

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA GAS COMPANY, INC.)
D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC.)
("VECTREN NORTH") FOR TRANSFER OF THE)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY ("CPCN") ISSUED TO SNOW & OGDEN TO)
SERVE PORTIONS OF HENRY COUNTY OR IN THE)
ALTERNATIVE ISSUANCE OF A NEW CPCN TO)
VECTREN NORTH TO SERVE THE PORTION OF HENRY)
COUNTY CURRENTLY SERVED BY SNOW & OGDEN;)
AUTHORIZATION TO RECOVER, THROUGH VECTREN)
NORTH'S COMPLIANCE AND SYSTEM IMPROVEMENT)
ADJUSTMENT MECHANISM ("CSIA") THE COST TO)
EXTEND VECTREN NORTH'S FACILITIES TO SERVE)
THE CUSTOMERS CURRENTLY SERVED BY SNOW &)
OGDEN AND OTHER COSTS ASSOCIATED WITH THE)
TRANSACTION; AND WAIVER OF THE DEPOSIT)
REQUIREMENTS ESTABLISHED IN 170 IAC § 5-1-27)

CAUSE NO. 44563

APPROVED: DEC 30 2014

ORDER OF THE COMMISSION

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

On November 7, 2014, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North" or "Petitioner") petitioned the Indiana Utility Regulatory Commission ("Commission") for, among other things, authorization and approvals for the following: (i) either transfer of Snow & Ogden's current certificate of public convenience and necessity ("CPCN") to Vectren North or in the alternative issuance of a new CPCN to Vectren North to serve the 23 customers currently served by Snow & Ogden (the "Customers"); (ii) to recover the costs associated with an extension of its existing infrastructure to provide safe, reliable natural gas service to the Customers through the Compliance and System Improvement Adjustment ("CSIA") mechanism; and (iii) waiver of the deposit requirements set forth in the Commission's rules and Vectren North's tariff.

On November 21, 2014, Vectren North pre-filed the verified direct testimony and corresponding exhibits of Jamoni E. Harper, Steven A. Hoover and J. Cas Swiz, constituting its case-in-chief in this Cause and supporting its requests. On November 19, 2014, Dan Novak, the Commission's Chief Pipeline Safety Engineer, pre-filed testimony and corresponding exhibits on behalf of the Commission's Pipeline Safety Division ("Division") supporting Vectren North's request. Bradley E. Lorton, a Utility Analyst with the Indiana Office of Utility Consumer Counselor ("OUCC") pre-filed testimony on November 21, 2014 supporting Petitioner's request.

The Commission issued a Docket Entry on December 2, 2014 and December 3, 2014, and Vectren North responded to each one on the date it was received.

An evidentiary hearing was held in this matter on December 4, 2014 at 9:30 a.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing the pre-filed evidence of Vectren North, Division and OUCC were admitted into the record without objection. To allow for publication in Henry County, a second hearing was held on December 18, 2014 at 9:30 a.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. No members of the general public appeared or sought to participate at either hearing.

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

1. **Notice and Commission 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 that term is defined in Ind. Code § 8-1-2-1(a) and an “energy utility” as defined in Ind. Code § 8-1-8.4-3. Pursuant to Ind. Code § 8-1-2-87, the Commission has authority to issue and revoke certificates of public convenience and necessity (“CPCN”) for the provision of natural gas service in rural areas in the State of Indiana. The Commission also has authority to a CPCN under Ind. Code ch. 8-1-8.4 and to approve cost recovery for projects necessary to comply with federally mandated requirements. Accordingly, 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 and having its principal office at One Vectren Square, Evansville, Indiana. Petitioner has charter power and authority to engage in and is engaged in the business of rendering natural gas distribution and transportation service within the state of Indiana under indeterminate permits, franchises and necessity certificates. Vectren North owns, operates, manages and controls, among other things, plant, property, equipment and facilities which are used and useful for the production, storage, transmission, distribution and furnishing of natural gas service to approximately 578,000 end use customers in forty-nine counties in central and southern Indiana.

3. **Requested Relief.** By its petition, Vectren North requests the following relief:

(1) A transfer of Snow & Ogden’s CPCN to Vectren North or, in the alternative, issuance of a new CPCN for the extension of facilities (“Project”) to Customers to improve the safety, reliability and integrity of the natural gas service that the Customers currently receive;

(2) Authorization to recover the actual costs of the Project through Vectren North’s previously approved CSIA mechanism; and

(3) Waiver of the Commission’s rules and Vectren North’s tariff related to deposits.

4. Evidence Presented.

A. Vectren North's Case-in-Chief. Jamoni E. Harper, Director, Residential and Commercial Sales for Vectren Utility Holdings, Inc. ("VUHI"), the parent company of Vectren North, testified that on July 30, 2014, the Commission initiated an investigation into Snow & Ogden's compliance with pipeline safety standards and any matter relating to the condition, operation, maintenance and safety of Snow & Ogden's natural gas distribution system. He noted that the Division's testimonial staff in that investigation recommended Snow & Ogden do one of the following: (a) cease and desist the provision of natural gas service altogether; (b) replace the natural gas distribution system; or (c) allow Vectren North to expand its existing service territory to include Snow & Ogden's current service territory ("Expansion Area"). Mr. Harper testified that the Customers would be without natural gas service to power furnaces and water heaters through no fault of their own if Snow & Ogden is required to cease operations and Vectren North does not extend its facilities to serve this area. Consequently, Vectren North initiated this proceeding because it is willing to expand its facilities to serve the Customers. Mr. Harper testified that Vectren North has the skill, experience, and financial wherewithal to safely and reliably serve the Customers. He explained that Vectren North's field and operations personnel are well trained and versed in the provision of natural gas service and pipeline construction.

Mr. Harper said that the total estimated construction cost to complete the Project is \$368,507 and that, in addition to those capital costs, Vectren North has agreed to pay \$50,000 to Snow & Ogden to allow it to safely retire its distribution system and cover other miscellaneous costs associated with transferring the CPCN to Vectren North. Petitioner is proposing to waive the requirement in applicable Commission rules and its tariff that customers must pay for the cost of extending facilities to serve them that exceed applicable margin tests because of the significant cost that would be imposed on the Customers to continue receiving gas service. Mr. Harper testified that revenues from the Customers, even when Vectren North uses the 20-year margin test authorized in Ind. Code § 8-1-39-11(c), is only \$150,880, which is significantly less than the estimated cost to complete the Project. Without the waiver, the Customers would have to pay an infrastructure deposit of \$11,636 per customer. Mr. Harper explained that in this unique situation where Snow & Ogden's customers, through no fault of their own, face either the loss of natural gas service or paying significant costs to keep their gas service, it is not discriminatory to waive the infrastructure deposit in this case.

Steven A. Hoover, Chief Engineer of Gas Engineering for VUHI, explained that the current low operating pressure of Snow & Ogden's existing system causes system pressure and freeze-off issues during the winter months. Mr. Hoover noted that four Notices of Probable Violations ("NOPVs") had been issued against Snow & Ogden requiring it to comply with the federal Natural Gas Pipeline Safety Act of 1968 and the Indiana Pipeline Safety Act of 1971 ("Federal and State Pipeline Safety Laws"). The notices allege that Snow & Ogden failed to provide certain records required by federal and state statutes and regulations. He said that Snow & Ogden's failure to provide those records, the amount of bare steel in the system, and the number of leaks on the system are all contributing factors to the Division's conclusion that the system should be either replaced or retired.

Mr. Hoover described Vectren North's proposal to extend its existing infrastructure over an approximately nine to thirteen week period at an estimated cost of \$368,507. Mr. Hoover testified that compliance with Federal and State Pipeline Safety Laws will be achieved by Vectren North expanding its natural gas distribution system and enabling Snow & Ogden to retire its facility. Therefore, he concluded, the Project is a federally mandated requirement and the costs associated with it should be recoverable through the CSIA.

