the caps approved in Cause Nos. 42598 and 43298; (c) over/under recovery variances from prior causes; and (d) continuation of the three-year amortization provided for in the 2008 Rate Order. Petitioner also requests authority to defer for future recovery in the PSA certain incremental expenses associated with the federally-mandated Distribution Integrity Management Program.

**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, 2008 through July 31, 2009. Mr. Francis stated that total incremental PSA Expenses during the period were \$3,287,911.

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 four HCA pipeline miles and is currently in the process of assessing an additional twenty-seven HCA pipeline miles. 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 stated that additionally, Petitioner conducted aerial surveys of its pipelines to spot potential third-party activity.

Mr. Francis testified that the Program expenses from August 1, 2008 through July 31, 2009 represent incremental work. 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 \$3,287,911 are net of the non-incremental expenses of \$70,992.

Mr. Francis testified that the Distribution Integrity Management Program ("DIMP") was created through a new rule promulgated by the Pipeline and Hazardous Materials Safety Administration ("PHMSA") designed to establish new integrity management requirements for gas distribution pipeline systems. Mr. Francis explained that the DIMP regulations are similar to those required for gas transmission pipelines, but are tailored to reflect the difference in and among distribution pipelines. He stated that, among other things, the DIMP regulations require

operators of gas distribution pipelines to evaluate risks and threats, and then develop, write and implement an integrity management plan.

Mr. Francis stated that pursuant to the DIMP final rule, Petitioner is required to develop, write and implement its DIMP plan by August 2, 2011. He stated that Petitioner currently has a dedicated staff of four employees who are working toward the development of a DIMP plan. He added that because their time is spent on DIMP planning for Vectren South and Vectren Ohio as well as Petitioner, the time is being appropriately allocated among the utilities. Mr. Francis stated that additional supplemental contractors will be hired as necessary but that the dedicated staff, at a minimum, will also be responsible for the implementation of the plan.

Mr. Francis then discussed Petitioner's timeline for development and implementation of its DIMP plan and the associated incremental costs. He testified that throughout calendar year 2010, Vectren North will assess the risks and threats to its distribution pipelines in accordance with the DIMP final rule, and then develop a DIMP plan and a cost estimate and budget for implementing the program. Vectren North will then seek feedback from the Pipeline Safety Division of the Commission regarding its DIMP plan near the end of 2010. Mr. Francis stated that once the plan has been finalized, Vectren North will proceed with implementing it by August 2, 2011. He estimated the total DIMP plan development and implementation planning expenses ("DIMP Planning Expenses") for all of Vectren's utilities to be \$1,050,000. These costs will be allocated to each of Vectren's three operating utilities based on the mileage of distribution mains in service. Using this allocation formula, 60%, or \$630,000, of Vectren's estimated DIMP Planning Expenses will be allocated to Vectren North. Mr. Francis indicated that all of the activities associated with developing Petitioner's DIMP plan are incremental work. In addition, Mr. Francis testified that there will be additional DIMP related expenses following finalization of the DIMP plan.

Mr. Francis also provided an update on Petitioner's maintenance activities during the period from September 1, 2008 through December 31, 2009 as provided in the Settlement Agreement approved by the 2008 Rate Order. These activities included gas storage, distribution, regulator station and meter maintenance.

Mr. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc., testified regarding Petitioner's proposal to defer DIMP Planning Expenses for future recovery in the PSA. He stated that the Settlement Agreement approved in the 2008 Order provided that once DIMP rules exist, Vectren North would share with the OUCC its compliance plan and estimated compliance costs, and that the OUCC and Petitioner would discuss the recovery of such costs via the PSA. He described the discussion held with the OUCC on these matters and explained that Petitioner is requesting authority to defer DIMP Planning Expenses, as described by Mr. Francis, for future recovery in the PSA. In particular, DIMP Planning Expenses may include incremental labor and related labor loadings for additional employees required to facilitate and develop the plan, external consultants, related technology applications required for plan development and implementation, and employee training. Mr. Albertson testified that these incremental expenses would be recorded as incurred and assigned to a specific project number in Vectren North's Financial Information System.

According to Mr. Albertson, because DIMP focuses on the distribution system, Petitioner proposes that DIMP Planning Expenses be allocated to customers based on the distribution operations and maintenance (“O&M”) allocator as presented in the cost of service study filed in Petitioner’s most recent general rate case, Cause No. 43298. He further explained that because this federally mandated work is separate from, and incremental to, costs currently recovered in the PSA, recovery of these DIMP Planning Expenses should be incremental to the current annual cap of \$4,500,000. Mr. Albertson testified that based on the estimated DIMP Planning Expenses allocable to Vectren North of \$630,000 and using the distribution O&M allocator, the estimated incremental impact on the typical residential customer would be approximately \$1.01 over twelve months.

