

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA GAS)
COMPANY, INC. AND SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY d/b/a VECTREN)
ENERGY DELIVERY OF INDIANA, INC., FOR (1))
APPROVAL OF COMPLIANCE PROJECTS)
REQUIRED TO COMPLY WITH THE PIPELINE)
AND HAZARDOUS MATERIALS SAFETY)
ADMINISTRATION'S STORAGE RULES,)
ISSUANCE OF A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY FOR)
COMPLIANCE PROJECTS; AUTHORITY FOR)
THE TIMELY RECOVERY OF 80% OF THE)
FEDERALLY MANDATED COSTS THROUGH)
PETITIONER'S CSIA; (2) AUTHORITY TO)
DEFER 20% OF THE FEDERALLY MANDATED)
COSTS FOR RECOVERY IN PETITIONERS')
NEXT BASE RATE CASE; AND (3) APPROVAL OF)
ACCOUNTING AND RATEMAKING; ALL)
PURSUANT TO IND. CODE § 8-1-8.4.)

CAUSE NO. 44971

APPROVED: DEC 28 2017

ORDER OF THE COMMISSION

Presiding Officers:

Angela Weber, Commissioner

Carol Sparks Drake, Administrative Law Judge

On August 3, 2017, Indiana Gas Company, Inc. ("Vectren North") and Southern Indiana Gas and Electric Company ("Vectren South"), both d/b/a Vectren Energy Delivery of Indiana, Inc. (collectively "Petitioners" or "Vectren") filed a Verified Petition ("Petition") with the Indiana Utility Regulatory Commission ("Commission") initiating this Cause. In the Petition, Vectren requests approval of projects necessary to comply with recently enacted Pipeline and Hazardous Materials Safety Administration ("PHMSA") rules applicable to underground natural gas storage facilities pursuant to Ind. Code ch. 8-1-8.4 (the "Compliance Statutes"). Petitioners also request approval of certain accounting and ratemaking treatment associated with the compliance projects and issuance to them of a certificate of public convenience and necessity ("CPCN") for the compliance projects.

On August 3, 2017, Petitioners filed the direct testimony and exhibits of the following employees of Petitioners' parent company Vectren Utility Holdings, Inc. ("VUHI"):

- Ellis S. Redd, Vice President of Safety and System Integrity;
- Sarah J. Vyvoda, Director of Gas System Integrity; and
- J. Cas Swiz, Director, Rates and Regulatory Analysis.

On September 18, 2017, a Docket Entry was issued establishing, among other things, a procedural schedule in this Cause consistent with a Motion to Adopt Agreed Schedule in Lieu of Prehearing Conference filed on September 13, 2017.

The Indiana Office of Utility Consumer Counselor (“OUCC”) filed its case-in-chief on September 28, 2017, which included the testimony and exhibits of the following OUCC staff:

- Richard S. Kalmas, Utility Analyst and
- Mark H. Grosskopf, Senior Utility Analyst.

Petitioners on October 12, 2017, filed the rebuttal testimony of Ms. Vyvoda and Mr. Swiz.

The Commission held a public evidentiary hearing in this Cause on November 1, 2017, at 9:30 a.m. in Hearing Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioners and the OUCC appeared by counsel, and the prefiled testimony and exhibits of Petitioners and the OUCC were admitted into the record without objection. Cross-examination was waived.

Based upon applicable law and the evidence presented, the Commission now finds:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. Petitioners are each a public utility as defined in Ind. Code § 8-1-2-1(a), an eligible business as defined in Ind. Code § 8-1-8.8-6, and an energy utility within the meaning of Ind. Code § 8-1-8.4-3. Under the Compliance Statutes, the Commission has authority to issue a CPCN and approve cost recovery for projects necessary to comply with federal mandates. Under Ind. Code § 8-1-2-42, the Commission also has jurisdiction over changes to Vectren’s rates and charges. Accordingly, the Commission has jurisdiction over Petitioners and the subject matter of this proceeding.

2. **Vectren’s Characteristics.** Petitioners are incorporated under the laws of the State of Indiana, and their principal office is at One Vectren Square, Evansville, Indiana. Petitioners have charter power and authority to engage in, and are engaged in, rendering retail natural gas service within Indiana. Petitioners own, operate, manage, and control plant, equipment, and facilities that are used and useful for the production, storage, transmission, distribution, and furnishing of natural gas service. Vectren North serves approximately 570,000 natural gas consumers in 48 Indiana counties, and Vectren South serves approximately 110,000 natural gas consumers in Indiana in a nine county region.

3. **Background and Federal Mandate.** Congress enacted the Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2016¹ (“PIPES Act of 2016”) in response to natural gas industry incidents involving gas releases from underground storage facilities. Among other provisions, the PIPES Act of 2016 requires the PHMSA to develop federal regulations for the construction and operation of underground natural gas storage facilities. In response, the PHMSA enacted 49 C.F.R. § 192.12 (2016), Underground natural gas storage facilities (the “Storage Rule”), mandating requirements that underground natural gas storage facilities must meet. The Storage Rule focuses on the operations, maintenance, integrity management, public awareness, and emergency response activities associated with downhole storage facilities such as storage field wells, well-

¹ The Act is codified at 49 U.S.C. § 60101, *et seq.*

casings, wellbore tubing, emergency shut-off valves, and the reservoir and geology of the fields. The Storage Rule became effective January 18, 2017, with development of an implementation plan required by January 18, 2018.

Petitioners operate seven underground natural gas storage fields with a working inventory of 9.7 billion cubic feet of natural gas storage. Two of the reservoirs are depleted hydrocarbon reservoirs, and the remainder are aquifer reservoirs. Of these seven underground natural gas storage assets, Vectren North operates four of the facilities, and Vectren South operates three. Thus, Vectren's storage assets are based on depleted hydrocarbon or aquifer reservoirs only. These storage facilities are subject to the requirements of the Storage Rule. As operators engaged in the transportation of gas that operate underground natural gas storage facilities, as defined by 49 C.F.R. § 192.3 (2016), Petitioners are subject to the jurisdiction of the PHMSA, which is an agency of the United States Department of Transportation ("U.S. DOT").

Vectren's compliance projects developed to comply with the Storage Rule impose operation and maintenance ("O&M") costs and require investment in capital items. Over the 2017 through 2020 time period, Vectren North estimates its Storage Rule compliance projects will require total O&M costs of \$7.930 million and total capital investments of \$8.845 million. For the same time period, Vectren South estimates its Storage Rule compliance projects will require total O&M costs of \$6.840 million and total capital investments of \$7.897 million.

4. Vectren's Compliance Projects. Petitioners have determined the Storage Rule requires them to complete the following compliance projects (collectively, the "Storage Rule Projects"):

- Develop plans and procedures to enhance the O&M manual, design manual, environmental protocols, and storage field integrity procedures;
- Develop and implement a Storage Field Risk Management Program, including storage field data gathering, threat assessment and response procedures, risk assessment methodology, and root-cause analysis process;
- Develop and implement a management of change program;
- Develop a risk-based mechanical integrity assessment program, including scheduling and conducting baseline well-logging assessments;
- Perform baseline data collection and characterizations of storage fields, reservoirs, and wells to support threat and hazard identification;
- Develop a plan to adequately resource storage asset design, operation, and integrity activities;
- Develop and implement an emergency preparedness and response plan;
- Develop and conduct training on new and updated requirements related to the design, operation, maintenance, and integrity assessment of underground storage assets;
- Conduct ongoing monitoring activities to monitor existing threats and identify potential threats;
- Conduct data gathering and records research to support threat identification and risk assessment;
- Conduct mechanical integrity tests based on risk assessment results to identify and monitor threats;
- Produce and maintain compliance documentation for the life of the underground storage assets;

- Perform remedial, preventive, and mitigative actions in response to risk assessment and mechanical integrity tests;
- Install and maintain weather-proof signage;
- Conduct emergency preparedness and response drills;
- Evaluate the effectiveness of the risk management program; and
- Prepare and submit annual reports to PHMSA.

5. **Relief Sought.** Pursuant to the Compliance Statutes, Petitioners request the following relief:

- (a) a CPCN for the Storage Rule Projects;
- (b) authority for recovery of 80% of the federally mandated costs detailed in the Petition and supporting testimony through the Compliance and System Improvement Adjustment (“CSIA”) mechanism;
- (c) deferral of the remaining 20% of the federally mandated costs until Petitioners’ next base rate case; and
- (d) authority to defer any costs, including O&M, depreciation, and post-in-service carrying costs (“PISCC”), associated with their proposed Storage Rule Projects incurred prior to and subsequent to issuance of an Order in this proceeding until such amounts are recovered through rates.

6. **The PHMSA’s Storage Rule.** The evidence, as discussed below, shows the PHMSA promulgated the Storage Rule found at 49 C.F.R. § 192.12 under the PIPES Act of 2016. The Storage Rule mandates that Vectren’s implementation plan be in place by January 18, 2018.² The PHMSA has indicated operators may expect additional mandates in a final rule approved after January 18, 2018.

7. **Summary of the Evidence.**

A. **Overview of Vectren’s Case-in-Chief.** In his direct testimony, Mr. Redd provided an overview of the evolution of Vectren’s integrity management and risk reduction programs for gas assets. He summarized the new federal mandates under the Storage Rule, described the Storage Rule Projects, and explained Petitioners’ requested relief. Mr. Redd testified that the Storage Rule requires operators of underground storage facilities, including Petitioners, to perform additional actions to ensure safety and integrity of their storage field facilities and operations. According to Mr. Redd, the Storage Rule is one of several regulatory requirements the PHMSA has imposed on natural gas operators. These requirements include:

- transmission integrity management regulations enacted in 2002;
- distribution integrity management regulations enacted in 2009;
- regulations for operator qualifications programs;
- programs to reduce third-party damage to natural gas facilities; and
- the Storage Rule.

² In a Notice issued after the Storage Rule, PHMSA clarified its intent is to enforce only the mandatory provisions of the Storage Rule as of January 18, 2018.

Mr. Redd testified the Storage Rule mandates that underground storage field operators establish storage field operations and maintenance procedures and a storage field integrity management program with supporting processes and procedures by January 18, 2018. He stated Petitioners designed their Storage Rule Projects to comply with this mandated timeline.

Ms. Vyvoda provided a detailed description of the Storage Rule, including the Storage Rule's implementation requirements and Vectren's Storage Rule Projects for compliance with these mandatory requirements, along with the O&M expenses and capital investments required for Petitioners to comply with these regulations from January 1, 2017, through December 31, 2020. Ms. Vyvoda testified that following the PHMSA's issuance of a Notice clarifying the PHMSA's intent to enforce only the mandatory provisions of the Storage Rule by January 18, 2018, Petitioners re-evaluated their projects and identified the implementation actions Vectren must complete by January 18, 2018. Ms. Vyvoda noted that in its Notice, the PHMSA cautioned:

Notwithstanding this stay of enforcement, nothing in this Notice is intended to prevent or discourage an operator from carrying out any recommended practice that is non-mandatory in the RPs [Recommended Practices] if the operator determines that the recommended practice needs to be followed to ensure the safe operation of its facilities.

Consistent with the foregoing, Ms. Vyvoda testified Vectren has prioritized implementation actions and compliance projects to meet all mandatory provisions. Vectren also included the non-mandatory projects Vectren considers prudent or applicable to Vectren's underground storage assets and specific threats that put the containment of gas within the storage fields and assets at risk, including corrosion, third-party damage, weather, outside forces, and equipment failures.

To comply with the Storage Rule's mandatory provisions, Ms. Vyvoda testified Petitioners developed the Storage Rule Projects which include the following:

- over 155 plans and procedures, including written procedures for design, construction, operations, maintenance, environmental, and emergency response, thereby enhancing the O&M manual, design manual, environmental protocols, and storage field integrity procedures;
- a risk management program and associated evaluation plan to prevent events involving storage assets, including within that risk management program the following:
 - data collection;
 - baseline inspections and testing;
 - risk assessments;
 - inspections (and remediation where necessary);
 - implementation of preventive and remedial measures;
 - ongoing monitoring, inspection, and testing;
 - collection and maintenance of records for the life of each storage asset, and
 - weatherproof signage at storage field facilities.