J. Cas Swiz, Director, Regulatory Implementation and Analysis for VUHI, described Vectren North's proposal for accounting and rate treatment authority to recover the costs associated with the infrastructure investments to serve the Customers. He said that Vectren North is proposing that the Project costs be subject to similar accounting treatment approved in the CSIA, including: (1) post-in-service carrying costs ("PISCC") incurred prior to the inclusion of the investment in the CSIA rate, based on the approved weighted average cost of capital ("WACC") rate; (2) a pre-tax return on the facility investment, based on the approved rate of return applicable to the Compliance Component of the CSIA; (3) deferral and subsequent recovery of depreciation expense associated with the capital investment, utilizing Vectren North's approved depreciation rates; and (4) property taxes on the facilities. Mr. Swiz explained that Vectren North proposes to defer and subsequently recover from all of its customers the \$50,000 it has agreed to pay to Snow & Ogden to assist in the transfer of its CPCN and to appropriately retire Snow & Ogden's existing natural gas distribution facilities. He stated that Vectren North proposes to follow the approved accounting authority established in the Commission's August 27, 2014 Order in Cause No. 44429 ("44429 Order"), including recovery of 80% of the calculated revenue requirement immediately within the CSIA rate and the remaining 20% deferred for recovery in Vectren North's next base rate proceeding.

Mr. Swiz testified that Vectren North is proposing to charge the Customers for natural gas service pursuant to Vectren North's approved tariff, which will generate additional fixed cost recovery ("margins") for Vectren North. He said that Mr. Harper explained Vectren North is proposing to extend facilities to serve the Customers because of the safety risks posed by continued operation of Snow & Ogden's facilities and to ensure these customers are not left without gas service if Snow & Ogden's system must be shut down. Mr. Swiz said that given the unusual circumstances surrounding this extension and to demonstrate that Vectren North is extending facilities to support the public interest and not for its own financial gain, it is proposing to deduct from the eligible costs in the CSIA the net margins earned from customers connected to the infrastructure. According to Mr. Swiz, Vectren North will utilize the monthly order granted margin per customer from its Sales Reconciliation Component ("SRC") of its Energy Efficiency Rider ("EER")¹ to determine the amount of margin earned from the Customers and this amount will be used as the basis for the CSIA deduction. He confirmed that the net margins represent a deduction to the Compliance Component revenue requirement of the CSIA, with 80% of the margins credited immediately in the CSIA and 20% of the margins credited against the deferral to be recovered in the Vectren North's next base rate case. Mr. Swiz said that this credit will only apply to those customers previously served by Snow & Ogden added to Vectren North's system as a result of the Project.

¹ Factors approved within Vectren North's last base rate case, Cause No. 43298 (February 2008).

B. Division's Case-in-Chief. Dan Novak, Chief Pipeline Safety Engineer for the Division, testified that Snow & Ogden operates pipeline facilities subject to the jurisdiction of the Division and the Division is charged with monitoring compliance with state and federal pipeline requirements of persons that operate such pipeline facilities. Mr. Novak explained the in-depth investigation of Snow & Ogden's natural gas distribution system that commenced in December 2013 and the system deficiencies identified, including extensive leakage and corrosion. He testified that the Division issued four NOPVs, each with an increased concern of leaks on the system.

The first NOPV issued on December 5, 2013 informed Mr. Ramsey that Snow & Ogden failed to provide the following records requested by the Division: Operations & Maintenance Plan ("O&M Plan"), Operation Qualifications Plan ("OQ Plan"), Distribution Integrity Management Plan ("DIMP"), Emergency Plan, Public Awareness Plan, and operating records for the current year (e.g. leak surveys and patrols). In addition, the NOPV indicated that Mr. Ramsey, as operator of the Snow & Ogden natural gas distribution system, had not obtained OQ certification. The NOPV established a list of actions to be taken by Snow & Ogden to comply with federal and state pipeline safety statutes, a deadline by which the actions were to be taken and the ramifications for failing to take those actions. By April 15, 2014, Snow & Ogden had failed to complete the actions identified in the three previously issued NOPVs and the Division issued the fourth and final NOPV identifying specific actions to be taken by Snow & Ogden and setting forth the deadline for each action.

Mr. Novak stated that Snow & Ogden's current natural gas system is in need of replacement. He testified that due to the history of leakage, delivery pressure issues, moisture in the gas system, and the extensive corrosion observed, the Division recommended to the Commission in Cause No. 44517 that the entire Snow & Ogden natural gas system serving the Customers be replaced. Mr. Novak testified that Mr. Ramsey no longer wishes to operate Snow & Ogden due to the cost involved in replacing the entire system. Mr. Novak said that Mr. Ramsey signed a sworn affidavit confirming that he no longer wishes to own and operate the Snow & Ogden system.

Mr. Novak testified that he read Vectren North's Petition to Intervene in Cause No. 44517 dated October 14, 2014 and the Certificate Transfer Agreement dated November 7, 2014 and that the Division supports Vectren North's proposal to take over Snow & Ogden's service territory. He said that Vectren North is the most likely operator to assume replacement of the natural gas system in Ogden, Indiana. He testified that Vectren North will be able to deliver safe and reliable pipeline quality gas to the Customers in Ogden, Indiana.

C. OUC's Case-in-Chief. Bradley E. Lorton, a Utility Analyst in the Natural Gas Division of the OUC, testified in support of the relief sought by Petitioner to complete the transfer of Snow & Ogden's CPCN to Vectren North. Mr. Lorton testified that the Commission's investigation of Snow & Ogden in Cause No. 44517 revealed serious public safety problems associated with current operations. He said the cost of replacing the system appears to be prohibitive for the current owner of this utility with less than 25 customers and that the OUC believes the public interest will be served by Vectren North providing service in the

Expansion Area. According to Mr. Lorton, the transfer of the CPCN authority should result in a substantial improvement of safety and service for the Customers.

Mr. Lorton said that on September 5, 2014 he accompanied Mr. Novak and Grant Gray from the Division on a fact-finding canvass of the Snow & Ogden service territory. Mr. Lorton testified that during those visits he learned that several current customers were without natural gas service for periods ranging from four days to two weeks during the winter of 2013-14, primarily because of “freeze-up” caused by water in the gas well not being properly bailed as a result of either no gas pressure or freeze-ups in the gas meters. He said several Snow & Ogden gas meters were covered with duct tape and insulation to protect from cold temperatures and that Customers stated meter maintenance had been performed by a local hardware store and not by the utility. Mr. Lorton testified that several Customers are elderly and need consistent natural gas service for health reasons, but since some are on fixed incomes, they also need to keep their utility bills low. Mr. Lorton said that given the age of the Snow & Ogden bare steel system, the compliance issues cited by the Division, and the problem of water in the system, replacement of the distribution system is the only viable long term solution.

Mr. Lorton testified that he supports Vectren North’s request to waive the deposit requirement. He said that a deposit in excess of \$3,000 would be a severe burden on the Customers, particularly elderly people on fixed incomes. He said that without a waiver, many of these Customers would not continue to receive natural gas service. He said these are current customers of a regulated public utility in Indiana who, through no fault of their own, are in danger of losing natural gas service for home heating. He said these unique circumstances provide sufficient justification for waiving the deposit requirement in this particular situation.

5. Statutory Requirements. Petitioner requests (1) either to be granted a new CPCN to serve the Customers or a transfer of Snow & Ogden’s CPCN in accordance with Ind. Code § 8-1-2-87, and (2) approval to recover the associated costs of the Project pursuant to Ind. Code ch. 8-1-8.4 under its existing CSIA.

Ind. Code § 8-1-2-87(d) provides that if the Commission makes the following findings, it shall grant an application for a CPCN:

- (1) that the applicant has the power and authority to obtain the certificate and to render the proposed gas distribution service if it obtains the certificate;
- (2) that the applicant has the financial ability to provide the proposed service;
- (3) that the public convenience and necessity require the providing of the proposed service; and
- (4) that the public interest will be served by the issuance of the necessity certificate.

The Commission may authorize an energy utility to recover federally mandated costs arising from a compliance project only if we: (1) find that the public convenience and necessity will be served by the proposed compliance project, (2) approve the projected costs associated with the proposed compliance project, and (3) make a finding on each of the factors set forth in Ind. Code § 8-1-8.4-6(b). A compliance project is defined as one undertaken by an energy utility

related to compliance with federally mandated requirements. Ind. Code § 8-1-8.4-2. Federally mandated requirements include “[s]tandards or regulations concerning the integrity, safety or reliable operation of: (A) transmission; or (B) distribution; pipeline facilities.” Ind. Code § 8-1-8.4-5(5).

If the Commission authorizes an energy utility to recover federally mandated costs associated with a compliance project, then:

- (1) Eighty percent (80%) of the approved federally mandated costs shall be recovered by the energy utility through a periodic retail rate adjustment mechanism that allows the timely recovery of the approved federally mandated costs. The commission shall adjust the energy utility’s authorized net operating income to reflect any approved earnings for purposes of IC 8-1-2-42(d)(3) and IC 8-1-2-42(g)(3).
- (2) Twenty percent (20%) of the approved federally mandated costs, including depreciation, allowance for funds used during construction and post in service carrying costs, based on the overall cost of capital most recently approved by the commission, shall be deferred and recovered by the energy utility as part of the next general rate case filed by the energy utility with the commission.
- (3) Actual costs that exceed the projected federally mandated costs of the approved compliance project by more than twenty-five percent (25%) shall require specific justification by the energy utility and specific approval by the commission before being authorized in the next general rate case filed by the energy utility with the commission.

Ind. Code § 8-1-8.4-7(c).

6. Commission Discussion and Findings. In this proceeding, Petitioner seeks (1) a CPCN to provide service in the area currently served by Snow & Ogden, (2) recovery of the costs attributable to the project under which facilities will be extended to the Customers to enable compliance with federal pipeline safety mandates and (3) waiver of applicable Commission rules and its tariff related to deposits for service extensions.

A. Transfer of CPCN. Based on the evidence presented, the Commission finds that Vectren North possesses the requisite corporate power and authority and financial capability to provide natural gas service to the Expansion Area and that the provision of such service is in the public interest. First, we find that Vectren North has the requisite power and authority to provide the requested gas service. Mr. Harper’s testimony demonstrated that Vectren North is an operating public utility incorporated under the laws of the State of Indiana and has charter power and authority to engage in, and is already engaged in, the business of rendering gas distribution and transportation service. Petitioner already owns, operates, manages and controls, among other things, plant, property, equipment and facilities which are used and useful for the production, storage, transmission, distribution and furnishing of natural gas service. Mr. Harper also testified that Petitioner’s field and operations personnel are well trained and versed in the provision of natural gas service and pipeline construction, including compliance with applicable state and federal pipeline safety requirements. Mr. Hoover described

Vectren North's proposed Project to serve the Customers and its capability to supply the necessary service. This evidence supports our finding that Vectren North has the requisite power and authority to provide the requested gas service.

Second, Mr. Harper included copies of Vectren North's financial statements as an exhibit to his testimony. These financial statements demonstrate that Petitioner has the requisite financial ability to provide service to the Customers.

Third, we conclude that the public interest and convenience require the providing of the proposed service and that the public interest will be served by issuance of the CPCN. Mr. Novak testified that Snow & Ogden, the current natural gas provider in the proposed territory, had several NOPVs for failure to comply with applicable pipeline safety standards. He stated that significant investment is required to replace Snow & Ogden's infrastructure to eliminate leaks and bring it in compliance with applicable federal requirements. In addition, Snow & Ogden's current owner no longer wishes to own or operate the natural gas system that is currently serving the Customers. Mr. Lorton described the hardships faced by the Customers last winter when Snow & Ogden's system froze-up and made it impossible for the Customers to receive gas service during some of the coldest days of the winter. He noted that several Customers need constant natural gas service for health reasons. All of the parties agree that Vectren North's provision of service in the Expansion Area would result in a substantial improvement of safety and service for the Customers.

