

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 ) CAUSE NO. 44287  
 PIPELINE SAFETY ADJUSTMENT APPROVED )  
 IN THE COMMISSION'S ORDER IN CAUSE ) APPROVED: MAR 27 2013  
 NO. 42598 AND MODIFIED BY THE )  
 COMMISSION'S ORDERS IN CAUSE NOS. )  
 43298, 43885 AND 43967, AND 44092 )

ORDER OF THE COMMISSION

**Presiding Officers:**  
**Kari A. E. Bennett, Commissioner**  
**Aaron A. Schmoll, Senior Administrative Law Judge**

On December 21, 2012, 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"), in Cause No. 43885, dated September 8, 2010 and in Cause No. 43967, dated April 5, 2011. On January 9, 2013, Petitioner filed the prepared testimony and exhibits of James M. Francis and Scott E. Albertson constituting its case-in-chief. On February 20, 2013, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the testimony of Laura J. Anderson constituting its case-in-chief. On February 20, 2013, Petitioner filed its late-filed exhibit constituting copies of the Proofs of Publication of the notice of the filing of the Petition in this cause in newspapers of general circulation. On February 28, 2013 the Commission issued a Docket Entry directing Petitioner to respond to questions, to which Petitioner responded on March 5, 2013, with corrections to its previously filed exhibits.

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 March 12, 2013, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection. 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 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 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") 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 stabilized 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 and amortize the July 31, 2010 deferred balance in the PSA over a three-year period.

Petitioner's current PSA factors were placed in effect on April 6, 2012 pursuant to the Commission's Order in Cause No. 44092 ("2012 Order"), dated March 7, 2012 and reflect PSA costs deferred during the twelve-month period. The current PSA factors reflect actual incremental PSA Expenses deferred between August 1, 2010 and July 31, 2011; over-/under- recovery variances from prior Causes; and the amortization of the excess deferred PSA Expenses as of July 31, 2010 as provided in the 2011 Order. The 2012 Order also included approval of the Distribution Component subject to an annual cap of \$1,500,000, with prudently incurred DIMP Implementation expenses in excess of the \$1,500,000 cap to be eligible to be included and recovered in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap.

**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, 2011 and July 31, 2012; (b) over/under recovery variances from prior Causes; and (c) and the third year of the three-year amortization provided for in the 2011 Order.

**5. PSA Expenses.** James M. 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, 2011 through July 31, 2012. Mr. Francis stated that total incremental PSA Expenses during the period were \$7,297,310.

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; pipeline cleaning in preparation for in-line inspection, and corresponding in-line inspection tool runs and direct examination excavations; pipeline casing replacements and direct examinations; research and identification of pipeline segment specifications through the examination, removal and material testing of pipeline coupons; and hydrostatic testing of pipelines, regulator station piping and meter set piping. Mr. Francis testified that Petitioner completed the assessment of approximately five 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 implemented a new risk modeling application and updated the model with historical data collected through assessments since the inception of the Program. The implementation of enhanced preventative

and mitigative measures continues with improvements to many stations and equipment through security improvements, corrosion reduction measures, rehabilitation of above ground facilities through painting and structural integrity improvements, and installation of line markers. Additionally, the Petitioner testified to conducting monthly aerial surveys of its pipelines to spot potential third party activity and encroachments and acquired high-resolution aerial photography via flights of transmission pipeline corridors in efforts to expand data sets for risk model improvements. Finally, Petitioner is actively researching and managing identified encroachments to the pipeline rights-of-way.

Mr. Francis testified that the Program expenses from August 1, 2011 through July 31, 2012 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 \$7,297,310 are net of the non-incremental expenses of \$35,707.

Mr. Francis testified that the Act and DOT Rule required the initial baseline assessment period to be completed by December 17, 2012. The Petitioner had completed all of its baseline assessments prior to December 17, 2012. Mr. Francis stated that it is required to re-assess those pipelines assessed during the baseline assessment period, in compliance with the DOT rule, and some of the re-assessments have already been completed pursuant to the DOT Rule.

