

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 MODIFIED BY THE COMMISSION'S )
ORDERS IN CAUSE NOS. 43112 AND 43926, AND )
AUTHORITY FOR DEFERRAL AND FUTURE )
RECOVERY OF INCREMENTAL ONGOING )
DISTRIBUTION INTEGRITY MANAGEMENT )
PROGRAM EXPENSES )

CAUSE NO. 44042

APPROVED: SEP 21 2011

BY THE COMMISSION:

Kari A.E. Bennett, Commissioner
Aaron A. Schmol, Senior Administrative Law Judge

On June 29, 2011, 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"), Cause No. 43112, dated August 1, 2007 ("2007 Rate Order") and Cause No. 43926, dated November 4, 2010 ("2010 Order"). Petitioner also seeks authorization to defer for future recovery in the PSA certain incremental expenses.

Petitioner filed the prepared testimony and exhibits constituting its case-in-chief on June 30, 2011. The Indiana Office of Utility Consumer Counselor ("OUCC") filed the prepared testimony of its witness on August 11, 2011. Petitioner filed its prepared rebuttal testimony on August 19, 2011 and a late filed exhibit on August 31, 2011. On September 6, 2011, Petitioner filed its responses to the Commission's September 2, 2011 Docket Entry.

Pursuant to notice as provided by law, proof of which was incorporated into the record, the Commission conducted an evidentiary hearing in this Cause on September 7, 2011, at 9:30 a.m., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the parties' evidence was offered and admitted into the record without objection. No members 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 § 8-1-2-1(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 (9) counties in southwestern Indiana. Petitioner 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 Rule") adopted thereunder. The Act imposed 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 leveled 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. 43926 dated November 4, 2010 and reflect incremental PSA costs deferred during the twelve-month period ended March 31, 2010 and three-year amortizations of the excess deferred balances as of March 31, 2007 and March 31, 2010. The Commission's 2010 Order, Petitioner's last PSA proceeding, authorized Petitioner to continue the PSA mechanism through the filing for the twelve month period ending March 31, 2013. The 2010 Order also authorized Petitioner to defer planning expenses incurred to comply with the Distribution Integrity Management Program ("DIMP") regulations of the Pipeline and Hazardous Materials Safety Administration ("DIMP Rule"), provided that any such expenses ("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 costs were reasonably incurred.

**4. Petitioner's Request.** In this Cause, Petitioner seeks approval of revised PSA factors to recover actual incremental costs deferred between April 1, 2010 and March 31, 2011, the remainder of the excess deferred balance as of March 31, 2010, and reconciliation of over- and under-recoveries from prior periods. Petitioner also proposes to recover in the proposed PSA factors deferred DIMP Planning Expenses as of March 31, 2011. Additionally, Petitioner seeks approval to defer incremental ongoing expenses incurred to comply with the DIMP Rule for future recovery in the PSA.

**5. Description of Programs and Costs.** James M. Francis, Director of Engineering and Asset Management for Vectren Utility Holdings, Inc. ("VUHI"), described the activities Petitioner has undertaken pursuant to its Integrity Management Program ("Program") in order to meet the requirements of the Act and DOT Rule. Mr. Francis stated that total incremental Program expenses during the period from April 1, 2010 through March 31, 2011 amounted to \$352,099.

Mr. Francis testified that during the period between April 1, 2010 and March 31, 2011, the Vectren Integrity Management Plan was updated to support continuous improvement expectations. He said these updates were communicated to Field Operations personnel as well as contracting resources to ensure all work groups were aware of the changes in processes within the Program. The majority of the activities completed during the period related to field activities

including: vegetation management and maintenance of rights-of-way along the High Consequence Area (“HCA”) pipelines; casing removals and direct examinations; and completion of preventive and mitigative measures such as monthly aerial patrols, regulator station painting and corrosion improvements. Mr. Francis discussed Petitioner’s completion of its Public Awareness requirements, its update of the National Pipeline Mapping System and its training of employees who have been assigned responsibility for carrying out the various tasks within the Program.

