

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, 43885 AND 43967,)
AND AUTHORITY FOR DEFERRAL AND)
FUTURE RECOVERY OF INCREMENTAL)
ONGOING DISTRIBUTION INTEGRITY)
MANAGEMENT PROGRAM EXPENSES)

CAUSE NO. 44092

APPROVED: MAR 07 2012

ORDER OF THE COMMISSION

Presiding Officers:

Kari A. E. Bennett, Commissioner
Angela Rapp Weber, Administrative Law Judge

On October 12, 2011, 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 Orders in Cause No. 43298, dated February 13, 2008 ("2008 Rate Order"), Cause No. 43885, dated September 8, 2010, and in Cause No. 43967, dated April 5, 2011. On October 13, 2011, Petitioner filed the testimony and exhibits of James M. Francis and Scott E. Albertson constituting its case-in-chief. On December 20, 2011, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the testimony of Mark H. Grosskopf constituting its case-in-chief. On January 6, 2012, Petitioner filed the rebuttal testimony of Scott E. 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 January 19, 2012 at 9:30 a.m. in Room 222, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the testimony and exhibits of Petitioner and the OUCC were admitted into the record. The Petitioner and OUCC participated at the public hearing. No members of the public appeared or attempted to participate at the hearing.

Based upon the applicable law and the evidence presented, 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. Petitioner is a wholly-owned subsidiary of Vectren Utility Holding Company, Inc. ("VUHI").

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"). 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 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 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 which 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 leveled 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 of 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.

The Commission's April 5, 2011 Order in Cause No. 43967 ("2011 Order") authorized Vectren North to continue the PSA mechanisms through its filing for the twelve-month period ending July 31, 2013. Petitioner's current PSA factors were placed in effect on April 6, 2011 pursuant to the Commission's Order in Cause No. 43967. The current PSA factors reflect actual incremental PSA Expenses deferred between August 1, 2009 and July 31, 2010; recovery of variances from prior Causes; the amortization of the excess deferred PSA Expenses as of July 31, 2007 as provided in the 2008 Rate Order; and the three-year amortization of the excess deferred PSA Expenses as of July 31, 2010 as provided in the 2011 Order.

4. Petitioner's Request. In this proceeding, Petitioner seeks approval of PSA factors that will recover over a twelve-month period PSA Expenses deferred between August 1, 2010 and July 31, 2011 and variances from prior Causes. Petitioner seeks the continuation of the three-year amortization provided for in the 2011 Order and proposes to recover deferred DIMP Planning Expenses as of July 31, 2011. Additionally, Petitioner seeks approval to recover incremental, ongoing expenses incurred to comply with the DIMP Rules for future recovery in the PSA up to \$1,750,000 on an annual basis and to defer, without carrying costs, any such expenses that exceed the annual cap in any particular year for subsequent recovery in subsequent annual PSA filings up to the amount of the respective annual cap.

5. PSA Expenses. Mr. Francis, Director of Engineering and Asset Management for VUHI, described the activities Petitioner has undertaken under its Integrity Management Program ("Program") during the period of August 1, 2010 through July 31, 2011. Mr. Francis stated that total incremental PSA Expenses during the period were \$8,010,973.

Mr. Francis described the Program activities completed by Petitioner to comply with the Act and the DOT Rules. The majority of the completed activities related to field activities, which included: (1) vegetation management and maintenance of Petitioner's rights-of-way along its High Consequence Area ("HCA") pipelines; (2) pipeline cleaning in preparation for in-line inspection, and corresponding in-line inspection tool runs and direct examination excavations; (3) pipeline casing removals and direct examinations; (4) research and identification of pipeline segment specifications through the examination, removal, and material testing of pipeline coupons; and (5) preparation for hydrostatic testing and pipeline centerline and depth surveys to

support better geographical awareness of pipeline systems relative to HCAs. Mr. Francis testified Petitioner completed the assessment of approximately 2.6 HCA pipeline miles and is currently in the process of assessing an additional 4.0 HCA pipeline miles. Mr. Francis also noted Petitioner 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 and implemented an encroachment management program to monitor activity surrounding pipeline corridors to prevent new or work in progress encroachments.

Mr. Francis stated the Program expenses from August 1, 2010 through July 31, 2011 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 said the total incremental Program expenses of \$8,010,973 are net of the non-incremental expenses of \$81,050.

Mr. Francis stated the Act and DOT Rules 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 said Petitioner is on target to complete the remaining baseline assessments, with some of the lower risk pipelines remaining. However, 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.

