

ORIGINAL

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 )  
ORDERS IN CAUSE NOS. 43298 AND 43885 )  
AND AUTHORITY TO CONTINUE ITS )  
PIPELINE SAFETY ADJUSTMENT )  
THROUGH THE FILING FOR DEFERRED )  
EXPENSES AS OF JULY 31, 2013 )

CAUSE NO. 43967

APPROVED: APR 05 2011

BY THE COMMISSION:

Larry S. Landis, Commissioner  
Angela Rapp Weber, Administrative Law Judge

On November 19, 2010, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner" or "Vectren North") filed with the Indiana Utility Regulatory Commission ("Commission") 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"), and in Cause No. 43885, dated September 8, 2010. On November 22, 2010, Petitioner filed the prepared testimony and exhibits of James M. Francis and Scott E. Albertson constituting its case-in-chief. On February 4, 2011, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the testimony of Mark H. Grosskopf constituting its case-in-chief.

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 February 23, 2011 at 10:00 A.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 Indiana Code § 8-1-2-1 and is subject to the jurisdiction of the 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. The 2004 Rate Order, 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. Prior to that date, 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.

On February 12, 2010, a Final Rule of the United States Department of Transportation's Pipeline and Hazardous Materials Safety Administration became effective that mandated compliance by Petitioner with new integrity management requirements applicable to its distribution pipelines. To comply with the new rule, Petitioner must develop, write, and implement a Distribution Integrity Management Program ("DIMP") plan. On September 8, 2010, the Commission issued its Order in Cause No. 43885 authorizing the deferral for future recovery in the PSA certain incremental expenses that Petitioner will incur in preparing its DIMP plan as required by the Final Rule. DIMP Planning Expenses in excess of the estimated \$630,000 would not be recoverable unless Petitioner submits evidence showing why the actual cost exceeded the cap and demonstrates that the excess amount was reasonably incurred.

Petitioner's current PSA factors were placed in effect on September 9, 2010 pursuant to the Commission's Order in Cause No. 43885. The current PSA factors reflect actual incremental PSA Expenses deferred between August 1, 2008 and July 31, 2009; a portion of its prior period deferrals not previously recoverable under the caps approved in Cause Nos. 42598 and 43298 to reach the annual cap of \$4,500,000; an over-recovery variance relating to the period August 1, 2008 through July 31, 2009; 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, 2009 and July 31, 2010; (b) over-/under-recovery variances from prior Causes; and (c) continuation of the three-year amortization provided for in the 2008 Rate Order. Petitioner also proposes that the PSA continue through the filing for deferred expenses as of July 31, 2013 and that the remaining deferred balance as of July 31, 2010 be amortized over three years in the PSA, similar to the treatment approved in Cause No. 43298 for the deferred balance as of July 31, 2007.

**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, 2009 through July 31, 2010. Mr. Francis stated that total incremental PSA Expenses during the period were \$5,443,467.

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; in-line inspection and corresponding direct examination excavations; research and identification of

pipeline segment specifications; and pipeline centerline and depth surveys to support better geographical awareness of pipeline systems relative to HCAs. Mr. Francis testified that Petitioner completed the assessment of approximately six HCA pipeline miles and is currently in the process of assessing an additional 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 Pipeline and Hazardous Material Safety Administration (“PHMSA”) annual report, as well as provided training to employees responsible for carrying out various Program tasks. Additionally, Petitioner conducted monthly aerial surveys of its pipelines to spot potential third-party activity and encroachments.

Mr. Francis testified that the Program expenses from August 1, 2009 through July 31, 2010 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 \$5,443,467 are net of the non-incremental expenses of \$76,635.

Mr. Francis stated that the Safety Act and DOT Rule require the initial baseline assessment period to be completed by December 17, 2012. After that date, Petitioner will begin re-assessment of those pipelines assessed during the baseline assessment period. He stated Petitioner is well on its way to completing the remaining baseline assessments, with some of the lower risk pipelines remaining. However, he indicated some challenging assessments remain that include the assessment of sections of cased pipelines which reside under major highways, roadways, and railroads. Additionally, Petitioner will complete the assessment of the remaining regulator stations within the HCAs.