Ms. Vyvoda described the additional reliability and safety benefits of Petitioners' compliance with the Storage Rule. These benefits include the following:

- identification of threats to storage facilities and opportunities to proactively mitigate those threats, thereby reducing the risk of facility failures;
- improvement in the ability to identify and isolate the system and respond to emergencies, and
- other operational efficiencies inherent in valve replacements, well casing remediation, and the installation of remote monitoring equipment.

In testifying regarding the O&M expenses and capital costs associated with the Storage Rule Projects, Ms. Vyvoda explained that Vectren's compliance costs began in January 2017 and will continue after 2020. The O&M expenses include conducting the operations, maintenance, reservoir analysis, integrity assessment, and risk management activities as well as employing the required personnel. Initially these O&M expenses include one-time costs to draft the procedures and plans, develop training materials, conduct baseline mechanical integrity tests and well-logging assessments, collect and scan storage records, develop risk models, and characterize each storage field. Ms. Vyvoda testified that ongoing activities will require personnel to support compliance with the Storage Rule, including adding storage operations, storage field integrity, reservoir engineering, geology, and quality control personnel.

Ms. Vyvoda stated that ongoing O&M expenses will also include costs associated with conducting periodic risk assessments, maintaining plans and procedures, monitoring at the well surface and sub-surface, conducting site security assessments and integrity reassessments, conducting emergency response drills, performing well stimulation, implementing preventive and mitigative measures, and evaluating the effectiveness of risk reduction activities. Ms. Vyvoda explained that these O&M expenses are separated into the following four categories: (1) storage integrity management; (2) storage operations; (3) reservoir engineering; and (4) safety management systems/training/physical security. For the January 1, 2017 through December 31, 2020 period, the project estimates within the four O&M compliance project categories for Vectren North and Vectren South combined average \$3.7 million per year for a total of \$14.8 million at the end of 2020.

Ms. Vyvoda testified that the capital compliance projects include remediation of conditions found during assessments or O&M activities and implementation of preventive and mitigative measures to minimize future threats to the system by installing or replacing assets. The capital compliance projects relate to four project prioritization categories: (1) well construction/remediation; (2) emergency response; (3) equipment; and (4) pressure monitoring, supervisory control and data acquisition, and remote terminal unit equipment and systems used for monitoring at the asset sites. According to Ms. Vyvoda, the annual capital investment in the capital project estimates is front-loaded because of the baseline well-logging remediation. This investment ranges from \$8.2 million in 2018 to \$3.5 million in 2020 for Petitioners for a total capital investment of \$16.7 million. No capital compliance projects are planned in 2017; however, project work may be identified from ongoing well-logging integrity assessments, valve and equipment inspections, leak surveys, and O&M activities. Ms. Vyvoda sponsored Petitioner's Exhibit No. 2, Attachment SJV-11, which provides a detailed capital project category list, planned year, and initial cost estimates.

Ms. Vyvoda also testified that Petitioners began adding staff in 2017 to support the required activities. This includes hiring a reservoir engineer, a geologist, a storage field integrity engineer, quality control specialist, field operations personnel, and technical training personnel. Ms. Vyvoda stated that hiring personnel is staged to coordinate with the completion of the implementation actions

and will occur through 2018. The additional staff requirements are determined as each process is defined and implemented.

Ms. Vyvoda testified that Petitioners intend to communicate updates to the Storage Rule Projects within Vectren's CSIA filing. Vectren will include within these updates any additional compliance activities necessary to comply with new PHMSA requirements for storage fields as well as Storage Rule Projects changes and variances of actual costs incurred compared to planned expenses and investments.

Mr. Swiz testified to the accounting relief Petitioners seek in this Cause. He explained how the Storage Rule Projects necessary to meet the regulatory requirements of the Storage Rule will be recoverable costs within the approved CSIA as part of the Compliance Revenue Requirement calculation. According to Mr. Swiz, Vectren will include within each semi-annual CSIA filing under Cause Nos. 44429 and 44430 the costs related to the Storage Rule Projects through a date certain. The CSIA Compliance Component revenue requirement will capture eligible new capital investments in plant related to the Storage Rule Projects, along with previously approved investments under the Compliance Plan from Cause Nos. 44429 and 44430, multiplied by the applicable rate of return, with depreciation, O&M, and property tax expenses associated with investments in Storage Rule Projects added to the resulting total.

Mr. Swiz testified that Petitioners are requesting a CPCN for the Storage Rule Projects, and because these projects are necessary to meet federal mandates, they qualify for timely cost recovery and deferred accounting treatment under the Compliance Statutes. He explained how costs associated with the Storage Rule Projects will be recoverable costs within the currently approved CSIA and testified that Petitioners are requesting authority under Ind. Code § 8-1-8.4-7(c)(1), upon receiving the CPCN, to timely recover 80% of the revenue requirement associated with these approved federally mandated costs through the CSIA mechanism. The remaining 20% will be deferred and recovered by Petitioners as part of their next base rate case, consistent with Ind. Code § 8-1-8.4-7(c)(2).

Mr. Swiz testified that the Compliance Statutes define eligible federally mandated costs as "costs that an energy utility incurs in connection with a compliance project, including capital, operating, maintenance, depreciation, tax, or financing costs." Ind. Code § 8-1-8.4-4(a). As stated in the Compliance Statutes, a compliance project means a project that includes "(1) an addition; or (2) an integrity, enhancement, or a replacement project; undertaken by an energy utility to comply with a federally mandated requirement described in section 5(5) [Ind. Code § 8-1-8.4-5(5)]." Ind. Code § 8-1-8.4-2(b). Vectren proposes to include the gross plant specific to the new capital investments under the Storage Rule Projects, both in service and Construction Work in Progress ("CWIP"). Mr. Swiz testified the project costs in the CSIA will include direct and indirect costs and financing costs incurred during construction, commonly referred to as Allowance for Funds Used During Construction ("AFUDC"). The depreciation that accumulates on these new capital investments once they are in service will also be included as a reduction to the gross plant. Mr. Swiz testified the accumulated depreciation will capture all depreciation expense on new capital investments starting with the in service month and any cost of removal incurred in the disposal of assets retired and replaced as a result of these investments. This results in a net plant amount related to the new capital investments.

Mr. Swiz stated that as currently approved in the CSIA for Compliance Projects, the investments placed in service and not yet included for recovery within the CSIA are eligible for

PISCC at the weighted average cost of capital approved within the CSIA filing. The PISCC related to the new capital investments placed in service will be included in the net plant calculation within the revenue requirement.

Mr. Swiz also testified that the depreciation expense proposed for recovery will be calculated using approved depreciation rates from the most recent rate case for each of the Petitioners, Vectren North (Cause. No. 43298) and Vectren South (Cause No. 43112). As provided in the Compliance Statutes, Petitioners plan to defer for recovery the remaining 20% of eligible revenue requirement amounts not recovered in the CSIA as part of each Petitioner's next base rate case.

Mr. Swiz explained that the depreciation expenses included for recovery in the CSIA will reflect an annualized level of expense related to the gross new capital investment as of the cut-off date of the CSIA semi-annual filing. Property tax expense will reflect an annualized level of expense related to the gross new capital investment in service as of the filing cut-off date. Vectren proposes to implement CWIP ratemaking treatment related to the recovery of financing costs incurred during the construction of eligible investments in the Storage Rule Projects. As proposed, Mr. Swiz testified that Vectren will recover, through the CSIA, financing costs incurred during the construction period attributable to eligible capital investment. Vectren will cease accruing AFUDC the earlier of the date on which the project expenditures receive CWIP ratemaking treatment through the CSIA or the date the project is placed into service.

Mr. Swiz testified that Vectren also proposes to accrue PISCC on all eligible new capital investment from the date the investment is placed into service until the date the investment is included in rates. The PISCC balance will be included as new capital investment and will be multiplied by the pre-tax rate of return.

B. Overview of OUCC's Case-in-Chief. Mr. Kalmas testified that after reviewing Vectren's case-in-chief, he concluded it meets the requirements for cost recovery set forth in the Compliance Statutes regarding federally mandated projects. He recommended the Commission approve the requested CPCN for Petitioners.

Mr. Kalmas testified that his concerns with Vectren's CPCN request relate to a final rule having not been issued, so there is no certainty the final rule will be the same as the Storage Rule and include all of the new rules and requirements the Storage Rule lists. Mr. Kalmas noted there is also a Petition for Reconsideration in Docket No. PHMSA-2016-0016 pending upon which a decision has not been issued. From his perspective this, too, leaves in question whether all the requirements listed in the Storage Rule will be in the final rule. He testified there is also a pending federal appeal filed by the American Gas Association ("AGA") on behalf of AGA's members in the United States Court of Appeals for the District of Columbia Circuit seeking relief from the January 18, 2018, implementation deadline. Mr. Kalmas noted that Vectren is an AGA member. While recommending the requested CPCNs be approved, Mr. Kalmas suggested that the Commission require Petitioners to modify their CPCN based on the final rule, an applicable resolution of the reconsideration petition, or the AGA's appeal.

Mr. Kalmas testified that Vectren estimates seven new full-time permanent employees will be necessary, on an ongoing basis, to perform all 155 required new functions to comply with the Storage Rule. Mr. Kalmas reviewed Vectren's estimated O&M for 2017 compliance projects and testified that nothing in the estimates seems unreasonable considering the volume of new procedures to be in place

by the January 18, 2018 deadline. Mr. Kalmas testified that the other category of major costs for this filing is the capital compliance projects. He stated that the estimated costs are complex and subject to adjustments in future years. Based on his review, however, Mr. Kalmas testified that nothing in Vectren's estimates appears unreasonable.

Mr. Kalmas testified that the Storage Rule requires all underground natural gas storage facility operators to file various reports (collectively the "Storage Rule Reports") with the PHMSA, including the following:

- 1) Annual Operations Report—This report covers all the details of the facility and includes the yearly operations data.
- 2) Incident Report—This report is for any incident causing more than \$50,000 in damage or personal injury or death.
- 3) Safety Report—This report is for any issue compromising the safety of the facility.
- 4) National Registry Report—This report provides general contact and yearly operating data.

According to Mr. Kalmas, the Annual Operations Report and the National Registry Report are to be completed and submitted to the PHMSA each March while the other two reports are filed only when an event occurs that meets the submittal standards. Mr. Kalmas recommended that copies of the Storage Rule Reports be provided by Vectren to the Commission, the OUCC, and the Indiana Department of Natural Resources ("IDNR") at the same time the reports are sent to the PHMSA.

Mr. Grosskopf testified regarding the accounting relief Petitioners request. He recommended that the Commission include Vectren's storage facility compliance projects in the methodology approved for calculating the Compliance Component revenue requirement of Vectren's CSIA. He explained that Mr. Kalmas's recommendation reflects the eligibility of these projects for recovery through Vectren's CSIA whereas his recommendation addresses the mechanism by which these costs are calculated in the revenue requirement.

Mr. Grosskopf testified the CSIA currently includes cost recovery for transmission pipeline projects and distribution pipeline projects implemented to comply with federally mandated integrity management programs. In this Cause, Petitioners request authority to also include cost recovery for storage integrity management programs to comply with the Storage Rule. If approved, Mr. Grosskopf stated the Compliance Component of the CSIA will prospectively include transmission, distribution, and storage integrity management project costs as parts of the Compliance Component revenue requirement.

Mr. Grosskopf noted that if the references to electric utility plant in Mr. Swiz's testimony are intended, he does not agree with the accounting methods proposed, but if Mr. Swiz intended to refer to gas utility accounts, Mr. Grosskopf supports the proposed accounting methodology. He recommended including Vectren's eligible federally mandated storage facility compliance projects in the approved methodology for calculating the Compliance Component revenue requirement of Vectren's CSIA. This will allow Vectren to recover 80% of the federally mandated costs incurred for

the Storage Rule Projects through the CSIA and the remaining 20% of these costs will be deferred for recovery in Petitioners' next base rate cases.