Based on this evidence, which was uncontroverted, we find that the public interest and convenience requires the providing of the proposed service and that the public interest will be served by issuance of the CPCN to Vectren North. Consequently, we approve the transfer of Snow & Ogden's CPCN to Vectren North in accordance with Ind. Code § 8-1-2-87(e). However, Snow & Ogden shall be authorized to continue providing natural gas service to the existing Customers until such time as Vectren North is able to install facilities and connect the Customers. Upon connection of the Customers to Petitioner's facilities, Snow & Ogden shall no longer have a CPCN or authority to provide natural gas service to the public. Vectren North, in its response to our December 3, 2014 Docket Entry, indicated that it could commence construction within three to four weeks of the issuance of an Order approving the Project and projects completion of the Project within nine to thirteen weeks, providing there are no delays attributable to the weather or other factors. As part of our transfer of Snow & Ogden's CPCN to Vectren North, we require Petitioner to file notice, under this Cause, within 14 business days of the date that all Customers electing to continue service with Vectren North are interconnected with Vectren North's facilities.

B. Cost Recovery for Compliance Project. As indicated above, if the Commission approves a proposed compliance project and the projected federally mandated costs, then a utility may recover its costs in accordance with Ind. Code § 8-1-8.4-7(c). Ind. Code § 8-1-8.4-2 defines a "compliance project" as:

a project that is:

(1) undertaken by an energy utility; and

(2) related to the direct or indirect compliance by the energy utility with one (1) or more federally mandated requirements.

(b) The term includes:

(1) an addition; or

(2) an integrity, enhancement or a replacement project; undertaken by an energy utility to comply with a federally mandated requirement described in Ind. Code § 8-1-8.4-5(5).

Mr. Harper's testimony demonstrates that Petitioner is an energy utility as that term is defined in Ind Code § 8-1-2.5-2. The testimony of Messrs. Novak, Hoover and Lorton also demonstrate that the Project is being undertaken by Vectren North to ensure compliance with federally mandated requirements. The U.S. Department of Transportation ("DOT") has enacted a series of regulations designed to promote the safe delivery of natural gas to customers using transmission and distribution facilities operated by local distribution companies. Mr. Novak testified that the Division is charged with monitoring and ensuring compliance with these requirements. He described the NOPVs issued by the Division against Snow & Ogden and highlighted the many deficiencies in Snow & Ogden's compliance with standards and regulations concerning the integrity, safety and reliable operation of transmission and distribution facilities. Mr. Lorton and Mr. Hoover testified that replacement of Snow & Ogden's system would be required to comply with applicable regulations and the affidavit from Snow & Ogden's owner, Mr. Ramsey, demonstrates that Snow & Ogden will not undertake these efforts. Although the applicable federally mandated requirements are imposed on Snow & Ogden, Vectren North has agreed to incur the cost and install a new transmission and distribution system in the Expansion Area to ensure compliance with the federally mandated requirements. Consequently, we find that Vectren North's commitment to install the Project is related to, and in this instance the means by which, compliance with a federally mandated requirement is achieved to ensure continued safe and reliable service to the Customers.

Having determined the Project is a compliance project, Ind. Code § 8-1-8.4-7(b) requires the Commission to: (1) make a determination that the public convenience and necessity will be served by the Project, (2) approve the projected federally mandated costs, and (3) make a finding on each of the factors in Ind. Code § 8-1-8.4-6(b).