Mr. Francis stated the Act and DOT Rule require that the initial assessments of transmission lines in HCAs (“Baseline Assessments”) be completed by December 17, 2012. After that date, Vectren South will begin reassessment of those pipelines assessed during the Baseline Assessment period in compliance with the DOT Rule. He explained that all covered transmission facilities must be reassessed over the period of December 18, 2012 through December 17, 2019. Mr. Francis reported that Vectren South has completed the required Baseline Assessments of all applicable pipeline segments and will assess regulator stations in HCAs prior to the 2012 deadline.

Mr. Francis discussed proposed legislation pending in Congress as a result of the September 2010 pipeline accident in San Bruno, California that, if enacted, would impact Petitioner’s incremental pipeline safety O&M expenses and also require increased capital investments.

Mr. Francis testified that Vectren South has completed the development of its DIMP Plan. Mr. Francis explained that a single plan was developed for use by VUHI’s three gas utilities (Vectren South, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. (“Vectren North”) and Vectren Energy Delivery of Ohio, Inc. (“VEDO”). He described Petitioner’s efforts to comply with the DIMP Rule including the development of new processes and systems, personnel training, and development of data collection plans and information technology applications. Mr. Francis stated that 15% or \$157,500 of VUHI’s estimated incremental DIMP Planning Expenses are allocated to Petitioner based on its proportion of mileage of distribution mains. Through March 31, 2010, Vectren South incurred \$68,413 in actual DIMP Planning Expenses. Mr. Francis further testified that Vectren South currently estimates that the execution of the DIMP Plan will require annual expenses of approximately \$400,000 as well as additional investments in capital programs. He said there also may be other expenses resulting from the identification of accelerated actions.

Mr. Francis testified that upon implementation of the DIMP Plan, the categories of ongoing DIMP costs are Program Management, Field Related Work Activities, and Field Data Collection. The estimated annual costs for each category are approximately \$145,000 for Program Management, \$195,000 for Field Related Work Activities, and \$60,000 for Field Data Collection.

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 discussed Petitioner’s progress under the Replacement Program, identified the miles of bare steel and cast iron mains remaining in Vectren South’s system as of the end of 2010, and sponsored exhibits showing Distribution Replacement Program projects completed in 2010 and planned for 2011. With respect to Distribution Maintenance Programs,

Mr. Francis identified programs completed during the 12 months ending March 31, 2011, which included right-of-way maintenance on approximately 109 miles of gas transmission and distribution pipelines, 11 aerial patrols of transmission pipelines and the painting of four (4) regulator stations and two (2) industrial meter settings.

**6. Derivation of PSA.** Scott E. Albertson, Director of Regulatory Affairs for VUHI, testified about the derivation of Petitioner's proposed adjustments. Mr. Albertson stated 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 determined in that Cause. The costs per rate schedule were divided by the projected rate schedule billing quantities to determine the volumetric rate applicable to each rate schedule. The rates were then modified for recovery of Indiana Utility Receipts Tax.

Mr. Albertson stated that Petitioner's proposed PSA factors include a Transmission Component for recovery of incremental expenses associated with the DOT Rule, which in this proceeding is a credit of \$26,643. This amount reflects (a) actual deferred expenses for the twelve months ending March 31, 2011; (b) amortization of the remaining deferred balance at March 31, 2010; and (c) refund of an over-recovery through March 31, 2011. Mr. Albertson said the currently effective PSA is expected to remain in effect through November 4, 2011 to allow Petitioner to fully recover the costs approved in Cause No. 43926. He explained that the projected recoveries for the period April 1 through November 4, 2011 (\$302,430) are deducted from costs proposed for recovery in this proceeding.

Mr. Albertson testified that the 2010 Order authorized Petitioner to recover the remaining balance of deferred PSA expenses as of March 31, 2010 over a three year period with one-third being recovered by the adjustment factors approved in that Order. Mr. Albertson testified that because there is ample room below the annual cap, Petitioner proposes that the remaining two-thirds of the March 31, 2010 remaining balance be reflected in the annual factors approved in this Cause. He said including the entire remaining amount of \$246,504 in this filing (rather than including half of that amount in this PSA and the other half in Petitioner's next PSA filing) would increase the typical residential customer's bill by only \$0.83 over the 12-month period the adjustment factors are expected to be in effect.

