ORIGINAL

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, AUTHORIZATION FOR DEFERRAL AND FUTURE RECOVERY OF INCREMENTAL DISTRIBUTION INTEGRITY MANAGEMENT PROGRAM EXPENSES AND AUTHORITY TO CONTINUE ITS PIPELINE SAFETY ADJUSTMENT THROUGH THE FILING FOR DEFERRED EXPENSES AS OF MARCH 31, 2013	)	**CAUSE NO. 43926** **APPROVED:** NOV 04 2010

BY THE COMMISSION:
James D. Atterholt, Chairman
Aaron A. Schmoll, Senior Administrative Law Judge

On July 26, 2010, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner" or "Vectren South") 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"). Petitioner also seeks authorization to defer for future recovery in the PSA certain incremental expenses, and to continue the PSA through the annual filing for the twelve months ending March 31, 2013.

Pursuant to notice as provided by law, proof of which was incorporated into the record, a public hearing in this Cause was held on October 13, 2010, at 9:30 A.M., in Room 222 of the PNC 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-7) 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-1) were admitted into the record. No member of the public appeared.

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-l(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 (9) 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. 43689 dated December 9, 2009 and reflect incremental PSA costs deferred during the twelve-month period ended March 31, 2009.

4. Petitioner's Request. In this Cause, Petitioner seeks approval of revised PSA factors to recover actual incremental costs deferred between April 1, 2009 and March 31, 2010, 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. Petitioner requests to continue the PSA through the filing for the twelve months ending March 31, 2013 and amortize the March 31, 2010 deferred balance over a three year period in the PSA. 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. 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 during the period from April 1, 2009 through March 31, 2010 amounted to $1,142,161.

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 36 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; inline inspection of one pipeline; indirect inspection corrosion surveys and corresponding direct examination excavations on three pipelines; three pipeline casing removals and direct examinations; and completion of preventative and mitigative measures on two regulator 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 the DIMP final rule was published on December 4, 2009 and communicated to the utilities. He stated that there was a brief comment period and the final rule became effective on February 12, 2010. Mr. Francis explained that pursuant to the DIMP final rule, Petitioner is required to develop, write and implement its DIMP plan by August 2, 2011.

Mr. Francis testified that Petitioner has hired additional personnel and currently has a dedicated staff of four employees who are working toward the development of Petitioner's DIMP plan. Throughout calendar year 2010, Petitioner 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. Mr. Francis indicated that Petitioner will then seek feedback from the Pipeline Safety Division of the Commission near the end of 2010, and proceed with implementing the plan by August 2, 2011. Petitioner estimates the total DIMP plan development and implementation planning expenses ("DIMP Planning Expenses") for all of Vectren's utilities to be $1,050,000. Mr. Francis stated that these costs will be allocated to each operating utility based on the mileage of distribution mains in service. Using this allocation formula, 15% of the Company's DIMP Planning Expenses will be allocated to Vectren South ($157,500).

In addition to the DIMP Planning Expenses, Mr. Francis testified that Petitioner will develop an implementation and execution budget following finalization of the DIMP plan. He stated that at this time Petitioner is seeking only authority to defer DIMP Planning Expenses that are near term and can be reasonably estimated. He opined that deferral of these mandated costs is appropriate so that Petitioner can engage in appropriate efforts to comply with the DIMP final rule and obtain the reliability and safety benefits associated therewith.

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 2009 and sponsored exhibits showing projects under the Distribution Replacement Program planned for 2010. With respect to Distribution Maintenance Programs, Mr. Francis identified programs completed by March 31, 2010.

Scott E. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc., testified regarding Petitioner's proposal for the recovery of DIMP Planning Expenses as well as the proposed continuation of the PSA beyond March 31, 2010. Mr. Albertson explained that, similar to the proposal Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") included in its most recent PSA filing in Cause No. 43885, Vectren South requests authority to defer, for future recovery in the PSA, the DIMP Planning Expenses described by Mr. Francis and allocable to Vectren South. He stated that such 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 proposed that DIMP Planning Expenses be allocated to customers based on the distribution O&M allocator as presented in the cost of service study filed in Petitioner's most recent general rate case, Cause No. 43112. He further proposed that because this federally mandated work is separate from and incremental to costs currently recovered in the PSA, recovery of the DIMP Planning Expenses should be incremental to the annual cap of $1,000,000. Mr. Albertson explained that based on the estimated DIMP Planning expenses allocable to Vectren South of $157,500, and using the distribution O&M allocator, the estimated incremental impact on the typical residential customer would be $1.18 over twelve months. He testified that Petitioner would file supporting testimony regarding the DIMP plan and the reasonableness and incremental nature of the DIMP Planning Expenses actually incurred. Finally, Mr. Albertson proposed that recovery of DIMP Planning Expenses be capped at the estimated $157,500, with an opportunity to present evidence in a future PSA proceeding if the actual costs exceed the cap. He proposed that if the Commission finds that the excess amount is reasonable, then the excess would be deferrable and recoverable in the PSA. Mr. Albertson noted that this proposal was consistent with Vectren North's rebuttal position approved by the Commission in Cause No. 43885.

6. **Review of the PSA.** Mr. Albertson also testified regarding the review of the PSA as required by the Commission's Order in Cause No. 43112. He stated that Petitioner met with the OUCC on June 3, 2010 to review the status of Petitioner's activity required by the Act, continuation of the PSA, appropriateness of the annual cap, and other related matters. He noted that Petitioner will continue to perform baseline assessments of applicable pipeline segments through December 17, 2012, and that Petitioner projects its incremental expenses through the end of this baseline assessment period to be approximately $1.0 million per year. Accordingly, Mr. Albertson recommended that the PSA be continued for an additional three years through the annual filing for the twelve months ending March 31, 2013. He also proposed that the remaining March 31, 2010 deferred balance be amortized in the PSA, using the same methodology approved at the time of the most recent three year review of the PSA in Cause No. 43112. He noted that the costs included in the March 31, 2010 deferred balance have been subject to review by the OUCC and have not been recovered in the PSA.

7. **Derivation of PSA.** Mr. Albertson testified regarding the derivation of Petitioner's proposed adjustments. He stated that the total cost that Petitioner seeks to recover in this proceeding is $1,274,819. This amount reflects (a) actual deferred expenses for the twelve months ending March 31, 2010, up to the $1.0 million annual cap; (b) the under recovery from Cause No. 43511 of $5,549; (c) a refund of the over recovery from Cause No. 43689 of $89,777; (d) the three year amortization of the remaining deferred balance at March 31, 2007 of $235,795; and (e) the three year amortization of the remaining deferred balance at March 31, 2010 of $123,252. Mr. Albertson stated that as the amortization of the remaining March 31, 2007 deferred balance is to be removed after three years, Petitioner proposes to file a compliance tariff sheet to be effective March 13, 2011, which will reflect removal of the 2007 amortization amount from the PSA at that time. He provided a copy of the proposed March 13, 2011 compliance tariff sheet as Petitioner's Exhibit SEA-5, Page 1 of 2.

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 2010 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.

8. Tariff Sheet. Petitioner's Exhibit SEA-3 contains Petitioner's proposed Pipeline Safety Adjustment tariff sheet, Sheet No. 37, Fifth 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	$.0022 / therm
170	$.0004 / therm

9. OUCC's Evidence. OUCC 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 reviewed and 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.

Mr. Grosskopf also agreed with Petitioner's proposal to continue the PSA through the filing for the twelve months ending March 31, 2013. He stated that because the initial assessment period of the pipeline safety program will not be completed until December 2012, it is reasonable to continue the PSA at least through the initial assessment period. Mr. Grosskopf further agreed with Petitioner's proposal to amortize the remaining March 31, 2010 deferred balance over the additional three year PSA period.

Finally, Mr. Grosskopf expressed his agreement with Petitioner's request to defer DIMP Planning Expenses. He stated that based on his discussions with and representations made by Petitioner's personnel, he believed that the DIMP Planning Expense estimate of $157,500 was reasonable. He concurred in Petitioner's proposal to cap DIMP Planning Expenses at $157,500, with an opportunity for Petitioner to seek recovery of excess expenses if the Commission finds the excess amount is reasonable. He noted that the OUCC would have an opportunity to review any supporting documentation and contest the appropriateness of the deferred DIMP Planning Expenses incurred.

10. Discusssion and Findings. 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 is authorized to put in effect the PSA factors contained in Petitioner's Exhibit SEA-3. Petitioner is also authorized to put in effect the revised PSA factors contained in Petitioner's Exhibit SEA-5 effective March 13, 2011 reflecting the removal of the amortization of the March 31, 2007 deferred balance. Petitioner's request to continue the PSA through the filing for the twelve months ending March 31, 2013 and to amortize the March 31, 2010 deferred balance over three years is reasonable and is approved. Finally, we find that Petitioner's request to defer DIMP Planning Expenses for future recovery in the PSA is approved. As we found with

respect to the deferral of similar costs by Vectren North in Cause No. 43885, we find that DIMP Planning Expenses in excess of the $157,500 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 are hereby approved and shall be effective for gas service on and after November 1, 2010.

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. Consistent with Petitioner's testimony, Petitioner shall file with the Natural Gas Division of the Commission a compliance filing in the form of Petitioner's Exhibit SEA-5, to be effective March 13, 2011, to reflect the removal of the amortization of the March 31, 2007 deferred balance.

4. Petitioner is hereby authorized to continue the PSA mechanism through the filing for the twelve month period ending March 31, 2013. Petitioner shall amortize the March 31, 2010 deferred balance in the PSA over a three year period.

5. Petitioner is hereby authorized to defer DIMP Planning Expenses for future recovery in the PSA. However, DIMP Planning Expenses in excess of the $157,500 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.

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

ATTERHOLT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:

APPROVED NOV 04 2010

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission