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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. PURSUANT TO IND. CODE 8-1-2.5 ET. SEQ., FOR APPROVAL OF AN ALTERNATIVE REGULATORY PLAN TO MODIFY RATE 129 TO IMPLEMENT A FLEXIBLE, MARKETBASED PRICE FOR COMPRESSED NATURAL GAS FOR USE IN NATURAL GAS VEHICLES	CAUSE NO. 44269 APPROVED: JUL 03 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Jeffrey A. Earl, Administrative Law Judge

On November 7, 2012, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren" or "Petitioner") filed its Verified Petition in this Cause. Vectren also prefiled the testimony and exhibits of L. Douglas Petitt, Vice President, Marketing, Conservation, and Revenue Administration at Vectren Utility Holdings, Inc. ("VUHI"), and Scott E. Albertson, Vice President, Regulatory Affairs at VUHI.

On February 7, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony and exhibits of Sherry L. Beaumont, Utility Analyst in the OUCC's Natural Gas Division. On February 19, 2013, Vectren filed copies of the Proofs of Publication of the notice of the filing of the petition in this Cause. On February 22, 2013, Vectren prefiled Mr. Albertson's rebuttal testimony and exhibits.

Pursuant to notice given and published as required by law, the Commission held an evidentiary hearing in this Cause at 9:30 a.m. on March 13, 2013, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated in the hearing. No members of the pubic appeared at the hearing.

Based on the applicable law and the evidence presented, the Commission finds:

1. **Notice and Commission Jurisdiction**. Notice of the hearings in this Cause was given and published by the Commission as required by law. Vectren published notice of the filing of this Petition as required by Ind. Code § 8-1-2.5-6(d). Vectren is a public utility as that term is defined in Ind. Code § 8-1-2-1(a) and an energy utility as that term is defined in Ind. Code § 8-1-2.5-2. Under Ind. Code § 8-1-2.5-6, the Commission has jurisdiction over an energy utility's request to adopt an alternative regulatory plan ("ARP"). Therefore, the Commission has jurisdiction over Petitioner and the subject matter of the proceeding.

2. **Petitioner's Characteristics.** Vectren is an Indiana Corporation with its principal office at One Vectren Square, Evansville, Indiana. Vectren provides gas and electric utility service to the public in Indiana and owns and operates plant and equipment used for the distribution and furnishing of such services.

3. **Relief Requested.** Vectren seeks approval of an ARP to modify its Rate 129 Natural Gas Vehicle Service ("Rate 129") to implement a flexible, market-based price for compressed natural gas ("CNG") sold at its Eco Fuel Center for use in natural gas vehicles ("NGVs").

4. **Vectren's Case-In-Chief.** Mr. Petitt testified that Vectren currently operates the only CNG fueling station in Evansville, Indiana, at its Eco Fuel Center, which is located along the Lloyd Expressway. Vectren constructed the Eco Fuel Center in the 1990s and has invested approximately $550,000 in the last two years to install additional storage capability and to upgrade the compressors for redundancy to keep up with increase demand at the pump.

Mr. Petitt explained that the rate charged for CNG at the pump is calculated by combining a distribution charge, the prevailing gas cost adjustment ("GCA") charge, the Universal Service Fund Rider, and the Pipeline Safety Adjustment. Under the current Rate 129, the Maximum Distribution Charge is $0.4207 per therm. In October 2012, the price of CNG at the Eco Fuel Center was $0.8232 per therm or $1.26 per gasoline gallon equivalent ("GGE"). Mr. Petitt testified that the price of CNG compares very favorably to the price of gasoline and diesel fuel, which has led to an increase in demand for CNG vehicles.

Mr. Petitt also explained that CNG vehicle users range from those with heavy duty fleets and multiple vehicles to families with a single light duty vehicle. Vectren's CNG customers include users from the refuse industry, municipal and state governments, police, the Evansville Vanderburgh School Corporation, and public transportation. Over the past four years, usage at the Eco Fuel Center has increased dramatically. From 2009 to 2010, usage jumped from 1,081 GGE to 7,775 GGE. In 2011, usage jumped to 21,577 GGE and increased further to approximately 35,000 GGE for 2012. Mr. Petitt predicted that usage will continue to grow until it reaches approximately 43,500 GGE.

Mr. Petitt testified that this expected growth is being driven by a number of factors. These include the low CNG price compared to gasoline and diesel fuel and low volatility in CNG pricing due to the availability of shale gas. Mr. Petitt said that even at prices in excess of $2/GGE, CNG compares very favorably to the cost of gasoline at $3.745/gallon and diesel fuel at $4.159/gallon. In addition, Mr. Petitt believes that recently adopted increases in federal corporate average fuel efficiency ("CAFÉ") standards for cars and light duty trucks will encourage manufacturers to grow their NGV portfolio because the production of NGV's generates credits toward meeting the CAFÉ standards.

Mr. Petit said that Vectren has no plans to construct additional CNG public fuel stations in its service area. Instead, Vectren would like others to invest in CNG fueling stations to meet the growing demand. Mr. Petitt believes that Vectren's current Maximum Distribution Charge is a barrier to market entry. Mr. Petitt reviewed CNG prices at cities in states adjacent to Indiana and determined that Vectren's CNG price of $1.26/GGE is among the lowest in the region. Mr. Petitt opined that Vectren's relatively low price inhibits investment in the market because competitors will have to compete with the low price. Mr. Petitt said that Vectren's proposed modifications to Rate 129 will promote a competitive market, remove the current disincentive for others to build CNG stations in Vectren's service territory, and allow more customers and businesses to consider purchasing NGVs.

Mr. Petitt testified that Vectren proposes to monitor market conditions and adjust the distribution charge in accordance with changing market conditions in order to continue to achieve the goal of charging a competitive GGE price that does not undercut competition. Vectren will file compliance tariffs and report annually on changes to the distribution charge. Mr. Petitt said that while a price increase may be a short-term concern for existing CNG customers, those customers will ultimately benefit from development of competitive CNG stations. Customers will have more options for CNG refueling. Mr. Petitt said that increased usage of NGVs will reduce Indiana's dependence on foreign sources of fuel, and that increased fuel savings could lead to more profitable in-state companies. In addition, Mr. Petitt testified that Vectren proposes to mitigate the impact on existing customers by phasing-in the market based distribution charge over a six-month period.

Mr. Albertson explained that Rate 129 is currently available to customers who own their own CNG facility and to customers purchasing CNG from Vectren's CNG station. Customers who own their own CNG facility would pay a monthly customer facilities charge of $18.12 and a Maximum Distribution Charge of $0.1378 per therm; however no customers currently take CNG service under this provision of the tariff. Customers fueling their NGV at Vectren's CNG station pay a Maximum Distribution Charge of $0.4207 per therm.

Mr. Albertson testified that Vectren proposes the following: (1) change the applicability of Rate 129 so that it no longer applies to gas sales to customer-owned CNG facilities; (2) increase the Maximum Distribution Charge; (3) revise the existing provision that allows Vectren to assess a distribution charge that is less than the Maximum Distribution Charge based on prices in the retail CNG marketplace instead of competition from alternate fuels. Vectren is also proposing changes to the Definitions (Sheet No. 4) and General Terms and Conditions Applicable to Gas Service (Sheet No. 54) to effectuate these changes. Mr. Albertson clarified that Vectren proposes to serve customers who wish to invest in a CNG facility under an applicable sales or transportation rate schedule.

Mr. Albertson said that the Maximum Distribution Charge would include a calculation of the revenue requirement associated with Vectren's recent investment in its CNG facilities. As a result, Vectren's opportunity to recover its investment in CNG facilities will be tied to its CNG sales, and none of the CNG facility investment costs will be recovered from customers receiving service under other rate schedules. Vectren will adjust the distribution charge periodically based on market conditions, GCA charges, and PSA charges. Vectren would make a compliance filing with the Commission to reflect these periodic changes to the distribution charge on at least an annual basis. In order to mitigate the effect of the increase, Vectren proposes to charge only 65% of the indicated distribution charge in the first month of implementation. The multiplier would increase by 5% each month thereafter for six months, reaching 90% of the indicated distribution charge, and the discount would cease in month seven.

5. **<u>OUCC's Case-In-Chief</u>.** Ms. Beaumont testified that the OUCC supports Vectren's proposed ARP. However, she made two recommendations regarding Vectren's CNG station.

First, Ms. Beaumont recommended that Vectren be required to seek Commission approval prior to expansion of any CNG fueling stations. Ms. Beaumont explained that it would be prudent to conduct a comprehensive analysis of potential additional investments to ensure consumer protections.

Second, Ms. Beaumont recommended that Vectren file reports reflecting the periodic changes to the distribution charge on a monthly rather than an annual basis. Ms. Beaumont explained that Vectren intends to calculate a target price per GGE on a monthly basis but only file its reports on an annual basis. Ms. Beaumont believes that compliance reporting should occur concurrently with the monthly adjustments to allow timely analysis and monitoring of the market-based distribution charge calculations. Ms. Beaumont compared the monthly reporting requirement to the way that gas prices are updated and reported in the GCA flex filing process.

6. **<u>Vectren's Rebuttal</u>.** Mr. Albertson disagreed with Ms. Beaumont's recommendation that Vectren seek preapproval prior to additional investments in its CNG fueling stations. Mr. Albertson reiterated that the company has no specific plans to construct additional public CNG stations. Mr. Albertson said that while Vectren does not agree it should be required to seek preapproval, it does agree to initiate discussions with the OUCC and Commission staff prior to making any additional CNG facility investments.

