

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, AND 44395.)

CAUSE NO. 44518

APPROVED:

DEC 17 2014

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Gregory R. Ellis, Administrative Law Judge

On July 25, 2014, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner" or "Vectren South") filed its Petition in this Cause for approval of adjustments to its rates through its Pipeline Safety Adjustment ("PSA") as approved by the Indiana Utility Regulatory Commission's ("Commission") Orders in Cause No. 42596, dated June 30, 2004 ("2004 Rate Order"); Cause No. 43112, dated August 1, 2007 ("2007 Rate Order"); Cause No. 43926, dated November 4, 2010 ("2010 Order"); Cause No. 44042, dated September 21, 2011 ("2011 Order"); Cause No. 44231, dated October 31, 2012 ("2012 Order"); and Cause No. 44395, dated December 18, 2013 ("2013 Order").

Petitioner filed the prepared testimony and exhibits constituting its case-in-chief on July 28, 2014. Petitioner filed its late filed exhibit on August 25, 2014. The Indiana Office of Utility Consumer Counselor ("OUCC") filed the prepared testimony of Laura J. Anderson, Utility Analyst, on September 9, 2014.

The Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on September 24, 2014, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. 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 related to adjustments in gas costs. Therefore, 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, Indiana. Petitioner provides retail gas utility service to the public in nine counties in Southwestern Indiana and owns, operates, manages, and controls plant and equipment used to provide such service. Petitioner furnishes such gas utility service to approximately 110,000 retail customers.

3. Petitioner's PSA. The 2004 Rate Order approved a Stipulation and Settlement Agreement ("2004 Settlement") between Petitioner and the OUCC that, among other things, authorized Petitioner to implement the PSA to recover on a timely basis prudently incurred, incremental non-capital expenses ("Eligible Costs") caused by the requirements of the Federal Pipeline Safety Improvement Act of 2002 (the "Act") and the regulations of the United States Department of Transportation ("DOT Rule") adopted thereunder. The Act imposed many new requirements on pipeline operators with the intent of enhancing pipeline and public safety. These requirements include annual submission of transmission pipeline maps to the National Pipeline Mapping System, public education programs, pipeline integrity assessments and a pipeline integrity management program.

The 2004 Settlement provided that Petitioner may defer Eligible Costs beginning March 26, 2004. On May 10, 2005, Petitioner filed its Petition in Cause No. 42855 requesting approval of its first adjustment under the PSA to recover over a twelve month period Eligible Costs deferred during the period of March 26, 2004 through March 31, 2005. The Commission approved the first adjustment in its Order in Cause No. 42855 dated October 12, 2005.

The 2007 Rate Order approved a Stipulation and Settlement Agreement ("2007 Settlement") resolving Petitioner's request for approval of an increase in its gas rates and charges. The 2007 Settlement provided that Petitioner would be authorized to continue to recover incremental expenses caused by the Act, through the PSA, subject to the following modifications:

- (a) Deferred expenses eligible for inclusion in each annual PSA filing shall 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 each annual cap.

The 2012 Order authorized Petitioner to recover incremental PSA costs deferred during the twelve-month period ended March 31, 2012 and the three-year amortization of the excess deferred balances as of March 31, 2010. The Order authorized the recovery of DIMP Ongoing Expenses through March 31, 2012. The Order also required that the Petitioner submit quarterly compliance filings beginning January 2013.

Petitioner’s current PSA factors were placed in effect pursuant to the 2013 Order. The 2013 Order authorized Petitioner to defer Transmission Component expenses for future recovery subject to a cap of \$1,500,000, defer incremental DIMP-related costs included in the Distribution Component for future recovery subject to an annual cap of \$400,000, and continue the PSA mechanism through the filing for the twelve month period ending March 31, 2016. The Order approved the amortization of the deferred balance as of March 31, 2013 over the three-year extension period.

4. Petitioner’s Request. In this Cause, Petitioner seeks approval of revised PSA factors to recover actual incremental costs for Transmission and DIMP Implementation expenses

deferred between April 1, 2013 and March 31, 2014, applicable variances from prior periods, and year two of the March 31, 2013 deferred balance amortization. The Petitioner also requests approval to implement conditional PSA factors to recover actual incremental costs for Transmission and DIMP Implementation expenses deferred between April 1, 2013 and December 31, 2013, applicable variances from prior periods, and year two of the March 31, 2013 deferred balance amortization in the event the PSA is merged with Petitioner's proposed federal mandate cost recovery mechanism, the Compliance and System Improvement Adjustment ("CSIA") in Cause No. 44429. In addition, Petitioner requests relief from the quarterly compliance filings ordered in Cause No. 44321, which began in January 2013.

5. Description of Programs and Costs. James M. Francis, Director of Engineering and Asset Management for Vectren Utility Holdings, Inc. ("VUHI"), described the activities Petitioner has undertaken pursuant to its Integrity Management Program ("Program") in order to meet the requirements of the Act and DOT Rule. Mr. Francis stated that total incremental Program expenses during the period from April 1, 2013 through March 31, 2014 amounted to \$1,451,843.

Mr. Francis testified that during the period between April 1, 2013 and March 31, 2014, 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, installation of AC mitigation equipment on two pipelines, indirect surveys on two pipelines, nine digs based on indirect survey results, continual encroachment monitoring, and numerous direct examinations. Mr. Francis stated that Petitioner also completed preventive and mitigative measures such as monthly aerial patrols, modifications to regular stations, and corrosion improvements. Mr. Francis discussed Petitioner's completion of its Public Awareness requirements, its update of the National Pipeline Mapping System, and its training of employees who have been assigned responsibility for carrying out the various tasks within the Program.

Mr. Francis testified that all activities within the program are required by the Act and DOT Rule and are incremental work that is being completed by a combination of contract resources and internal labor. Mr. Francis stated that \$411.40 of non-incremental expense was charged to the program between April 1, 2013 and March 31, 2014 and that the total incremental program expenses of \$1,451,843 exclude non-incremental expenses of \$411.40.

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. Vectren South conducted various record research activities to improve knowledge of the system as it relates to documentation of pipeline characteristics, maximum allowable operating pressures, and system pressure regulation. Petitioner 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 Petitioner's Geographic Information System. 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 total incremental DIMP Implementation Expenses for Vectren South during the period from April 1, 2013 through March 31, 2014 are \$340,922. He indicated that Vectren South requested as part of its relief in Cause No. 44429 that the PSA be merged with its CSIA. If approved, Vectren South will only include incremental Program and DIMP expenses for the period April 1, 2013 through December 31, 2013 in the PSA. After January 1, 2014, these expenses will be recovered in the CSIA.

Mr. Francis also provided information on the current status of Petitioner's Distribution Maintenance Programs. Mr. Francis identified Distribution Maintenance Programs completed during the 12 months ending March 31, 2014 which included clearing or maintenance of approximately 137 miles of gas transmission or distribution rights-of-way and 12 aerial patrols of transmission pipelines. Petitioner also completed pressure auditing of 355 meter settings.

6. Derivation of Conditional PSA. Shawn M. Kelly, Director, Regulatory Affairs for VUHI, testified regarding the derivation of Petitioner's proposed adjustments. Mr. Kelly testified that Petitioner requested approval of conditional PSA factors to be implemented in the event the PSA/CSIA merger, as proposed in Cause No. 44429, was approved. He indicated that since costs recoverable in the PSA are incurred pursuant to federal mandates, Petitioner proposed the PSA and CSIA be merged in order to avoid having two separate, yet similarly purposed recovery mechanisms in place, and that the PSA would ultimately be discontinued.

Under the conditional PSA, Petitioner would recover incremental Transmission and Distribution expenses for the period April 1, 2013 through December 31, 2013, and thereafter, the expenses would be included in the CSIA. However, the PSA will continue separately in order to amortize costs approved in the 2013 Order over a three-year period as well as recover PSA over- and under-recovery variances through December 2016. At that time, Vectren South expects to discontinue the PSA and transfer any remaining over- or under-recovery to the CSIA. Additionally, the annual Transmission and Distribution caps still apply in this PSA on a prorated basis because the recovery period is April 1 through December 31, 2013. Therefore, the annual cap of \$1.5 million for incremental transmission-related operation and maintenance ("O&M") expenses is prorated to \$1.125 million and the annual cap of \$400,000 on distribution-related expenses is prorated to \$300,000.

Mr. Kelly indicated that the proposed PSA Transmission Component for each Rate Schedule was determined 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 explained that the amortization of the March 31, 2013 deferred balance is included in this PSA. He indicated the total deferred balance at March 31, 2013 was \$2,869,758. This amount represents the total deferred Transmission Component expenses in excess of the

annual cap that had not been included in any previous PSA proceedings. The Commission approved Petitioner’s proposal to amortize \$2,869,758 (the “2013 Amortization Amount”) over a three-year period in the 2013 Order. Vectren South has included \$956,586 (year two of the 2013 Amortization Amount) in this PSA.

Mr. Kelly stated that Petitioner’s proposed conditional PSA factors include a Transmission Component for recovery of incremental expenses associated with the DOT Rule, which in this proceeding is \$1,438,854. This amount reflects: (a) actual deferred expenses for April through December 2013 - \$1,066,749; (b) year two of the 2013 Amortization Amount of the deferred balance at March 31, 2013 - \$956,586; and (c) refund of an over-recovery through March 31, 2014 - \$584,481. Mr. Kelly said the currently effective PSA is expected to remain in effect through December 18, 2014 to allow Petitioner to fully recover the costs approved in Cause No. 44395.