Mr. Francis testified that Vectren North had completed the development of its DIMP plan by August 2, 2011 as required in the DIMP final rule. The Petitioner has incurred incremental costs to comply with the DIMP rules since that date. As part of its implementation of its DIMP Plan, Vectren North completed the development of a DIMP risk model and identified accelerated actions to reduce system risk and enhance distribution system integrity. The Petitioner has conducted various record research activities to improve knowledge of the system as it relates to documentation of pipeline attributes, maximum allowable operating pressures, and system regulation. Under the DIMP program, Vectren North has implemented new inspection requirements for large commercial and industrial regulator stations to reduce and minimize threats related to equipment failure. Corrosion control system maps were converted into Vectren North's GIS, which will provide better access to the pipeline system data and enhance the process for system evaluation as it relates to corrosion of steel pipe, and will also support the evaluation of the bare steel and cast iron pipes. Vectren North's DIMP team has also implemented software applications to support evaluation and prioritization of distribution main replacements. Finally, Vectren North has implemented a process to capture information such as plastic pipe failures, mechanical fitting failures and other items to support reporting requirements and to further enhance evaluation and implementation of accelerated actions to reduce risk.

Mr. Francis also explained the on-going category of costs in the DIMP Implementation Plan as being Program Management, Field Related Work Activities and Data Collection. Program Management will be the incremental labor resources such as internal management, contract engineering and data management. Field Related Work Activities will include items such as new programs, additional patrols, leak surveys, inspections, public education and remediation. Data Collection consists of gathering additional information about the Company's assets. This may occur using incremental contracted resources to collect asset data or existing field personnel to collect data while completing routine maintenance and operating tasks. Only expenses for those resources that are incremental will be included for recovery in the PSA. Petitioner's total incremental DIMP Implementation Expenses incurred from August 1, 2011 through July 31, 2012 were \$600,493.

Mr. Francis also provided an update on Petitioner's maintenance activities during the period from September 1, 2011 through August 31, 2012 as discussed in the Settlement Agreement approved

in Cause No. 43298. These activities included gas storage, distribution, regulator station, and meter maintenance. The Petitioner also completed logging (integrity assessment of well casings) of 19 storage field wells, the painting of one storage facility and 36 regulator stations, the clearance or maintenance (through mowing or spraying) of 504 miles of gas transmission or gas distribution rights-of-way, and pressure auditing of 753 meter settings.

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 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 an expense of \$5,777,659. This amount reflects (a) actual deferred expenses for the twelve months ending July 31, 2012 up to the annual cap of \$4,500,000 as provided for in Commission Order No. 43298; (b) \$777,360 for year three (3) of the three (3) year amortization of the remaining deferred balance at July 31, 2010; and (c) \$500,299 for the under-recovery through July 31, 2012.

Mr. Albertson testified that, as approved in Cause No. 44092, Petitioner has included DIMP expenses incurred through July 31, 2012 of \$588,324. This amount includes \$600,493 for actual deferred DIMP expenses for the twelve months ending July 31, 2012; and a \$12,169 refund of an over-recovery through July 31, 2012. 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. 43298, Petitioner’s most recent base rate case.

7. **Tariff Sheet.** Petitioner’s Exhibit No. SEA-3 CORRECTED contains Petitioner’s proposed Pipeline Safety Adjustment tariff sheet, Sheet No. 37, First Revised Page 2 of 2, 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)	\$0.0100 / therm	\$0.0011 / therm	\$0.0111 / therm
220/229	\$0.0065 / therm	\$0.0005 / therm	\$0.0070 / therm
225	\$0.0096 / therm	\$0.0007 / therm	\$0.0103 / therm
240	\$0.0034 / therm	\$0.0002 / therm	\$0.0036 / therm
245	\$0.0025 / therm	\$0.0002 / therm	\$0.0027 / therm
260	\$0.0012 / therm	\$0.0001 / therm	\$0.0013 / therm

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

8. **OUC’s Evidence.** Laura J. Anderson, Utility Analyst with the OUC, testified she reviewed Petitioner’s original filing, cross-checked Petitioner’s exhibits and calculations and verified Petitioner’s exhibits. Based on her review, Ms. Anderson stated 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. 44092.

9. **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 CORRECTED to become effective no earlier than April 6, 2013.

**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 and shall be effective for gas service on or after April 6, 2013.

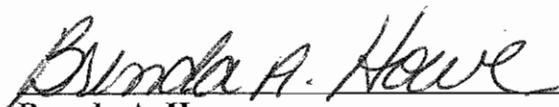
2. Prior to putting the PSA factors in effect, Petitioner shall file, under this Cause, an amendment to its tariff reflecting the approved PSA in the form of Petitioner's Exhibit No. SEA-3 CORRECTED.

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

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

**APPROVED: MAR 27 2013**

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

  
Brenda A. Howe  
Secretary to the Commission