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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA GAS COMPANY, INC. d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN NORTH") FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR GAS UTILITY SERVICE; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (3) AUTHORITY, TO THE EXTENT NECESSARY AS AN ALTERNATIVE REGULATORY PLAN, TO TRACK ITS UNACCOUNTED FOR GAS COSTS AND THE GAS COST COMPONENT OF ITS BAD DEBT EXPENSE IN ITS GAS COST ADJUSTMENT FILINGS; (4) APPROVAL OF A DISTRIBUTION REPLACEMENT ADJUSTMENT TO RECOVER THE COSTS OF A PROGRAM FOR THE ACCELERATED REPLACEMENT OF CAST IRON MAINS AND BARE STEEL MAINS AND SERVICE LINES; (5) APPROVAL OF REVISIONS TO THE SALES RECONCILIATION COMPONENT OF THE ENERGY EFFICIENCY RIDER APPROVED IN CAUSE NOS. 42943 AND 43046 TO PROVIDE FOR RECOVERY OF 100% OF THE DIFFERENCE BETWEEN ACTUAL AND APPROVED MARGINS; (6) APPROVAL OF VARIOUS CHANGES TO ITS TARIFF FOR GAS SERVICE, INCLUDING INCREASES IN CERTAIN NON-RECURRING CHARGES; AND (7) CONSIDERATION AND APPROVAL IN PHASE II OF THE PROCEEDING OF AN ALTERNATIVE REGULATORY PLAN FOR A REVENUE STABILIZATION PLAN	CAUSE NO. 43298 APPROVED: FEB 13 2008

BY THE COMMISSION:
Larry S. Landis, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On May 18, 2007, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner," "Company" or "Vectren North") filed a Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to increase its rates and charges for gas utility service and for approval of new schedules of rates and charges applicable thereto. Petitioner also requested approval of (a) the recovery of unaccounted for gas costs and the gas cost component of bad debt expense in its gas cost adjustment ("GCA") filings; (b) a Distribution Replacement Adjustment ("DRA") to recover costs relating to the accelerated replacement of cast iron mains and bare steel mains and services; (c) revisions to the Sales

Reconciliation Component ("SRC") of its Energy Efficiency Rider; (d) various changes to its tariff including increases in certain non-recurring charges; and (e) establishment of second phase in this proceeding for consideration of an alternative regulatory plan for revenue stabilization ("Revenue Stabilization Plan"). The Petition provided notice of Petitioner's election to proceed under the Commission's rules on Minimum Standard Filing Requirements, 170 IAC 1-5 ("MSFRs"). On May 18, 2007 and June 1, 2007, Petitioner prefiled its case-in-chief on all issues other than its Revenue Stabilization Plan.

Petitions to intervene were filed by the International Brotherhood of Electrical Workers, Local Union No. 1393 ("IBEW") and the Indiana Gas Industrial Group ("Industrial Group"), whose only member for purposes of this proceeding is Alcoa, Inc. These petitions were granted, and these entities were made parties to this cause.

A Prehearing Conference was held on June 11, 2007. As agreed at the Prehearing Conference and confirmed by the Prehearing Conference Order dated June 27, 2007, this proceeding was separated into two phases with Phase I consisting of all issues other than Petitioner's proposed Revenue Stabilization Plan and Phase II consisting of Petitioner's Revenue Stabilization Plan.

Pursuant to the Prehearing Conference, the Prehearing Conference Order, and notice of hearing given as provided by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing in Phase I of this cause was held on August 27-29, 2007, at which time Petitioner presented its case-in-chief and its witnesses were cross-examined.

Pursuant to Ind. Code § 8-1-2-61(b), a public field hearing was held on October 23, 2007 in the City of Bloomington, the largest municipality in Petitioner's service area. At the field hearing, members of the public were afforded the opportunity to make statements to the Commission. No members of the general public appeared at the hearing.

On November 16, 2007, Petitioner and the OUCC filed a Stipulation and Settlement Agreement ("OUCC Settlement" or "Settlement") containing a proposed resolution of the issues in Phase I of this proceeding. A copy of the OUCC Settlement is incorporated herein by reference. On December 3, 2007, Petitioner and the OUCC prefiled supplemental testimony and exhibits in support of the Settlement.

On November 16, 2007, Petitioner and Alcoa, Inc. filed a Stipulation and Settlement Agreement ("Alcoa Settlement") resolving issues between them in this cause and proposing approval of a new Natural Gas Transportation Service Agreement between them ("Alcoa Agreement"). On December 3, 2007, Petitioner filed a motion to protect certain terms of the Alcoa Agreement from public disclosure. On December 3, 2007, Petitioner filed its supplemental testimony in support of the Alcoa Settlement. On December 5, 2007, the Presiding Officers by docket entry granted Petitioner's confidentiality motion on a preliminary basis and authorized Petitioner to submit an unredacted copy of the Alcoa Agreement under seal.

On December 4, 2007, IBEW filed a notice that it did not intend to prefile any testimony in this proceeding.

On December 10, 2007, the Commission issued a docket entry directing Petitioner to provide additional information about a provision in the OUCC Settlement providing for an accelerated bare steel/cast iron pipeline replacement program. The Docket Entry also scheduled a technical conference on December 13, 2007 for the Commission staff to address tariff issues with Petitioner. On December 12, 2007, Petitioner filed its response to the Docket Entry questions regarding the replacement program.

A hearing on the OUCC Settlement and Alcoa Settlement was held on December 13, 2007 at 9:30 a.m. in Room 222 of the National City Center, 101 W. Washington Street, Indianapolis, Indiana. At that time, the supplemental testimony and exhibits of Petitioner and the OUCC in support of the OUCC Settlement and Petitioners' supplemental testimony and exhibit in support of the Alcoa Settlement were admitted. Petitioner's response to the December 10, 2007 Docket Entry was also admitted as an exhibit. No members of the general public appeared at the hearing.

In accordance with the Docket Entry, following the evidentiary hearing on December 13, 2007, a technical conference was held off the record for the Commission staff and the parties to this proceeding to discuss tariff issues.

On January 25, 2008, Petitioner submitted a late-filed exhibit on the in-service dates and actual costs of the Greensburg Pipeline Project and Greencastle Pipeline Project. Petitioner also submitted a late-filed exhibit containing a revised copy of the proposed Settlement Gas Tariff, reflecting additional changes agreed upon at the technical conference and adjusting the Settlement rates downward to reflect the lower actual capital costs for the Greensburg Pipeline Project as compared to the estimate used in the Settlement.

Having considered the evidence and being duly advised, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the filing of the Petition in this cause was given and published by Petitioner as required by law. Proper and timely notice was given by Petitioner to its customers summarizing the nature and extent of the proposed changes in its rates and charges for gas service. Due, legal and timely notices of the Prehearing Conference and the public hearings in this cause were given and published as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is an Indiana corporation engaged in the business of rendering gas utility service to approximately 565,000 customers in 49 counties in central and southern Indiana. Petitioner renders such gas utility service by means of utility plant, property, equipment and related facilities owned, leased, operated, managed and controlled by it, which are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of gas. Petitioner is a subsidiary of Vectren Utility Holdings, Inc. ("VUHI") which is a subsidiary of Vectren Corporation. VUHI is also the parent company of Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") and Vectren Energy Delivery of Ohio, Inc.

3. **Existing Rates.** Petitioner's existing basic rates and charges for gas utility service were established pursuant to the Commission's Order in Cause No. 42598 dated November 30, 2004 ("2004 Rate Order").

4. **Test Year.** As provided in the Prehearing Conference Order, the test year to be used for determining Petitioner's actual and pro forma operating revenues, expenses and operating income under present and proposed rates is the twelve months ended December 31, 2006. The financial data for this test year, when adjusted for fixed, known and measurable changes as provided in the Prehearing Conference Order, is a proper basis for fixing new rates for Petitioner and testing the effect thereof.

5. **Petitioner's Case-In-Chief.** In its case-in-chief, Petitioner requested an increase in its base rates of $41.1 million or approximately 5%. Jerome A. Benkert, Jr., Petitioner's Executive Vice President and Chief Financial Officer, testified that Petitioner's earned return on equity ("ROE") has been inadequate for several years and Petitioner has not been able to earn its authorized return. He said this rate request was largely driven by Petitioner's need to earn an appropriate return on its increased investment in utility plant and to address costs associated with new programs. He identified reliability programs, aging workforce costs, and system improvement costs as important elements of this case.

Mr. Benkert testified that Petitioner's goal was to improve its credit ratings over time because of its need to attract capital to finance capital spending. He said Petitioner's requested ROE was comparable to that authorized for other local distribution companies over the last 2½ years.

Mr. Benkert discussed how Petitioner's need to make system improvements is affected by the Pipeline Safety Improvement Act of 2002 ("Safety Act"), rules of the United States Department of Transportation ("DOT") adopted pursuant to the Safety Act, and impending DOT rules on distribution system integrity management.

He said Petitioner's system still includes many miles of bare steel and cast iron pipelines which need to be replaced with modern materials using present day construction methods. Mr. Benkert stated Petitioner's proposed tracker for the recovery of the cost of replacing these obsolete facilities on an accelerated basis over 20 years will support Petitioner's ability to raise the debt and equity capital needed for this important system improvement.

Mr. Benkert testified Petitioner has implemented a transforming energy efficiency program pursuant to the Commission's Order in Cause Nos. 42943 and 43046 funded by an Energy Efficiency Rider with an Energy Efficiency Funding Component and a Sales Reconciliation Component. Mr. Benkert said that because the SRC was adopted between rate cases, it currently recovers from the residential and general service customer classes only 85% of the difference between Petitioner's actual margin (revenue less gas costs) and the margin approved in the last rate case, adjusted for customer additions and reductions. Mr. Benkert asserted that since Petitioner's complete financial performance is under review in this proceeding, the SRC should be adjusted to recoup 100% of the margin difference because that is an incentive for Petitioner to encourage reduced customer usage.

Mr. Benkert addressed risks faced by Petitioner relating to demand destruction, volatile gas prices, customer retention and environmental regulations. Mr. Benkert described Petitioner's proposed GCA treatment for the recovery of unaccounted for gas costs and the gas cost component of bad debt expense. He also discussed Petitioner's long-term and short-term performance pay plans.

M. Susan Hardwick, Petitioner's Vice President, Controller and Assistant Treasurer, testified regarding Petitioner's actual and pro forma cost of gas service and the determination of its rate base and revenue requirement. She discussed each of the revenue and expense adjustments made to the test year financial results. She determined that a revenue increase of $41,140,866 per year was necessary to provide an 8.43% return (as determined by Petitioner's Witness Goocher) on Petitioner's net original cost rate base.

Paul R. Moul, a financial and regulatory consultant, testified regarding Petitioner's cost of equity capital. Mr. Moul recommended that an 11.50% cost of common equity be used for purposes of this case. Mr. Moul's recommendation was based on the results of a discounted cash flow model, a risk premium analysis, a capital asset pricing model and a comparable earnings analysis. In applying his market model studies, Mr. Moul used a proxy group of eight gas distribution companies ("Gas Group") that he considered comparable in risk to Petitioner. Mr. Moul said he selected publicly-traded gas distribution companies followed by *Value Line Investment Survey* that have not recently cut or omitted their dividend, are not subject to a merger or acquisition announcement, operate with a weather normalization and/or decoupling feature to their tariff, and have at least 70% of their assets subject to utility regulation. Mr. Moul asserted his analysis takes into account Petitioner's revenue decoupling and normal temperature adjustment mechanisms because all members of the Gas Group have some form of revenue stabilization mechanisms similar to those of Petitioner. He noted that Petitioner is subject to risk related to earnings attrition even with decoupling because other costs are rising while margins are flat with minor customer growth.

Robert L. Goocher, Vice President and Treasurer, testified regarding Petitioner's capital structure and cost of capital. Using the capital structure as of December 31, 2006, the weighted cost of long-term debt, the cost of equity recommended by Mr. Moul and the other components of the ratemaking capital structure (customer deposits, cost free capital and investment tax credits), Mr. Goocher computed a weighted cost of capital of 8.43%.

K. Chase Kelley, Manager of External and Conservation Communications, testified on the progress made by Petitioner on its gas energy efficiency programs. According to Ms. Kelley, these programs include a residential program, home construction program, commercial/general service program, special needs program, targeted income program, on-line energy audit and bill analysis program, outreach campaign and energy resource center. Ms. Kelley reported that Petitioner was satisfied with the results of the programs so far but emphasized that Petitioner has more work to do with the five-year collaborative effort,.

William S. Doty, Petitioner's President, testified regarding Petitioner's aging workforce, training and safety programs, customer contact center, meter reading and billing costs, meter maintenance, strategic procurement process, and utility plant in service. He supported Petitioner's proposed expense adjustments relating to these activities.

Eric J. Schach, Vice President of Energy Delivery, testified about Petitioner's efforts to improve, maintain and enhance operations and maintenance activities. In particular, Mr. Schach addressed: regulator station maintenance (rock and fence maintenance and building repair); pipeline flyover inspections; right-of-way maintenance; automated crew call-out; large commercial and industrial meter set maintenance (cleaning, painting and sandblasting); field management staffing; and gas storage facility improvement (well logging, painting and sulfatreat replacement). Mr. Schach also discussed Petitioner's asset management transformation initiative. He said the goal of this program is sustainable cost control via capital investment planning and budgeting, project design standardization, work execution initiatives, and performance management techniques.

James M. Francis, Director of Technical Services, testified regarding Petitioner's proposed accelerated bare steel and cast iron pipeline replacement program under which Petitioner would replace such infrastructure over a 20-year period at an estimated cost in current dollars of $345 million. He indicated these facilities are more susceptible to corrosion, fractures, and leaks than facilities made from the types of materials used today, which results in higher operating and maintenance expenses, greater line losses, safety risks and reliability risks. Mr. Francis stated that 17 of 23 companies surveyed in a recent study conducted by the American Gas Foundation had a formal program for replacement of bare steel, cast iron and/or some types of plastic pipe. He said Stone & Webster Management Consultants performed an independent review of Petitioner's distribution system and concluded Petitioner should pursue the replacement program.

Mr. Francis also testified about the anticipated impact on Petitioner of the Federal Distribution Integrity Management Program ("DIMP") rules soon to be proposed by the Pipeline and Hazardous Materials Safety Administration ("PHMSA") which will impact approximately 98% of Petitioner's pipeline mileage. He also reported on Petitioner's compliance with the Integrity Management Program required by the Safety Act and the DOT's rules thereunder which are applicable to transmission pipelines in high consequence areas. Mr. Francis described a recent PHMSA audit of Petitioner's program. He also testified regarding the construction of the Greencastle Pipeline Project, a new 15 mile long 12-inch pipeline and regulator station modification extending from an existing pipeline interconnection north of Greencastle to the existing town border station.

John P. Kelly, an asset valuation specialist, testified regarding a valuation study he performed of Petitioner's gas utility properties. In his opinion, the replacement cost of property less depreciation value of these assets is about $1,365.1 million. To make sure the effect of technological change was fully reflected, he made a further downward adjustment to property, plant and equipment, excluding land, using a factor of 2.10% per year from the date of installation recommended by Mr. Moul, resulting in a replacement cost of property less depreciation and technological change of $915 million.

Thomas L. Bailey, Manager of Industrial Sales, testified about the construction of the Greensburg Pipeline Project which was approved by the Commission in its Order in Cause No. 43098 dated December 13, 2006. This project includes: (a) a 16-inch pipeline approximately 23 miles long, extending from Petitioner's existing interconnection with ANR Pipeline Company north of Shelbyville to the site of the new Honda automobile manufacturing facility northwest of

Greensburg; and; (b) an 8-inch transmission pipe about 2.5 miles long from a point near the Honda site (where the pipeline operating pressure will be reduced to that of the Greensburg system) to Greensburg. Mr. Bailey identified the estimated cost of the project and discussed the reasons for changes from the initial estimate submitted in Cause No. 43098. Mr. Bailey also testified in support of Petitioner's large customer revenue adjustment. He addressed Petitioner's plan to add two Account Managers to its Industrial Sales group and the status of ethanol plant construction in Petitioner's service area.

Ellis S. Redd, Vice President of Human Resources, discussed the impact of Petitioner's aging workforce on its Human Resources Department, including the need for new personnel and outside support services. Mr. Redd also testified about Petitioner's creation of a Continuous Improvement and Productivity Department which uses the Six Sigma methodology and benchmarking to improve business processes.

Ronald B. Keeping, Director of Economic Development and Market Research, testified about Petitioner's efforts to promote economic development in its service area and described its successes in attracting new businesses. Mr. Keeping also supported adjustments to reflect the cost of new personnel for these departments and the incremental expenses associated with their activities and programs.

