

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA GAS)
COMPANY, INC. D/B/A VECTREN ENERGY)
DELIVERY OF INDIANA, INC. FOR (1))
APPROVAL OF AN ADJUSTMENT TO ITS)
RATES THROUGH ITS COMPLIANCE AND)
SYSTEM IMPROVEMENT ADJUSTMENT)
APPROVED IN CAUSE NO. 44429, (2))
APPROVAL OF CERTAIN PROJECTS AS)
RURAL EXTENSIONS, AND (3) APPROVAL)
OF PETITIONER'S UPDATED 7 YEAR)
PLAN, INCLUDING ACTUAL AND)
PROPOSED ESTIMATED CAPITAL)
EXPENDITURES AND CSIA COSTS, ALL)
PURSUANT TO IND. CODE CHPT. 8-1-8.4)
AND 8-1-39 AND THE COMMISSION'S)
ORDER IN CAUSE NO. 44429)

CAUSE NO. 44430 TDSIC 1

APPROVED:

JAN 14 2015

ORDER OF THE COMMISSION

Presiding Officers:
Carol A. Stephan, Commission Chair
Loraine L. Seyfried, Chief Administrative Law Judge

On October 1, 2014, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner" or "Vectren North") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") for (a) approval of Compliance and System Improvement Adjustment ("CSIA") charges associated with complying with federal mandates ("Compliance Projects") and to improve safety, reliability, or modernization of its gas pipeline systems ("TDSIC Projects"), (b) approval of deferral of 20% of the revenue requirement on recoverable Compliance Projects and TDSIC Projects, (c) approval of gas extension projects to rural areas in accordance with Ind. Code § 8-1-39-11, (d) approval of an update to Petitioner's seven-year plan for eligible Compliance Projects and TDSIC Projects (collectively the "7-Year Plan") approved by the Commission's August 27, 2014 Order in Cause No. 44429, and (e) approval of adjustment to Petitioner's authorized net operating income to reflect any approved earnings for purposes of Ind. Code § 8-1-2-42(g)(3).

On October 2, 2014 Petitioner pre-filed the verified testimony, exhibits, and attachments of James M. Francis, Director of Engineering & Asset Management for Vectren Utility Holdings, Inc. ("VUHI"); Thomas L. Bailey, Director of Sales for VUHI; J. Cas Swiz, Director of Regulatory Implementation and Analysis for VUHI; and Shawn M. Kelly, Director of Regulatory Affairs for VUHI.

On October 20, 2014, Tate & Lyle Ingredients Americas, Inc. and USG Corporation (jointly, “Industrial Group”) filed a Petition to Intervene, which was granted by the Presiding Officers. On November 26, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony of Edward T. Rutter, Utility Analyst in the Resource Planning and Communications Division, and Heather R. Poole, Senior Utility Analyst in the Natural Gas Division. Also on November 26, 2014, Vectren North filed corrections to the attachments of the direct testimony of Mr. Francis. On December 4, 2014, Vectren North filed rebuttal testimony and exhibits. On December 12, 2014, a Docket Entry was issued requesting that Vectren North and the OUCC respond to questions, to which Vectren North responded on the same day, and the OUCC responded on December 15, 2014. Vectren North filed revised rebuttal testimony of Mr. Kelly on December 12, 2014.

A public evidentiary hearing was held on December 15, 2014, at 1:30 p.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Vectren North and the OUCC presented their respective evidence without objection, and offered witnesses for cross-examination. No member of the public appeared or participated at the hearing.¹

Based upon the applicable law and the evidence presented, the Commission 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) and 8-1-29-4 and an energy utility as defined in Ind. Code § 8-1-2.5-2. Under Ind. Code §§ 8-1-39-10 and -11, the Commission has jurisdiction over a public utility’s seven-year plan for eligible transmission, distribution, and storage improvements, including targeted economic development projects (“TEDs”) and extension of gas service in rural areas. Under Ind. Code chs. 8-1-8.4, 8-1-39, and Ind. Code § 8-1-2-42, the Commission has authority over certain changes to Petitioner’s rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner’s Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner’s principal office is located at One Vectren Square, Evansville, Indiana. Petitioner renders natural gas utility service to the public in the State of Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

3. **Background and Relief Requested.** The Commission’s Order in Cause No. 44429 (consolidated with Cause No. 44430) on August 27, 2014 (“44429 Order”), held:

(1) Petitioner’s Compliance Projects in the 7-Year Plan are compliance projects

¹ After the evidentiary hearing, Petitioner and the OUCC submitted a Joint Proposed Order containing an agreement reached between the two parties concerning Petitioner’s recovery of certain costs incurred prior to January 1, 2014. However, at the time of the submission, the record in this proceeding was closed and no request to reopen the record was made. 170 IAC 1-1.1-17 authorizes the filing of settlement agreements for receipt into evidence as part of the record and requires settlements to be supported by probative evidence. Because the settlement agreement has not been submitted into evidence, the Commission does not address the parties’ agreement. If the parties desire the Commission to consider their agreement, they may choose to submit their agreement in Petitioner’s next TDSIC filing.

undertaken to comply with federally mandated requirements;

- (2) the TDSIC Projects contained in the first year of Petitioner's 7-Year Plan are "eligible transmission, distribution, and storage system improvements" within the meaning of Ind. Code § 8-1-39-2;
- (3) the TDSIC Projects contained in years two through seven of the 7-Year Plan are presumed "eligible transmission, distribution, and storage system improvements" within the meaning of Ind. Code § 8-1-39-2, subject to further definition and specifics being provided through the plan update proceedings;
- (4) the 7-Year Plan is reasonable and approved;
- (5) Petitioner is authorized to implement its CSIA rate schedule to recover 80% of the revenue requirement on eligible and approved project investments;
- (6) Petitioner's proposed method of calculating a pretax return is approved;
- (7) the TDSIC Projects' and Compliance Projects' post-in-service costs may be deferred, with carrying costs, until such costs are recovered through the CSIA or otherwise included for recovery in base rates through the next general rate case;
- (8) the CSIA may be assessed to residential customers as a fixed monthly charge;
- (9) Petitioner may defer 20% of the revenue requirement on the 7-Year Plan's eligible and approved capital expenditures;
- (10) Petitioner is authorized to merge its approved pipeline safety adjustment with the CSIA;
- (11) Petitioner is authorized to adjust its net operating income to reflect approved earnings associated with the CSIA; and
- (12) Petitioner's proposed process for updating the 7-Year Plan in future CSIA adjustment proceedings is approved.

In this proceeding, Petitioner requests approval of (1) CSIA charges associated with 80% of the revenue requirement on the Compliance Projects and TDSIC Projects, (2) deferral of 20% of the revenue requirement on recoverable Compliance Projects and TDSIC Projects, (3) certain rural extensions, (4) an update to the 7-Year Plan, and (5) an adjustment to Petitioner's authorized net operating income to reflect approved earnings for purposes of Ind. Code § 8-1-2-42(g)(3).

4. Commission Discussion and Findings Regarding 7-Year Plan. Ind. Code § 8-1-39-9(a) requires a utility to update its 7-Year Plan as a component of TDSIC periodic automatic adjustment filings. As we noted in the 44429 Order, the statute is silent as to what should be included in the update. The same is true with regard to the adjustment mechanism under Ind. Code ch. 8-1-8.4. Therefore, we review Petitioner's updated 7-Year Plan by applying

the framework of requirements set forth in Ind. Code § 8-1-39-10(b) and established in the 44429 Order. Specifically, the 44429 Order at page 21 required,

[t]he September filing shall provide project detail similar to Year 1 of the original TDSIC Plans for the next upcoming year of the 7-Year Plans. Petitioners shall also update the estimated required annual expenses for the remaining years of the 7-Year Plans, including the amount for the rural gas extensions segment....We also find it reasonable that in updating the 7-Year Plans, Petitioners shall continue to refresh their prioritization analyses as new information about the system becomes available. As the factors driving the analyses change, the risk profile of Petitioners' system will also change which will require adjustments to equipment and project ranking.