According to Mr. Francis, Petitioner expects the typical transmission integrity management budget to be approximately \$4,500,000 for each of the next three years. He stated the actual expense may vary depending on the assessment method (direct examination, in-line inspection, or hydrostatic test) and the extent to which any of the pipelines require remediation of identified anomalies. However, Mr. Francis indicated there are likely to be near-term changes to the current integrity management regulations stemming from the September 9, 2010 pipeline incident in San Bruno, California, which will drive additional assessment and preventive and mitigative work in the future.

He explained there is considerable activity in Washington D.C. in the Congress and at PHMSA to expand the existing pipeline integrity management regulations in response to the San Bruno incident. He added that a number of changes are expected, the most significant being a requirement for utilities to perform integrity management assessments on 100% of their transmission pipeline mileage and not just those pipes within an HCA. Such a change would require Petitioner to assess approximately 570 additional miles of transmission pipeline, to remediate any identified anomalies, and to extend preventive and mitigative measures to these additional miles of transmission pipeline. Additional possibilities may include defining “high pressure distribution pipelines” and enforcing similar regulations for those pipelines, more frequent inspections and patrols on pipelines within an HCA, the replacement of older infrastructure, the installation of remote control valves, and an expansion of the public awareness requirements.

Mr. Francis stated Petitioner is actively monitoring regulatory activity and the potential changes through its direct involvement on several American Gas Association committees and political observers in Washington D.C. He said Petitioner will provide comments as appropriate on proposed rules and will keep the OUCC and the Commission apprised of further developments.

Mr. Francis then provided an update on the DIMP Planning Expenses deferred since approval was received in Cause No. 43885. As of July 31, 2010, Petitioner has deferred a total of \$116,954 in DIMP Planning expenses. He testified Petitioner has not included DIMP Planning Expenses for recovery in this filing.

Mr. Francis also testified Petitioner filed its Distribution Replacement Program report in Cause No. 43298 on November 16, 2010 reflecting program status as of September 2010. The report also included the list of planned projects and budgeted amounts for calendar year 2011 as required by the Commission's Order in that proceeding. Mr. Francis also provided an update on Petitioner's maintenance activities during the period from January 1, 2010 through August 31, 2010 as provided in the Settlement Agreement approved by the 2008 Rate Order. These activities included gas storage, distribution, regulator station, and meter maintenance.

**6. Continuation of PSA.** Mr. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc., testified regarding Petitioner's request for continuation of the PSA. He testified that as required by the Commission's Order in Cause No. 43298, Vectren North met with the OUCC to discuss the status of Vectren North's activity required by the Safety Act, continuation of the PSA, appropriateness of the annual cap, and other related matters. He stated similar to Vectren South's recently approved proposal in Cause No. 43926 for the continuation of the PSA, Vectren North proposes in this proceeding the continuation of the PSA for an additional three years through the annual filing for the twelve months ended July 31, 2013, continuation of the currently-approved annual cap, and amortization of the remaining July 31, 2010 deferred balance over three years.

Mr. Albertson testified Vectren North will continue to perform baseline assessments of applicable pipeline segments through December 17, 2012. Inasmuch as these assessments will occur in the "initial" assessment period, he believed it is appropriate to continue the PSA for an additional three years through the annual filing for the twelve months ended July 31, 2013. As Mr. Francis explained, Vectren North projects its incremental expenses through the end of the baseline assessment period to be approximately \$4,500,000 per year. As such, Mr. Albertson proposed to continue the \$4,500,000 annual cap previously approved in Cause No. 43298.

Mr. Albertson stated Vectren North also proposes to amortize the remaining July 31, 2010 deferred balance in the PSA. This same methodology was approved at the time of the most recent three-year review of the PSA in Cause No. 43298, and more recently for Vectren South in Cause No. 43926. He explained that the costs included in the July 31, 2010 deferred balance have been subject to review by the OUCC and (per the terms approved by the Commission) have not been recovered in the PSA. He said inclusion of one-third of the July 31, 2010 deferred balance in the PSA will provide Vectren North with an opportunity to recover deferred expenses

that have been growing since August 2007. Finally, Mr. Albertson proposed that all other provisions of the Stipulation and Settlement Agreement approved in Cause No. 43298 and the Commission's Order in Cause No. 42598, as related to the PSA, should remain in effect for the additional three-year period.

7. **Derivation of PSA.** Mr. Albertson also testified regarding the derivation of Petitioner's proposed adjustments for the various rate schedules. 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 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 No. SEA-4*, page 1 of 5.