Kerry A. Heid, a rate consultant, performed a cost of service study for Petitioner's gas utility business and allocated the revenue requirement to the various rate schedules. Mr. Heid determined the rate of return on the rate base allocated to each rate schedule and the corresponding subsidies paid or received, as compared to equalized rates of return. He also explained how the proposed rates for each rate schedule were determined and identified increases that would be experienced by customers in each class. He also set forth the cost justification for Petitioner's proposed non-recurring charges.

Scott E. Albertson, Director of Regulatory Affairs, testified about Petitioner's proposed tracking in the GCA of unaccounted for gas ("UAFG") costs, which currently are recovered only in Petitioner's base rates. He explained tracking was more appropriate under current conditions of volatile and high market prices of gas commodity. Mr. Albertson said tracking will also protect customers from the risk of over recovery during times of declining gas prices. He stated regulated gas utilities in at least 38 states recover UAFG in their respective gas cost tracking mechanisms. Mr. Albertson summarized the changes in Petitioner's GCA filings that would be made to implement the proposal and sponsored illustrative GCA schedules reflecting these changes. Mr. Albertson asserted that Petitioner proposed to recover the cost of company use volumes in the GCA from both sales and transportation customers but separately from its UAFG costs. Mr. Albertson sponsored schedules showing how recovery of these costs would be accomplished. Mr. Albertson further stated that Petitioner would report its UAFG percentage, volumes and costs in GCA filings and these costs can be audited for reasonableness. Mr. Albertson provided a similar explanation for Petitioner's proposal to track the gas cost component of bad debt expense in its GCA filings, rather than recover such costs solely in base rates.

Mr. Albertson also testified about Petitioner's proposed Distribution Replacement Adjustment ("DRA") to recover the costs of the accelerated pipeline replacement program described by Mr. Francis, which would include the submission of construction plans, annual filings and reflection of offsetting maintenance expense savings. He sponsored an exhibit of proposed schedules for the DRA filings, with illustrative examples of how they would be used. He also provided a list of gas utilities in other states that have similar mechanisms and quantified the expected impact of the DRA on residential customer bills.

Mr. Albertson also described Petitioner's proposed inclusion in base rates of some of the actual and estimated deferrals of incremental expenses for Safety Act compliance for which the 2004 Rate Order authorized deferral and recovery. He proposed that the review of the continued use of the Pipeline Safety Adjustment ("PSA") should occur at the conclusion of Petitioner's next PSA filing as required by the 2004 Rate Order. Mr. Albertson said that Petitioner proposes that expenses be allocated to rate schedules in PSA filings made after the issuance of the order in this cause based on the approved rate schedule margins resulting from the order.

Mr. Albertson also sponsored Petitioner's proposed Gas Tariff and described how it differed from the existing tariff. The changes include: a new method of tariff sheet numbering; changes to eliminate duplication, promote clarity and where possible bring consistency with the Vectren South Gas Tariff; revisions to the rate schedule for School Transportation Service; a requirement that large transportation customers provide a dedicated telephone line in certain circumstances; implementation of a $50 fee for Pool Operator credit evaluations; and increases in certain non-recurring charges.

Ms. Hardwick submitted supplemental direct testimony describing the accounting procedures that would be used to segregate and record the costs that would be recovered in Petitioner's proposed DRA.

6. **<u>The OUCC Settlement.</u>** In the OUCC Settlement, the settling parties state that they have devoted significant time to the review of data and discussion of issues and have succeeded in reaching agreement on all issues in this proceeding. The parties further advise they have reviewed Petitioner's proposed maintenance programs and certain cost recovery proposals that were similar in many respects to proposals filed in the recent Vectren South Gas rate case, Cause No. 43112, which resulted in an approved settlement after an initial hearing on Vectren South's case-in-chief, as well as the filing of the OUCC's responsive testimony and Petitioner's rebuttal testimony.

The parties also assert that the settlement process benefited from the time devoted to similar issues in the Vectren South Gas rate case (Cause No. 43112), and that differences between the cases were discussed and are reflected in this Settlement as a result of the negotiations. The Settlement reduces Petitioner's filed request for a $41.14 million rate increase to an agreed upon $27.53 million increase consisting of a base rate increase of $16.86 million, and the recovery of $10.67 million of increased costs in existing trackers, specifically UAFG and company use gas costs and the gas cost component of bad debt expense in Petitioner's GCA and a limited-term amortization of prior deferred costs of compliance with the Safety Act in Petitioner's PSA.

A. **Rate Increase.** The Settlement provides for a base rate increase in annual revenues of $16,860,808 representing an overall revenue increase of approximately 2.04%.[1] These rates reflect allocation of the non-tracker revenue increase among all rate schedules on an across-the-board basis. The allocations of the tracker-related revenue increases were based on the previously approved allocation methodologies for those trackers. Rates for residential and general service rate schedules have been determined by increasing the monthly Customer Facilities Charge by agreed to dollar amounts and allocating the remaining revenue differences to the block rates on an equal per unit basis.

The agreed upon rate increase reflects the following original cost rate base, cost of capital and financial results which the parties agree are reasonable for purposes of compromise and settlement:

Rate Base	($000's)
Utility Plant in Service	$1,288,415
Acquisition Adjustment	20,300
Greencastle Project	12,600
Greensburg Project	28,300
Less: Accumulated Depreciation	(621,742)
Less: Acc. Amort. on Acq. Adj.	(8,296)
Net Utility Plant	719,578
Materials and Supplies	2,441
Prepaid and Underground Storage Gas	74,688
	$796,707

Capital Structure

	Amount ($000's)	Weight	Cost	Weighted Cost
Common Equity	$467,282	48.99%	10.20%	5.00%
Long-Term Debt	371,338	38.93%	6.86%	2.68%
Customer Deposits	19,842	2.08%	5.00%	0.10%
Cost Free Capital	93,652	9.82%	0.00%	0.00%
Post 1970 JDITC	1,731	0.18%	8.72%	0.02%
	$953,844	100.00%		7.80%

[1] As discussed later, this increase is based on estimated costs for the Greensburg and Greencastle projects. Because the actual cost of the Greensburg project was less than the estimate used in the Settlement, Petitioner is obligated to reduce the increase to reflect the actual costs.