Mr. Albertson testified that ongoing DIMP implementation costs will be dictated by the completed DIMP plan. Further, Vectren North will continue to evaluate the expected level of DIMP implementation costs, including ongoing costs to update the plan, and whether such costs are most appropriately considered for recovery in the PSA. He stated that Petitioner will work with the OUCC on these issues and make a proposal for recovery of such costs in a future filing before the Commission.

**6. Derivation of PSA.** Mr. Albertson 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.

**7. Derivation of the Under Recovery and Deferred Costs.** Mr. Albertson testified that the total costs to be recovered in this filing are \$5,791,501. As shown on Petitioner’s Exhibit No. SEA-4, page 1 of 5, this amount reflects (1) the actual deferred incremental costs of \$3,287,911; (2) \$1,212,089 in deferred expenses in excess of the annual cap from prior filings, to reach the annual cap of \$4,500,000; (3) over recoveries from Cause No. 43412 in the combined amount of \$(447,509); (4) the under recovery from Cause No. 43576, in the amount of \$219,041; and (5) 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 expenses included in this filing were deferred from August 1, 2008 through July 31, 2009, during which time there were three sets of PSA rates in effect, including: (1) rates from Cause No. 43412 for August 1, 2008 through January 7, 2009; (2) rates from Cause No. 43576 for January 8, 2009 through May 7, 2009; and (3) revised rates resulting from the mid-year compliance filing in Cause No. 43576 for May 8, 2009 through July 31, 2009. Petitioner’s Exhibit No. SEA-5 summarizes, by month, the approved recoveries, actual recoveries and the under/(over) recovery variances for each time period. Mr. Albertson testified that the approved recoveries were determined by applying, by rate schedule, the PSA in effect at that time to the same volumes used to derive the PSA in the various Causes. Approved

recoveries for January 2009 and May 2009 were prorated on a calendar day basis to determine the portion applicable to January 1–7, 2009; January 8–31, 2009; May 1–7, 2009 and May 8–31, 2009. The approved recoveries were then compared to actual recoveries for the same period to derive the net under/(over) recoveries.

**8. 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
210/211 (1)	\$0.0097 / therm
220/229	\$0.0061 / therm
225	\$0.0099 / therm
240	\$0.0026 / therm
245	\$0.0027 / therm
260	\$0.0016 / therm

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

**9. OUCC’s Position.** Mark H. Grosskopf, a Utility Analyst with the OUCC, testified that he reviewed Petitioner’s original filing, cross-checked Petitioner’s exhibits and calculations and verified Petitioner’s exhibits. Based on his review, Mr. Grosskopf said the costs and the tracker rate derivation appear correct and reasonable and in compliance with the terms of the most recent Settlement Agreement in Cause No. 43298. He therefore recommended that the PSA factors reflected in Petitioner’s Exhibit SEA-3 be approved. With respect to Petitioner’s request for authority to defer DIMP Planning Expenses for future recovery in the PSA, Mr. Grosskopf recommended that the \$630,000 planning estimate provided by Petitioner be implemented as a cap on recoverable DIMP Planning Expenses for a period not to exceed twelve months.

**10. Petitioner’s Rebuttal.** With respect to Mr. Grosskopf’s recommendation that the cost estimate be a cap, Mr. Albertson proposed that in the event the actual DIMP Planning Expenses prior to the DIMP plan compliance deadline of August 2, 2011 (as identified by Mr. Francis in his direct testimony) exceed \$630,000, Vectren North should have the opportunity to submit evidence in a future PSA proceeding showing why the actual cost exceeded the cap and that the excess amount was reasonably incurred. Vectren North further proposed that if the Commission finds based on the evidence of record that the excess amount is reasonable, then the excess would be deferrable and recoverable in the PSA.

**11. Commission Discussion and Findings.** 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’s request to defer DIMP Planning Expenses for future recovery in the PSA is approved. However, DIMP Planning Expenses in excess of the \$630,000 estimate shall not be recoverable unless Petitioner submits

evidence showing why the actual cost exceeded the cap and demonstrates that the excess amount was reasonably incurred.

**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 hereby are 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. Petitioner is hereby authorized to defer DIMP Planning Expenses for future recovery in the PSA. However, DIMP Planning Expenses in excess of the \$630,000 estimate shall not be recoverable unless Petitioner submits evidence showing why the actual cost exceeded the cap and demonstrates that the excess amount was reasonably incurred.

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

**HARDY, ATTERHOLT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:**

APPROVED: SEP 08 2010

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



**Sandra K. Gearlds**  
**Acting Secretary to the Commission**