i. Public Convenience and Necessity. The evidence presented in this case reveals serious health and public safety concerns associated with the current operation of Snow & Ogden. Mr. Lorton testified that several current customers were without natural gas service for periods ranging from four days to two weeks during the winter of 2013-14 due to "freeze-ups." Public safety problems also include above and below ground gas leaks from the distribution mains and the overall deterioration of Snow & Ogden's distribution system. The cost of replacing the system appears to be prohibitive for Snow & Ogden's current owner and the transfer of the CPCN authority should result in a substantial improvement in safety and service for the Customers. The OUCC also believes the public interest will be served by Vectren North providing service to the Customers. The investment that Petitioner proposes to make promotes safety by allowing the Snow & Ogden distribution system, which is old and experiencing leaks, to be retired. And, the installation of a new system meets regulatory requirements to serve the Customers. The Project will result in increased operating pressure and reliability for Snow &

Ogden's current customers. Therefore, we find the evidence demonstrates that the Project promotes the public convenience and necessity.

ii. Reasonableness of Project Costs. Vectren North presented a cost estimate to support the projected cost of constructing the Project. The estimate is based upon the blanket contract that the VUHI companies generally use for all of their new business main extensions and service work. Mr. Hoover, who has worked for Vectren North or its predecessor company for more than 20 years, said that based upon his many years of experience with natural gas design and construction and actual cost data from past projects of similar size and scope, the cost estimate for the Project is reasonable. No party disagreed with the cost estimate. Mr. Lorton testified the OUCC does not oppose recovery of the reasonable and prudent costs associated with the Project in a future Transmission, Distribution, and Storage System Improvement Charges ("TDSIC") filing. However, the reasonableness and prudence of those costs should be addressed in the future TDSIC proceeding. In addition, Vectren North paid Snow & Ogden \$50,000 to appropriately retire the system and assist with the transfer of its CPCN and other related costs. Mr. Lorton acknowledged that the \$50,000 payment resulted from good faith negotiations between Petitioner and Mr. Ramsey. Based upon the evidence presented, we find that Petitioner has adequately described the Project's projected costs and provided reasonable cost estimates.

iii. Section 6(b) Factors. Ind. Code § 8-1-8.4-7(b)(3) requires the Commission to make findings on each of the factors set forth in Ind. Code § 8-1-8.4-6(b), which include: (1) a description of the federally mandated requirements, (2) a description of the projected federally mandated costs, (3) a description of how the proposed compliance project allows the energy utility to comply with the federally mandated requirement, (4) alternative plans that demonstrate the proposed compliance project is reasonable and necessary, (5) information as to whether the proposed compliance project will extend the utility's useful life and value, and (6) any other factors the Commission considers relevant.

As explained above, with respect to the first two factors, we find that Vectren North has adequately described the federally mandated requirements and the projected costs. With respect to the third factor, no party disputed that the Project is necessary to comply with federal mandates. Petitioner's witness, Mr. Hoover, explained that the Project will allow Snow & Ogden to retire its current natural gas distribution system, which does not comply with DOT requirements, and replace it with a system that meets all necessary requirements. The Project will allow Vectren North, an entity that has a strong record of compliance with federal pipeline safety regulations, to extend its infrastructure to provide the Customers with safe, reliable natural gas service. Thus, the Project will enable compliance with a federally mandated requirement.

As to the fourth factor, it is clear that given its age and current state, the Snow & Ogden distribution system needs to be either retired or replaced. Mr. Ramsey has indicated that he cannot replace the system and that he is no longer interested in operating the utility. If the Project is not approved, then Snow & Ogden will be forced to retire its system and the Customers, through no fault of their own, will be without a way to power their furnaces, water heaters and other natural gas fired appliances. Snow & Ogden's service territory is bordered on all sides by Vectren North's current certificated area; therefore, Vectren North is the closest

utility to the Customers. Given the proximity of Vectren North's infrastructure, it is likely the most reasonable option to serve the area. Thus, once the Snow & Ogden distribution system is retired, there does not appear to be any other feasible alternatives to the Project for the continued provision of natural gas service to the Customers.

And regarding the fifth factor, Vectren North has facilities in the area surrounding Snow & Ogden's certificated area. Although extension of the facilities will likely not extend the useful life of Vectren North's natural gas distribution system, it will add some minimal value to the utility. Vectren North does not anticipate much economic development or growth in this area, but recognizes extending its infrastructure to provide natural gas service to the Customers, who would otherwise be without natural gas service through no fault of their own, is the right thing to do. The Commission agrees.