Mr. Kelly testified the conditional 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 \$193,847. These expenses were allocated to the rate schedules based on the distribution O&M allocators from the cost of service study filed in Cause No. 43112, Petitioner’s most recent base rate case and include: (a) actual deferred DIMP Implementation Expenses recoverable from April 1, 2013 through December 31, 2013 - \$265,818 and (b) a refund of an over-recovery of - \$71,971.

7. **Tariff Sheet.** Petitioner’s Exhibit SMK-3A contains Petitioner’s proposed conditional PSA tariff sheet, Sheet No. 37, Tenth Revised Page 1 of 2 and Third Revised Page 2 of 2, reflecting the proposed PSA factors to be implemented in the event the PSA/CSIA merger is approved in Cause No. 44429.

Rate Schedule	Transmission Component (\$ per Therm)	Distribution Component (\$ per Therm)	Total PSA Charge (\$ per Therm)
110	\$0.0147	\$0.0022	\$0.0169
120/125/129/145	\$0.0059	\$0.0007	\$0.0066
160	\$0.0022	\$0.0003	\$0.0025
170	\$0.0003	\$0.0000	\$0.0003

8. **Compliance Filings.** Mr. Kelly testified that, in the 2012 Order, the Commission required Vectren South to file the same type of quarterly pipeline replacement documentation that is required to be filed by Vectren North in Cause No. 43298. In Cause No. 43298, the Commission’s Order stated that Vectren North should file with the Commission work orders indicating upcoming projects, budget amounts, and completion verification upon the conclusion of listed work on a quarterly basis. Mr. Kelly stated that if Petitioner’s proposal in Cause No. 44429 was approved, Vectren South would make semi-annual adjustments to the CSIA. Mr. Kelly testified that Vectren South will provide information similar to that currently filed in its PSA compliance filings in these CSIA adjustments. Consequently, Petitioner requests that it no longer be required to make replacement program compliance filings under Cause No. 44231.

9. **OUCC's Evidence.** 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 stated she had also reviewed the Order in Cause No. 44429 authorizing Vectren South to merge the PSA with the CSIA mechanism. Ms. Anderson testified that as a result of the Order in Cause No. 44429, she reviewed Vectren South's proposed conditional PSA schedules, exhibits, and tariff sheets supporting Petitioner's request for recovery of applicable PSA costs for April through December 2013. 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 terms of the most recent PSA modifications approved in Cause Nos. 43112, 43926, and 44395 and the inclusion of DIMP cost recovery in Cause No. 44042. She stated that since information similar to that filed in Vectren South's current PSA quarterly pipeline replacement program compliance filings will be included in its semi-annual CSIA filings, she recommends the suspension of the quarterly compliance filings in order to prevent a duplication of efforts.

10. **Discussion and Findings.** The Commission notes that the Order in Cause No. 44429 authorized the merger of Petitioner's PSA with the approved CSIA. The 2013 Order authorized Petitioner to defer Transmission Component expenses for future recovery subject to a cap of \$1,500,000 and continue the PSA mechanism through the filing for the twelve month period ending March 31, 2016. The 2013 Order also approved the amortization of the deferred balance as of March 31, 2013 over a three-year period. Consistent with the 2013 Order and the Order in Cause No. 44429, we find it no longer necessary for Petitioner to file quarterly compliance filings in this Cause. Petitioner shall file an annual PSA to recover applicable costs for the applicable remaining months through December 2016 to properly amortize previously approved costs for recovery in the PSA, which was recently extended for a three-year period. At the conclusion of the three-year extension period, Petitioner will transfer any remaining variances to the CSIA and discontinue the PSA. The currently approved annual PSA caps for transmission and distribution integrity management costs will continue to apply on a prorated basis.

Based upon the evidence presented, the Commission finds Vectren South's 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-3A and listed below upon filing with the Commission under this Cause.

Rate Schedule	Transmission Component (\$ per Therm)	Distribution Component (\$ per Therm)	Total PSA Charge (\$ per Therm)
110	\$0.0147	\$0.0022	\$0.0169
120/125/129/145	\$0.0059	\$0.0007	\$0.0066
160	\$0.0022	\$0.0003	\$0.0025
170	\$0.0003	\$0.0000	\$0.0003

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

1. Petitioner’s proposed PSA factors as set out in this Order are approved and shall be effective for gas service upon approval by the Commission. Prior to putting the PSA factors in effect, Petitioner shall file with the Commission an amendment to its tariff under this Cause reflecting the approved PSA factors set forth in Paragraph No. 10.

2. Petitioner is hereby authorized to cease its quarterly compliance filings, as set forth in Paragraph No. 10.

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

STEPHAN, MAYS-MEDLEY, HUSTON, AND ZIEGNER CONCUR: WEBER NOT PARTICIPATING.

APPROVED: DEC 17 2014

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



Brenda A. Howe
Secretary to the Commission