Mr. Albertson testified that, as approved in Cause No. 43926, Petitioner has included DIMP Planning Expenses incurred through March 31, 2011 of \$68,413 in the Distribution Component of the PSA. These expenses were allocated to the rate schedules based on the distribution O&M allocators from the cost of service study filed in Cause No. 43112, Petitioner's most recent base rate case.

In response to the Commission's September 2, 2011 Docket Entry, Petitioner provided revised PSA factors assuming the March 31, 2010 amortization was collected over the next two years.

**7. Incremental Ongoing DIMP Expenses.** Mr. Albertson testified Petitioner proposes that incremental ongoing DIMP Expenses incurred in the categories of Program Management and Field Related Work Activities (currently estimated at \$340,000 per year) be deferred for future recovery in the PSA. Mr. Albertson said Petitioner did not propose at this time to track expenses in the Field Data Collection category (estimated at \$60,000 per year)

because of difficulties in identifying the incremental nature of expenses incurred in that category. Mr. Albertson asserted that Petitioner will continue to monitor Field Data Collection expenses during the first year of DIMP implementation to determine whether incremental costs are identifiable. He said Petitioner will review this category of costs with the OUCC at the conclusion of that first year, and (if feasible) will present a proposal for inclusion of such costs in the PSA in a future filing.

Mr. Albertson testified that rather than having a separate and distinct cap on DIMP Planning Expenses (which would be incremental to the current \$1 million annual cap for the Transmission Component), Petitioner proposes an overall PSA cap of \$1.5 million for the aggregate of both the Transmission Component and the Distribution Component. He said capping costs that may be included in an annual PSA filing at this level protects customers from significant bill impacts should Petitioner's costs far exceed its estimates, while allowing Petitioner a measure of flexibility should either type of incremental costs (distribution or transmission) spike in a single year based on specific findings and required remedial activities. Petitioner further proposes that incremental deferred expenses above the \$1.5 million cap may be included in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap, consistent with the terms of the PSA since its inception.

**8. Tariff Sheet.** Based upon Petitioner's Exhibit SEA-4 (Docket Entry Alternative), Petitioner's calculated Pipeline Safety Adjustment tariff sheet, Sheet No. 37, Seventh Revised Page 1 of 1 and Page 2 of 2, reflects the following PSA factors for each rate class:

<b>Rate Schedule</b>	<b>Transmission Component (\$ per Therm)</b>	<b>Distribution Component (\$ per Therm)</b>	<b>Total PSA Charge (\$ per Therm)</b>
110	(\$0.0015)	\$0.0008	(\$0.0007)
120/125/129/145	(\$0.0006)	\$0.0002	(\$0.0004)
160	(\$0.0002)	\$0.0001	(\$0.0001)
170	\$0.0000	\$0.0000	\$0.0000

**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 rate derivation appear correct and reasonable and in compliance with the 2007 Settlement and the 2010 Order. Accordingly, he recommended approval of the separate and combined Transmission and Distribution Components as reflected in Petitioner's Exhibit SEA-3.

With respect to Petitioner's proposal to recover incremental on-going DIMP implementation expenses in the PSA, Mr. Grosskopf stated that the OUCC met with Petitioner in June 2011 to discuss this issue at which time Petitioner presented preliminary estimates of the annual costs associated with implementation. Mr. Grosskopf stated that the cost estimates in Mr. Francis' direct testimony were consistent with the estimates previously provided to the OUCC but, as noted by Mr. Francis, Petitioner may be unable to identify the incremental nature of Field Data Collection costs estimated at \$60,000 per year.

