

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, 43926, 44042 AND 44231, AUTHORITY)
TO EXTEND THE PIPELINE SAFETY)
ADJUSTMENT FOR A THREE-YEAR)
PERIOD FOR DEFERRAL AND RECOVERY)
OF INCREMENTAL PIPELINE SAFETY)
AND DISTRIBUTION INTEGRITY)
MANAGEMENT EXPENSES THROUGH)
MARCH 31, 2016, AMORTIZATION OF)
DEFERRED EXPENSES THROUGH)
MARCH 31, 2013 THAT HAVE NOT BEEN)
INCLUDED IN ANY PREVIOUS PIPELINE)
SAFETY ADJUSTMENT PROCEEDINGS,)
AND MODIFICATION TO THE ANNUAL)
CAP FOR PIPELINE SAFETY)
ADJUSTMENT TRANSMISSION)
EXPENSES.)

CAUSE NO. 44395

APPROVED:

DEC 18 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Greg Ellis, Administrative Law Judge

On September 16, 2013, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner" or "Vectren South" or "Company") 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"), Cause No. 44042, dated September 21, 2011 ("2011 Order") and Cause No. 44231, dated October 31, 2012 ("2012 Order").

Petitioner filed the prepared testimony and exhibits constituting its case-in-chief on September 17, 2013. Petitioner filed its late-filed exhibit on October 24, 2013. The Indiana Office of Utility Consumer Counselor (“OUCC”) filed the prepared testimony of its witness on October 17, 2013.

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 an Evidentiary Hearing was held in this Cause on November 6, 2013, at 9:30 a.m., in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of Petitioner and the 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.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Petitioner’s rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

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 (“Safety Act”) and the regulations of the United States Department of Transportation (“DOT Rule”) adopted thereunder. The Safety 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 Safety 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 levelized sufficiently to be included in base rates and any other related matters.

The 2010 Order 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 (“PHMSA”) (“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.

The 2011 Order authorized Petitioner to defer Distribution Component expenses for future recovery subject to an annual cap of \$400,000 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. Petitioner's current PSA factors were placed in effect pursuant to the 2012 Order and reflect incremental PSA costs deferred during the twelve month period ended March 31, 2012 and three year amortizations of the excess deferred balances as of March 31, 2010. The current PSA factors also included DIMP Ongoing Expenses through March 31, 2012. The Order also required that the Petitioner submit quarterly compliance filings beginning January 2013.

4. **Petitioner's Request.** In this Cause, Petitioner seeks approval of revised PSA factors to recover actual incremental costs deferred between April 1, 2012 and March 31, 2013 and reconciliation of over and under recoveries from prior periods. Petitioner also requests to continue the PSA through the filing for the twelve months ending March 31, 2016 and amortize the March 31, 2013 deferred balance over a three year period, and increase the annual cap on the incremental transmission expenses which may be included in the PSA to \$2,000,000.

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 Safety Act and DOT Rule. Mr. Francis stated that total incremental Program expenses during the period from April 1, 2012 through March 31, 2013 amounted to \$2,766,873.

Mr. Francis testified that during the period between April 1, 2012 and March 31, 2013, 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, one (1) hydrostatic pressure test with many pipeline retrofits for future in-line inspectability, one (1) in-line inspection deformation tool run, six (6) digs for External Corrosion Direct Assessment ("ECDA") indirect survey validation, six (6) station painting and rehabilitation projects, two (2) major station assessments that included major rebuilds for future inspectability, painted and rehabilitated seven (7) transmission valves and added bollards for protection, continued monitoring of encroachments, and many direct examinations. Preventive and mitigative measures such as monthly aerial patrols, regulator station painting and corrosion improvements were also completed. 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 testified that each activity in the Program required by the Safety Act and DOT Rule is incremental work. This work is being completed by a combination of contract resources and internal labor. Vectren South continues to incur incremental non-capital Program

expenses well above the \$1,000,000 cap established in Cause No. 43112. In the deferral period for this PSA filing, those expenses were \$2,766,873. In Vectren South's previous PSA filing in Cause No. 44231, those expenses were \$2,102,886. The average over the three year period of April 1, 2010 through March 31, 2013 is \$1.74 million. Mr. Francis testified that Vectren South's budgeted costs for Safety Act incremental non-capital expenses for the three year period ending March 31, 2016 are \$2,050,000 (period ending March 31, 2014), \$2,100,000 (period ending March 31, 2015), and \$2,100,000 (period ending March 31, 2016). He explained that Vectren South is proposing to increase the cap to \$2 million based on this historical experience as well as this projected level of costs going forward.

