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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF SOUTHERN INDIANA )  
 GAS AND ELECTRIC COMPANY D/B/A )  
 VECTREN ENERGY DELIVERY OF ) CAUSE NO. 37366 GCA 112  
 INDIANA INC. ("VECTREN SOUTH") FOR )  
 APPROVAL OF CHANGES IN ITS GAS ) APPROVED: NOV 02 2011  
 COST ADJUSTMENT IN ACCORDANCE )  
 WITH I.C. 8-1-2-42(g) AND 8-1-2-42.3. )

ORDER OF THE COMMISSION

**Presiding Officers:**

**Larry S. Landis, Commissioner**

**Loraine L. Seyfried, Chief Administrative Law Judge**

On September 2, 2011, in accordance with Indiana Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA"), with attached Schedules, to be applicable during the billing cycles of November and December 2011, and January 2012 with the Indiana Utility Regulatory Commission ("Commission"). On October 7, 2011, Petitioner pre-filed the verified testimony and exhibits of Perry M. Pergola, Director of Gas Supply; and J. Cas Swiz, Manager of Regulatory and Plant Accounting supporting the proposed GCA factors. On October 12, 2011, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Partner with the London Witte Group.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was commenced in this Cause at 1:30 p.m. on October 18, 2011 and continued to October 31, 2011 at 9:00 a.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record. 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 now finds:

**1. Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over Petitioner and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana, and has its principal office at One Vectren Square, Evansville, Indiana. Petitioner is engaged in rendering 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 Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at lowest gas cost reasonably possible.

According to the testimony of Petitioner's witness Pergola, Petitioner relies upon a "Portfolio Approach" in which gas supply is acquired over a period of time using different pricing mechanisms. He explained that Petitioner blends fixed-priced gas purchased in advance of the month delivery, with summer-purchased storage gas to be withdrawn in winter months, and gas purchased at time of delivery at current market prices. In addition, witness Pergola presented detail regarding Petitioner's firm transportation services utilized on pipeline systems. Mr. Pergola explained that effective April 1, 2011, Petitioner modified its Gas Supply Portfolio and additional changes will be made effective November 1, 2011. Consistent with the approved Settlement Agreement in Cause No. 43963, the GCA credit and Demand Cost Reduction Credit are included in this GCA filing by Petitioner. In addition, witness Pergola explained Petitioner's gas purchases made in advance of the coming heating season, pursuant to the Advance Purchases Program as described in his testimony.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that works to mitigate gas price volatility and considers market conditions and the price of natural gas on a current and forward-looking basis. Based on the evidence offered, the Commission finds Petitioner 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 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 Petitioner'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 this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs to be reasonable. Therefore, the Commission finds the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rate and charges were approved is Cause No. 43112. The Commission's August 1, 2007 Order in that Cause authorized Petitioner to earn a net operating income of \$8,760,160. Petitioner's evidence herein indicates that for the twelve (12) months ending June 30, 2011, Petitioner's actual net operating

income was \$9,588,801. Therefore, based on the evidence of record, the Commission finds that Petitioner is earning in excess of that authorized in its last rate case.

Because Petitioner has earned a return in excess of the amount authorized, Indiana Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Indiana Code § 8-1-2-42.3 (a), is greater than zero. Based upon the evidence of record, the Commission finds the sum of the differentials during the relevant period is less than zero, and, therefore, it is not appropriate to require a refund of any of the amount over earned in this Cause.

Pursuant to the Commission's Orders in Cause Nos. 42943 and 43046, Petitioner conducted a return on equity ("ROE") earnings test. As a result of the earnings test, Petitioner's ROE was 9.19%, which is below the 10.15% ROE authorized in Petitioner's last rate case. The Commission finds Petitioner complied with the requirement for submission of the ROE calculation.

**6. Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimations with the eventual actual costs. The evidence presented indicates that the estimating techniques during the reconciliation period of March 2011 through May 2011 ("the Reconciliation Period") yielded an over-estimated weighted average error of 4.79%.

Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas is reasonable.

**7. Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires the Petitioner reconcile its estimation 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 is an over-collection of \$199,222. This amount shall 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 a decrease in the estimated net cost of gas is \$97,479. The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of \$112,313. Combining this amount with the Reconciliation Period commodity variance, the result is a total under-collection of \$14,834 to be applied in this GCA as an increase in the estimated net cost of gas.

The demand cost variance for the Reconciliation Period is an under-collection of \$250,795. This amount shall be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period demand cost variance to be included in this GCA as an increase in the estimated net cost of gas is \$122,714. The demand cost variance from prior recovery periods applicable to the current recovery period is an over-

collection of \$116,835. When this amount is combined with the Reconciliation Period demand cost variance, the result is a total under-collection of \$5,879, which is to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has pipeline refunds of \$26,688 initiated in this GCA (Petitioner's Exhibit 2, Schedule 12A). These refunds shall be returned, based on estimated sales percentages, in this GCA, GCA113, GCA114, and GCA115 as follows:

GCA	Refund Amount
112	\$13,058
113	\$9,013
114	\$1,903
115	\$2,714

Further, Petitioner had \$32,038 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has \$45,096 in refunds to be returned in this Application. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period, and the gas costs recovered during that same period.

**8. Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is \$21,502,271. Adjusting this total for the variances, refund, bad debt, and demand amounts yields gas costs to be recovered through the GCA of \$23,522,879. After dividing that amount by estimated sales, adding the demand cost per unit of sales, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are as follows:

<u>Estimated GCA Per Therm</u>				
Rate Schedule	Service	November 2011	December 2011	January 2012
110	Sales	\$0.4928	\$0.5096	\$0.5136
120	Sales	\$0.4928	\$0.5096	\$0.5136
125	Transportation	\$0.0000	\$0.0000	\$0.0000
129	Sales	\$0.4928	\$0.5096	\$0.5136
145	Transportation	\$0.0000	\$0.0000	\$0.0000
160	Transportation	\$0.0000	\$0.0000	\$0.0000
170	Transportation	\$0.0000	\$0.0000	\$0.0000

**9. Effects on Residential Customers.** The GCA factor of \$5.076/Dth represents an increase of \$0.182/Dth from the current GCA factor of \$4.894/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

**TABLE 1**  
**Effect on Residential Customers**  
**New vs. Current**

<b>Monthly Consumption (Dth)</b>	<b>Bill at New Estimated GCA</b>	<b>Bill at Current GCA</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$ 47.65	\$ 46.74	\$0.91	1.95%
10	\$ 82.54	\$ 80.72	\$1.82	2.25%
15	\$117.42	\$114.69	\$2.73	2.38%
20	\$152.31	\$148.67	\$3.64	2.45%
25	\$187.20	\$182.65	\$4.55	2.49%

The GCA factor of \$5.076/Dth represents a decrease of \$0.087/Dth from the GCA factor of \$5.163/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

**TABLE 2**  
**Effect on Residential Customers**  
**New vs. One Year Ago**

<b>Monthly Consumption (Dth)</b>	<b>Bill at New Estimated GCA Factor</b>	<b>Bill at GCA One Year Ago</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$ 47.65	\$ 47.72	(\$0.07)	(0.15)%
10	\$ 82.54	\$ 82.68	(\$0.14)	(0.17)%
15	\$117.42	\$117.63	(\$0.21)	(0.18)%
20	\$152.31	\$152.58	(\$0.27)	(0.18)%
25	\$187.20	\$187.53	(\$0.33)	(0.18)%

**10. Interim Rates.** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

**11. Monthly Flex Mechanism.** Petitioner utilizes a flex mechanism each month to adjust the GCA for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex are to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. Changes in the market price included in the flex are limited to a maximum adjustment (up or down) of \$1.00 from the initial market price.

The Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex

mechanism.

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

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

2. Petitioner shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedule on these amendments.

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

**ATTERHOLT, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING:**

**APPROVED: NOV 02 2011**

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



**Brenda A. Howe**  
**Secretary to the Commission**