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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF INDIANA GAS COMPANY, INC. D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN NORTH") FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENTS IN ACCORDANCE WITH I.C. § 8-1-2-42(g) AND 8-1-2-42.3.	CAUSE NO. 37394 GCA 128 APPROVED: NOV 24 2015

ORDER OF THE COMMISSION

Presiding Officer:
David E. Veleta, Administrative Law Judge

On October 1, 2015, in accordance with Indiana Code § 8-1-2-42, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Applicant" or "Vectren North") filed its Application for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the billing cycles of December 2015 through February 2016 with the Indiana Utility Regulatory Commission ("Commission"). Applicant also pre-filed the verified testimony of Perry M. Pergola, Director, Gas Supply, and J. Cas Swiz, Director, Regulatory Implementation and Analysis on October 1, 2015. On October 21, 2015, Applicant pre-filed revised exhibits supporting the proposed GCA factors. On October 26, 2015, Applicant filed updated reconciliation schedules. On October 30, 2015, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Pamela Sue Sargent Haase, Partner with London Witte Group, LLC.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, the Commission held an Evidentiary Hearing in this Cause at 1:30 p.m., on November 17, 2015, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicant and the OUCC were present and participated. The testimony and exhibits of both Applicant and 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 herein, the Commission finds:

1. Statutory Notice and Commission Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicant is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Applicant's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. Applicant's Characteristics. Applicant is a corporation organized and existing under the laws of the State of Indiana. Applicant's principal office is located at One Vectren Square, Evansville, Indiana. Applicant 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. **Source of Natural Gas.** Indiana Code § 8-1-2-42(g)(3)(A) requires Applicant to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible.

According to the testimony of Applicant's Witness Pergola, a portion of Applicant's gas purchases are made in advance of the heating season, pursuant to the Advance Purchases Plan as described in his testimony. Witness Pergola also described Applicant's financial hedging plan and provided details regarding the financial hedges and associated premiums to date for this GCA quarter. Applicant relies upon certain contracts for the provision of firm interstate supply services to its city gate in providing firm supply to customers. As part of his testimony, Witness Pergola presented detail regarding Applicant's firm transportation services utilized on pipeline systems.

In its Order dated March 21, 2013 in Cause No. 37394 GCA 116 S1, the Commission approved Applicant's proposal to adjust the hedging percentages associated with its fixed winter gas supply purchases and annual fixed gas supply purchases. These modifications allow Applicant the flexibility to take advantage of favorable market conditions when the opportunity is available. Furthermore, the Commission granted Applicant permission to enter into long-term contracts with terms up to ten years allowing the opportunity to take advantage of the relatively low prices available for future gas supply. The Hedging Program percentages were adjusted as follows: winter deliveries from 75% to 70% and annual purchases from 60% to 50%.

Additionally, pursuant to the Commission's Order in Cause No. 44021, Applicant has increased the Advance Purchase Plan from six calendar quarters (eighteen months) duration to eight calendar quarters (twenty-four months) in duration and incorporated both physical fixed priced purchases and financial hedges including caps to fulfill the quarterly volumes. In GCA 121, Applicant obtained approval to modify the Advance Purchase Plan from a quarterly approach to a seasonal approach to better align with supply planning and storage management seasons, along with the acquisition pattern of commodity purchases.

Mr. Pergola testified that Applicant has entered into long-term gas supply contracts pursuant to the Commission's Order in Cause No. 37394 – GCA 116S1 issued on March 21, 2013, which approved Vectren North's proposal for two long-term transactions. He described the first long-term fixed-price purchase as a five-year transaction for the term July 2013 through March 2018 at a fixed-price of $4.06 per Dth for 500,000 Dth per month, which equates to approximately 10% of the annual commodity purchases for Applicant. He described the second long-term fixed-price purchase as a ten-year transaction for the term August 2013 through March 2023 at a fixed-price of $4.70 for 80,000 Dth monthly, which equates to approximately 1.6% of the annual commodity purchases for Vectren North. He testified that both contracts utilized the industry standard North American Energy Standards Board contract.

Mr. Pergola testified that Applicant was granted authority to enter into two long-term contracts for a portion of its portfolio of supply in the Commission's Order in Cause No. 37394-GCA 121.

He testified that Applicant entered into a five-year transaction for the term April 2014 – March 2019 at a fixed price of $4.000 per Dth. The volume is roughly three billion cubic feet annually, which equates to 250,000 Dth per month. This volume represents approximately 5% of the projected annual GCA supply in normal weather to be purchased by Applicant. Additionally, Applicant entered into a ten-year transaction for the term April 2014 – December 2023 at a fixed price of $4.335 per Dth. The volume is 1.8 billion cubic feet annually, which equates to 150,000 Dth per month and represents approximately 3% of the projected annual GCA supply in normal weather to be purchased by Applicant.

