

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) CAUSE NO. 44231
 RATES THROUGH ITS PIPELINE SAFETY)
 ADJUSTMENT PREVIOUSLY APPROVED IN)
 THE COMMISSION'S ORDER IN CAUSE NO.) APPROVED: OCT 31 2012
 42596 AND MODIFIED BY THE COMMISSION'S)
 ORDERS IN CAUSE NOS. 43112, 43926, AND)
 44042.)

ORDER OF THE COMMISSION

Presiding Officers:

Kari A.E. Bennett, Commissioner

Gregory R. Ellis, Administrative Law Judge

On July 30, 2012, 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"), Cause No. 43926, dated November 4, 2010 ("2010 Order") and Cause No. 44042, dated September 21, 2011 ("2011 Order").

Petitioner filed the prepared testimony and exhibits constituting its case-in-chief on August 1, 2012. Petitioner filed its late filed exhibit on September 12, 2012. The Indiana Office of Utility Consumer Counselor ("OUCC") filed the prepared testimony of its witness on September 18, 2012.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 1:30 p.m., on September 25, 2012, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify 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 and published by the Commission 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 operates a public gas utility, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission therefore has jurisdiction over Petitioner and the subject matter herein.

2. Petitioner's Characteristics. Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner has its principal office at One Vectren Square, Evansville, Indiana. Petitioner provides natural gas service to approximately 110,000 retail customers and is engaged in rendering gas utility service to the public in nine (9) counties in southwestern Indiana. Petitioner owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

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. These requirements include 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 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.

The Commission's Order in Cause No. 43926 dated November 4, 2010, authorized Petitioner to continue the PSA mechanism through the filing for the twelve month period ending March 31, 2013. The 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.

Petitioner's current PSA factors were placed in effect pursuant to the Commission's Order in Cause No. 44042 dated September 21, 2011 and reflect incremental PSA costs deferred during the twelve-month period ended March 31, 2011 and three-year amortizations of the excess deferred balances as of March 31, 2010. The current PSA factors also included DIMP Planning Expenses through March 31, 2011. The Order in Cause No. 44042 also authorized a \$400,000 annual cap for the Distribution Component expenses that was in addition to the annual cap of \$1,000,000 for the Transmission Component expenses. The Commission approved deferral of incremental expenses above the respective component caps which may be included and recovered in subsequent annual PSA filings, without carrying costs, up to the amount of the each annual cap. Finally, the Order permitted Petitioner, if appropriate, to seek modification of its PSA cap on incremental non-capital DIMP Implementation Expense by providing justification in a separately docketed proceeding.

4. Petitioner's Request. In this Cause, Petitioner seeks approval of revised PSA factors to recover actual incremental costs, DIMP Planning Expenses and DIMP Implementation Expenses deferred between April 1, 2011 and March 31, 2012, the remainder of the excess

deferred balance as of March 31, 2010, and reconciliation of over- and under-recoveries from prior periods.

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, 2011 through March 31, 2012 amounted to \$2,102,886.

Mr. Francis testified that during the period between April 1, 2011 and March 31, 2012, the Program 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, four (4) hydrostatic pressure tests, two (2) above ground surveys, removal and monitoring of encroachments, and many 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 discussed the Safety Act and DOT Rule requirement that the initial assessments of transmission lines in HCAs (“Baseline Assessments”) be completed by December 17, 2012 and Vectren South is on target to comply with that requirement. Mr. Francis stated Vectren South has also begun re-assessment of those pipelines assessed during the Baseline Assessment period in compliance with the DOT Rule.

Mr. Francis discussed the Pipeline Safety, Regulatory Certainty and Jobs Creation Act signed into law on January 3, 2012. He explained that this legislation is a result of the 2010 pipeline accident in San Bruno, California as well as incidents in Allentown and Philadelphia, Pennsylvania. He also explained that the legislation will impact Petitioner’s incremental operation and maintenance (“O&M”) expenses related to development and implementation planning which will require significant increased capital investments. The new legislation also has new requirements on public education and awareness that may require additional investment in systems and information to support expansion and enhancement of the public awareness program.

Mr. Francis testified that Vectren South began implementation of its DIMP Plan on August 2, 2011. He described Petitioner’s efforts to comply with the DIMP Rule including implementation of new processes and systems, personnel training, and development of data collection plans and information technology applications. Mr. Francis stated that 15% 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 (the end of the planning period), the amount allocated to Petitioner was \$24,162. 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 additional accelerated actions.

Mr. Francis testified that the implementation of the DIMP Plan includes categories of ongoing DIMP costs for 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. The total incremental DIMP Implementation Expenses for Vectren South during the period from August 1, 2011 through March 31, 2012 are \$92,636.