C. Vectren's Rebuttal Testimony. In her rebuttal testimony, Ms. Vyvoda reiterated that the Storage Rule requires underground natural gas storage operators to implement processes and procedures to comply with RPs 1170 and 1171 by January 18, 2018. She stated the Storage Rule requires operators to treat all non-mandatory statements within the recommended practices as mandatory statements and to also comply with these recommendations by January 18, 2018. But she noted that in response to the AGA's petition for reconsideration, the PHMSA stated it will not enforce non-mandatory statements in the Storage Rule and will issue a final rule; consequently, Vectren has evaluated compliance activities the American Petroleum Institute's Recommended Practices require to ensure prioritization of the mandatory requirements. Vectren expects, based on guidance from the PHMSA and the AGA, that the final rule will address operator compliance with the non-mandatory statements.

Ms. Vyvoda also testified on rebuttal that Vectren agrees with Mr. Kalmas that issuance of the final rule may require Vectren's compliance program to be modified and, depending on the extent of modifications necessary, Vectren agrees the resulting compliance program changes may require a modification of Petitioners' CPCN. To afford an opportunity for review after issuance of the final rule, Petitioners propose to seek a modification of the CPCN, if warranted, by means of a sub-docket to this proceeding. Ms. Vyvoda testified that if Vectren determines compliance with the final rule does not require adjustments in its Storage Rule Projects, Vectren will make an informational filing to that effect in this docket.

Ms. Vyvoda stated that Vectren proposes to provide copies of reports Petitioners submit to the PHMSA to the Commission, the OUCC, and the IDNR for the first three years of the Storage Rule implementation. If the Commission finds these reports beneficial, Ms. Vyvoda suggested the Commission require Petitioners to continue to provide copies of these to the Commission, the OUCC, and the IDNR in a then-pending docket addressing recovery of the costs associated with Vectren's Storage Rule Projects.

In his rebuttal testimony, Mr. Swiz corrected clerical errors in his direct testimony. He testified the references Mr. Grosskopf identified to electric utility accounts were incorrect and intended to be gas utility accounts. Mr. Swiz concluded that the OUCC and Petitioners are in agreement on the proposed accounting methodology for Vectren's gas compliance projects.

8. Commission Discussion and Findings.

A. Introduction. Both Vectren's witness Mr. Redd and the OUCC's witness Mr. Kalmas testified about the increased regulatory scrutiny natural gas operators have come under since the inception of the transmission pipeline integrity management program. With each new integrity management program—transmission pipeline, distribution pipeline, and most recently, storage fields integrity management—the PHMSA has required operators to develop compliance programs to meet regulatory requirements. The evidence demonstrates that compliance with the federally mandated Storage Rule requires Petitioners to develop and implement the following:

- over 155 plans and procedures, including written procedures for design, construction, operations, maintenance, environmental, and emergency response; and

- a risk management program and evaluation plan for that program to prevent events involving storage assets, including within that risk management program the following:
 - data collection;
 - baseline inspections and testing;
 - risk assessments;
 - inspections (and remediation where necessary);
 - implementation of preventive and mitigative measures;
 - ongoing monitoring, inspection, and testing;
 - collection and maintenance of records for the life of each storage asset, and
 - weatherproof signage at storage field facilities.

B. Federally Mandated Compliance Projects. The Commission is initially tasked with determining whether Vectren's Storage Rule Projects constitute a federally mandated "compliance project" under Ind. Code § 8-1-8.4-2. Ind. Code § 8-1-8.4-5 defines a federally mandated requirement to include "a requirement that the commission determines is imposed on an energy utility by the federal government in connection with any of the following: (1) The federal Clean Air Act (42 U.S.C. 7401 et seq.). ... (5) Standards or regulations concerning the integrity, safety, or reliable operation of: (A) transmission; or (B) distribution; pipeline facilities" and "(7) Any other law, order, or regulation administered or issued by the United States Environmental Protection Agency, the United States Department of Transportation, the Federal Energy Regulatory Commission, or the United States Department of Energy."

As set forth above in Finding No. 1, Petitioners are each an energy utility as defined by Ind. Code § 8-1-8.4-3. The PHMSA is an agency of the U.S. DOT. Mr. Redd described the evolution of the integrity management programs, explaining that the PHMSA promulgated the Storage Rule found at 49 C.F.R. § 192.12: Safety of Underground Natural Gas Storage Facilities published in the Federal Register, December 19, 2016, after concern over the operation of storage assets increased nationally as a result of a leak that occurred in southern California from the Southern California Gas Company Aliso Canyon storage field in October 2015. This prompted Congress to enact the PIPES Act of 2016 as a result of which the PHMSA established the Storage Rule requirements. The Commission finds the evidence is undisputed that the Storage Rule Projects constitute federally mandated compliance projects under Ind. Code § 8-1-8.4-2. These projects are being undertaken by an energy utility and are related to the direct or indirect compliance by Petitioners with the PHMSA Storage Rule.

C. Statutory Requirements to Issue a CPCN. The Compliance Statutes require an energy utility seeking to recover costs incurred to comply with federally mandated requirements to obtain a CPCN. Ind. Code § 8-1-8.4-6. Under Ind. Code § 8-1-8.4-7(b), a CPCN may be issued only if the Commission: (1) finds that public convenience and necessity will be served by the proposed compliance project; (2) approves the costs associated with the proposed compliance project; and (3) makes a finding on each of the factors in Ind. Code § 8-1-8.4-6(b). Under Ind. Code § 8-1-8.4-6(b), the factors to be considered in determining whether to grant Petitioners a CPCN include the following:

- A description of the federally mandated requirements the utility seeks to comply with through the proposed compliance project;

- A description of the projected federally mandated costs associated with the proposed compliance project;
- A description of how the proposed compliance project allows the utility to comply with the federally mandated requirements described above;
- Alternative plans that demonstrate the proposed compliance project is reasonable and necessary;
- Information as to whether the proposed compliance project will extend the useful life of an existing energy utility facility and, if so, the value of that extension; and
- Any other factors the Commission considers relevant.

1. **Public Convenience and Necessity.** Ind. Code § 8-1-8.4-7(b)(1) requires a finding that the public convenience and necessity will be served by the proposed compliance project before a CPCN may be issued. In her testimony, Ms. Vyvoda described the additional reliability and safety benefits associated with Vectren's Storage Rule Projects. She testified that compliance with the Storage Rule will enable Vectren to identify threats to storage facilities and proactively mitigate those threats, reduce the risk of facility failures, improve the ability to identify and isolate the system and respond to emergencies, and achieve other operational efficiencies inherent in valve replacements, well casing remediation, and installation of remote monitoring equipment. OUCC witness Mr. Kalmas recommended approval of Vectren's requested CPCN. Based on the record, the Commission finds that the public convenience and necessity will be served by Vectren's Storage Rule Projects.

2. **Projected Federally Mandated Costs.** Ind. Code § 8-1-8.4-7(b)(2) requires approval of the projected federally mandated costs associated with the proposed compliance projects. Ms. Vyvoda testified to the O&M expenses and capital costs associated with Vectren's Storage Rule Projects. She estimated the O&M for 2017 compliance projects to be \$2.215 million for Vectren North and \$1.340 million for Vectren South. This equals \$3.555 million for the first year to bring Vectren's operations into initial compliance without any of the capital projects incorporated into the 2017 cost estimates. OUCC witness Mr. Kalmas testified that nothing contained in these cost estimates seems unreasonable to bring Vectren's underground storage operations into compliance.

Ms. Vyvoda also provided cost estimates for the capital compliance projects for 2018, 2019, and 2020. After reviewing these projected costs, Mr. Kalmas testified that nothing contained in Vectren's estimates for capital compliance projects appears unreasonable. After considering the record, the Commission approves the projected federally mandated costs associated with Vectren's Storage Rule Projects.

3. **Ind. Code § 8-1-8.4-6(b) Factors.** Ind. Code § 8-1-8.4-7(b)(3) requires findings on each factor set forth in Ind. Code § 8-1-8.4-6(b). The five factors enumerated in Ind. Code § 8-1-8.4-6(b)(1) and "other factors" under Ind. Code § 8-1-8.4-6(b)(2) are addressed below. While this discussion focuses on the factors in Ind. Code § 8-1-8.4-6(b)(1) and (b)(2), the evidence discussed and findings made below are equally relevant to Ind. Code § 8-1-8.4-7(b)(1) and (b)(2).

a. **Federally Mandated Requirements.** Ms. Vyvoda and Mr. Kalmas both described the mandates the Storage Rule imposes upon Petitioners as operators of underground natural gas storage facilities, the associated timeline for compliance, and the federal mandates Vectren's Storage Rule Projects are designed to meet. Based upon the record, the

Commission finds the PHMSA's Storage Rule requirements with which Petitioners seek to comply have been adequately described, and Petitioners have demonstrated the Storage Rule Projects are designed to comply with applicable federal mandates; therefore, Vectren has satisfied the requirement of Ind. Code § 8-1-8.4-6(b)(1)(A) and (C).

b. Federally Mandated Projected Costs. Ms. Vyvoda explained the projected federally mandated costs associated with Petitioners' Storage Rule Projects. Petitioners will be required to incur incremental O&M expenses and capital costs to comply with the Storage Rule. Petitioners detailed the costs by year and identified each category of costs to be incurred. Ms. Vyvoda noted that Petitioners' federally mandated costs began in January 2017 and will continue beyond 2020.

Ms. Vyvoda testified that the Storage Rule Projects will require Petitioners to increase staff by adding a reservoir engineer, a geologist, a storage fields integrity engineer, quality control specialist, field operations personnel, and technical training personnel. Petitioners will be investing additional capital, including emergency shut-off valve installation, equipment repair, casing remediation, leak repairs, and other capital investments to bring storage facilities into compliance with the Storage Rule. Ms. Vyvoda explained Vectren's proposal to communicate cost updates to the Commission within the CSIA filing, including any new compliance activities mandated by additional PHMSA requirements after January 18, 2018.

Vectren's witness Mr. Swiz testified to the accounting treatment proposed for the federally mandated costs associated with the Storage Rule Projects. Costs will be reflected as recoverable costs within the currently approved CSIA, and depreciation expense will be calculated using the applicable approved depreciation rates from the most recent rate case Order for each of the Petitioners, Vectren North (Cause No. 43298) and Vectren South (Cause No. 43112). Mr. Swiz testified that Petitioners plan to defer for recovery 20% of the eligible revenue requirement in Petitioners' next base rate cases. Mr. Swiz also testified about deferral and recovery of depreciation expenses associated with the compliance projects, as well as Vectren's use of CWIP recovery for capital investments, AFUDC on compliance projects, and PISCC accrual on investments completed but not yet included for recovery in the CSIA.

The Commission finds the evidence describes the projected federally mandated costs associated with the Storage Rule Projects and demonstrates the cost estimates are reasonable. The projected federally mandated costs associated with Vectren's Storage Rule Projects are approved as required by Ind. Code § 8-1-8.4-7(b)(2). In addition, the Commission finds Vectren has satisfied the requirement of Ind. Code § 8-1-8.4-6(b)(1)(B).

c. Alternative Plans. Ms. Vyvoda described the additional reliability and safety benefits of compliance with the Storage Rule, including the reduction of risk to Petitioners' facilities. The evidence demonstrates the Storage Rules are prescriptive, leaving Petitioners limited alternatives regarding implementation of the plans to comply. No party contended Vectren could comply with the Storage Rules through alternatives that are less expensive or otherwise more advantageous to Vectren's customers or the public. Based on the record, the Commission finds the proposed Storage Rule Projects are reasonable and necessary, and Ind. Code § 8-1-8.4-6(b)(1)(D) has been satisfied.

d. Extending the Useful Life of Natural Gas Storage Facilities.

Ms. Vyvoda testified that the Storage Rule Projects extend the life of Vectren's storage fields and wells by maintaining and monitoring their integrity and enabling the storage capacity to remain available for Petitioners to inject and withdraw gas as needed to provide reliable service. Absent compliance with the Storage Rules, Petitioners cannot continue operating the storage facilities. No party disputed that the investments proposed for compliance are necessary to extend the useful life of Vectren's gas storage facilities.

The Commission finds that Petitioners have shown their Storage Rule Projects will extend the life of Petitioners' storage fields and wells; therefore, Vectren has satisfied the requirement of Ind. Code § 8-1-8.4-6(b)(1)(E).

e. Other Relevant Factors. Neither Vectren's witnesses nor the OUCC's witnesses raised other factors they deem relevant to the Commission's consideration upon granting Petitioners a CPCN in this Cause for the Storage Rule Projects or designating the compliance projects as eligible for treatment as federally mandated costs of compliance.

D. Conclusion. To grant Petitioners a CPCN under the Compliance Statutes, the Commission must find the federally mandated projects described in Vectren's Storage Rule Projects will allow Petitioners to comply directly or indirectly with one or more federally mandated requirements and must examine the factors described in Ind. Code § 8-1-8.4-6(b). The evidence presented demonstrates the proposed Storage Rule Projects will allow Petitioner to comply with the requirements of the Storage Rule. As discussed above, the Commission has made a finding on each of the factors described in Ind. Code § 8-1-8.4-6(b) and approved the projected federally mandated costs associated with Vectren's Storage Rule Projects. The Commission approves Vectren's Storage Rule Projects pursuant to the Compliance Statutes and issues Vectren a CPCN for the Storage Rule Projects under Ind. Code § 8-1-8.4-7(b).

E. Cost Recovery. Ind. Code § 8-1-8.4-7(c) states:

If the commission approves under subsection (b) a proposed compliance project and the projected federally mandated costs associated with the proposed compliance project, the following apply:

(1) Eighty percent (80%) of the approved federally mandated costs shall be recovered by the energy utility through a periodic retail rate adjustment mechanism that allows the timely recovery of the approved federally mandated costs. The commission shall adjust the energy utility's authorized net operating income to reflect any approved earnings for purposes of IC 8-1-2-42(d)(3) and IC 8-1-2-42(g)(3).

(2) Twenty percent (20%) of the approved federally mandated costs, including depreciation, allowance for funds used during construction, and post in service carrying costs, based on the overall cost of capital most recently approved by the commission, shall be deferred and recovered by the energy utility as part of the next general rate case filed by the energy utility with the commission.

(3) Actual costs that exceed the projected federally mandated costs of the approved compliance project by more than twenty-five percent (25%) shall require

specific justification by the energy utility and specific approval by the commission before being authorized in the next general rate case filed by the energy utility with the commission.

1. **CSIA Mechanism.** Vectren requests authority to utilize its currently approved semi-annual CSIA mechanism, pursuant to Ind. Code § 8-1-8.4-7, for the timely and periodic recovery of 80% of the federally mandated costs associated with the Storage Rule Projects, including capital, AFUDC, O&M, depreciation, tax, and financing costs. The Commission finds the evidence is undisputed that the CSIA is an appropriate mechanism for this recovery.

2. **Accounting and Ratemaking Treatment for the CSIA Mechanism.** Mr. Swiz testified that Vectren proposes to include, within each semi-annual CSIA filing under Cause Nos. 44429 and 44430, the Storage Rule Projects' related costs as part of the Compliance Component revenue requirement. Mr. Swiz testified the CSIA Compliance Component revenue requirement will capture eligible new capital investments in plant related to the Storage Rule Projects along with previously approved investments under the Compliance Plan from Cause Nos. 44429 and 44430.

Mr. Swiz testified that pursuant to the Compliance Statutes, Vectren requests accounting authority starting January 1, 2017, for, and subsequent recovery of, eligible federal mandated costs specific to the proposed Storage Rule Projects. He stated that all currently approved methodology for calculating the Compliance Component revenue requirement of the CSIA applicable to approved Compliance Projects will apply to the Storage Rule Projects' costs eligible for recovery. Mr. Swiz stated that Vectren proposes to include the gross plant specific to the new capital investments under the Storage Rule Projects, both in service and CWIP. The project costs in the CSIA will include AFUDC.

Mr. Swiz testified that the depreciation that accumulates on these new capital investments once they go in service will also be included as a reduction to the gross plant. The accumulated depreciation treatment will be consistent with Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts requirements. In addition, Mr. Swiz testified that as approved in the CSIA for Compliance Projects, the investments placed in service and not yet included for recovery within the CSIA are eligible for PISCC at the weighted average cost of capital approved within the CSIA filing. The PISCC related to the new capital investments placed in service will be included in the net plant calculation within the revenue requirement.

OUCS witness Mr. Grosskopf testified that the proposed cost recovery associated with Vectren's storage integrity management programs will be the same as the cost recovery associated with Vectren's transmission and distribution pipeline integrity management programs currently collected through the CSIA. Mr. Grosskopf recommended approving recovery of the mandated storage facility compliance projects via the CSIA mechanism.

No party opposed Vectren's proposed ratemaking treatment. Based upon the evidence, the Commission finds the ratemaking and accounting treatment Petitioners request is consistent with the Compliance Statutes. Vectren is authorized to defer and recover 80% of the approved federally mandated costs incurred in connection with the Storage Rule Projects through the CSIA mechanism pursuant to Ind. Code § 8-1-8.4-7.

3. Accounting and Ratemaking Treatment for Deferred Costs.

Consistent with Ind. Code § 8-1-8.4-7(c)(2) Vectren proposes that 20% of the approved federally mandated costs, including depreciation, AFUDC, and PISCC, based on the overall cost of capital most recently approved by the Commission, shall be deferred and recovered by the energy utility as part of its next general rate case. Mr. Grosskopf supported Vectren's proposed accounting methodology.

Based on the evidence presented, the Commission authorizes Petitioners to defer 20% of the approved federally mandated costs incurred in connection with compliance with the Storage Rule and recover the deferred costs in Petitioners' next general base rate cases as allowed by Ind. Code § 8-1-8.4-7(c)(2).

4. Depreciation Treatment.

Mr. Swiz testified that Vectren proposes to include for recovery within the revenue requirement the depreciation expense associated with the new capital investments directly related to the Storage Rule Projects. This will be calculated using the applicable approved depreciation rates from the most recent rate case Order for Vectren North in Cause No. 43298 and for Vectren South in Cause No. 43112. If the new investment results in retirement of an existing asset, Mr. Swiz testified the depreciation expense included in the revenue requirement will be reduced by the depreciation expense amount attributed to the retired assets.

Vectren proposes to defer depreciation expense on the Storage Rule Projects from each project's in service date until depreciation expense is included for recovery in the CSIA. According to Mr. Swiz, this proposed accounting for the deferral of depreciation is in accordance with Generally Accepted Accounting Practices. Specific to deferred depreciation expense, Vectren proposes to amortize the deferred balance of the regulatory assets through the CSIA over the life of the assets that generated the depreciation expense. The calculation will utilize the depreciation rates applicable to the class of plant as the basis for the amortization period.

The Commission finds that Vectren's proposed deferral and recovery of depreciation expense associated with the Storage Rule Projects is reasonable and is approved.

F. Storage Rule Projects Updates and Reports.

The Storage Rule was issued by the PHMSA as an interim final rule. While the PHMSA plans to issue a final rule on or after January 18, 2018, the Storage Rule currently imposes obligations on Petitioners. Ms. Vyvoda testified that this final rule may include additional compliance mandates. Mr. Kalmas concurred that the extent of program modifications required by the final rule may require modification of Petitioners' CPCN. He recommended the Commission approve the requested CPCN so that Vectren may comply with the Storage Rule but that Petitioners be required to modify their CPCN when the final rule is issued or an outcome upon the pending reconsideration petition or the AGA appeal warrants such modification.

On rebuttal, Ms. Vyvoda testified that Vectren agrees with Mr. Kalmas that issuance of the final rule may require Vectren to modify its compliance program and, depending on the extent of necessary modifications, may require a modification of Petitioners' CPCN. Vectren will request approval of modifications needed in a sub-docket to this proceeding. If modifications are not needed Vectren proposes an informational filing to that effect be made in this docket.

The Commission acknowledges that Petitioners may need to modify their compliance projects plans to comply with the PHMSA's final rule when issued. Petitioners shall make an informational filing in this Cause within 14 days after the PHMSA's issuance of the final rule notifying the Commission and the OUCC that the final rule has been issued. Within 60 days after the PHMSA's issuance of the final rule or within 60 days after an alternative applicable federal mandate is issued, Petitioners shall make an informational filing in this Cause summarizing Petitioners' determination concerning needed modifications to its CPCN. If modifications are necessary, Vectren's informational filing shall indicate the date by which Petitioners will seek these modifications.

Mr. Kalmas noted that the Storage Rule requires all underground natural gas storage facilities operators to file various official reports with the PHMSA documenting items related to their operations. He testified the following four reports are required: Annual Operations Report, Incident Report, Safety Report, and National Registry Report. The OUCC recommended Petitioners be required to submit the Storage Rule Reports to the Commission, the OUCC, and the IDNR because these will provide valuable information concerning Petitioners' gas storage facilities, and Ms. Vyvoda agreed.

The Commission finds that Vectren shall provide the Storage Rule Reports for three years from the date of this order to the Commission, the OUCC, and the IDNR. After the three-year period, the Commission may direct Vectren to continue providing these reports in a then-pending docket where cost recovery of the Storage Rule Projects is being addressed.

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

1. Petitioners are each issued a CPCN for the Storage Rule Projects under Ind. Code ch. 8-1-8.4. This Order constitutes the Certificate.
2. The PHMSA Storage Rule constitutes federally mandated requirements as defined by Ind. Code § 8-1-8.4-5.
3. Petitioners' Storage Rule Projects constitute a compliance project as that term is defined in Ind. Code § 8-1-8.4-2, and the costs incurred in connection with Petitioners' Storage Rule Projects are federally mandated costs as that term is defined in Ind. Code § 8-1-8.4-4. The federally mandated estimated costs are approved and eligible for the ratemaking treatment described in Ind. Code § 8-1-8.4-7.
4. Petitioners are authorized to defer as a regulatory asset and recover 80% of the approved federally mandated costs incurred in connection with their Storage Rule Projects through the currently approved CSIA mechanism pursuant to Ind. Code § 8-1-8.4-7, including capital, O&M, depreciation, taxes, and PISCC associated with the compliance projects, incurred prior to and subsequent to issuance of this Order.
5. Petitioners are authorized to defer as a regulatory asset and subsequently recover in Petitioners' next general base rate cases 20% of the federally mandated investments and costs incurred for the Storage Rule Projects including capital, O&M, depreciation, taxes, and PISCC associated with the compliance projects, incurred prior to and subsequent to issuance of this Order.

6. Petitioners are authorized to accrue PISCC, using Petitioners' overall cost of capital approved in their last base rate cases on a pre-tax basis, until the Commission authorizes recovery of a return, including depreciation expense thereon, in Petitioners' recoverable operating expenses.

7. Within 60 days after the PHMSA issues the final rule, Petitioners shall provide notice thereof to the Commission under this Cause consistent with Finding No. 8.F. above and either request the opening of a sub-docket for approval of modifications to Petitioners' Storage Rule Projects to comply with the final rule or confirm in Vectren's notice that no changes in the Storage Rule Projects are required because of the final rule.

8. Petitioners shall file their Annual Operations Reports, Incident Reports, Safety Reports, and National Registry Reports with the Commission, OUCC, and IDNR under this Cause through December 31, 2020, consistent with Finding No. 8.F. above, after which the Commission may be requested to determine the propriety of continuing these report filings as set forth above.

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

ATTERHOLT, FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: DEC 28 2017

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



Mary M. Becerra
Secretary of the Commission