

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, 44231, AND 44395.)**

CAUSE NO. 44673

APPROVED:

NOV 24 2015

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Gregory R. Ellis, Administrative Law Judge

On September 1, 2015, 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"), Cause No. 44395, dated December 18, 2013 ("2013 Order"), and Cause No. 44518, dated December 17, 2014 ("2014 Order").

Petitioner prefiled the direct testimony and exhibits of J. Cas Swiz, Director of Rates and Regulatory Analysis of Vectren Utility Holdings, Inc., constituting its case-in-chief on September 1, 2015. On September 30, 2015, Petitioner submitted its Exhibit JCS-1, which consists of copies of the proofs of publication of the notice of the filing of the Petition in this Cause in newspapers of general circulation. The Indiana Office of Utility Consumer Counselor ("OUCC") filed the prepared testimony of Mark H. Grosskopf, a Senior Utility Analyst, constituting its case-in-chief on October 9, 2015.

The Commission held an evidentiary hearing in this Cause at 10:00 a.m. on October 26, 2015, in Room 222, 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 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). Under Ind. Code § 8-1-2-42, the Commission has jurisdiction over changes to Petitioner's rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Its principal office is located at One Vectren Square, Evansville, Indiana. Petitioner provides natural gas service to approximately 110,000 retail customers and is engaged in rendering gas utility service to the public in nine counties in southwestern Indiana. Petitioner owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

3. **Petitioner's PSA.** The 2004 Rate Order approved a Stipulation and Settlement Agreement ("2004 Settlement") between Petitioner and the OUCC that, among other things, authorized Petitioner to implement the PSA to recover on a timely basis prudently incurred, incremental non-capital expenses ("Eligible Costs") caused by the requirements of the Federal Pipeline Safety Improvement Act of 2002 (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. This includes 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 12-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 will be capped at one million dollars.
- (b) Incremental deferred expenses above the one million dollar annual cap may be included in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap. Amounts above the cap will be deferred and be eligible for future rate case or PSA recovery.
- (c) Any deferred balance existing on March 31, 2007 will be amortized over a three- year period within the PSA, without carrying costs. This amortized amount will be considered incremental to the one million dollar annual cap (i.e. the amortized amount does not count toward expenses that are deferred in each 12-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 the 2007 Rate Order 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 12 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 leveled 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 12-month period ending March 31, 2013. The Order also authorized Petitioner to defer planning expenses incurred to comply with the Distribution Integrity Management Program (“DIMP”) regulations of the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) (“DIMP Rule”), provided that any such expenses (“DIMP Planning Expenses”) in excess of the \$157,500 estimate shall not be recoverable unless Petitioner submits evidence showing why the actual cost exceeded the cap and demonstrates that the excess costs were reasonably incurred.

The 2011 Order authorized Petitioner to defer Distribution Component expenses for future recovery subject to an annual cap of \$400,000 in addition to the annual cap of \$1,000,000 for the Transmission Component expenses. The Commission approved deferral of incremental expenses above the respective component caps which may be included and recovered in subsequent annual PSA filings, without carrying costs, up to the amount of the each annual cap.

The 2012 Order authorized Petitioner to recover incremental PSA costs deferred during the 12-month period ended March 31, 2012. It also authorized the three-year amortization of the excess deferred balances as of March 31, 2010. The 2012 Order authorized the recovery of DIMP Ongoing Expenses through March 31, 2012. Petitioner was also required to submit quarterly compliance filings beginning January 2013.

The 2013 Order authorized Petitioner to continue the PSA mechanism through the filing for the 12-month period ending March 31, 2016. It authorized an increase to the annual cap for incremental transmission expenses to \$1,500,000. The 2013 Order approved the amortization of the deferred balance as of March 31, 2013 over a three-year period without carrying charges. The amortized amount will be removed from the PSA at the end of the three-year period.

Petitioner’s current PSA factors were placed in effect pursuant to the 2014 Order and reflect incremental PSA costs deferred during the 9-month period ended December 31, 2013. The 2014 Order also authorized Petitioner to merge the PSA with its Compliance and System Improvement Adjustment (“CSIA”) approved in Cause No. 44429 and found that it was no longer necessary for the Petitioner to file quarterly compliance filings. Petitioner was directed to file an annual PSA to recover applicable costs for the remaining months through December 2016 and to properly amortize

previously approved costs for recovery in the PSA, with any variance after December 2016 being transferred to the CSIA for recovery.

4. Petitioner’s Request. In this Cause, Petitioner seeks approval of revised PSA factors to recover year three of the amortization of the March 31, 2013 deferred balance and reconciliation of over and under recoveries from prior periods. As a result of the approved merger of the PSA with Petitioner’s CSIA, as described above, no new PSA expenses were proposed to be recovered through the PSA in this Cause. After completion of this three-year amortization through the PSA in December 2016, Vectren South will transfer any remaining over or under recovery variance to the CSIA and discontinue the PSA.

5. Derivation of PSA. Mr. Swiz testified about the derivation of Petitioner’s proposed adjustments. Mr. Swiz stated that in accordance with the 2007 Rate Order and 2007 Settlement, Petitioner allocated the Eligible Costs to customer classes based on the rate schedule margins determined in that Cause. The costs per rate schedule were divided by the projected rate schedule billing quantities to determine the volumetric rate applicable to each rate schedule. The rates were then modified for recovery of Indiana Utility Receipts Tax.

Mr. Swiz stated that Petitioner’s proposed PSA factors include a Transmission Component for recovery of incremental expenses associated with the DOT Rule, which in this proceeding is \$731,255. This amount reflects (a) year three of the amortization of the deferred balance at March 31, 2013, \$956,586 and (b) refund of an over-recovery through March 31, 2015 of \$225,331. Mr. Swiz said the currently effective PSA is expected to remain in effect through December 18, 2015 to allow Petitioner to fully recover the costs approved in the 2014 Order. He explained that the projected recoveries for the period April 1, 2015 through December 18, 2015 (\$695,986) have been deducted from costs proposed for recovery in this proceeding.

Mr. Swiz testified the PSA factors also include a Distribution Component for recovery of DIMP Implementation Expenses as approved in the 2010 Order. DIMP implementation expenses are allocated based on the distribution operation and maintenance (“O&M”) allocation percentages as presented in the cost of service study filed in the Company’s most recent general rate case, Cause No. 43112. The DIMP component of the PSA includes an over-recovery through March 31, 2015 of \$27,863. The projected recoveries for the period April 1 through December 18, 2015, \$90,063, are also deducted from costs proposed for recovery in this proceeding.

6. Tariff Sheet. Petitioner’s Exhibit JCS-1 contains Petitioner’s proposed PSA tariff sheet, Sheet No. 37, Fourth Revised Page 2 of 2, reflecting the proposed PSA factors. The following table summarizes the PSA factor for each rate class:

Rate Schedule	Transmission Component (\$ per Therm)	Distribution Component (\$ per Therm)	Total PSA Charge (\$ per Therm)
110	\$0.0074	(\$0.0003)	\$0.0071
120/125/129/145	\$0.0028	(\$0.0001)	\$0.0027
160	\$0.0012	\$0.0000	\$0.0012
170	\$0.0001	\$0.0000	\$0.0001

7. **OUC's Evidence.** OUC Witness Mark H. Grosskopf testified that he reviewed Petitioner's filing, cross-checked Petitioner's exhibits and calculations and verified the data in Petitioner's exhibits. Mr. Grosskopf testified that, based on his analysis and review, Petitioner's cost calculations and the rate derivation appear correct and reasonable and in compliance with the terms of the PSA extension approved in the 2013 Order and the subsequent merger of the PSA with the CSIA authorized in Cause No. 44429 and the 2014 Order. He noted the merger of Petitioner's PSA with its CSIA resulted in a cut-off date for inclusion of new expenses in the PSA of December 31, 2013. All applicable PSA expenses incurred after December 31, 2013 will now be included in CSIA filings. Therefore, no new PSA expenses are included in this Cause. This Cause only includes variances from previous PSA recoveries and the final year of amortization for the remaining deferred costs. Accordingly, he recommended approval of the separate and combined transmission and distribution components of the PSA factors as reflected in Petitioner's Exhibit JCS-1.

8. **Discussion and Findings.** Based upon the evidence presented, the Commission finds the proposed PSA is properly calculated and should be approved. Petitioner is authorized to put in effect the PSA factors contained in Petitioner's Exhibit JCS-1 upon filing with and approval by the Natural Gas Division of the Commission.

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

1. Petitioner's proposed PSA factors as set out in this Order are approved and shall be effective for gas service upon approval by the Natural Gas Division of the Commission. Prior to putting the PSA factors in effect, Petitioner shall file with the Natural Gas Division of the Commission an amendment to its tariff reflecting the approved PSA in the form of Petitioner's Exhibit JCS-1.

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

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

APPROVED: NOV 24 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