With respect to cost recovery, Mr. Swiz testified that the investments needed to construct the Project will be treated as an eligible federally mandated project under the CSIA and will follow the approved accounting authority established in the 44429 Order. Specifically, all components of the mechanism will adhere to the terms of the 44429 Order, with 80% of the calculated revenue requirement recovered immediately with the CSIA rate and the remaining 20% deferred for recovery in Vectren North's next base rate proceeding. No party opposed Petitioner's proposed methodology for cost recovery. Based upon our review of the evidence, we find that 80% of the federally mandated costs associated with the Project shall be recovered within the CSIA in accordance with Ind. Code § 8-1-8.4-7(c)(1), and 20% of the federally mandated costs associated with the Project shall be deferred in accordance with Ind. Code § 8-1-8.4-7(c)(2) consistent with Mr. Swiz's testimony. Mr. Swiz also proposed to deduct from the eligible costs in the CSIA the net margins earned from customers connected to the infrastructure. We agree that Vectren North's netting of these margins lends further support to the public interest. Vectren North shall utilize the monthly order granted margin per customer from its SRC of its EER to determine the amount of margin earned from the Customers, and this amount should be used as the basis for the CSIA deduction. Net margins should represent a deduction to the Compliance Component revenue requirement, with 80% of the margins credited immediately to the CSIA and 20% of the margins credited against the deferral to be recovered in Vectren North's next base rate case.

C. Waiver of Deposit Requirements. Petitioner requested waiver from the deposit rules found in 170 IAC 5-1-27 and its tariff. These provisions require natural gas customers to post deposits if estimated revenues earned from the customers to be served by the extension do not meet certain tests. Without the waiver, the Customers would be required to pay \$11,636 to connect under a 20 year margin test, which would be a significant burden to most of the Customers. As the OUCC's witness Mr. Lorton explained, many of the Customers are elderly, live on a fixed income and would be unable to pay the deposit. In most circumstances, extensions are made to enable new customers to receive natural gas service for the first time. We have required reasonable assurances that the revenues from these extensions will exceed the cost to avoid a situation where existing customers subsidize new customers. Here, however, customers who are already receiving gas service face the prospect of paying for new service due to the fact that their existing provider is unable and unwilling to continue serving them in accordance with applicable requirements. We do not believe under these circumstances the

Customers should be required to pay for an extension of service merely to keep gas service that is becoming unavailable due to no fault of their own. Consequently, we find that Vectren North shall not require any customer interconnecting with the transmission and distribution lines required to serve the Customers to pay deposits to cover the cost of the extension.

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

1. Snow & Ogden shall transfer its certificate of public convenience and necessity to Vectren North to provide natural gas service to the Expansion Area as set forth herein. Upon connection of the Customers to Petitioner's facilities, Snow & Ogden shall no longer have a CPCN or authority to provide natural gas service to the public.

2. The Project is a compliance project undertaken by Vectren North to serve the Customers in a manner that achieves compliance with federally mandated requirements within the meaning of Ind. Code ch. 8-1-8.4.

3. Petitioner is authorized to defer post in service Project costs, including carrying costs based on WACC approved herein, on an interim basis until such costs are recovered for ratemaking purposes through Petitioner's CSIA mechanism or otherwise included for recovery in its next base rate case.

4. Petitioner is authorized to defer 20% of eligible and approved capital expenditures and Project costs under Ind. Code § 8-1-8.4-7(c)(2). Petitioner is also authorized to seek recovery of the deferred capital expenditures and Project costs as part of Petitioner's next general rate case.

5. Petitioner is authorized to waive the deposit requirement found in 170 IAC 5-1-27 and its tariff for any customer taking service from the transmission and distribution lines necessary to serve the Customers.

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

STEPHEN, HUSTON, AND ZIEGNER CONCUR; MAYS-MEDLEY ABSENT; WEBER NOT PARTICIPATING:

APPROVED:

DEC 30 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