8. **Derivation of the Under-Recovery and Deferred Costs.** Mr. Albertson testified the total costs to be recovered in this filing are \$6,643,731. As shown on *Petitioner's Exhibit No. SEA-4*, page 1 of 5, this amount reflects: (1) the actual deferred incremental costs up to the annual cap of \$4,500,000; (2) a refund (credit) of the over-recovery from Cause No. 43576 in the amount of \$153,598; (3) the three-year amortization of the remaining deferred balance as of July 31, 2007 (the "2007 Amortization Amount") in the amount of \$1,519,969; and (4) the three-year amortization of the remaining deferred balance as of July 31, 2010 in the amount of \$777,360. Mr. Albertson stated that, as approved in Cause No. 43298, the 2007 Amortization Amount will be removed from the PSA after three years. Accordingly, Petitioner will include the 2007 Amortization Amount in its PSA until May 7, 2011, and proposes to file a compliance tariff (shown as *Petitioner's Exhibit No. SEA-5*, page 1 of 2) to be effective May 8, 2011. It will reflect removal of the 2007 Amortization Amount from the PSA at that time.

Mr. Albertson testified that the rate derivation associated with the compliance tariff sheet is shown on *Petitioner's Exhibit No. SEA-5*, page 2 of 2. This compliance filing will ensure that there is no risk that Petitioner will double recover all or a portion of the 2007 Amortization Amount. Mr. Albertson explained the expenses included in this filing were deferred from August 1, 2009 through July 31, 2010, and revised PSA rates resulting from the mid-year compliance filing in Cause No. 43576 were in effect during this period. *Petitioner's Exhibit No. SEA-4*, page 2 of 5, summarizes, by month, the approved recoveries, actual recoveries, and the under-/ (over-) recovery variances during this time period. Mr. Albertson testified the approved recoveries were determined by applying, by rate schedule, the PSA in effect during the period August 1, 2009 – July 31, 2010 to the same volumes used to derive the PSA in Cause No. 43576.

9. **Tariff Sheet.** *Petitioner's Exhibit No. 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
210/211 <sup>1</sup>	\$0.0114 / therm
220/229	\$0.0072 / therm
225	\$0.0116 / therm
240	\$0.0030 / therm
245	\$0.0030 / therm
260	\$0.0015 / therm

<sup>1</sup>The PSA for Rate 211 is stated in \$ per gas lighting fixture.

10. **OUC Position.** Mark H. Grosskopf, a Utility Analyst with the OUC, testified 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, 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 No. SEA-3* be approved.

Mr. Grosskopf testified Petitioner met with the OUC on October 7, 2010 to discuss the current status of the PSA and the appropriateness of continuing the PSA cost tracking mechanism. He recommended the PSA be continued for an additional three years through the annual filing for the twelve months ended July 31, 2013. Mr. Grosskopf also agreed with Petitioner's proposal to amortize the remaining July 31, 2010 deferred balance over the additional three-year PSA continuation period. With respect to deferred DIMP Planning Expenses, Mr. Grosskopf stated Petitioner has deferred \$116,954 in DIMP Planning Expenses for future recovery. He said that Petitioner has not included these expenses for recovery in this filing, but will include them in its next annual PSA proceeding in the fall of 2011 upon completion of the DIMP Plan.

11. **Commission Discussion and Findings.** Based on the evidence presented, the Commission finds the proposed PSA is properly calculated and should be approved. Petitioner is authorized to put in effect the PSA factors contained in *Petitioner's Exhibit No. SEA-3*. Petitioner is also authorized to put in effect the revised PSA factors contained in *Petitioner's Exhibit No. SEA-5*, effective May 8, 2011, reflecting the removal of the amortization of the July 31, 2007 deferred balance. Finally, Petitioner's request to continue the PSA through the filing for the twelve months ending July 31, 2013 and to amortize the July 31, 2010 deferred balance over three years is reasonable and is approved.

**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 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 No. 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 No. SEA-5*, to be effective May 8, 2011, to reflect the removal of the amortization of the July 31, 2007 deferred balance.
4. Petitioner is hereby authorized to continue the PSA mechanism through the filing for the twelve-month period ending July 31, 2013. Petitioner shall amortize the July 31, 2010 deferred balance in the PSA over a three-year period.
5. This Order shall be effective on and after the date of its approval.

**ATTERHOLT, LANDIS, MAYS AND ZEIGNER CONCUR; BENNETT ABSENT; MAYS NOT PARTICIPATING:**

**APPROVED:** APR 05 2011

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

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