Mr. Albertson also testified that Vectren agreed to Ms. Beaumont's recommendation to make monthly compliance filings rather than annual filings. Mr. Albertson also clarified Vectren's plan to change CNG prices at the pump. In order to provide a measure of price stability, Vectren will only change the price at the pump when the market price for CNG changes by $0.10 per GGE or more. In addition, Vectren will change the distribution charge each month in response to other factors such as the current GCA charge. In a response to a Commission Docket Entry, Mr. Albertson explained that the at-the-pump price will only change once per month and any changes will be reflected in Vectren's monthly compliance filing.

7. **<u>Commission Discussion and Findings</u>.** Under Ind. Code § 8-1-2.5-6, the Commission may approve an ARP that establishes rates and charges based on market or average prices. Vectren requests permission to increase the Maximum Distribution Charge under Rate 129 as necessary to recover the $550,000 investment in improvements to the Eco Fuel Center. Vectren also requests permission to adjust its distribution charge and at the pump price for CNG service based on market prices.

The evidence shows that Vectren invested $550,000 in improvements to its CNG fueling station. Vectren proposes to increase the Maximum Distribution Charge for CNG fuel to include the revenue requirement associated with that investment. Tying the recovery of the $550,000 to CNG fuel sales ensures that Vectren's other natural gas customers do not bear those costs.

The evidence shows that the market for CNG as a vehicle fuel is increasing due to the low cost and abundant supply of natural gas and the fact that it burns more cleanly than gasoline or diesel fuel. However, Mr. Petitt testified that Vectren does not have plans to construct additional CNG fueling stations. Instead, Vectren would like other investors to enter the market and build CNG stations to meet demand. Vectren proposes to phase in the increase over a 6-month period as discussed above.

The evidence demonstrates that Vectren's current CNG prices are well below market price for CNG in the surrounding area. This fact creates a barrier to entry for possible competitors to Vectren in the CNG station market, because other stations could not compete with Vectren's low CNG prices. Based on the evidence, we find that allowing Vectren to adjust its price for CNG to better reflect market price will help to remove the barrier to the development of competitive CNG fueling stations. Vectren proposes to adjust the CNG price at the pump not more than once per month and only if the market price of CNG changes by $0.10 per GGE or more.

We find that Vectren's proposals are reasonable. The proposals allow Vectren to recover the cost of its investment in the Eco Fuel Center from CNG fuel sales and to adjust its CNG price to more closely reflect market price. The proposals also mitigates the immediate impact of the increase and gives CNG customers some predictability in CNG prices. Therefore, we approve Vectren's proposed changes to its Maximum Distribution Charge and Vectren's proposal to adjust the distribution charge on a monthly basis.

Vectren also requested permission to modify Rate 129 so that it would no longer apply to gas sales to customer-owned CNG facilities. The evidence shows that no customer-owned facilities currently purchase gas under Rate 129. Therefore, we approve the proposed changes to Rate 129.

The OUCC recommended that Vectren file monthly updates reflecting the changes to its distribution charge for CNG fuel to allow timely analysis and monitoring of the market-based distribution charge calculations. In its rebuttal testimony, Vectren agreed to monthly reporting. We approve the OUCC's recommendation and order Vectren to make monthly compliance filings that include an updated tariff, market pricing data, and support for the calculation of the new distribution charge.

The OUCC also recommended that we order Vectren to seek preapproval from the Commission prior to constructing any new CNG fuel stations or making additional investments in the existing fuel station. Vectren objected to the OUCC's recommendation, but agreed to initiate discussions with the OUCC and Commission staff prior to making any additional CNG facility investments. We decline to require Vectren to seek preapproval for additional CNG facility investments at this time. However, our decision does not preclude either the Commission or the OUCC from challenging the reasonableness of any future CNG investments.

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

1. Vectren is authorized to increase the Maximum Distribution Charge under Rate 129 as necessary to recover the $550,000 investment in improvements to the Eco Fuel Center.

2. Vectren is authorized to adjust the Rate 129 Distribution Charge each month and change the price at the pump for CNG when market prices change by more than $0.10 per GGE.

3. Vectren shall make monthly compliance filings no later than the fourth day of each month under this Cause that include an updated Rate 129 tariff sheet, the applicable market pricing data, and the underlying calculation of the new Distribution Charge.

4. Vectren is authorized to change the applicability of Rate 129 such that it no longer applies to gas sales to customer-owned CNG facilities.

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

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

APPROVED: JUL 03 2013

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

Shala M. Coe

Shala M. Coe
Acting Secretary to the Commission