Mr. Francis testified Vectren North timely completed the development of its DIMP plan. He indicated that necessary system changes to its work and asset management system and geographic information system needed to track compliance with the DIMP Rules had been completed and field personnel had been trained on the DIMP regulations and plan. Petitioner has developed the necessary processes and systems in order to complete distribution integrity assessments, risk modeling, and performance monitoring, which will allow for the identification and implementation of accelerated actions intended to enhance distribution system integrity. Mr. Francis stated 60%, or \$630,000, of VUHI’s estimated incremental DIMP Planning Expenses are allocated to Petitioner based on its proportion of mileage of distribution mains. Through July 31, 2011, Vectren North incurred \$367,543 in actual DIMP Planning Expenses. Mr. Francis further testified Vectren North currently estimates that the execution of the DIMP plan will require annual expenses of approximately \$1,741,000.

Mr. Francis explained the DIMP plan includes three categories of costs: Program Management, Field Related Work Activities, and Field Data Collection. Program Management costs are those associated with incremental labor resources such as internal management, contract engineering, and data management efforts. Field Related Work Activities include items such as new programs, additional patrols, leak surveys, inspections, public education, and remediation. Field Data Collection consists of gathering additional information about Petitioner’s assets as required for reporting and collecting problem, cause, and remedy information. Mr. Francis acknowledged that Vectren North may be unable to identify the incremental nature of the Field Data Collection costs because the work is expected to be completed by existing employees

who will be collecting some incremental information about pipeline facilities. The estimated annual cost for each category is approximately \$626,000 for Program Management, \$875,000 for Field Related Work Activities, and \$240,000 for Data Collection.

Mr. Francis noted Petitioner filed its Distribution Replacement Program report in Cause No. 43298 on November 21, 2011 reflecting program status as of September 2011. The report also includes the list of planned projects and budgeted amounts for calendar year 2012, 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 September 1, 2010 through August 31, 2011, as provided in the Settlement Agreement approved by the 2008 Rate Order. These activities include gas storage, distribution, regulator station, and meter maintenance.

6. Derivation of PSA. Mr. Albertson, Director of Regulatory Affairs for VUHI, testified about the derivation of Petitioner's proposed adjustments. Mr. Albertson stated that in accordance with our Order issued in Cause No. 43298, 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 the Indiana Utility Receipts Tax.

Mr. Albertson stated Petitioner's proposed PSA factors include a Transmission Component for recovery of incremental expenses associated with the DOT Rules, which in this proceeding is an expense of \$1,890,533. This amount reflects (a) actual deferred expenses for the twelve months ending July 31, 2011; (b) year two of the three-year amortization of the remaining deferred balance at July 31, 2010; and (c) refund of an over-recovery through July 31, 2011. He said Vectren North also seeks to include the recovery of deferred expenses above the annual cap incurred in the second year of the 2010 Amortization Amount in the PSA.

Mr. Albertson testified that, as approved in Cause No. 43885, Petitioner has included DIMP expenses of \$367,543 incurred through July 31, 2011 in the Distribution Component of the PSA. These expenses were allocated to the rate schedules based on the distribution operations and maintenance allocators from the cost of service study filed in Cause No. 43298, Petitioner's most recent base rate case.

7. Incremental Ongoing DIMP Expenses. Mr. Albertson explained Vectren North's proposal to track incremental costs incurred to achieve compliance with the DIMP Rules. He noted Vectren North proposes that incremental expenses incurred in Program Management and Field Related Work Activities (currently estimated at \$1,501,000 per year) be tracked in the PSA. Mr. Albertson testified Petitioner will include support for the incremental DIMP Expenses in each annual filing. Petitioner further seeks authority to defer, for future recovery in the PSA, the DIMP Expenses described by Mr. Francis and allocable to Vectren North. Petitioner will continue to monitor Field Data Collection expenses during the first year of DIMP implementation to determine whether incremental costs are identifiable and, after consultation with the OUCC, present its proposal for inclusion of such costs in the PSA. Mr. Albertson also explained that Vectren North proposes a cap on DIMP of \$1,750,000, which would be incremental to the current \$4.5 million annual cap related to the Transmission Component. Petitioner further proposes that incremental deferred expenses 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, consistent with the terms of the PSA since its inception.

8. **Tariff Sheet.** Petitioner’s Exhibit No. SEA-3 contains Petitioner’s proposed PSA tariff sheet, Sheet No. 37, Seventh Revised Page 1 of 1, reflecting the proposed PSA factors. The following table summarizes the PSA factor for each rate class:

Rate Schedule	Transmission Component (\$ per Therm)	Distribution Component (\$ per Therm)	Total PSA Charge (\$ per Therm)
210/211 (1)	\$0.0032 / therm	\$0.0007 / therm	\$0.0039 / therm
220/229	\$0.0020 / therm	\$0.0003 / therm	\$0.0023 / therm
225	\$0.0032 / therm	\$0.0004 / therm	\$0.0036 / therm
240	\$0.0009 / therm	\$0.0001 / therm	\$0.0010 / therm
245	\$0.0009 / therm	\$0.0001 / therm	\$0.0010 / therm
260	\$0.0004 / therm	\$0.0001 / therm	\$0.0005 / therm

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

9. **OUCCEvidence.** Mr. Grosskopf, a Utility Analyst with the OUCCEvidence, 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 and reasonable and in compliance with the terms of the most recent Settlement Agreement in Cause No. 43298 and the subsequent inclusion of DIMP cost recovery in Cause No. 43885. He therefore recommended that the PSA factors reflected in Petitioner’s Exhibit No. SEA-3 be approved.