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. Vectren South has completed the baseline assessments as required and has commenced the re-assessment of those pipelines assessed during the baseline 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. This legislation may impact Petitioner's incremental pipeline safety O&M expenses and will require significant increased capital investments. It 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 described how the new requirement for installation of automated or remote controlled shut off devices ("ASV/RCV") will impact Vectren South. Mr. Francis described the installation, potential modification or reconfiguration of current infrastructure, and cost of the installations. Vectren South has 26 transmission valve locations that may need to be modified to allow for the ASV/RCV functionality with a cost that could range from \$100,000 to \$2,000,000 per installation. He also described how Vectren South expects that PHMSA will expand their definition of HCAs, which will increase the mileage required to be assessed from 7 to 35 miles as well as increase the operating and maintenance expenses needed to implement the additional assessment Program requirements on the expanded HCAs.

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 assessing the results of its DIMP risk model and identified accelerated actions to reduce system risk and enhance distribution system integrity. The Company has implemented new inspection requirements for large commercial and industrial regulator stations to reduce threats related to equipment failure as well as converting corrosion control system maps into the Company's Geographic Information System ("GIS"). This provides better access to the pipeline system data and enhances the process for evaluation. Vectren South has implemented a process to capture information to support reporting requirements and further enhance evaluation and implementation of accelerated actions to reduce risk.

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, 2012 through March 31, 2013 are \$259,088.

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 2012, and sponsored exhibits showing Distribution Replacement Program projects completed in 2012 and planned for 2013. With respect to Distribution Maintenance Programs, Mr. Francis identified programs completed during the 12 months ending March 31, 2013 which included clearing or maintenance of approximately 130 miles of gas transmission or distribution rights-of-way, 12 aerial patrols of transmission pipelines and the painting of 16 regulator stations.

6. **Derivation of PSA.** Shawn M. Kelly, Director, Regulatory Affairs for VUHI, testified about the derivation of Petitioner's proposed adjustments, the Company's proposal for the continuation of the PSA beyond March 31, 2013, the amortization of the deferred balance as of March 31, 2013, and a proposal to increase the annual caps. Mr. Kelly 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. Kelly testified Vectren South began submitting quarterly pipeline replacement program documentation as required in the 2012 Order.

Vectren South's incremental costs deferred during the 12-month period ending March 31, 2013 are \$2,766,873, or \$1,766,873 above the approved annual cap. The \$1,766,873 in unrecovered deferred annual expenses from the 2012-2013 program years is added to \$1,102,885 in unrecovered deferred incremental expenses for the 2011-2012 program years. This equals a total unrecovered deferred expense amount as of March 31, 2013 of \$2,869,758, which Petitioner proposes to amortize over the next three annual PSA filings in the amount of \$956,586. Also, Vectren South proposes that the 2013 Amortization Amount be considered incremental to the annual cap (i.e. this amount does not count toward expenses that are deferred in each twelve month period that may be recovered under the annual cap) consistent with the treatment of 2007 and 2010 Amortization Amounts in prior PSA proceedings. The 2013 Amortization Amount will be included in the PSA for only three (3) years.

Mr. Kelly 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 \$1,934,437. This amount reflects (a) actual deferred expenses for the twelve months ending March 31, 2013, up to the annual cap of \$1.0 million; (b) proposed amortization of the deferred balance at March 31, 2013; and (c) refund of an over-recovery through March 31, 2013. Mr. Kelly said the currently effective PSA is expected to remain in effect through November 4, 2013 to allow Petitioner to fully recover the costs approved in the 2012 Order. He

explained that the projected recoveries for the period April 1 through November 4, 2013 (\$309,408) have been deducted from costs proposed for recovery in this proceeding.

Mr. Kelly testified about the Company's efforts to comply with the Safety Act and DOT Rules and additional Federal legislation. Vectren South believes it is appropriate to continue the PSA for an additional three (3) years through the annual filing for the 12 months ending March 31, 2016. Vectren South also believes a review of the PSA should occur after that three year period. Further, Vectren South may, in the future, consider a filing pursuant to Ind. Code ch. 8-1-8.4. Inasmuch as costs recoverable in the PSA are incurred pursuant to federal mandates, the Company may also propose that the PSA and a recovery mechanism under Ind. Code ch. 8-1-8.4 be merged so that the Company does not have two separate, yet similarly purposed, recovery mechanisms in place. Mr. Kelly stated that should the Company make such a proposal, it will work with the OUCC on a plan to transition costs currently recoverable in the PSA to a new mechanism.