The 44429 Order also encouraged Petitioner to meet with the OUCC and other interested stakeholders to discuss the upcoming tracker filing and identify all variances from the approved 7-Year Plan.

A. Stakeholder Meeting. Mr. Francis testified that pursuant to the 44429 Order, Petitioner met with interested stakeholders at least eight weeks before the TDSIC filing to discuss it and identify changes from the approved 7-Year Plan. Petitioner met with the OUCC on July 22, 2014 and provided the OUCC with projected investments for the 7-Year Plan as well as engineering and completed third-party reviews for projects planned for 2015 ("Year 2").

B. Petitioner's Investments and Expenses. Mr. Francis described the activities Petitioner has undertaken and costs needed to comply with federal mandates, including those pursuant to the transmission integrity management program ("TIMP") and distribution integrity management program ("DIMP") rules.

Mr. Francis testified that prior to June 30, 2014 ("TDSIC-1 Period") Vectren North invested \$21,477,622 in Compliance Projects, and also provided a summary of these investments. The operation and maintenance ("O&M") expenses associated with Compliance Projects for Petitioner during the TDSIC-1 Period were \$3,066,473. Mr. Francis testified that these incremental expenses were formerly recovered through Petitioner's pipeline safety adjustment mechanism. He also described the TIMP, DIMP, and other activities undertaken by Petitioner for Compliance Projects during the TDSIC-1 Period which caused O&M expenses.

Mr. Francis described the Petitioner's TDSIC Projects during the TDSIC-1 Period and indicated that Petitioner had invested \$12,894,156 during the TDSIC-1 Period in TDSIC Projects and provided a summary of those projects. Mr. Francis testified about the benefits associated with the projects completed or in-progress as part of Petitioner's 7-Year Plan, including reduced leaks, reduced interruptions, reduced risk on the system, enhanced safety, operational efficiency, and improved reliability.

Mr. Bailey testified that no approved TED investments were made in the TDSIC-1 period. He explained that several outstanding engineering, environmental, and legal issues remain for the TED project at Vermillion Rise. Due to these outstanding issues, Petitioner will not spend the dollars anticipated in the 7-Year Plan in 2014, which were estimated at

approximately \$4.5 million. Other TED projects have also not yet commenced.

As part of its case-in-chief, Petitioner attached its currently approved 7-Year Plan, which was approved in the 44429 Order, as well as its proposed updates. Therefore, Petitioner has satisfied the requirements set forth in the 44429 Order.

C. Petitioner's Updated 7-Year Plan. Mr. Francis described Petitioner's updates to the 7-Year Plan to reflect updates from TIMP and DIMP as well as additional information impacting other elements of the 7-Year Plan. The updated 7-Year Plan is largely consistent with the 7-Year Plans approved in the 44429 Order and contains updates of cost estimates for the 2014 projects, a comprehensive overview of all proposed projects, by project category, and a detailed project list and cost estimates for Year 2 projects. The updated 7-Year Plan also contains a revised risk ranking of Petitioner's transmission and distribution assets. Mr. Francis stated that Petitioner had reprioritized its Compliance Projects and TDSIC Projects as a result of continued risk modeling.

Mr. Francis testified that other factors driving changes to the 7-Year Plan include emergent projects, customer growth, demand for construction resources, and other external factors such as the timing of receiving permits and weather. He explained that the primary changes to Petitioner's compliance plans were driven by emergent projects, such as remediation of a shorted casing. Mr. Francis testified that the primary changes to the Petitioner's TDSIC plans were driven by additional system improvement projects identified through a gas system analysis as a result of customer growth and pressure issues identified as a result of the past winter.