Mr. Grosskopf further testified that the OUCC is not opposed to allowing Petitioner to recover prudently incurred, verifiable, incremental non-capital DIMP implementation expenses. However, the OUCC does not support increasing the current annual cap on recoverable costs by \$500,000 to accommodate the estimated implementation expenses. He stated the benefit of the cap is to provide an incentive to keep costs as low as reasonably possible. He asserted that the additional cap applicable to DIMP should not exceed the total estimated annual DIMP expenses of \$400,000, which when combined with the current \$1,000,000 PSA cap, results in a total annual cap of \$1,400,000 (rather than \$1,500,000 as proposed by Petitioner). Mr. Grosskopf stated the OUCC is agreeable to an aggregate cap on both the Transmission and Distribution components to allow a measure of flexibility, provided that each component continues to be tracked and calculated as separate factors as shown on Petitioner's Exhibit SEA-3. Mr. Grosskopf further stated that the OUCC agrees with Petitioner that incremental prudently incurred deferred expenses above the annual cap may be included in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap.

Mr. Grosskopf also made an administrative recommendation regarding Petitioner's future PSA filings. Mr. Grosskopf stated that in previous PSA filings, the OUCC requested specific information in discovery to enable the OUCC to perform its review. He said that although Petitioner has been responsive to the discovery requests, the OUCC suggests including the requested documentation with Petitioner's case-in-chief or as workpapers filed within two days after the case-in-chief is filed to help ensure a thorough and timely review by the OUCC. Attached to Mr. Grosskopf's testimony was an exhibit setting forth the information the OUCC routinely requests to facilitate its review of Petitioner's PSA filings. Mr. Grosskopf concluded that it was his recommendation that Petitioner file the information described on that exhibit, adjusted for the applicable time period, within two days of filing its case-in-chief requesting PSA cost recovery.

**10. Petitioner's Rebuttal.** Petitioner's Witness Albertson submitted rebuttal testimony regarding Mr. Grosskopf's recommendations. Mr. Albertson stated that Petitioner accepted Mr. Grosskopf's recommendations of an aggregate annual cap of \$1,400,000, with any excess being included in subsequent annual PSA filings, without carrying costs, up to the amount of the aggregate annual cap, consistent with the terms of the PSA since inception. Mr. Albertson further stated that Petitioner would agree to provide workpapers in future PSA proceedings containing the information shown on the exhibit attached to Mr. Grosskopf's testimony for the applicable time period, within two days of filing its case-in-chief.

**11. Discussion and Findings.** Initially, we note that Petitioner proposed collecting the final two years of the March 30, 2010 amortization in this proceeding, rather than using the methodology previously proposed and approved by the Commission in Cause No. 43926. We find that Petitioner has presented no compelling reason to accelerate the recovery of this expense. Using the calculations provided in Petitioner's Exhibit SEA-4 (Docket Entry Alternative), the Commission finds that the PSA factors identified in Finding Paragraph 8 are properly calculated in accordance with the 2007 Rate Order, the 2007 Settlement, and the 2010 Order and should be approved. Petitioner is authorized to put in effect these PSA factors to be effective no earlier than November 5, 2011.

Petitioner has also proposed an aggregate cap for its combined Transmission and Distribution Component expenses. Petitioner has provided sufficient evidence supporting its

estimated \$400,000 annual expenses for its DIMP Plan. However, the Commission has previously approved separate component caps for Vectren North in Cause No. 43967, and we find no reason to move to an aggregate cap for Vectren South. Accordingly, in addition to the existing annual cap of \$1,000,000 for the Transmission Component, we approve a \$400,000 cap for the Distribution Component expenses. Our approval of the cap on DIMP expenses is based on the evidentiary record in this Cause, and Petitioner may seek to modify its PSA cap amounts, if appropriate, by providing justification for a modification in a separately docketed proceeding.

Finally, Petitioner requested deferral of expenses in excess of the aggregate cap for recovery in future PSA filings. We have previously approved deferral of transmission expenses in excess of the \$1,000,000 cap, and although we do not approve an aggregate cap, we find any amount prudently incurred in excess of the respective annual caps may be included and recovered in subsequent annual PSA filings, without carrying costs, up to the amount of the respective annual cap.

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

1. The 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 5, 2011.

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 including the revision of the Transmission Component as detailed in SEA-4 (Docket Entry Alternative).

3. In accordance with Finding No. 11, Petitioner is hereby authorized to defer ongoing DIMP expenses for future recovery in the PSA subject to the annual cap.

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

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

APPROVED SEP 21 2011

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

  
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Brenda A. Howe  
Secretary to the Commission