Mr. Grosskopf further testified Petitioner met with the OUCCEvidence on June 9, 2011 to discuss the inclusion of DIMP expenses in the PSA. He stated the OUCCEvidence does not oppose allowing Petitioner to recover prudently incurred, verifiable, incremental, non-capital DIMP implementation expenses. However, the additional cap applicable to DIMP should not exceed the total estimated annual DIMP expenses known to be identifiable. Mr. Grosskopf noted Mr. Francis and Mr. Albertson acknowledged the difficulty in tracking incremental Field Data Collection expenses. The \$1,750,000 cap on recoverable costs proposed by Petitioner includes \$250,000 in estimated Field Data Collection expenses. Mr. Grosskopf recommended a cap on annual DIMP costs of \$1,500,000, approximating Petitioner’s total estimated DIMP implementation expenses less the \$250,000 in estimated Field Data Collection expenses. He recommended that the \$1,500,000 cap remain until such time as the Field Data Collection expenses are fixed, known, and measurable and the parties agree the incremental Field Data Collection costs should be included in the cap. He also recommended that the \$1,500,000 cap on DIMP expenses be incremental to the current \$4,500,000 PSA cap, with each component being tracked and calculated as separate factors as shown on Petitioner’s Exhibit No. SEA-3. He said the OUCCEvidence agreed with Petitioner that incremental, prudently incurred deferred expenses above the annual caps may be included in a subsequent annual PSA filing, without carrying costs, up to the amount of the annual caps, consistent with the terms of the PSA since its inception.

10. Petitioner's Rebuttal. Mr. Albertson indicated Vectren North agreed with Mr. Grosskopf's recommendation of an annual DIMP Expense cap of \$1,500,000. However, he recommended that the criteria for increasing the DIMP Expense cap be whether the Field Data Collection expenses can be shown to be incremental, or known and measurable. Mr. Albertson disagreed with requiring a showing that those costs are fixed because the PSA is intended to recover costs that are variable and beyond Petitioner's control.

11. Commission Discussion and Findings. Petitioner proposes to include incremental DIMP Expenses falling within Program Management and Field Related Work Activities in the PSA. Petitioner also proposes an annual cap of \$1,750,000 on the Distribution Component expense. We find recovery of the incremental non-capital DIMP implementation expenses through the PSA is reasonable and should be approved. No party opposed recovery of these costs. The non-capital DIMP implementation costs are the type of costs the PSA was designed to recover.

With regard to Petitioner's proposed annual cap on the Distribution Component Expense, the OUCC proposes to reduce the cap to \$1,500,000. Mr. Grosskopf notes this cap reflects Petitioner's estimated annual expenses for its DIMP plan, less the Field Data Collection costs, which Petitioner acknowledged is difficult to verify as incremental. The OUCC agrees increasing the cap to include the Field Data Collection costs would be appropriate at the time Vectren North could demonstrate that the Field Data Collection costs are fixed, known, and measurable. Mr. Albertson proposes that the increase in the cap from \$1,500,000 be permitted when the Field Data Collection costs can be shown to be incremental, or known and measurable. The Commission agrees Vectren North has provided sufficient evidence supporting a \$1,500,000 cap for its DIMP plan. This cap may be increased when Vectren North demonstrates that the Field Data Collection costs are incremental, or known and measurable. We decline to require a showing that such costs are fixed because the variability in the expenses is the reason they are being recovered in the PSA.

Finally, Petitioner requests 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 \$4,500,000 cap. The OUCC does not oppose allowing Petitioner to recover prudently incurred and verifiable expenses. The Commission finds any amounts prudently incurred in excess of the respective annual cap may be included and recovered in subsequent annual PSA filings, without carrying costs, up to the amount of the respective annual cap.

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, to become effective no earlier than April 6, 2012.

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

1. Petitioner's proposed PSA factors as set out in this Order are approved and shall be effective for gas service on or after April 6, 2012.

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 including the revision to the Distribution Component to reflect a cap of \$1,500,000.

3. Prudently incurred DIMP Expenses in excess of the \$1,500,000 cap are eligible to be included and recovered in subsequent annual PSA filings, without carrying costs, up to the amount of the respective annual cap.

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

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

APPROVED: MAR 07 2012

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



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