Mr. Francis explained that several factors led to increases in TIMP O&M expenses in Petitioner's compliance plans. First, the completion of the maximum allowable operating pressure ("MAOP") study in March 2014 identified additional segments that require pressure testing under Petitioner's risk model and per federal requirements in 49 CFR 192. Second, Petitioner used the opportunity presented by the additional pressure testing to inspect certain segments with in-line inspection tools to promote efficiency and avoid duplicating efforts. Third, costs were included for additional data gathering and system updates to support MAOP studies. Other O&M cost increases were associated with the Operator Qualification requirements contained in 49 CFR 192, Subpart N.

Mr. Francis identified some O&M costs that have been removed from the 7-Year Plan, including removal of three damage prevention specialists throughout its service territory. Petitioner also identified less field related remediation activity associated with facilities that cannot be located. Costs associated with these resources and activities have been removed from the 7-Year Plan and result in a reduction of O&M expenses of approximately \$4,100,000 over the seven-year period.

Mr. Bailey testified that Petitioner did not expect to spend capital dollars in 2014 for economic development as set forth in the original 7-Year Plan. He also said that there would be minor changes to both economic development and rural expansion, and starting in 2016 Petitioner has increased the 7-Year Plan to compensate for reduced spending on TEDs in 2014. However, Mr. Bailey testified that the total TED capital investment for the seven-year period

was unchanged in the updated 7-Year Plan.

OUCC witness, Mr. Rutter, recommended approval of Petitioner's updated 7-Year Plan. However, he recommended that certain discrepancies be resolved between the filed exhibits and some of the support documentation provided to the OUCC. Petitioner filed updated schedules that made corrections to its exhibits that addressed Mr. Rutter's concerns. Mr. Francis' rebuttal testimony explained that Mr. Rutter's other concerns were not discrepancies, but attributable to (1) updates to reflect Petitioner's current overhead rates or (2) cost estimates that also included O&M costs that should not be included in the estimated capital costs of the 7-Year Plan.

Based upon our review of the evidence of record, we find that Petitioner's updated 7-Year Plan is reasonable and that Petitioner has provided sufficient support for the estimate of the cost of the eligible improvements included in the updated 7-Year Plan, as well as the projected effects of the updated 7-Year Plan on retail rates and charges. The evidence demonstrates that the public convenience and necessity continues to require the eligible improvements and the estimated costs are justified by the incremental benefits. We further find that Petitioner has defined the upcoming 2015 projects sufficiently to be deemed as eligible for TDSIC and CSIA treatment. Therefore, based upon the evidence presented in this proceeding, and consistent with Ind. Code § 8-1-39-10 and our findings in the 44429 Order, we find that the updated 7-Year Plan includes the best estimate of the cost of the eligible improvements for Year 2 and the updated 7-Year Plan is reasonable.

D. Rural Extensions. Ind. Code ch. 8-1-39 includes provisions that are intended to promote the extension of service by gas utilities into rural areas. Ind. Code § 8-1-39-2(1) defines an eligible transmission, distribution, and storage system improvement to include new or replacement gas transmission or distribution projects to extend gas service to rural areas. Including rural extensions in this definition renders 80% of the associated capital expenditures eligible for recovery through the CSIA and remaining expenditures (i.e., 20%) eligible for deferral. Additionally, Ind. Code § 8-1-39-11(c) authorizes extension of gas service to rural areas without requiring a deposit from prospective customers if the extension of service results in a positive contribution to the utility's overall cost of service over a 20-year period.

