

# ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	✓		
Freeman	✓		
Krevda	✓		
Ober	✓		
Ziegner	✓		

## STATE OF INDIANA

### INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA GAS )  
COMPANY, INC. D/B/A VECTREN ENERGY )  
DELIVERY OF INDIANA, INC. FOR (1) )  
APPROVAL OF AN ADJUSTMENT TO ITS GAS )  
SERVICE RATES THROUGH ITS CSIA RATE )  
SCHEDULE, (2) AUTHORITY TO DEFER 20% OF )  
THE APPROVED EXPENDITURES FOR )  
RECOVERY IN PETITIONER'S NEXT GENERAL )  
RATE CASE, (3) APPROVAL OF PETITIONER'S )  
UPDATED 7-YEAR PLAN, INCLUDING ACTUAL )  
AND PROPOSED ESTIMATED CAPITAL )  
EXPENDITURES AND CSIA COSTS, AND (4) )  
APPROVAL OF TWO TARGETED ECONOMIC )  
DEVELOPMENT PROJECTS, ALL PURSUANT TO )  
IND. CODE CHPT. 8-1-8.4 AND 8-1-39 AND THE )  
COMMISSION'S ORDER IN CAUSE NO. 44429 )

CAUSE NO. 44430 TDSIC 12

APPROVED: JUL 22 2020

### ORDER OF THE COMMISSION

#### Presiding Officers:

**Sarah E. Freeman, Commissioner**

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

On April 2, 2020, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc., a CenterPoint Energy Company ( "Petitioner " or "Vectren North ") filed its Verified Petition with the Indiana Utility Regulatory Commission ( "Commission "). On that same day, Petitioner filed the verified testimony and attachments of Steven A. Hoover, Regional Director of Gas Engineering for the Indiana/Ohio Region of CenterPoint Energy, Inc. ( "CenterPoint "); Sarah J. Vyvoda, Manager of Transmission and Storage Integrity Management for Centerpoint; Brian C. Gildea, Economic Development Manager for Vectren North; and J. Cas Swiz, Director of Regulatory and Rates for CenterPoint.

On April 15, 2020, a Docket Entry was issued establishing a subdocket, Cause No. 44430 TDSIC 12 S1, to address the approval of two targeted economic development ( "TED ") projects.

On May 29, 2020, the Indiana Office of Utility Consumer Counselor ( "OUCC ") filed the testimony of Angela J. Griffith, Utility Analyst for the Natural Gas Division, and Brien R. Krieger, Utility Analyst for the Natural Gas Division.

On June 12, 2020, Vectren North filed the verified rebuttal testimony and corrections to direct testimony of Mr. Hoover and Mr. Swiz.

On June 24, 2020, with agreement from Vectren North, the OUCC filed the supplemental testimony of Mr. Krieger.

The Commission set this matter for an evidentiary hearing to be held on June 30, 2020, at 1:00 p.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. On June 24, 2020, a docket entry was issued advising that in accordance with Indiana Governor Holcomb's Executive Orders related to the COVID-19 pandemic, the hearing would be conducted via electronic conferencing and provided related participation information. At the hearing, Vectren North and the OUCC offered their respective evidence, which was admitted into the record without objection.

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) and 8-1-39-4 and an energy utility as defined in Ind. Code § 8-1-2.5-2. Under Ind. Code ch. 8-1-39, the Commission has jurisdiction over a public utility's seven-year plan for eligible transmission, distribution, and storage improvements, including TED projects and extension of gas service in rural areas. Under Ind. Code chs. 8-1-8.4, 8-1-39, and Ind. Code § 8-1-2-42, the Commission has authority over certain changes to Petitioner's rates and charges. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

**2. Petitioner's Characteristics.** Vectren North is a corporation organized and existing under the laws of the State of Indiana with its principal office located at One Vectren Square, Evansville, Indiana. Petitioner 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. Background.** Vectren North's 7-Year Plan, which consists of various projects to comply with federal mandates ( "Compliance Projects ") and improve safety, reliability, or modernization of its gas pipeline systems ( "TDSIC Projects "), was initially approved in the Commission's Order in Cause No. 44429 (consolidated with Cause No. 44430) ( "44429 Order "). Thereafter, the Commission has issued additional Orders approving updates to the 7-Year Plan and authorizing the associated cost recovery through Petitioner's Compliance and System Improvement Adjustment ( "CSIA ").