Mr. Francis also provided information on the current status of Vectren South'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 85 miles of bare steel and 145 miles of cast iron mains remaining in Vectren South's system as of the end of 2011, and sponsored exhibits showing Distribution Replacement Program projects completed in 2011 and planned for 2012. With respect to Distribution Maintenance Programs, Mr. Francis identified programs completed during the 12 months ending March 31, 2012 which included clearing or maintenance of approximately 118 miles of gas transmission or distribution rights-of-way, 12 aerial patrols of transmission pipelines and the painting of 29 regulator stations.

6. Derivation of PSA. Scott E. Albertson, Vice President, 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 \$1,068,025. This amount reflects (a) actual deferred expenses for the twelve months ending March 31, 2012, up to the annual cap of \$1.0 million; (b) \$123,252 in amortization of the remaining deferred balance at March 31, 2010; and (c) refund of \$55,227 for an over-recovery through March 31, 2012. Mr. Albertson testified that the 2010 Order authorized Petitioner to recover the remaining March 31, 2010 balance of deferred PSA expenses over a three-year period. Petitioner recovered one-third in Cause No. 43296, one-third in Cause No. 44042, and one-third in this Cause which will complete the recovery of the March 31, 2010 remaining balance identified by the Order in Cause No. 43926. Mr. Albertson said the currently effective PSA is expected to remain in effect through November 4, 2012 to allow Petitioner to fully recover the costs approved in Cause No. 44042. Petitioner deducted the projected refunds of (\$35,208) for the period of April 1 through November 4, 2012 from costs proposed for recovery in this proceeding.

Mr. Albertson testified the PSA factors include a Distribution Component for recovery of DIMP Planning Expenses and DIMP Implementation Expenses as approved in Cause No. 43926. The total costs to be recovered in the Distribution component in this filing are \$130,894. Petitioner incurred DIMP Planning Expenses of \$24,162 from April 1, 2011 through August 1, 2011 to be included in this proceeding. 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. The DIMP Implementation Expenses of \$92,636 were incurred from August 2, 2011 through March 31, 2012. The under-recovery variance through March 31, 2012 to be recovered in this PSA is \$14,096. The projected recoveries for the period April 1 through November 4, 2012 (\$16,428) are deducted from costs proposed for recovery in this proceeding.

7. **Tariff Sheet.** Based upon Petitioner's Exhibit SEA-3, Petitioner's calculated Pipeline Safety Adjustment tariff sheet, Sheet No. 37, Eighth Revised Page 1 of 2 and First Revised Page 2 of 2, reflects the following PSA factors for each rate class:

Rate Schedule	Transmission Component (\$ per Therm)	Distribution Component (\$ per Therm)	Total PSA Charge (\$ per Therm)
110	\$0.0111	\$0.0015	\$0.0126
120/125/129/145	\$0.0048	\$0.0005	\$0.0053
160	\$0.0017	\$0.0002	\$0.0019
170	\$0.0002	\$0.0000	\$0.0002

8. **OUC's Evidence.** The OUC pre-filed the testimony of Sherry L. Beaumont, Utility Analyst, in this Cause. Witness Beaumont testified that she reviewed Petitioner's filing, Petitioner's exhibits, and calculations and verified the data in Petitioner's exhibits. Ms. Beaumont indicated that, based on her analysis and review, Petitioner's cost calculations and the rate derivation appear correct, reasonable, and in compliance with the terms of the most recent PSA modifications approved in Cause No. 43112 and the inclusion of the DIMP cost recovery in Cause No. 43926. Ms. Beaumont's testimony recommended approval of the PSA factors reflected in Petitioner's Exhibit No. SEA-3.

9. **Discussion and Findings.** The Commission finds in the event that the Pipeline Safety, Regulatory Certainty and Jobs Creation Act discussed by Mr. Francis causes Vectren South to accelerate replacement of its cast iron mains, Vectren South shall file under this Cause the accelerated plan to comply with the legislation. Vectren South shall also file under this Cause the same type of quarterly pipeline replacement program documentation that is currently required to be filed by Vectren North in Cause No. 43298. This compliance filing shall commence January 1, 2013.

The Commission also finds that the proposed PSA is properly calculated in accordance with the 2007 Rate Order, the 2007 Settlement, the 2010 PSA Order and the 2011 PSA Order and should be approved. Therefore, the Commission authorizes Petitioner to place into effect the PSA factors contained in Petitioner's Exhibit SEA-3 no earlier than November 5, 2012.

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

1. Petitioner's proposed PSA factors as set forth in this Order are hereby approved and shall be effective for gas service on and after November 5, 2012.
2. Prior to putting the PSA factors in effect, Petitioner shall file with the Commission under this Cause, an amendment to its tariff reflecting the approved PSA in the form of Petitioner's Exhibit SEA-3.
3. Petitioner shall submit quarterly compliance filings beginning January 2013.
4. This Order shall be effective on and after the date of its approval.

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

APPROVED OCT 31 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