Petitioner estimated the cost of specific rural extensions over the course of the 7-Year Plan at approximately \$13.2 million. The 44429 Order defines a "rural area" as (1) areas that are unincorporated and (2) incorporated areas that could not otherwise receive natural gas service and are approved by the Commission. Mr. Bailey testified that Petitioner anticipates pursuing four rural extensions in unincorporated areas in the next 12 months. He also requested that the town of Lizton be considered a rural extension project, although it is an incorporated area, because it could not receive gas service absent the application of a 20-year margin test. He said if Lizton is not considered a rural extension, the residents wishing to obtain gas service would be required to pay for a substantial cost of the extension. Mr. Bailey explained this contribution would be a particular hardship in Lizton, where the median worker income is below the national average. Additionally, the residents of Lizton would benefit from the ability to switch from propane to natural gas service.

No party opposed treating Lizton as a "rural area." Based on Mr. Bailey's testimony regarding the population of Lizton, the benefits to Lizton customers from the availability of

natural gas service, and the importance of the 20-year test to support service extension to Lizton, we approve Petitioner's request to include Lizton as a rural area for purposes of Ind. Code ch. 8-1-39.

5. Commission Discussion and Findings Regarding Revenues and Rates. The 44429 Order granted Petitioner accounting authority for, and subsequent recovery of, costs specific to the 7-Year Plan. The accounting authority includes the timely recovery within the CSIA of 80% of the revenue requirement associated with the 7-Year Plan capital investments and O&M expenses, and deferral of the remaining 20% of the revenue requirement until Petitioner's next base rate case.

Petitioner proposes the following ratemaking and accounting treatment, in accordance with the 44429 Order:

- (1) Authorization of the eligible revenue requirement amounts as of June 30, 2014, inclusive of the Compliance and TDSIC component amounts associated with:
 - a. capital investment in eligible projects, both completed and under construction;
 - b. financing costs incurred on projects during construction;
 - c. post-in-service carrying costs on eligible complete projects; and
 - d. deferred Compliance Project-related O&M expenses, projected incremental depreciation, and property tax expenses.
- (2) Recovery, via the CSIA, of 80% of the eligible revenue requirement amounts as of June 30, 2014.
- (3) Deferral of 20% of the eligible revenue requirement amounts as of June 30, 2014, for subsequent recovery in a base rate case

As noted above, Petitioner filed its Petition for approval of CSIA rates and charges on October 1, 2014. Petitioner has not filed a similar petition within the prior six-month period. Mr. Francis attached a copy of Petitioner's updated 7-Year Plan as part of its evidence in this proceeding. Mr. Kelly utilized the customer class revenue allocation factor based on firm load approved in its most recent retail base rate case order as approved in the 44429 Order. He also included schedules identifying the projected effects of the 7-Year Plan on Petitioner's retail rates and charges. Based on the evidence presented, we find that Petitioner has satisfied the requirements of Ind. Code § 8-1-39-9 to file a petition allowing automatic adjustments through the CSIA.

A. Billing Period. In this proceeding, Petitioner requests approval of CSIA charges to be applicable and made effective on January 1, 2015 and remain in effect until replaced by different charges in a subsequent CSIA filing to effectuate the timely recovery of 80% of TDSIC and Compliance Project costs incurred in connection with the 7-Year Plan. As approved in the 44429 Order, residential customers receiving service under Rate 210 will pay a fixed CSIA charge each month. All other rate schedules will pay a volumetric (per therm) CSIA rate.

In Cause No. 44429, Petitioner proposed that semi-annual CSIA filings be filed on September 1 and March 1 of each year. However, due to the timing of the issuance of the 44429

Order, the Commission recognized this may not be practicable and instructed Petitioner to consult with the parties in that Cause and notify the Commission of alternative agreed upon filing dates. The parties agreed to a filing deadline of October 1, 2014, and Petitioner filed the notice of CSIA filing date on September 25, 2014. Going forward, consistent with the Commission's finding in the 44429 Order, Petitioner plans to file its TDSIC petition and case-in-chief every six months, on or before October 1 and April 1 of each year, with new CSIA charges becoming effective on January 1 and July 1, respectively. There will be no change to the reconciliation period in each filing; the October filings will recover costs incurred through June of the same year and the April filings will recover costs through December of the previous year. The following table summarizes the procedural schedule:

Filing Date	Update Actual Costs Incurred Through	Implement Updated CSIA
October 1	June 30	January 1
April 1	December 31	July 1

We find that Cause No. 44430 TDSIC 1 was filed in accordance with the 44429 Order and the proposed procedural schedule going forward is reasonable.

B. Semi-Annual Revenue Requirement. Mr. Swiz testified about how Petitioner calculated the CSIA in this filing. He stated the revenue requirement for both the Compliance Projects and TDSIC Projects include the return on new capital investments, incremental property tax and depreciation expenses, and recovery of the regulatory assets recorded through the deferral of O&M expense, the interim deferral of depreciation expense, and post-in-service carrying costs. Petitioner then multiplied the total annual revenue requirement by 80% to achieve the recoverable portion of the revenue requirement for TDSIC-1. This total recoverable amount will be utilized to derive semi-annual rates based on annualized billing determinants.

Petitioner's Exhibit No. 3, Attachments JCS-1, JCS-2, and JCS-3 shows the detail calculations of the underlying revenue requirements as of June 30, 2014 related to eligible Compliance and TDSIC Project costs, both recoverable in the Petitioner's CSIA and deferred. Mr. Swiz also provided detailed schedules of the return on new capital investment and incremental expenses, as well as the accumulated depreciation and construction work in progress balances attributed to the new capital investments as of June 30, 2014.

Mr. Swiz explained the process used to segregate and record the capital costs of the 7-Year Plan during and at completion of construction. He stated that the requirements of the Federal Energy Regulatory Commission Uniform System of Accounts were followed in recording project construction costs. Mr. Swiz also explained the capitalized overheads included in the construction costs and the allowance for funds used during construction.

In accordance with Ind. Code § 8-1-39-14(a), the Commission may not approve a CSIA that would result in an average aggregate increase in a public utility's total retail revenues of more than 2% in a 12-month period. Mr. Swiz sponsored Petitioner's Exhibit No. 3, Attachment JCS-3, Schedule 8 showing that there is no amount in excess of 2% of retail revenues for the past 12 months. Based on this evidence, we find that Petitioner's proposed CSIA charges will not

result in an average aggregate increase in Petitioner's total retail revenues of more than 2% in a 12-month period.

OUCC witness, Ms. Poole, testified in favor of approving Petitioner's request to recover 80% and defer 20% of the calculated revenue requirement on recoverable Compliance Projects and TDSIC Projects, with modifications. Ms. Poole testified that the 44429 Order, at page 16, states "Vectren North's TDSIC Plan includes an estimated \$230.7 million of capital improvement projects over calendar years 2014 through 2020." Ms. Poole stated that this language provides that costs are eligible for recovery on a calendar year basis starting with the year 2014. Therefore, Ms. Poole recommended exclusion of any costs incurred prior to January 1, 2014. Including removal costs, she quantified pre-January 1, 2014 costs at \$5,041,660.

On rebuttal, Petitioner's witness Mr. Francis testified that many of the approved projects for 2014 required preliminary costs, such as those for engineering, design, material acquisition, easement acquisition, and permitting, which needed to be undertaken in 2013 in order to complete the projects in 2014. These costs amounted to approximately \$2.5 million. In some instances, Petitioner did begin construction in 2013 so that it could place the asset in service in 2014. Mr. Francis testified that often the timing of these projects was dictated by a third party, especially where a public improvement project was being undertaken. In these cases, Petitioner could not have completed these projects by applicable deadlines in 2014 without incurring some costs in 2013.

The Commission's 44429 Order approved Petitioner's 7-Year Plan, which identified projects to be completed in 2014. The OUCC did not dispute that these projects qualify for inclusion, only that certain costs should be excluded because they occurred prior to January 1, 2014. However, Vectren North indicated that many of the approved projects required preliminary costs and other activities that needed to be undertaken in 2013 to complete the approved projects in 2014. As the Commission approved those projects, we find that it is reasonable to permit the preliminary costs to be reflected in the CSIA.