**4. Relief Requested.** Petitioner requests approval of: (a) CSIA charges based on 80% of the calculated revenue requirement on recoverable investments and expenses associated with Compliance Projects and TDSIC Projects; (b) deferral of 20% of the revenue requirement on recoverable Compliance and TDSIC Projects; (c) an update to its 7-Year Plan; (d) an adjustment to its authorized net operating income ( "NOI ") to reflect any approved earnings for purposes of Ind. Code § 8-1-2-42(g)(3); and (e) two TED projects.<sup>1</sup>

**5. Commission Discussion and Findings Related to Petitioner's Updated 7-Year Plan.** Ind. Code § 8-1-39-9(a) requires a utility to update its 7-year plan as a component of the

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<sup>1</sup> Petitioner's request for approval of two TED projects was addressed in Cause No. 44430 TDSIC 12 S1.

transmission, distribution, and storage system improvement charge ( “TDSIC “) periodic automatic adjustment filings. Petitioner’s 7-Year Plan includes both Compliance Projects approved pursuant to Ind. Code § 8-1-8.4 and TDSIC Projects approved pursuant to Ind. Code § 8-1-39. Petitioner seeks approval of updates to both types of projects.

**A. Compliance Projects.** Mr. Hoover testified that the Compliance Projects include activities and costs Vectren North is required to incur in complying with federal mandates. He generally described the revisions to the Compliance Projects contained in Petitioner’s updated 7-Year Plan and sponsored Attachments SAH-4, SAH-5, SAH-6, and SAH-11 to Petitioner’s Exhibit 1, which provided additional information concerning the changes.

After reviewing Petitioner’s updated 7-Year Plan, OUCC witness Krieger testified that Petitioner provided adequate support for most of the proposed cost increases to the Compliance Plan Projects. However, Mr. Krieger recommended disallowing \$55,000 for Project No. 4294 because these costs represent modifications required for ongoing access for operation and maintenance of filters that were not considered in the design phase. He also noted that \$219 was incorrectly applied to Project No. 2876. With those exceptions, the OUCC recommended approving the updates to Petitioner’s Compliance Projects as contained in the updated 7-Year Plan.

In rebuttal, Petitioner witness Hoover testified that he agrees to the removal of \$55,000 from Project No. 4294 in this and future proceedings and the \$279 erroneously charged to Project No. 2876.<sup>2</sup>

In the OUCC’s supplemental filing, Mr. Krieger accepted Vectren North’s rebuttal position.

**B. TDSIC Projects.** Mr. Hoover testified that the TDSIC Projects are related to Vectren North’s gas transmission, distribution, and storage systems and made for purposes of safety, reliability, system modernization, or economic development. He sponsored Attachment SAH-8 to Petitioner’s Exhibit 1, which includes an identification of specific assets, the year construction on a project is to begin, an estimate of the costs, details about variances and other information. Mr. Hoover testified that the revisions to the TDSIC Projects consist primarily of rescheduling projects and estimate revisions due to changes and refinements in project scopes or updated cost information.

After reviewing the updated 7-Year Plan, OUCC witness Krieger noted that Petitioner added 20 new TDSIC projects and 18 rural extension projects. Mr. Krieger did not take issue with any of the TDSIC Projects, but requested Petitioner supply 20-year margin tests for all new rural extension projects in the future in Petitioner’s workpapers.

In rebuttal, Petitioner made a few corrections to TDSIC projects identified during discovery with the OUCC. Petitioner also agreed to provide 20-year margin test documentation for new rural extension projects in future TDSIC filings.

**C. Conclusion.** Based on the evidence presented, we find that Petitioner’s

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<sup>2</sup> Although the amount referenced in response to OUCC Data Request 1.18 was \$219 for Project No. 2876, the actual charges were \$279.

updated 7-Year Plan as presented in Petitioner's Exhibit 1 (with the revisions reflected in Petitioner's Exhibit 5, Attachments SAH-R4, SAH-R5, SAH-R8 and SAH-R12) is reasonable, and we approve it. We find Petitioner has provided sufficient support for the approved cost estimates of the eligible improvements included in the updated 7-Year Plan, as well as the projected effects of the updated 7-Year Plan on retail rates and charges. In addition, the evidence demonstrates that the public convenience and necessity continues to require the eligible improvements, and the estimated costs are justified by the incremental benefits.

**6. Commission Discussion and Findings Regarding CSIA Costs.** Petitioner requests approval of the federally mandated costs and TDSIC costs it incurred related to Compliance and TDSIC Projects during the period of July 1, 2019 through December 31, 2019 ( "TDSIC-12 Period ") pursuant to its 7-Year Plan.

**A. Compliance Project Costs.** Mr. Hoover described the activities Petitioner has undertaken and costs needed to comply with federal mandates, including those pursuant to the transmission integrity management program ( "TIMP " ), the distribution integrity management program ( "DIMP " ) pipeline safety rules, as well as the Safety of Underground Natural Gas Facilities Rule. Mr. Hoover testified that in the TDSIC-12 Period, Vectren North invested approximately \$38.1 million in capital expenditures for Compliance Projects and also provided a summary of these investments.

Ms. Vyvoda stated that the operation and maintenance ( "O&M " ) expenses associated with the Compliance Projects for Petitioner during the TDSIC-12 Period were approximately \$8.4 million. She described the TIMP, DIMP, and other activities undertaken by Petitioner for Compliance Projects during the TDSIC-12 Period that caused O&M expenses. Included in these activities were projects and on-going processes intended to reduce Vectren North's facility damage rate and improve pipeline safety. Ms. Vyvoda also provided an update on the impact of the recently published Safety of Gas Transmission and Gathering Line Rule and the Safety of Underground Natural Gas Storage Facilities Final Rule.

OUCG witness Ms. Griffith generally agreed with Petitioner's methodology for calculating its Compliance Project costs. Ms. Griffith recommended Petitioner prepare a new revenue requirement removing costs associated with Project Nos. 4294 and 2876 as proposed by OUCG witness Krieger.

Petitioner's witness Swiz sponsored Petitioner's Exhibit 6, Attachment JCS-R1, which updated the CSIA total revenue requirement to reflect the removal of \$55,279 associated with Project Nos. 4294 and 2876.

**B. TDSIC Project Costs.** Mr. Hoover described the activities Petitioner has undertaken to invest in transmission, distribution, and storage system improvements for purposes of safety, reliability, system modernization, or economic development. He testified that in the TDSIC-12 Period, Vectren North invested approximately \$13 million in capital expenditures on TDSIC Projects. He also provided a summary of these investments and explained the variances.

OUCG witness Griffith expressed agreement with Vectren North's TDSIC component calculations.

**C. Conclusion.** Based on the evidence presented, we find that Petitioner has adequately described the Compliance and TDSIC Project investments and associated expenses. We find Petitioner's removal of \$55,279 associated with Project Nos. 4294 and 2876 to be appropriate and reasonable. Accordingly, we find Petitioner's expenses incurred during the TDSIC-12 Period are reasonable and eligible for recovery through its CSIA.

**7. Commission Discussion and Findings Regarding Revenues and Rates.** The 44429 Order granted Petitioner accounting authority for, and subsequent recovery of, costs associated with its approved 7-Year Plan. The accounting authority includes the timely recovery within the CSIA of 80% of the revenue requirement associated with the 7-Year Plan capital investments and O&M expenses, and deferral of the remaining 20% of the revenue requirement until Petitioner's next base rate case, which is to be filed in accordance with Ind. Code § 8-1-39-9(d).

Petitioner proposes the following ratemaking and accounting treatment, in accordance with the 44429 Order:

- (1) Authorization of the eligible revenue requirement amounts as of December 31, 2019, inclusive of the Compliance and TDSIC Component amounts associated with:
  - a. capital investment in eligible projects, both completed and under construction;
  - b. financing costs incurred on projects during construction;
  - c. post-in-service carrying costs on eligible completed projects; and
  - d. deferred Compliance Project-related O&M expenses, projected incremental depreciation, and property tax expenses.
- (2) Recovery, via the CSIA, of 80% of the eligible revenue requirement amounts as of December 31, 2019, which is \$73,668,693.
- (3) Deferral of 20% of the eligible revenue requirement amounts as of December 31, 2019, which is \$18,417,172, for subsequent recovery in a base rate case.

Petitioner filed its Verified Petition and case-in-chief supporting its request for approval of CSIA rates and charges on April 2, 2020. Mr. Hoover sponsored a copy of Petitioner's updated 7-Year Plan. As approved in the 44429 Order, Mr. Swiz used the customer class revenue allocation factor based on firm load that was approved in Petitioner's most recent retail base rate case. He also provided schedules identifying the projected effects of the 7-Year Plan on Petitioner's retail rates and charges. Therefore, we find that Petitioner has satisfied the requirements of Ind. Code § 8-1-39-9(a) to file a petition allowing periodic automatic adjustments through the CSIA.

**A. Billing Period.** In the Commission's Order in Cause No. 44430 TDSIC 1, we approved Petitioner filing its petitions and cases-in-chief every six months, on or before October 1 and April 1 of each year, with new semi-annual CSIA charges becoming effective on January 1 and July 1, respectively. There are no changes to the reconciliation period in each filing; the October filings recover costs incurred January through June of the same year and the April filings recover costs incurred July through December of the previous year. The following table summarizes the procedural schedule:

<b>Filing Date</b>	<b>Update Actual Costs Incurred Through</b>	<b>Implement Updated CSIA</b>
October 1	June 30	January 1
April 1	December 31	July 1

**B. EADIT Credit.** Mr. Swiz testified that Petitioner is including a projected level of EADIT Credits within the TDSIC in accordance with the stipulated provisions in the August 29, 2018 Order in Cause No. 45032 S21 ( “Tax Reform Order “). This amount of \$(11,460,581) is the annual projected credit for January 2020 through December 2020, and is allocated in accordance with the Tax Reform Order’s allocation percentages. The OUCC supported Petitioner’s calculation and allocation of the EADIT Credit. The Commission finds that the proposed EADIT Credit has been properly calculated consistent with the requirements of the Tax Reform Order.

**C. Revenue Requirement.** Mr. Swiz explained how Petitioner calculated the CSIA in this filing. He stated the revenue requirement for both the Compliance and TDSIC Projects includes the return on new capital investments, incremental property tax, and depreciation expenses, as well as recovery of the regulatory assets recorded through the deferral of O&M expense, the interim deferral of depreciation expense, and post-in-service carrying costs. Petitioner then multiplied the total annual revenue requirement by 80% to achieve the recoverable portion of the revenue requirement for the TDSIC-12 Period of \$73,668,693. This total recoverable amount will be utilized to derive semi-annual rates based on annualized billing determinants. OUCC witness Griffith agreed with Petitioner’s methodology of calculating the 80% recoverable portion and the 20% deferral portion of the revenue requirement.

Petitioner’s Exhibit 6, Attachments JCS-R1, JCS-R2, and JCS-R3 shows the detailed calculations of the underlying revenue requirements as of December 31, 2019 related to eligible Compliance and TDSIC Project costs, adjusted for the items agreed to in rebuttal by Mr. Hoover. Mr. Swiz also provided detailed schedules of the return on new capital investment and incremental expenses, as well as the accumulated depreciation and construction work in progress balances attributed to the new capital investments as of December 31, 2019.

Mr. Swiz explained the process used to segregate and record the capital costs of the 7-Year Plan during and at completion of construction. He stated that the requirements of the Federal Energy Regulatory Commission Uniform System of Accounts were followed in recording project construction costs. He also explained the capitalized overheads included in the construction costs and the allowance for funds used during construction.

The Commission may not approve a TDSIC that would result in an average aggregate increase in a public utility’s total retail revenues of more than 2% in a 12-month period. Petitioner provided information showing that there is no amount in excess of 2% of retail revenues for the past 12 months. Based on this evidence, we find that Petitioner’s proposed CSIA charges will not result in an average aggregate increase in Petitioner’s total retail revenues of more than 2% in a 12-month period.

We find, based on the evidence in the record, that Petitioner's request to begin earning a return on the value of the eligible TDSIC and Compliance Projects incurred through December 31, 2019, as presented in the 7-Year Plan, complies with the tracker authority approved in the 44429 Order, and it is approved. When Petitioner completes projects in the last year of the 7-Year Plan, some of the costs for these projects will occur outside of the 7-Year Plan period, and thus will not be included for recovery through the CSIA mechanism.

We further find that Petitioner's proposed total revenue requirement has been calculated in compliance with the tracker methodology approved in the 44429 Order, and it is approved. Pursuant to Ind. Code chs. 8-1-39 and 8-1-8.4, only 80% of this revenue requirement is recoverable in the Petitioner's CSIA mechanism. We approve the recovery of 80% of the total revenue requirement amount, \$73,668,693. We also approve the deferral for subsequent recovery in Vectren North's next base rate proceeding of 20% of the total revenue requirement amount, \$18,417,172. In addition, the collection of 80% of the revenue requirement is, in order of priority, the full return on the investments, including the full equity and debt return, and then eligible operating expenses. The collection priority will not impact the total amount authorized by the Commission in this order for immediate recovery in the CSIA, nor the amount deferred and authorized for future recovery in a base rate proceeding as noted in Petitioner's Exhibit 6, Attachment JCS-R1, Schedule 4. In the event the authorized revenue requirement in a TDSIC proceeding is not fully recovered in the applicable CSIA, the unrecovered amount becomes a variance that is recoverable in the subsequent reconciliation process.

**D. Authorized Net Operating Income.** In accordance with the 44429 Order, Mr. Swiz testified that Petitioner will adjust its statutory NOI earnings test by increasing its authorized NOI by incremental earnings from approved CSIA filings. OUCC witness Griffith found no errors in Petitioner's methodology of calculating the adjustment to authorized NOI.

Based on the evidence of record, we find that Petitioner has properly calculated the after-tax return on investment that will be added to the authorized NOI. Therefore, effective with the approved rates in this Cause, Petitioner will adjust its authorized NOI by \$28,510,852 for the Compliance Projects and by \$10,416,226 for the TDSIC Projects.

**E. Reconciliations.** Mr. Swiz testified that Petitioner is including a reconciliation of revenues and costs in this filing, starting with rates approved in Cause No. 44430 TDSIC-10. As required by past TDSIC orders, Petitioner submitted testimony detailing and supporting the calculation of the variance and provided the OUCC with this calculation during the pre-filing meeting. The variance included for recovery totaled \$3,269,331 of under-collections for the TDSIC-12 Period. These variances are determined by specific Rate Schedule and included in the rates and charges proposed in this filing. The OUCC supported Petitioner's calculation of the variance. Based on the evidence in the record, we find that Petitioner has properly calculated the reconciliation variance for the TDSIC-12 Period.

**8. Confidential Information.** Petitioner filed a Motion for Protective Order on April 2, 2020, which was supported by affidavit showing certain information to be submitted to the Commission was trade secret information within the scope of Ind. Code §§ 5-14-3-4(a)(4) and 24-2-3-2. The Presiding Officers issued a Docket Entry on April 15, 2020, finding such information to be preliminarily confidential, after which Petitioner and the OUCC submitted such information

under seal. We find all such information is confidential pursuant to Ind. Code §§ 5-14-3-4 and 8-1-2-29, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

1. The Compliance Projects are compliance projects undertaken to comply with federally mandated requirements within the meaning of Ind. Code ch. 8-1-8.4.

2. Petitioner's updated 7-Year Plan, including the updated project lists and project cost estimates, is approved as set forth herein. Petitioner is authorized to recover 80% of the costs incurred in connection with the updated 7-Year Plan in the amount of \$73,668,693 through the CSIA and to defer 20% of the costs incurred, including ongoing carrying charges on all deferred costs, in the amount of \$18,417,172 for recovery in its next general rate case.

3. Petitioner's requested CSIA rates and charges set forth in Petitioner's Exhibit 6, Attachment JCS-R5 are approved.

4. Pursuant to Ind. Code §§ 8-1-39-9(a) and 8-1-8.4-7(c)(1), Petitioner is authorized to implement its CSIA Rate Schedule as described in Petitioner's Exhibit 6. Prior to implementing the rates, Vectren North shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the date of approval.

5. Petitioner is authorized to adjust its net operating income for purposes of the gas cost adjustment earnings test calculation pursuant to Ind. Code § 8-1-2-42(g)(3) by the amounts approved in this order.

6. Information filed pursuant to the Petitioner's Motion for Protective Order is deemed confidential pursuant to Ind. Code § 5-14-3-4, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

**HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:**

**APPROVED: JUL 22 2020**

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



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**Mary M. Becerra**  
**Secretary of the Commission**