Mr. Kelly testified that Vectren South is proposing an increased annual cap for the Transmission Component of the PSA from \$1 million to \$2 million for the period April 1, 2013 through March 31, 2016 which considers the annual incremental compliance expenses incurred recently, as well as expected incremental expenses going forward. He noted that Vectren South has reviewed the PSA with the OUCC and the parties agree that it is appropriate that the PSA be extended for a three year period and that it is appropriate to amortize costs which have exceeded the annual cap, and were therefore not included for recovery in the PSA during the most recent three year period. He also noted that while the OUCC agrees the cap should be increased, it did not agree to an increase up to \$2 million.

Mr. Kelly testified the PSA factors also include a Distribution Component for recovery of DIMP Implementation Expenses as approved in the 2010 Order. The total costs to be recovered in the Distribution component in this filing are \$253,974 and they were incurred from April 1, 2012 through March 31, 2013. These expenses were allocated to the rate schedules based on the distribution operation and maintenance ("O&M") allocators from the cost of service study filed in Cause No. 43112, Petitioner's most recent base rate case. The projected recoveries for the period of April 1 through November 4, 2013 (\$35,467) are deducted from costs proposed for recovery in this proceeding.

7. **Tariff Sheet.** Petitioner's Exhibit SMK-3 contains Petitioner's proposed PSA tariff sheet, Sheet No. 37, Ninth Revised Page 1 of 2 and Second 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)
110	\$0.0210	\$0.0030	\$0.0240
120/125/129/145	\$0.0082	\$0.0009	\$0.0091
160	\$0.0029	\$0.0003	\$0.0032
170	\$0.0003	\$0.0000	\$0.0003

8. **OUCC's Evidence.** OUCC Witness Laura J. Anderson testified that she reviewed Petitioner's filing, cross-checked Petitioner's exhibits and calculations and verified the data in Petitioner's exhibits. Ms. Anderson testified that, based on her 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, she recommended approval of the separate and combined transmission and distribution components as reflected in Petitioner's Exhibit SMK-3. Ms. Anderson also recommended continuation of the PSA for an additional three years through the annual filing for the 12 months ending March 31, 2016. She also noted that the OUCC agreed with Vectren South's proposal to amortize the March 31, 2013 deferred balance over the three year PSA continuation period.

Ms. Anderson indicated that the OUCC did not agree with Vectren South's proposal to increase the Transmission Component annual cap to \$2 million. Ms. Anderson testified that given the uncertainty in proposed regulatory changes impacting future PSA costs, the OUCC believes a historic average is a better indicator of expected costs. Further, Ms. Anderson stated the benefit of the cap is to provide an incentive to contain costs as much as reasonably possible. Ms. Anderson calculated the average annual PSA expense over the last five years at \$1,424,686, and proposed an annual cap of \$1.5 million based on the five-year historical average.

9. **Discussion and Findings.** Based upon the evidence presented, the Commission finds the PSA should be extended for an additional three years through the twelve months ending March 31, 2016 and that it is appropriate to amortize costs which have exceeded the annual cap, and were therefore not included for recovery in the PSA during the most recent three year period with a review of the PSA at the conclusion of the extension period. The extension will allow Petitioner the ability to recover costs necessary to continue its compliance with the Safety Act.

We the OUCC's proposal to increase the annual cap for incremental non-capital transmission expenses to \$1.5 million is based on a five-year historical costs average that are fixed, known, and measureable whereas Petitioner's proposal to increase the cap to \$2.0 million is based on projected future costs that result from proposed regulations by PHMSA. We find the increase in the annual cap for incremental non-capital transmission expenses should be based on a historical average that provides a better indicator of expected costs and not an amount that is based on projections for complying with proposed regulations. Should PHMSA implement regulations resulting in significant cost increases, Petitioner may request a cap increase in a future docketed proceeding. Therefore, Petitioner's annual Transmission Component cap shall be increased to \$1.5 million for the period April 1, 2013 through March 31, 2016.

The Commission further 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 SMK-3 upon filing with and approval by the Natural Gas Division of the Commission.

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

1. Petitioner is hereby authorized to continue the PSA mechanism through the filing for the twelve month period ending March 31, 2016. Petitioner shall amortize the March 31, 2013 deferred balance in the PSA over a three year period.

2. Petitioner is hereby authorized to implement an annual Transmission Component cap of \$1.5 million for actual deferred transmission expenses for the period April 1, 2013 through March 31, 2016.

3. Petitioner's proposed PSA factors as set out in this Order are approved and shall be effective for gas service upon approval by the Natural Gas Division of the Commission. 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 SMK-3.

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

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

APPROVED

DEC 18 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