Based on the evidence presented, we find that Petitioner's request to begin earning a return on the value of the eligible TDSIC and Compliance Projects incurred through June 30, 2014, as presented in the 7-Year Plan, complies with the tracker authority approved in the 44429 Order and should be approved subject to our findings herein. We further find that Petitioner's proposed total revenue requirement has been calculated in compliance with the tracker methodology approved in the 44429 Order and should be approved. Under Ind. Code chs. 8-1-39 and 8-1-8.4, only 80% of this revenue requirement is recoverable in the Petitioner's CSIA mechanism. As noted in the rebuttal testimony of Mr. Swiz, the collection of 80% of the revenue requirement is, in order of priority, the full return on the investments, including the full equity and debt return and then eligible operating expenses. The collection priority will not impact the total amount authorized in this Order for immediate recovery in the CSIA, nor the amount deferred and authorized for future recovery in a base rate proceeding.

C. Authorized Net Operating Income. In accordance with the 44429 Order, Mr. Swiz testified that Petitioner will adjust its statutory net operating income ("NOI") earnings test by increasing its authorized NOI by incremental earnings from approved CSIA filings. OUCC witness Ms. Poole found no errors in Petitioner's methodology of calculating the

adjustment to authorized NOI but did recalculate the adjustment due to exclusions she was recommending.

Based on the evidence in record, we find that Petitioner has properly calculated the after-tax return on investment that will be added to the authorized NOI. Therefore, effective with the approved rates in this Cause, Petitioner will adjust its authorized NOI by \$1,530,387 for the CSIA and \$787,522 for the TDSIC.

D. Reconciliations. Mr. Swiz testified Petitioner is not including a reconciliation of revenues and costs in this filing as this is the first filing for this mechanism and no previous CSIA rates and charges were in effect. Petitioner will include testimony in future CSIA filings explaining its proposed treatment of variances and will discuss its methodology of allocating and recovering variances with the OUCC at the eight-week pre-filing meeting.

E. Rate Schedule Allocation. Mr. Kelly stated that costs are allocated based on the margin allocation percentages from Petitioner’s most recent rate case in Cause No. 43298, as adjusted to directly allocate costs to Rate 270 in accordance with the 44429 Order. In this filing, Petitioner does not propose to modify the rate schedule allocation percentages, but does propose a modification to the rounding of those percentages since they currently total 100.0001%. To eliminate this rounding issue, Petitioner is requesting approval in this filing and future TDSIC proceedings to round the rate schedule allocation percentages to two decimal places as follows:

<u>Rate Schedule</u>	<u>Allocation Percentage approved in Cause No. 44429</u>	<u>Proposed Allocation Percentage</u>
210	69.1132%	69.11%
220/229	19.3868%	19.39%
225	0.6014%	0.60%
240	0.3772%	0.38%
245	3.4730%	3.47%
260	5.1204%	5.12%
270	1.9281%	1.93%

We find Petitioner’s request to be reasonable and in keeping with the methodology outlined in the 44429 Order. Therefore, Petitioner’s rate schedule allocation percentages shall be modified as set forth above.

6. Compliance Filings. In Cause No. 43298, we found that Vectren North should file with the Commission, on a quarterly basis, work orders that indicate upcoming projects and budget amounts, and completion verification upon the conclusion of the listed work, to update the Commission on the progress of the replacement of bare steel and cast iron mains. The OUCC recommended approval of Petitioner’s request to file all replacement program compliance filings under this tracker proceeding annually.

Since Petitioner will be providing information similar to that currently filed under Cause No. 43298 in this proceeding, we find that it would be redundant to file the quarterly pipeline

replacement program documentation under Cause No. 43298. Therefore, Petitioner shall no longer be required to make replacement program compliance filings under Cause No. 43298 and such filings shall instead be included with each April TDSIC filing in order to allow Petitioner to include a full calendar year of information.

7. **Interim Rates.** The OUCC filed a Notice of Appeal challenging components of the 44429 Order. Ms. Poole testified the OUCC has on-going concerns relating to the Commission's decisions that (1) Petitioner is not required to net the assets constructed pursuant to the 7-Year Plan with assets being retired and (2) approval of a fixed CSIA charge for residential customers. Ms. Poole stated that the OUCC requests that any rate increase approved in this CSIA be interim and subject to refund. In rebuttal, Vectren North witness Mr. Kelly testified that Petitioner consented to making the CSIA rates and charges interim and subject to refund with regard to the OUCC's contentions that Petitioner's assets constructed pursuant to the 7-Year Plan should be netted with assets being retired. In post-hearing filings, the OUCC withdrew its request for interim rates with respect to approval of a fixed CSIA charge for residential customers. Accordingly, we find the rates and charges approved in this CSIA proceeding are interim and subject to refund to reflect any judicial decision arising from the OUCC's appeal that requires a change in the treatment of rate base reflected in the CSIA.

8. **Confidential Information.** Petitioner filed a Motion for Protection of Confidential and Proprietary Information on November 25, 2014, which was supported by affidavit showing documents to be submitted to the Commission were trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2. The Presiding Officers issued a Docket Entry on December 1, 2014 finding such information to be preliminarily confidential, after which such information was submitted under seal. We find all such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. The Compliance Projects are compliance projects undertaken to comply with federally mandated requirements within the meaning of Ind. Code ch. 8-1-8.4.

2. Year 2 of the 7-Year Plan constitutes eligible transmission, distribution, and storage system improvements within the meaning of Ind. Code § 8-1-39-2.

3. Petitioner's updated 7-Year Plan, including the updated project lists and project cost estimates for 2014 and 2015 and the updated annual projected spends for the remaining years of the 7-Year Plan, is hereby approved. Petitioner is hereby authorized to recover 80% of the costs incurred in connection with the updated 7-Year Plan through the CSIA and to defer 20% of the costs incurred, including ongoing carrying charges on all deferred costs, for recovery in its next general rate case.

4. Prior to implementing the CSIA factors approved herein, Petitioner shall file with the Commission under this Cause the updated revenue requirement and rate derivation schedules

consistent with the Commission's findings in this Order. The schedules shall be consistent with the formats of Petitioner's Exhibit No. 3, Attachments JCS-1 through JCS-3 and Petitioner's Exhibit No. 4, Attachment SMK-1.

5. Petitioner is authorized to implement a CSIA Rate Schedule that effectuates the timely recovery of 80% of eligible and approved capital expenditures, TDSIC Projects, and Compliance Projects as set forth herein.

6. Petitioner is authorized to adjust its net operating income for purposes of the earnings test calculation pursuant to Ind. Code § 8-1-2-42(g)(3) by the approved amounts noted in Finding Paragraph 5.C. of this Order.

7. Petitioner's rate schedule allocation percentages shall be modified as set forth above in Finding Paragraph 5.E. of this Order.

8. Petitioner shall no longer be required to make replacement program compliance filings under Cause No. 43298 and such filings shall instead be included with each April TDSIC filing in order to allow Petitioner to include a full calendar year of information.

9. The rates and charges approved in this proceeding are interim and subject to refund to reflect any judicial decision arising from the OUCC's appeal that requires a change in the treatment of net plant investment reflected in the CSIA.

10. Petitioner's proposal to extend gas facilities to Lizton, Indiana as an extension to a rural area pursuant to Ind. Code § 8-1-39-11 is approved.

11. Information filed by Petitioner in this Cause pursuant to its Motion for Protection of Confidential and Proprietary Information is deemed confidential pursuant to Ind. Code §§ 5-14-3-4 and 24-2-3-2, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

STEPHAN, MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: **JAN 14 2015**

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



Brenda A. Howe
Secretary to the Commission