Vectren North's current Portfolio Administration Agreement with ExGen will terminate on March 31, 2016. Vectren North issued an RFP on September 1, 2015 for a request of competitive proposals for the provision of gas supply administration services from April 1, 2016 through March 31, 2018. Responses to the RFP were due back to Vectren North by September 30, 2015.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on a current and forward-looking basis. Based on the evidence offered, we find that Applicant has demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, we find that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Indiana Code § 8-1-2-42(g)(3)(B) requires that Applicant's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factor. The evidence of record indicates that gas costs in the Application include transport rates that have been filed by Applicant's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the costs to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor which results in Applicant earning a return in excess of the return authorized by the last Commission Order in which Applicant's basic rates and charges were approved. Applicant's current basic rates and charges were approved on February 13, 2008 in Cause No. 43298. The Commission authorized Applicant to earn a net operating income of $61,827,974. In addition, effective July 23, 2015, in Cause No. 44430 TDSIC-2, the Commission approved increases in the allowed Net Operating Income ("NOI") of $3,639,119 and $787,522 for the Compliance and TDSIC components of the Compliance and System Improvement Adjustment mechanism. This has been added to the NOI authorized in Cause No. 43298, with this total representing the total allowed NOI for Vectren North this period.

Applicant's evidence herein indicates that for the 12 months ending August 31, 2015, Applicant's actual net operating income was $56,040,289. Therefore, based on the evidence of record, the Commission finds that Applicant is not earning an excessive return.

Pursuant to the Commission's Orders in Cause Nos. 42943 and 43046, Applicant conducted a return on equity ("ROE") test. As illustrated (Petitioner's Exhibit No. 2, Attachment JCS-2), Applicant's ROE test results in a net income excess of $6,832,000 compared to the $10,214,326 deficit pursuant to the statutorily required earnings test. This computes to an actual ROE of 11.89% compared to Applicant's authorized ROE of 10.20%. The Commission finds the

Applicant has complied with the required submission of the ROE calculation.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Applicant's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Applicant's 12-month rolling average comparison was negative 4.13% for the period ending June 2015. Based on Applicant's historical accuracy in estimating the cost of gas, we find that Applicant's estimating techniques are sound, and Applicant's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

A. **Variances.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that Applicant reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the commodity variance for the reconciliation period of April through June 2015 ("Reconciliation Period") is an under-collection of $1,908,203 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period commodity variance to be included in this GCA as an increase in the estimated net cost of gas is $1,043,844. The commodity variance from prior recovery periods applicable to the current recovery period is an over-collection of $3,315,863. Combining this amount with the Reconciliation Period commodity variance results in a total over-collection of $2,272,019 to be applied in this GCA as a decrease in the estimated net cost of gas.

The evidence presented established that the demand variance for the Reconciliation Period is an under-collection of $1,924,137 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period demand variance to be included in this GCA as an increase in the estimated net cost of gas is $1,052,561. The demand variance from prior recovery periods applicable to the current recovery period is an over-collection of $4,148,191. Combining this amount with the Reconciliation Period demand variance results in a total over-collection of $3,095,630 to be applied in this GCA as a decrease in the estimated net cost of gas

B. **Refunds.** Applicant has $57,118 in nomination and balancing charges that are reflected as new refunds during the Reconciliation Period and has $114,755 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $146,000 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is $104,295,547. Adjusting this total for the demand costs, variances, bad debt costs and refund amounts yields gas costs to be recovered through the GCA of $119,107,257. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Applicant's recommended GCA factors are as follows:

Estimated GCA Factors Per Therm

Rate Schedule	Dec 2015	Jan 2016	Feb 2016
210	$0.3377	$0.3402	$0.3435
211	$0.3377	$0.3402	$0.3435
220	$0.3377	$0.3402	$0.3435
225	$0.0002	$0.0003	$0.0006
229	$0.3377	$0.3402	$0.3435
240	$0.3046	$0.3071	$0.3104
245	$0.0002	$0.0003	$0.0006
260	$0.0002	$0.0003	$0.0006
270	$0.0002	$0.0003	$0.0006

9. **Effects on Residential Customers.** Applicant requests authority to approve the GCA factor of $3.377/Dth for December 2015, $3.402/Dth for January 2016, and $3.435/Dth for February 2016. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dth of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (October 2015 - $4.337/Dth) and a year ago (December 2014 - $5.503/Dth, January 2015 - $4.994/Dth, and February 2015 - $4.877/Dth). The table solely reflects costs approved through the GCA process. It does not include Applicant's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	Proposed Gas Costs (10 Dth)	Gas Costs (10 Dth)	Difference From Current	Gas Costs (10 Dth)	Difference From Year Ago
December	$33.77	$43.37	($9.60)	$55.03	($21.26)
January	$34.02	$43.37	($9.35)	$49.94	($15.92)
February	$34.35	$43.37	($9.02)	$48.77	($14.42)

10. **Interim Rates.** We are unable to determine whether Applicant will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** The Commission indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Applicant's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Applicant may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days

prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, Applicant shall file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

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

1. The Application of Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. for the gas cost adjustment for natural gas service, as set out in Paragraph No. 8 is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the GCA factors approved above or any future flexed factor, Applicant shall file with the Commission under this Cause the applicable rate schedules for the factor.

3. Vectren North will report the outcome of the RFP process for the provision of gas supply administration services to the Commission. Vectren North shall provide a status update in GCA 129.

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

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

APPROVED: NOV 2 4 2015

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission