

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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**VERIFIED JOINT PETITION OF INDIANA GAS)
COMPANY, INC., SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY AND THE BOARD)
OF DIRECTORS FOR UTILITIES OF THE)
DEPARTMENT OF PUBLIC UTILITIES OF THE)
CITY OF INDIANAPOLIS, AS SUCCESSOR)
TRUSTEE OF A PUBLIC CHARITABLE TRUST,)
d/b/a CITIZENS GAS & COKE UTILITY,)
PURSUANT TO IND. CODE § 8-1-2.5 et seq.)
FOR APPROVAL OF AN ALTERNATIVE)
REGULATORY PLAN WHICH WOULD)
ESTABLISH A PILOT UNIVERSAL SERVICE)
PROGRAM)**

CAUSE NO. 42590

APPROVED: AUG 18 2004

BY THE OM _____

**David W. Hadley, Commissioner
Thomas Cobb, Administrative Law Judge**

On March 4, 2004, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("IGC"), Southern Indiana Gas & Electric Company, d/b/a Vectren Energy Delivery of Indiana, Inc. ("SIGECO") and the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust, d/b/a Citizens Gas & Coke Utility ("Citizens") (collectively, the "Petitioners"), filed a Verified Joint Petition seeking approval of Alternative Regulatory Plans ("ARPs") under which each Petitioner would implement a pilot "Universal Service Program" upon Commission approval of their respective ARPs.

On March 5, 2004, IGC and SIGECO (together "Vectren") entered into a Stipulation and Settlement Agreement with the Indiana Office of Utility Consumer Counselor ("OUCC"), and filed it with the Commission. Also, on March 5, 2004, Citizens entered into a Stipulation and Settlement Agreement with the OUCC and filed it with the Commission. The Stipulations set forth the provisions of each Petitioner's proposed ARP, including the terms and conditions governing their respective Universal Service Programs.

On March 12, 2004, Citizens Action Coalition of Indiana, Inc. ("CAC") filed a Petition to Intervene and to be made a party in the proceeding, which was granted by Docket Entry dated March 18, 2004. An ad hoc group of Joint Petitioners' customers known as the Manufacturing and Health Providing Customers ("MHPC") filed a Petition to Intervene on April 5, 2004, which the Commission also granted by Docket Entry on April 7, 2004.

On April 30, 2004, Petitioners and the OUCC entered into and filed with the Commission Amended Stipulation and Settlement Agreements. The primary difference between the original Stipulations and the amended Stipulations was that under the amended Stipulations, customers

eligible to participate in the Program would receive one of three tiered percentage reductions in their bills based on certain criteria. Under the original Stipulations, each petitioning utility's eligible low income customers were to receive the same flat percentage reduction approved by that utility.

Also on April 30, 2004, Joint Petitioners filed the Direct Testimony and Exhibits of Gregory A. Sawyers, Citizens' Director of Customer Services, and L. Douglas Petitt, Vectren's Vice President of Government Affairs, in support of the Amended Stipulations. The OUCC filed the Direct Testimony and Exhibits of Mathew G. Parsell in support of the Amended Stipulations on April 30, 2004.

On May 28, 2004, CAC filed the Direct Testimony and Exhibits of Roger D. Colton and MHPC filed the Direct Testimony of Nicholas Phillips, Jr. Joint Petitioners filed the Rebuttal Testimony of Mr. Sawyers and the Rebuttal Testimony of Mr. Petitt on June 7, 2004. Also on June 7, 2004, CAC's witness Colton and MHPC's witness Phillips filed cross-answering testimony.

Prior to the June 17, 2004 evidentiary hearing, the Parties engaged in ongoing settlement discussions. As a result of those discussions, the Parties reached a settlement in principle of all issues in this proceeding.

Pursuant to notice duly published as required by law, the public evidentiary hearing was commenced in Room TC-10 of the Indiana Government Center South on June 17, 2004 at 9:30 a.m. Petitioners, the OUCC, CAC and MHPC appeared, by counsel, and participated in the evidentiary hearing. During the hearing, Petitioners' Direct Testimony and Exhibits and Rebuttal Testimony were admitted into evidence without objection. The Direct Testimony and Exhibits of the OUCC, CAC and MHPC, also were admitted into evidence without objection, as well as Intervenors' cross-answering testimony. At the close of the public evidentiary hearing, the Commission scheduled a settlement hearing for purposes of considering a formal settlement agreement to be filed by the parties and any evidence in support of that agreement.

On July 15, 2004, Petitioners, the OUCC, CAC and MHPC entered into and filed with the Commission a "Stipulation and Settlement Agreement Among All Parties" (the "Stipulation"). A copy of the Stipulation is attached hereto and incorporated herein by reference. Also on July 15, 2004, Petitioners filed the Supplemental Testimony and Exhibits of Gregory A. Sawyers and L. Douglas Petitt in support of the Stipulation.

Pursuant to notice duly published as required by law, a settlement hearing was commenced in Room TC-10 of the Indiana Government Center South on August 5, 2004 at 9:30 A.M. Petitioners, the OUCC, CAC and MHPC appeared, by counsel, and participated in the settlement hearing. Prior to going on the record, the Presiding Officers were advised that Douglas A. Karl would adopt the Supplemental Testimony and Exhibits of L. Douglas Petitt. During the hearing, Petitioners' Supplemental Testimony and Exhibits were admitted into evidence without objection. The Stipulation was admitted into evidence as Joint Exhibit 1. No party cross-examined Joint Petitioners' witnesses with respect to their Supplemental Testimony. However, Joint Petitioners' witnesses Gregory A. Sawyers, on behalf of Citizens, and Douglas A. Karl, on behalf of Vectren, responded to questions from the Presiding Officers as a panel.

Based on the applicable law and evidence of record, the Commission now finds:

1. **Commission Jurisdiction and Notice** Notice of the hearing in this Cause was given as required by law. Citizens, IGC and SIGECO respectively published legal notice of the filing of the Petition seeking approval of an ARP, as required by I.C. 8-1-2.5-6(d). Proof of publication of the notices was made a part of the record at the hearing. Citizens is a municipally owned gas utility subject to the Commission's jurisdiction under I.C. 8-1-11.1-1. IGC and SIGECO are "public utilities" and "gas utilities" subject to the Commission's jurisdiction. Each of the Joint Petitioners is an "energy utility" under I.C. 8-1-2.5-2. The Commission has jurisdiction over the parties and the subject matter of this proceeding.

2. **Petitioners' Characteristics.** IGC is an operating public utility incorporated under the laws of the State of Indiana, and has an office at 20 N.W. Fourth Street, Evansville, Indiana. IGC has charter power and authority to engage in, and is engaged in the business of rendering gas distribution service solely within the State of Indiana under indeterminate permits, franchises, and necessity certificates heretofore duly acquired. IGC 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 gas service to approximately 542,500 ultimate consumers in 311 communities and adjacent rural areas in 49 counties in the north central, central, and southern portions of Indiana.

SIGECO is an operating public utility incorporated under the laws of the State of Indiana, and has an office at 20 N.W. Fourth Street, Evansville, Indiana. SIGECO has charter power and authority to engage in, and is engaged in the business of rendering both gas and electric public utility service in the State of Indiana. SIGECO owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the production, transmission, delivery and furnishing of service to approximately 132,500 ultimate electric customers and 144,000 ultimate gas customers in southwestern Indiana.

Citizens is a municipally owned gas utility and has its principal office at 2020 North Meridian Street, Indianapolis, Indiana. Citizens has the power and authority to engage in, and is engaged in, the business of rendering gas distribution service solely within the State of Indiana under the terms of Ind. Code § 8-1-11.1. Citizens 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 gas service to approximately 262,000 residential, commercial and industrial customers in and around Marion County, Indiana.

3. **The Stipulation and Resulting ARPs.** Under the terms of the Stipulation, each Petitioner would implement a two-year pilot "Universal Service Program" ("Program") to begin on January 1, 2005 and end on December 31, 2006. During the term of the pilot Program, Petitioners' participating low-income customers will pay a reduced rate for natural gas service. Petitioners may seek to implement the same or a different universal service type program to begin any time after the pilot Program terminates on December 31, 2006. However, any subsequent program shall be initiated by a new petition filed with the Commission.

In response to questions from the Presiding Officers during the settlement hearing, Petitioners' witness Sawyers indicated that the January 1, 2005 start date was chosen to ensure that as many eligible low income customers as possible will be enrolled in the Program prior to

its implementation. Customers enrolled prior to the January 1, 2005 start date will pay a reduced rate for gas service for a full twelve month period.

a. Eligibility Requirements and Assistance Provided. Eligible low-income customers will be enrolled in the Program by existing Community Action Agencies through the State's Energy Assistance Program ("EAP") enrollment process. During the settlement hearing Petitioners witnesses indicated that their respective Companies already had begun working with the Community Action Agencies in their service areas to ensure that they are notified quickly when a new low-income customer enrolls.

In order for low-income customers to be eligible for assistance from the proposed Program, the following criteria must be satisfied: (i) the customer's gross household income must be at or below levels established for assistance from the State's EAP; (ii) the customer must enroll in and qualify for assistance from the State's EAP; (iii) the customer's account must be designated as residential gas service; (iv) the customer must reside at the service address; and (v) there must be only one (1) account in the customer's name.

Petitioners are projecting a combined annual enrollment in the pilot Program of 21,000 low-income customers for IGC and SIGECO and 16,000 for Citizens. These estimates are based on prior enrollment in the State's EAP program. The only limit placed on enrollment in the Program is the requirement that an eligible customer must enroll in and receive funding from the State's EAP program. Once funding for the State's EAP program is exhausted or the end of the enrollment period is reached (i.e., May 31st), enrollment in the Program will end.

The net bill (not including their EAP benefits) for Citizens' and Vectren's low-income customers eligible to participate in the Program, during its first year, will be reduced by an agreed percentage. The State's Benefit Matrix, used in the EAP application process, will determine which percentage reduction an eligible customer will receive. The pre-determined tier structure was established jointly by the Family and Social Services Administration ("FSSA") and Petitioners, using prior heating season low-income data. Prior to the start of the second year of the Program, FSSA and Petitioners will use the Program's first year heating season data to determine if any adjustments are needed to the percentages or the tier structure, subject to approval by the Commission.

Under the terms of the Program, each participating customer's EAP grant will continue to be applied directly to customer bills, in the same manner as it has in the past and at the same time as it otherwise would have. During the first year of the Program, the combined benefit of the discount tiers and the standard EAP benefits will represent an approximate 27%, 40% or 50% reduction in the overall heating costs to Citizens' eligible low-income customers and an approximate 35%, 50% or 60% reduction in the overall heating costs to Vectren's eligible low-income customers.

Under the pilot Program, additional funds will be provided for the weatherization of homes of participating customers. Citizens will increase its annual weatherization program funding to a minimum of \$500,000 annually during the two years of the pilot Program.¹ IGC will designate \$200,000 annually for use in weatherization projects. These funds will be used so

¹ Citizens will dedicate previously committed GCA50 funds to support the increased weatherization activity.

that customers enrolled in the Program with the highest annual usage can be referred to the State weatherization program, or one of Citizens⁷ or IGC⁷'s weatherization programs.

b. Program Funding with Respect to Citizens. Citizens will fund its pilot Program in the following manner. First, all weatherization costs and tiered percentage customer bill reduction amounts will be placed into Citizens⁷ "Universal Service Fund," as a balance to be recouped. Citizens then will apply against this balance \$950,000 from its existing support programs (Warm Heart Warm Home Foundation, Weatherization Funds, GCA 50 Funds) and \$912,000 in new contributions from its unregulated funds.

In accordance with the Stipulation and Settlement Agreement approved in Cause No. 41605 on December 11, 2002, Citizens will pass through to its customers via the Customer Benefit Distribution ("CBD") a per unit credit that is at least equal to the amount of Citizens⁷ recovery through the CBD of FAS106 and FAS71 costs ("Matching Funds"). The Matching Funds amount to \$1,288,000 annually during the term of the pilot Program.

Citizens will incorporate per unit charges into its "Customer Benefit Distribution/ Universal Service Program Funding Tracker" to recover any unfunded balance in the "Universal Service Fund" for residential, commercial and industrial customers (including low-income customers participating in the Program). The charges will be imposed commensurate with Program implementation. Initially, the per dekatherm charge assessed Large Volume and Interruptible customers will be one-half cent (\$0.005) and the per dekatherm charge for Citizens' remaining customers will be equivalent to the per dekatherm Matching Funds. The charge will be tried up, to be effective January 1, 2006, the start of the last year of the pilot Program, but in no event will the per dekatherm charges during the last year of the Program exceed one cent (\$0.01) for Large Volume and Interruptible customers and the per dekatherm Matching Funds for Citizens⁷ remaining customers.

In the event a funding deficit exists at the end of the pilot Program, Citizens may create a regulatory asset and continue to use the above funding mechanism, or for good cause shown, propose an alternate method to recover such deficit, without carrying charges. In the event surplus funding exists at the end of the pilot Program, then such surplus will be included in Citizens' subsequent CBD, unless Citizens obtains Commission approval to utilize such surplus to assist in funding a subsequent Program.

c. Program Funding With Respect to Vectren. Vectren will fund its pilot Program in the following manner. First, all customer bill reductions will be placed into IGC and SIGECO's respective "Universal Service Funds," as a balance to be recouped. Vectren then will apply against this balance all of IGC's and SIGECO's "Share the Warmth" annual funding totaling \$500,000, plus funds collected from donors and matched by IGC and SIGECO in accordance with the terms of the "Share the Warmth" Program. Vectren also will contribute \$25,000 annually from its "below-the-line" income to the "Universal Service Fund".

Any unfunded balance in the Vectren "Universal Service Fund" will be recovered from per unit charges through a Rider ("the USF Rider"), incorporated as part of residential, commercial, and industrial distribution charges (including low-income customers participating in the Program). The Vectren USF Rider will be implemented commensurate with Program implementation based on estimates of eligible customer needs. Initially, the per dekatherm

charge on the USF Rider will be five cents (\$0.05) for residential customers, three cents (\$0.03) for commercial customers and one-half cent (\$0.005) for transportation customers. The USF Rider will be trueed up, to be effective January 1, 2006, the start of the last year of the pilot Program, but in no event will the per dekatherm charges during the last year of the Program exceed seven cents (\$0.07) for residential customers, five cents (\$0.05) for commercial customers and one cent (\$0.01) for industrial customers. Any increase or decrease to the USF Rider will be applied proportionately across customer classes.

In the event there is any remaining deficiency at the end of the Program term, IGC and SIGECO may create a regulatory asset and recover (without carrying charges) such deficiency from their respective customers in the form of per dekatherm charges that do not exceed the above limits. In the event surplus funding exists at the end of the pilot Program, then the surplus will be returned to customers, unless IGC and SIGECO obtain Commission approval to use it to assist in funding a subsequent Program.

d. Annual True-Up. On June 30, 2005, Petitioners will review the pilot Program to determine whether their initial per dekatherm charges need to be revised. Petitioners will file any revisions to their respective Riders, consistent with the limitations described above, pursuant to the Commission's thirty (30) day filing procedures and serve the other parties to this proceeding with copies of any such filing. Upon Commission approval under the 30-day filing process, or otherwise, revised charges would take effect on January 1, 2006.

e. Notice. The stipulation provides that each Joint Petitioner will provide notice describing the benefit and purposes of the program and the respective funding mechanisms twice each year, which notice will be included in residential, commercial and industrial customers' bills. The notice will reflect that the program is a result of an agreement, which has been approved by the Commission as a pilot program.

f. Miscellaneous Provisions. The Stipulation states that Petitioners have agreed to absorb all costs associated with administering their respective Programs. However, each Petitioner will continue to track the administrative costs for review and consideration in future filings relating to the continuation of the Program after December 31, 2006. Any recovery by Petitioners of administrative costs is limited to 5% of the cost of their respective Programs.

Petitioners will retain 50% of any net savings resulting from reduced write-offs of bad debt. The remaining 50% of such net savings will be re-deposited into the respective "Universal Service Funds." If, at the conclusion of the Program, a share of the net savings remains due to customers, such savings will be provided to customers through the GCA or other appropriate means for transportation customers.

On or before June 30th of each year of the pilot Program, Petitioners will submit reports to the Commission and provide copies to the OUCC, MHPC and CAC, showing all necessary and pertinent information from the previous heating season, which will permit the Commission and the Parties to evaluate the performance and effectiveness of the Program in achieving its goals and purposes.

The Stipulation further provides that in the event that during the term of the pilot Program any of the Petitioners has a base rate case pending before the Commission, such case

shall not override the terms of the Stipulation. In any such base rate case, the respective Petitioner's test year and pro forma expenses for the twelve (12) months following the end of the test year shall neither include administrative costs related to the Program, nor any reduction to bad debt expense resulting from the Program.

4. **Discussion and Findings.**

a. **Approval of the Program Under the AUR Act.** Petitioners are "energy utilities" that commenced this Cause for the purpose of seeking Commission approval to implement ARPs, pursuant to I.C. 8-1-2.5. Section 6(a) of the AUR Act authorizes the Commission to adopt alternative regulatory procedures, and establish rates and charges that are in the public interest, and enhance or maintain the value of the utility's energy services or properties. The alternative regulatory plans and practices authorized by the AUR Act include practices, procedures, and mechanisms focusing on the price, quality, reliability, and efficiency of service. I.C. 8-1-2.5-6(a)(1).

Petitioners' witness Petitt testified that the Program will result in rates and charges applicable to Petitioners' low-income customers that will promote efficiency. (LDP-S at 4.) Vectren's qualifying low-income customers will receive at least 35% and up to a 60% reduction in their monthly gas bill, taking into account their annual EAP grants. Citizens' qualifying low-income customers will receive at least 27% and up to a 50% reduction in their monthly gas bill, including their annual EAP grants. These discounts are intended to make winter heating bills more manageable for Petitioners' low-income gas customers and provide them with an opportunity to break the cycle of disconnection and reconnection. This break in the cycle is expected to reduce service terminations, costs related to collections, customer arrearages and Petitioners' outstanding accounts receivable. (LDP at 6.) Petitioners' witness Sawyers testified that the remainder of Petitioners' customers will benefit from the anticipated decrease in number of defaults, and untimely payments, which otherwise would have resulted in higher costs being imposed on them. (GAS-S at 11.)

According to Petitioners, the Program will further promote energy efficiency by requiring participants to be responsible for a manageable portion of their natural gas bill, thereby giving them an incentive to monitor and reduce usage, and if possible, to lower their monthly gas bills. Petitioners testified that the weatherization aspects of the Program are designed to promote energy efficiency through conservation.

Based on the fact that all parties have joined in the Stipulation and on Petitioner's testimony that Petitioners' respective Programs will promote efficiency in the rendering of retail energy services, the Commission finds that the approval of the terms of Petitioners' respective Programs through ARPs, as envisioned by I.C. 8-1-2.5, et seq., is appropriate.

b. **Terms of Petitioners' Respective Programs.** The Stipulation was the result of extensive negotiations among the parties. The Commission has consistently observed that: "Indiana law strongly favors settlement as a means of resolving contested proceedings." Re Indianapolis Power & Light Co., (IURC 8/24/95), Cause No. 39936, p. 7 (citations omitted). The policy is consistent with expressions to the same effect by the Supreme Court of Indiana. See, e.g., Mendenhall v. Skinner & Broadbent Co., 728 N.E.2d 140, 145 (Ind. 2000) ("The policy of the law generally is to discourage litigation and encourage negotiation and settlement of disputes.")

Nevertheless, State law imposes a somewhat different burden on administrative agencies reviewing settlements than may be the case with regard to civil courts:

[S]ettlement carries a different connotation in administrative law and practice from the meaning usually ascribed to settlement of civil actions in a court. While trial courts perform a more passive role and allow the litigants to play out the contest, regulatory agencies are charged with a duty to move on their own initiative where and when they deem appropriate. Any agreement that must be filed and approved by an agency loses its status as a strictly private contract and takes on a public interest gloss. Indeed, an agency may not accept a settlement merely because the private parties are satisfied; rather, an agency must consider whether the public interest will be served by accepting the settlement.

Citizens Action Coalition of Indiana, Inc. v. PSI Energy, Znc., 664 N.E.2d 401, 406 (Ind. Ct. App.1996) (citations omitted).

Furthermore, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 I.A.C. 1-1.1-17(d). Therefore, before the Commission can approve the Stipulation, we must determine whether the evidence in this Cause sufficiently supports the conclusion that the Stipulation is reasonable, just, and consistent with the purpose of Indiana Code § 8-1-2, and that such agreement serves the public interest.

In this matter the parties have fulfilled any reasonable requirement of probative evidence in support of their settlement in an exemplary manner.

Petitioners' witnesses Sawyers and Pettitt testified that the cost of gas commodity in the market place has traded at levels greater than five times the cost level in the late 1990's. (LDP at 5.) Petitioners state that these high energy costs create a disproportionate burden on low-income customers. (*Id.*; GAS at 6) Petitioners testified that the increase in natural gas costs, along with a downturn in the general economy, has resulted in a greater percentage of customers on Petitioners' systems who have experienced difficulty in paying for their gas service. (LDP at 5; GAS at 6-7).

Petitioners anticipate the Program, as set forth in the Stipulation, will provide needed assistance to their respective low-income customers by reducing their costs and making winter heating bills more manageable. (GAS-S at 11.)² Petitioners further expect the Program to decrease the number of defaults, and untimely payments, which otherwise ultimately would have resulted in higher costs being imposed on the remainder of Petitioners' customers. In response to questions from the Presiding Officers during the settlement hearing, Petitioners' witnesses indicated that weatherization of low-income customer homes, will not be reduced during the

² The provisions of the Stipulation with regard to administrative costs require some clarification. The net savings resulting from reduced write-offs of bad debt is calculated by subtracting administrative costs of the program from the estimated write-off savings. Fifty percent of that net savings is then put back into the respective Universal Service Funds, while the remaining savings will be kept by the Petitioners.

term of the Program. Petitioners will continue their current weatherization efforts and intend for the funds set aside under the Stipulation to be their minimum investment in weatherization projects.

We note that the Program incorporates terms proposed by all of the parties involved in this proceeding. For instance, the percentage discount tiers agreed upon by Petitioners and the OUCC in the original Stipulations were modified in the July 15, 2004 Stipulation to conform to recommendations made by CAC's witness Colton. We also note that the parties and the Commission all have a role in evaluating the Program's effectiveness during the annual reporting process. In addition, all of the parties have an opportunity to participate in determining the data to be collected in order to effectively evaluate the Program. In response to questions from the Bench, Petitioners' witnesses stated that they also would welcome the participation of the Commission or its staff. This evaluation process will provide valuable insight in considering any future proposal made by Petitioners to continue the Program beyond its two-year term or to launch a new universal service type program.

The Commission recognizes the importance of fully informing ratepayers of the provisions of the stipulation and its effects. In response to questions from the Presiding Officers, Petitioners agreed to include the Commission Division of Consumer Affairs in the process of reviewing the bill inserts and other information to be made available to ratepayers.

The Stipulation and the ARPs contained therein will provide significant benefits to Petitioners' low-income customers. The Commission finds that this proposal should be approved in its entirety.

The Commission further finds that the evidence submitted constitutes substantial, probative evidence sufficient to support approval of the Stipulation and the ARPs included therein. Our approval of the Stipulation includes the necessary approval of the ARPs. We find that approval of the Stipulation and incorporated ARPs is in the public interest, is reasonable and in conformance with all statutory requirements.

5. **Conclusion.** We find, based upon the applicable law and evidence presented that the Stipulation and the ARPs set forth therein are reasonable, in the public interest and should be approved. With regard to future citation of the Stipulation and Order, we find approval herein should be construed in a manner consistent with our findings in In Re Richmond Power & Light, Cause No. 40434 (IURC 03/19/97).

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

1. The Stipulation filed on July 15, 2004 is hereby approved, and the terms and conditions thereof shall be and hereby are incorporated herein as part of this Order, subject to Finding 5 herein.

2. Petitioners shall file tariff sheets consistent with the Stipulation, which shall become effective upon filing with and the approval of the Commission's Gas/Water/Sewer Division.

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

McCARTY, HADLEY, RIPLEY AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: AUG 18 2004

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

Nancy E. Manley acting for

**Nancy E. Manley
Secretary to the Commission**

FILED

JUL 15 2004

STATE OF INDIANA
BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED JOINT PETITION OF INDIANA GAS)
COMPANY, INC., SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY AND **THE** BOARD)
OF DIRECTORS FOR UTILITIES OF THE)
DEPARTMENT OF PUBLIC UTILITIES OF THE)
CITY OF INDIANAPOLIS, AS SUCCESSOR)
TRUSTEE OF A PUBLIC CHARITABLE TRUST,)
d/b/a CITIZENS GAS & COKE UTILITY,)
PURSUANT TO IND. CODE § 8-1-2.5 et. seq.)
FOR APPROVAL OF AN ALTERNATIVE)
REGULATORY PLAN WHICH WOULD)
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PROGRAM)

CAUSE NO. 42590

IURC
~~INDIANA UTILITY REGULATORY COMMISSION~~ JOINT

EXHIBIT NO. 1

8-5-04 AT
DATE REPORTER

STIPULATION AND AGREEMENT BETWEEN
AMONG ALL PARTIES

Joint Petitioners, the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust, d/b/a Citizens Gas & Coke Utility ("Citizens"), Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("IGC") and Southern Indiana Gas & Electric Company, d/b/a Vectren Energy Delivery of Indiana, Inc. ("SIGECO"), the Indiana Office of Utility Consumer Counselor ("OUCC"), and Intervenors, Manufacturing and Health Providing Customers ("MHPC") and Citizens Action Coalition of Indiana, Inc. ("CAC") (collectively, the "Parties") having been duly advised by their respective staff, experts and counsel, stipulate and agree that the following terms represent an alternative regulatory plan, and a fair, reasonable and just resolution of the issues involved in this proceeding, subject to their incorporation into a non-appealable final order of the Indiana Utility Regulatory Commission (the "Commission") without modification or further condition that may be unacceptable to any Party hereto ("Final Order"). If the Commission does

not approve this Stipulation and Settlement Agreement Among All Parties (the "Agreement") in its entirety, the Agreement shall be deemed null and void and withdrawn, unless otherwise agreed to in writing by the Parties.

I. BACKGROUND

On March 4,2004, Joint Petitioners filed their Verified Joint Petition seeking approval of an alternative regulatory plan for each Joint Petitioner, which would allow each Petitioner to implement a pilot "Universal Service Program." On March 5,2004, IGC and SIGECO (collectively "Vectren") entered into a Stipulation and Settlement Agreement with the OUCC, and filed it with the Commission. Also, on March 5,2004, Citizens entered into a Stipulation and Settlement Agreement with the OUCC and filed it with the Commission.

On March 12,2004, CAC filed a Petition to Intervene and to be made a party in the proceeding. The Commission granted CAC's Petition to Intervene by Docket Entry dated March 18,2004. MHPC filed a Petition to Intervene on April 5,2004, which the Commission granted by Docket Entry dated April 7,2004.

On April 30,2004, Joint Petitioners and the OUCC entered into and filed with the Commission their Amended Stipulation and Settlement Agreements. Also on April 30,2004, Joint petitioners filed the Direct Testimony and Exhibits of Gregory A. Sawyers, Citizens' Director of Customer Services, and L. Douglas Petitt, Vectren's Vice President of Government Affairs, in support of the Amended Stipulations. The OUCC filed the Direct Testimony and Exhibits of **Mathew G. Parsell** in support of the Amended Stipulations on April 30,2004.

On May 28,2004, CAC filed the Direct Testimony and Exhibits of Roger D. Colton and MHPC filed the Direct Testimony of Nicholas Phillips, Jr. Joint Petitioners filed the Rebuttal

Testimony of Gregory A. Sawyers and L. Douglas Petitt on June 7,2004. Also on June 7,2004, CAC's witness Colton and MHPC's witness Phillips filed cross-answering testimony.

Prior to the June 17,2004 evidentiary hearing, the Parties engaged in settlement discussions. As a result of those discussions, the Parties reached a settlement of all issues in this proceeding, under the terms of which they agree the Commission should enter an Order approving an alternative regulatory plan for each Joint Petitioner as outlined below.

II. TERMS AND CONDITIONS OF AGREEMENT

Joint Petitioners will implement a two-year pilot Universal Service Program (the "Program") to begin on January 1,2005 and end on December 31,2006. Under the Program, Joint Petitioners' low-income customers eligible for the Program will pay a reduced rate for natural gas service, as set forth in paragraph A below. The weatherization costs and the amounts resulting from the bill reduction provided will be accumulated for recovery in a "Universal Service Fund" described in paragraph C below.

The Joint Petitioners may seek to implement the same or a different universal service type program ("Subsequent Program") to begin any time after the Program terminates on December 31,2006. Any Subsequent Program shall be initiated by a new petition filed with the Commission, and the petitioner shall bear the burden of proof that such Subsequent Program should be approved by the Commission.

A. Discounts to Eligible Customers

1. Citizens.

The net bill for Citizens' low-income customers eligible to participate in the first year of the Program will be either 9%, 18% or 24% lower than the residential gas service bill. The State's Benefit Matrix, used in the Energy Assistance Program ("EAP") application process, will

determine which percentage reduction an eligible customer will receive. The pre-determined tier structure was established jointly by the Family and Social Services Administration ("FSSA") and Citizens, using prior heating season low-income data. Prior to the start of the second year of the Program, FSSA and Citizens will use the Program's first year heating season data to determine if any adjustments are needed to the percentages or the tier structure.

During the first year of the Program, the combined benefit of the discount tiers and the standard EAP benefits will represent an approximate 27%, 40% or 50% reduction in the overall heating costs to Citizens' eligible low-income customers.

2. Vectren.

The net bill for Vectren's low-income customers eligible to participate in the first year of the Program will be either 15%, 26%, or 32% lower than the residential gas service bill. The State's EAP Benefit Matrix, used in the EAP application process, will **determine** which percentage reduction an eligible customer will receive. The pre-determined tier structure was established jointly by the FSSA and Vectren, using prior heating season low-income data. Prior to the start of the second year of the Program, FSSA and Vectren will use the Program's first year heating season data to determine if any adjustments are needed to the percentages or the tier structure.

During the first year of the Program, the combined benefit of the discount tiers and the standard EAP benefits will represent approximate 35%, 50% or 60% reduction in the overall heating costs to Vectren's eligible low-income customers.

B. Program Eligibility Requirements and Enrollment

1. *Eligibility.* In order for low-income customers to be eligible for assistance from the Program, the following criteria must be satisfied:

- a. The customer's gross household income must be at or below levels established for assistance from the State's EAP;
- b. The customer must enroll in and qualify for assistance from the State's EAP;
- c. The customer's account must be designated as residential gas service;
- d. The customer must reside at the service address; and
- e. There must be only one (1) account in the customer's name.

2. **Enrollment.** Eligible low-income customers will be enrolled in the Program by existing Community Action Agencies through the EAP application enrollment process.

C. Program Funding

1. Citizens

Both weatherization funds and the difference between the bill that otherwise would be payable by Program eligible customers for residential gas service under Citizens' approved and authorized rates after reduction for the standard EAP benefits and the net bill to be paid by Program participants will be recovered first from contributions Citizens will make from existing support programs and new contributions described in paragraph J, below. Citizens' funding of the Program will work as follows:

(a) all weatherization costs and customer bill reductions will be placed into Citizens' Universal Service Fund as a balance to be recouped;

(b) the funds from Citizens' existing support programs and new contributions will be applied against the balance; and

(c) in accordance with the Stipulation and Settlement Agreement approved in Cause No. 41605 on December 11, 2002, Citizens will pass through to its customers via the Customer Benefit Distribution ("CBD) a per unit credit that is at least equal to the amount of Citizens' recovery through the CBD of FAS106 and FAS71 costs ("Matching Funds"). The Matching Funds amount to \$1,288,000 annually during the term of the pilot Program.

(d) Citizens will expand and incorporate into Rider C (the "Customer Benefit Distribution/Universal Service Program Funding Tracker") per unit charges to recover any unfunded balance in the Universal Service Fund for residential, commercial, and industrial customers (including low-income customers participating in the Program). The charges to be added to Rider C will be imposed commensurate with Program implementation. Initially, the per dekatherm charge assessed Large Volume (Gas Rate No. D5) and Interruptible (Gas Rate No. D8) customers will be one-half cent (\$0.005) and the per dekatherm charge for Citizens' remaining customers will be equivalent to the per dekatherm Matching Funds described in subparagraph (c) above. Rider C will be tried up once, to be effective January 1, 2006, the start of the last year of the pilot Program, as described in paragraph D below, but in no event will the per dekatherm charges during the last year of the Program exceed one cent (\$0.01) for Gas Rate Nos. D5 and D8 and the per dekathenn Matching Funds for Citizens' remaining customers.

In the event additional funds are required, Citizens will utilize a portion of its weatherization funds to the extent permitted under paragraph F to make up the difference. In the event a funding deficit exists at the end of the pilot Program, Citizens may create a regulatory asset and continue to utilize the funding mechanism described in this paragraph C, or for good cause shown, propose an alternate method to recover such deficit, without carrying charges. In the event surplus funding exists at the end of the pilot Program, then such surplus shall be

included in Citizens' subsequent CBD, unless Citizens obtains Commission approval to utilize such surplus to assist in funding a Subsequent Program.

2. Vectren

The difference between the bill that otherwise would be payable by Program eligible customers for residential gas service under Vectren's approved and authorized rates after reduction for the standard EAP benefits and the net bill to be paid by Program participants will be recovered first from contributions Vectren will make from existing support programs described in paragraph J, below. Vectren's funding of the Program will work as follows:

(a) all customer bill reductions will be placed into IGC and SIGECO's respective Universal Service Funds as a balance to be recouped;

(b) the funds from Vectren's existing support programs will be applied against the balance; and

(c) any unfunded balance in the "Universal Service Fund" will be recovered from per unit charges ("the USF Rider"), incorporated as part of residential, commercial, and industrial distribution charges (including low-income customers participating in the Program). The Rider will be implemented commensurate with Program implementation based on estimates of eligible customer needs. **Initially**, the per dekatherm charge assessed will be five cents (\$0.05) for residential customers (Rate 10: Indiana Gas; Rate 110: SIGECO), three cents (\$0.03) for commercial customers (Rates 20 and 40: Indiana Gas; Rate 120 Sales: SIGECO) and one-half cent (\$0.005) for transportation customers (Rates 45, 60 and 70: Indiana Gas; Rates 120, transportation, 160 and 170: SIGECO). The USF Rider will be tried up once, to be effective January 1, 2006, the start of the last year of the pilot Program, as described in paragraph D below, but in no event will the per dekatherm charges during the last year of the Program exceed

seven cents (\$0.07) for residential customers, five cents (\$0.05) for commercial customers and one cent (\$0.01) for industrial customers. Any increase or decrease to the USF Rider will be applied proportionately across customer classes. In the event that there is any remaining deficiency at the end of the Program term, IGC and SIGECO may create a regulatory asset and recover (without carrying charges) such deficiency **from** their respective customers in the form of per dekatherm charges that do not exceed the foregoing maximum limits. In the event surplus funding exists at the end of the pilot Program, then such surplus shall be returned to customers, unless IGC and SIGECO obtain Commission approval to utilize such surplus to assist in funding a Subsequent Program.

D. Annual True-Up

On June 30, 2005, Joint Petitioners will review the pilot Program to determine whether the initial charges set forth in subparagraphs C.1.d and C.2.c. above need to be revised. Joint Petitioners shall file any revisions to their respective Riders pursuant to the Commission's thirty (30) day filing procedures. Joint Petitioners shall serve the other Parties with copies of any filing for a revision to their respective Riders. Upon Commission approval under the 30-day filing process, or otherwise, the revised Riders would take effect on January 1, 2006.

E. Notice

Each Joint Petitioner will provide notice describing the benefits and purposes of the Program and the respective funding mechanisms twice each year, which notice will be included in residential, commercial and industrial customers' bills. The notice will reflect that the Program is a result of an agreement, which has been approved by the Commission as a pilot Program.

F. Weatherization of Low Income Homes

1. Citizens

Citizens will increase its annual weatherization program **funding** to a minimum of \$500,000 annually during the two years of the Program. These funds will be used so that customers enrolled in the Program with the highest annual usage can be referred to the State weatherization program, or Citizens' weatherization program. These funds will be reflected in the "Universal Service Fund" and dealt with for recovery in the same manner described in paragraph C.1.

2. Vectren

IGC will designate \$200,000 annually for use in weatherization projects. These funds will be used so that customers enrolled in the Program with the highest annual usage can be referred to the State weatherization program, or one of IGC's weatherization programs. These funds will be reflected in the "Universal Service Fund" and dealt with for recovery in the same manner described in paragraph C.2.

SIGECO has a pending "DSM" proposal, which is not included in this part of the pilot Program; thus SIGECO will not provide incremental weatherization.

G. Service Terminations

Joint Petitioners will continue to protect all eligible Program customers from service termination from December 1 through March 15, as provided in Ind. Code § 8-1-2-121.

H. Pilot Program: Number of Participants

Under the pilot Program, Joint Petitioners are projecting a combined annual enrollment of 21,000 low-income customers for IGC and SIGECO and 16,000 for Citizens. These estimates are based on prior enrollment in the State's EAP program. The only limit placed

on enrollment in the Program is the requirement that an eligible customer must enroll in and receive funding **from** the State's EAP program. Once funding for the State's program is exhausted or the end of the EAP enrollment period is reached (i.e., May 31st), enrollment in the Program will end.

I. Reporting Requirements

On or before June 30th of each year of the pilot Program, Joint Petitioners will submit reports to the Commission and provide copies to the OUCC, MHPC and CAC, showing all necessary and pertinent information **from** the previous heating season, which will permit the Commission and the Parties to evaluate the performance and effectiveness of the Program in achieving its goals and purposes. All parties may participate in determining what data should be collected during the Program and Joint Petitioners will engage Roger D. Colton to assist in that process. The combined maximum amount to be paid by Joint Petitioners to Mr. Colton shall be \$10,000, which amount shall not be included as an administrative expense under paragraph K.

J. Contributions by Joint Petitioners to Support the Program

Joint Petitioners will contribute to the Program to offset a portion of their respective Universal Service Fund balance as follows:

1. Citizens

Citizens will contribute to its Universal Service Fund \$950,000 per year **from** its various support programs currently in place for low-income customers (Warm Heart Warm Home Foundation ("WHWH), Weatherization Funds, GCA 50 Funds) and \$912,000 in new unregulated funds.

2. Vectren

All of IGC's and SIGECO's "Share the Warmth" annual funding totaling \$500,000,

plus funds-collected **from** donors and matched by IGC and SIGECO in accordance with the terms of the "Share the Warmth" Program, will be contributed annually to Vectren's Universal Service Fund. In addition, Vectren will contribute to the Universal Service Fund \$25,000 annually **from** its "below-the-line" income.

K. Administrative Costs

Joint Petitioners will absorb all costs associated with administering the pilot Program. However, Joint Petitioners will continue to track (i.e., monitor and report) the administrative costs of the pilot Program for review and consideration in future filings relating to any Subsequent Program. Any recovery by Joint Petitioners of administrative costs will be limited to 5% of the cost of their respective Programs. The cost of the Program is defined as weatherization costs and customer bill reductions. Any administrative costs recovered shall not include any amounts previously recovered under the procedures set forth below.

Joint Petitioners will retain 50% of any net savings resulting **from** reduced write-offs of bad debt. The remaining 50% of such net savings will be re-deposited into the respective Joint Petitioners' Universal Service Funds.

For the purposes of estimating the Program write-off savings, Joint Petitioners will report, as their benchmarks for the most recent fiscal year, EAP customer write-offs and write-offs as a percent of total revenue. At the end of each subsequent fiscal year, each of the Joint Petitioners will provide its EAP customer write-offs and total revenue data. This will enable an estimate of write-off savings attributable to the Program by multiplying the benchmark write-off percent by the current year's total revenues and comparing the product to the actual write-offs experienced. Other reasonable evidence and estimates also may be considered. The Parties will work together to reach agreement on the EAP write-off savings attributable to the Program. In

the event an agreement can not be reached, the Parties would take the issue to the Commission for resolution.

The estimated write-off savings, if any, will be adjusted by the amount of associated Program administrative costs. Program administrative costs will be subject to audit and may include costs associated with necessary system changes; increased customer inquiry volumes; training costs for both Joint Petitioners' and Community Action Agencies' support staff; and communication and education expenses to support the changes to the State's EAP Program. In addition, Program administrative costs will include an amortization of the start up costs associated with the Program, including legal fees and consulting fees. These administrative costs will be amortized over the life of the Program and are also subject to audit. The EAP write-off savings net of the Program administrative costs will be multiplied by 50% to determine the amount to be re-deposited to the Joint Petitioners' Universal Service Funds.

If, at the conclusion of the Program, a share of the net savings remains due to customers, Joint Petitioners agree that such savings shall be provided to customers through the GCA or other appropriate means for transportation customers.

L. Effect on Future Rate Cases

In the event that during the term of the pilot Program any of the Joint Petitioners has pending before the Commission a base rate case, such case shall not override the terms of this Agreement. In any such base rate case, the respective Joint Petitioner's test year and pro forma expenses for the twelve months following the end of the test year shall neither include administrative costs related to the Program, nor any reduction to bad debt expense resulting from the Program. Rather, the administrative cost of the Program, and its likely favorable reduction of

bad debt expense, will be considered through the net savings calculation provided for in paragraph K above.

M. Presentation of this Agreement to the Commission

The Parties shall support this Agreement before the Commission and request that the Commission accept and approve this Agreement without any changes or conditions(s) unacceptable to any party. The Parties agree that this Agreement shall be submitted to the Commission for approval on the condition that if the Commission fails to approve this Agreement in its entirety without any changes or condition(s) unacceptable to any of the Parties, this Agreement and the supporting evidence shall be withdrawn, and the Commission shall conduct a second prehearing conference, set another procedural schedule and continue with the litigation of this Cause at the point where it was suspended or dismiss the proceeding, at the option of the Parties.

N. Public Announcements and Marketing Materials

The OUCC will have an opportunity to review and concur with Joint Petitioners' public announcements and marketing materials. Following Commission approval of the Program, Joint Petitioners will include information about the Program on their websites and include a brief description of the OUCC, its role, contact information as well as provide a link to the OUCC's own web page. All marketing materials used by Joint Petitioners regarding the Program should provide brief information about the OUCC, its role, as well as the relevant contact information.

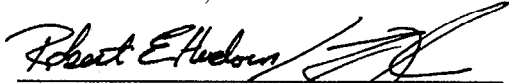
O. Effect and Use of Agreement

1. There are no other agreements in existence between the Parties relating to the matters covered by this Agreement which in any way affect this Agreement.

2. This Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any tribunal of competent jurisdiction on these particular issues. This Agreement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the issues resolved herein in any future regulatory or other proceeding.
3. The undersigned have represented and agreed that they are fully authorized to execute this Agreement on behalf of their designated clients, and their successors and assigns, who will be bound thereby.
4. In the event that the Commission enters a Final Order changing or modifying the terms of this Agreement, the Parties shall indicate on the record within twenty (20) days after entry of the Order whether such changes or modifications are acceptable.
5. The provisions of this Agreement shall be enforceable by any Party, in any tribunal of competent jurisdiction, including but not limited to the Commission.
6. The communications and discussions during the negotiations and conferences attended by the Parties, their attorneys, and their consultants have been conducted on the explicit understanding that said communications and discussions are or relate to offers of settlement and therefore are privileged. All prior drafts of this Agreement also are or relate to offers of settlement and are therefore privileged.
7. The Parties shall not appeal or seek rehearing, reconsideration or a stay of any Final Order entered by the Commission approving the Agreement in its entirety without changes or condition(s) unacceptable to any Party (or related orders to the extent such orders are specifically implementing the provisions of this Agreement) and shall support this Agreement in the event of any appeal or a request for rehearing, reconsideration or a stay by any person not a party hereto.

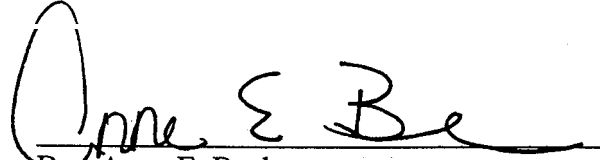
Accepted and Agreed on this 15th day of July, 2004.

INDIANA GAS COMPANY, INC., and
SOUTHERN INDIANA GAS &
ELECTRIC COMPANY, INC., d/b/a
VECTREN ENERGY DELIVERY
OF INDIANA, INC.



By: Robert E. Heidorn (Atty. #14264-49)
Vice President and General Counsel
Vectren Corporation
20 N. Fourth St., P.O. Box 209
Evansville, IN 47702-0209

INDIANA OFFICE OF UTILITY
CONSUMER COUNSELOR



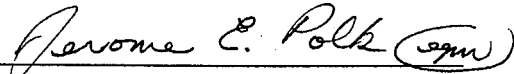
By: Anne E. Becker
Randall C. Helmen
Indiana Office of Utility Consumer Counselor
Indiana Government Center North
100 N. Senate Avenue, Room N501
Indianapolis, Indiana 46204-2208

THE BOARD OF DIRECTORS FOR
UTILITIES OF THE DEPARTMENT OF
PUBLIC UTILITIES OF THE CITY OF
INDIANAPOLIS, AS SUCCESSOR TRUSTEE
OF A PUBLIC CHARITABLE TRUST
D/B/A CITIZENS GAS & COKE UTILITY



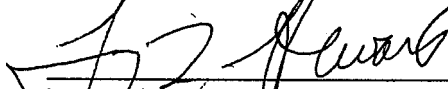
By: Michael B. Cracraft (Atty. #3416-49)
Steven W. Krohne (Atty. #20969-49)
Hackman Hulett & Cracraft, LLP
One Indiana Square, Suite 2400
Indianapolis, IN 46204-2030

CITIZENS ACTION COALITION
OF INDIANA, INC.



By: Jerome E. Polk (Atty. # 23712-49)
Michael A. Mullett (Atty. #10124-03)
Mullett, Polk & Associates, LLC
309 W. Washington Street, Ste. 233
Indianapolis, IN 46204

MANUFACTURING AND HEALTH
PROVIDING CUSTOMERS



By: John F. Wickes, Jr. (Atty. #1230-49)
Timothy L. Stewart (Atty. #2189-49)
Lewis & Kappes, P.C.
1700 One American Square
Box 82053
Indianapolis, IN 46282-0003