Pro Forma Proposed Rates	($000's)
Revenue	$842,351
Gas Cost	(578,652)
Gross Margin	$263,699
Operations and Maintenance	$102,118
Depreciation	50,611
Income Taxes	27,022
Other Taxes	21,804
Total Operating Expense	$201,556
Net Operating Income	$62,143

Effective upon implementation of the rates, which shall be set forth in a revised Vectren North Tariff for Gas Service, I.U.R.C. No. G-19 ("Tariff"), Petitioner's authorized return for purposes of the earnings test component of the GCA (Ind. Code § 8-1-2-42(g)(3)(C) and § 8-1-2-42.3) shall be $62,143,147, representing a return of approximately 7.80% on an original cost rate base of $796,707,009. As a component of this return, the parties have agreed upon an ROE of 10.20%. The parties agree, solely for purposes of settlement and compromise, that this represents a reasonable return on Petitioner's investment in used and useful property, plant and equipment.

The original cost rate base includes the Greencastle and Greensburg Pipeline Projects, as updated throughout this proceeding. To the extent that the estimated project costs used in the Settlement exceed actual costs, Petitioner will file a late filed exhibit after the final hearing to reflect the lower, actual costs. The current estimated cost of the Greensburg Pipeline Project reflected in rate base per the Settlement exceeds the pre-approved amount of $24,687,770 based on Petitioner's preliminary estimate as set forth in Cause No. 43098. Pursuant to the Settlement and consistent with the Order in Cause No. 43098, Petitioner has provided evidence as part of its testimony in support of the Settlement, regarding the reasonableness and prudency of the final project costs. To the extent the final costs of either or both of the referenced projects exceed the construction estimates used to establish the rate base amounts in the Settlement, no update will be made to rate base in this case; such reasonable and prudent incremental amounts will be eligible for inclusion in rate base in Petitioner's next base rate case.

Petitioner's current depreciation rates shall remain in effect. Based in part upon the maintenance programs agreed to in the Settlement, which are designed to improve the condition of existing above ground facilities, as well as the agreed upon accounting support for the bare steel/cast iron replacement program, Petitioner has agreed that as part of its next base rate case it will perform and submit a depreciation study.

B. Pro Forma Adjustments. All of the agreed upon pro forma adjustments are set forth in Appendix C which compares the Settlement adjustments to Petitioner's case-in-chief. As discussed below, UAFG costs, company use gas costs, and the gas cost component of bad debt expense have been removed from the base rates revenue requirement.

Additional Employees. Petitioner sought a pro forma adjustment of $3,538,819 to support the addition of 70 employees. Under the Settlement, 29 of these positions will be included for purposes of cost recovery in this proceeding. The Settlement reflects the inclusion of the new positions that either have been filled and/or approved in the recent Vectren South rate cases (Cause Nos. 43111 and 43112), as well as three additional Compliance Engineers required by Petitioner to meet increasing federal DOT pipeline safety regulations,; a Conservation Analyst to support Petitioner's efforts to promote energy efficiency,; and an Employee Relations Director. These five positions must be filled by the date of a Commission order in this Cause. If they are not, Petitioner will file a revised tariff to remove from rates the cost of any of these five positions to the extent not filled. Accordingly, Petitioner's pro forma labor adjustment has been reduced by $2,246,572 to $1,292,247.

Maintenance Programs. Petitioner proposed in its case-in-chief a number of maintenance programs to protect and improve both the long-term performance of its above ground facilities and access to its pipelines through right of way maintenance activities. In total, the parties have agreed to 67% of the requested maintenance program funding in these areas, representing an overall reduction to the pro formas of $1,633,554. Petitioner shall at the time of its annual PSA filing submit progress reports to the Commission and OUCC regarding the programs for gas storage facilities maintenance, distribution maintenance, regulator station maintenance and meter maintenance as set forth in Appendix D.

Gas Storage Facilities Maintenance. The Settlement accepts Petitioner's proposed pro forma adjustment of $343,488 in order to conduct gas well logging on a ten year cycle in order to assess storage well conditions and implement repairs as necessary to minimize lost gas. The pro forma also includes costs to paint above ground storage and propane facilities over a five year cycle and to replenish sulfatreat towers used to remove contaminants from stored gas.

Distribution Maintenance. The Company proposed a pro forma adjustment of $2,169,154 in order to clear its distribution pipeline right of way on a 20 year cycle and its transmission pipeline right of way (other than the transmission pipeline segments covered by the Safety Act) on a 10 year cycle. Pursuant to the Settlement, the pro forma amount has been reduced to $1,843,290, primarily due to a move to a 15 year cycle to conduct the transmission pipeline clearing activity.

Regulator Station Maintenance. Petitioner's pro forma adjustment covered a number of proactive maintenance activities at its 1,400 regulator stations, including periodic painting, building repair, fencing repair, and ground maintenance. The Settlement reduces the pro forma adjustment from $1,253,218 to $817,628. This reduction reflects a move to a 10 year cycle for regulator station maintenance, and a 20 year cycle for both painting, fencing repairs and rock replacement.

Meter Maintenance. Petitioner proposed a pro forma adjustment of $1,275,212 to begin periodic painting of larger meter sets and to conduct audits of meter pressure factors in its billing system to confirm billing accuracy. The Settlement reduces the pro forma amount to $403,112.

Uncollectible Accounts Expense. The Settlement reflects a 0.90% bad debt ratio which is generally reflective of the historic average of bad debt write-offs to revenue. This percentage is also used as the fixed ratio for purposes of recovering gas costs relating to bad debt as discussed below.

Safety Communication Costs. Petitioner proposed both a school based safety education program and a mass media approach to customer safety education at a cost of $719,424. The parties agreed in the Settlement to the school safety education program with a cost of $219,424. Petitioner will report annually on the actual costs, the selected schools, and the materials used.

Economic Development Expense. The parties agreed to a pro forma adjustment of $110,660 to support Petitioner's contributions to economic development organizations in its service territory. Other activities such as surveys and data research were eliminated from the original pro forma of $288,263. Each year Petitioner will provide a report on its contributions.

Rate Case Expense. Petitioner's rate case expense, as filed, will be amortized over three years, and at the end of the period Petitioner will file revised tariffs that eliminate that expense from its base rates.

Deferred Pipeline Safety Costs. Petitioner reflected in the base rate revenue requirement the amortization and recovery of Safety Act costs that have been deferred because they exceeded the annual cap applicable to the PSA. The Settlement provides for the continued recovery of all deferred costs and prospective costs, subject to a negotiated revised cap, and amortization of the existing deferred expenses via the PSA as described below.

Claims Expense. The Parties agreed to a five year amortization of claims paid which results in a pro forma adjustment of $299,243, a reduction of $351,399 from Petitioner's filed position.

Asset Charge. The VUHI Asset Charge has been calculated using the agreed-upon 10.20% ROE and the methodology used in the recent Vectren South rate cases.

Income Taxes, IURT Taxes. These items have been determined based upon the Settlement amounts.

C. UAFG Costs. Petitioner will be authorized to recover in its GCA the actual cost of UAFG volumes, up to a maximum UAFG percentage of 0.80%. No UAFG costs will be included in base rates. Transportation customers (including School Suppliers and Pool Operators) will continue to provide retained gas volumes to Petitioner subject to the terms and the percentage set forth in Appendix F of the Tariff. The Settlement describes the procedures and methodology to be used in implementing GCA tracking which include determination of the actual UAFG percentage annually for the twelve months ending August 31 and an annual reconciliation. The OUCC and the Petitioner will review this UAFG cost recovery methodology after three years. Either the OUCC or Petitioner may propose changes to the methodology at that time, which, if accepted by the Commission, would be effective prospectively. Costs of volumes attributable to company use will be excluded from UAFG and recovered from both sales and transportation customers in the GCA.

D. **<u>Bad Debt Gas Costs.</u>** Petitioner will be authorized to recover in its GCA the gas cost component of bad debt expense at a fixed bad debt ratio of 0.90%. No gas costs associated with bad debt expense will be included in base rates. The margin (non gas cost) component of bad debt expense will remain embedded in base rates at the same ratio of 0.90%. The Settlement describes the procedures and methodology to be used in implementing GCA tracking. The OUCC and the Petitioner will review this bad debt gas cost recovery methodology after three years. The OUCC and/or the Petitioner may propose changes to the methodology at that time, which, if accepted by the Commission, would be effective prospectively.

E. **<u>PSA.</u>** Petitioner will be authorized to continue to recover incremental expenses caused by the requirements of the Safety Act, via its PSA with certain modifications. Deferred expenses eligible for inclusion in each annual PSA filing will be capped at $4.5 million. Incremental deferred expenses above the annual cap may be included in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap. Amounts above the cap will be deferred and be eligible for future rate case or PSA recovery. Any deferred balance existing at July 31, 2007, excluding deferred expenses for the 12 months ending July 31, 2007 that are included in Petitioner's PSA filing for that period, will be amortized over a 3-year period within the PSA, without carrying costs. This amortized amount will be considered incremental to the $4.5 Million annual cap, i.e., the amortized amount does not count toward expenses that are deferred in each 12-month period that may be recovered under the cap. The amortized amount will be removed from the PSA at the end of the 3-year period. In each annual PSA filing, recoveries will be reconciled with recoverable costs. Recovery variances will also be considered incremental to the $4.5 million annual cap. Rate schedule margins as updated in this cause shall be used as the basis for allocating eligible deferred expenses in future annual PSA filings. The PSA will continue through the annual PSA filing for the twelve months ended July 31, 2010. Prior to that date, the parties will review the PSA to consider the appropriateness of the annual cap, whether the PSA should continue, whether expenses have levelized sufficiently to be included in base rates, and any other related matters. Petitioner will report to the Commission on the parties' recommendation.

All other provisions of the Stipulation and Settlement Agreement and Commission Order in Cause No. 42598 as related to the PSA shall remain in effect.

In addition to the federal requirements for certain transmission pipelines under the Safety Act, the parties have engaged in discussions regarding the anticipated federal regulations and associated compliance activities related to DIMP, which have been delayed in 2007 but may be enacted shortly after completion of this case. Once DIMP rules exist, Petitioner will share its compliance plan with the OUCC, estimated compliance costs will be reviewed, and the OUCC and Petitioner will discuss the recovery of such costs via the PSA. Petitioner will petition for inclusion of reasonable, necessary and incremental DIMP compliance costs as part of its PSA, including appropriate modification of the annual PSA cap, and the OUCC will not object to such recovery on the basis that DIMP related cost recovery constitutes single issue ratemaking.

F. **<u>Distribution Replacement Program.</u>** Petitioner had proposed a 20 year accelerated bare steel/cast iron pipeline replacement program with a corresponding periodic rate adjustment mechanism to allow for recovery of the revenue requirement attributable to this large non-revenue producing capital investment. The OUCC acknowledged the benefits derived from such replacement but did not believe that approval of the entire program and establishment of a 20 year rate mechanism were appropriate at this time. The parties have discussed the prioritization of repair work and agree that replacement of the bare steel/cast iron systems in the towns of Elwood, Anderson, Muncie, Marion and Clarksville should be undertaken. Together, these systems comprise approximately 30% of the total bare steel/cast iron mains mileage in the Petitioner's system.

The parties agree that in this limited circumstance where specific infrastructure has been identified that can be replaced with newer technology on an accelerated basis to improve reliability and safety, and where such activity requires significant capital expenditure over a short time period that is incremental to the ongoing required capital expenditures to operate Petitioner's distribution system, it is appropriate to support such an expenditure via accounting authority in this case in the same manner as agreed upon in the Vectren South Gas rate case settlement. The annual plans to address pipe in the five identified areas may accommodate reasonable changes in replacement priority, such as replacements in another area to match timing of public projects. Petitioner shall be authorized to continue to accrue allowance for funds used during construction ("AFUDC") and to defer the accrual of depreciation expense after the in-service date of projects installed pursuant to Petitioner's accelerated bare steel and cast iron pipeline replacement program ("Program").

The amount of investments that are eligible for post in-service AFUDC and deferred depreciation treatment ("Accounting Treatment") shall be limited to $20.0 million per year. The Accounting Treatment shall terminate for each project after four years from the project's in-service date, unless Petitioner has filed a base rate proceeding before the end of the specific project's four-year Accounting Treatment period.

If Petitioner does file a base rate proceeding by such date, the Accounting Treatment shall continue for those projects (and investments in any subsequent projects that are included in rate base in that proceeding) until the date of a final order in that proceeding. The AFUDC earnings from the Accounting Treatment will be treated as below-the-line income for purposes of the GCA earnings test consistent with normal accounting procedures for AFUDC. Petitioner will file with the Commission and serve on the OUCC annual informational reports regarding the status of the Program and the investments made pursuant thereto in conjunction with its annual PSA filings.

G. **<u>Tariff.</u>** The Tariff for Gas Service, I.U.R.C. No. G-19, shall replace the gas tariff of the Company currently on file with the Commission. The new Tariff includes, among other things, provisions dealing with Interim Supply Service under Rates 245 and 260 when a customer is temporarily unable to obtain gas supply from a supplier or pool operator; changes in certain non-recurring charges; resetting the UAFG percentage applicable to transportation customers, school suppliers and pool operators in conjunction with GCA recovery of the cost of company use volumes; and implementation of 100% of the SRC. All other changes to the Tariff set forth in the agreed upon form shall be approved and authorized.

H. **<u>Stipulation Effect, Scope and Approval.</u>** The Settlement provides that it is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to any party. The Settlement shall not constitute an admission or waiver by any party or be used as precedent in any other proceeding or for any other purpose except to the extent provided for herein or to the extent necessary to implement or enforce its terms. The settling parties stipulate that the evidence submitted in support of the Settlement constitutes substantial evidence sufficient to support the Settlement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Settlement.

7. **Evidence In Support Of The OUCC Settlement.**

A. **Petitioner's Evidence.** In support of the Settlement Agreement, Petitioner presented supplemental testimony by Mr. Benkert, Ms. Hardwick, Mr. Albertson, and Mr. Francis.

Mr. Benkert explained that the parties to the OUCC Settlement, including their counsel and technical experts, engaged in a series of meetings, discussions, and information exchanges about the rate case over a period of several months. After good faith efforts, including responses to numerous data requests related to Petitioner's case-in-chief, discussion of the OUCC's potential litigation positions and the give and take of settlement negotiations, the parties were able to reach agreement on the Settlement which they propose as a reasonable resolution of this proceeding and a means to avoid further litigation. Mr. Benkert asserted that the in-depth negotiations by the parties earlier in 2007 related to issues similar to those identified in the Vectren South Gas rate case, which assisted the progress of settlement negotiations in this case,

Mr. Benkert stated that the Settlement provides for base rates designed to produce additional annual revenues of $16.8 million, representing an overall revenue increase of 2%, including an estimated $7.5 million that would have been recovered through the decoupling mechanism but is now rolled into base rates. This is a substantial reduction to Petitioner's original rate increase request of 5% or $41 million per year. He noted that about $10.7 million of the difference is attributable to the removal from base rates of costs to be tracked through the GCA and PSA.

Mr. Benkert said the agreed upon revenue requirement represents a 7.80% rate of return on the original cost rate base, and includes an ROE of 10.2%. Mr. Benkert stated that while this ROE is less than what Petitioner would consider acceptable without a Settlement, Petitioner has agreed to it in a spirit of compromise, to achieve rate relief sooner than would otherwise be the case, and because of other terms in the Settlement. Mr. Benkert compared the 10.20% ROE in this proceeding to what was used in the recent Vectren South rate cases (Cause Nos. 43111 and 43112), Vectren North's last rate case and recent rate cases for other local distribution companies, and concluded the agreed upon ROE allows Petitioner to compete on a reasonable basis with other utilities for its capital needs but does not represent an above average return opportunity. He also reiterated Petitioner's significant capital requirements going forward.

Mr. Benkert testified the OUCC and Petitioner dedicated significant time and effort to thoroughly understanding the challenges facing Petitioner in particular and the industry in general, including the aging workforce issue and the unpredictability of bad debt expense caused by gas cost volatility. He said policy considerations concerning bad debt expense and UAFG have been discussed by the OUCC and Petitioner in depth for well over a year, and that exchange of ideas contributed to the ability of the parties to reach an agreement in this proceeding on an approach that generally mirrors the settlement adopted in the August 2007 Vectren South Gas rate order.

Mr. Benkert referred to the Settlement provisions on the Distribution Replacement Program as a middle ground approach relative to Petitioner's initial request for timely cash recovery of the capital costs for replacing bare steel and cast iron pipe. He said it would be difficult for Petitioner to proceed with this enhanced program without at least the accounting treatment for the Program costs provided for in the Settlement.

Mr. Benkert also discussed how recovery through the SRC of 100% of lost margins due to residential and commercial customer usage reductions supports Petitioner's energy efficiency efforts. He reported that results from the first year of the energy efficiency program have exceeded expectations.

Mr. Benkert indicated that the Settlement provision requesting prompt approval was a critical term from Petitioner's standpoint. He said a significant motivation for Petitioner, in agreeing to the Settlement, is its expectation that it will lead to prompt authorization of the agreed upon rate increase. He said Petitioner is a strong proponent of resolving rate proceedings amicably by settlement, if at all possible, and prompt approval of reasonable settlements is essential to the vitality of that process.

Ms. Hardwick testified the Settlement addresses each of the pro forma adjustments originally proposed by Petitioner. She said Petitioner and the OUCC discussed each proposed adjustment, reviewed relevant data, and negotiated a meaningful outcome on each item rather than simply agreeing to a "split the difference" approach. She noted that much discussion concerned how issues were resolved in the recent Vectren South Gas rate case. Ms. Hardwick stated that as a result of the settlement negotiations, Petitioner reduced the requested pro forma expense by nearly $7.2 million or 33% from the original filing, before consideration of the impact of removing certain gas cost recovery items from base rates.

Ms. Hardwick testified that in anticipation of the three year review of the PSA, Petitioner and the OUCC reviewed costs incurred to date, agreed to reset the annual recovery cap, and moved all costs, including as yet unrecovered deferred costs that had accumulated, out of base rates. The accumulated costs will be recovered over a three year period through the PSA, rather than as an authorized cost in base rates.

Ms. Hardwick stated the Settlement addresses the volatile nature of gas costs in two ways. First, the Settlement adopts a mechanism whereby the gas cost component of bad debt expense will be recovered via the GCA at a fixed bad debt ratio of 0.90% of revenues, while leaving the margin component in base rates. Therefore, Petitioner remains at risk for the margin component and for the level of the actual bad debt ratio. She said the effect of this approach is to remove $5,207,871 of bad debt related gas costs from base rate recovery. According to Ms. Hardwick, the fixed ratio of 0.90% was based on Petitioner's recent experience. Second, the Settlement provides that the cost of UAFG will be removed from base rates and be tracked through the GCA but capped at a fixed percentage of 0.8%. She said the effect of this approach is to remove $3,601,420 of UAFG costs from base rate recovery.

Ms. Hardwick also explained the Settlement provisions supporting Petitioner's accelerated replacement of its oldest bare steel and cast iron mains, reflects an approach similar to that agreed to in the Vectren South Gas rate case. The Settlement authorizes the continuation of AFUDC and the deferral of depreciation for project expenditures up to the annual cap amount of $20.0 million for a period up to four years post in service. She further noted that this treatment would be extended on properties for which the treatment is ongoing when a rate case is in process.

Ms. Hardwick reviewed the changes to the pro forma adjustments agreed to in the Settlement. She stated the Settlement uses an original cost rate base of $796,707,009 which reflects actual utility plant balances as of December 31, 2006, adjusted for the current estimates for the Greensburg and Greencastle Pipeline Projects, as well as thirteen month averages as of that date for certain working capital related items, like materials and supplies and gas in storage.

Ms. Hardwick concluded that after reflecting on the terms of the Settlement, the revenue requirement increase is $16,860,808 and the resulting base rate revenue requirement is $842,351,150, which produces net operating income of $62,143,147.

Mr. Albertson also discussed the Settlement provisions for recovery of actual UAFG costs in the GCA, up to a maximum actual UAFG percentage of 0.80%. He said this methodology benefits customers in two ways. First, customers are no longer at risk of overpaying UAFG costs if gas prices decline. Second, customers are not at risk of paying for more UAFG volumes than the maximum level of 0.80%. Mr. Albertson stated this methodology also benefits Petitioner, in that the risk of under -recovery of UAFG costs up to the 0.80% level due to potential gas price increases is removed. However, unlike the Petitioner's initial proposal, under the Settlement Petitioner does remain at risk for UAFG volumes greater than 0.80%. Finally, the Settlement contemplates a review of this methodology after three years. Mr. Albertson sponsored an exhibit of pro forma GCA schedules illustrating how UAFG costs will be projected and reconciled. The illustrative schedules include two scenarios: one where the actual UAFG percentage is less than 0.80% and another where the actual UAFG percentage exceeds 0.80%. The exhibit also showed how company use volumes will be tracked in the GCA. Mr. Albertson provided a step by step explanation of the UAFG cost recovery methodology and procedures. He said the methodology was the same as that approved for Vectren South in Cause No. 43112.

Mr. Albertson summarized the terms of the Settlement related to recovery in the GCA of the gas cost component of bad debt expense. He said the Settlement provides an incentive for Petitioner to continue to diligently manage its bad debt expense, while providing that customers pay bad debt gas costs at the fixed ratio of 0.90%. Mr. Albertson explained that while this methodology does not provide for full recovery of bad debt gas costs, as initially proposed by Petitioner, it does mitigate Petitioner's risk of under recovery due to gas price volatility. He noted the margin component of bad debt expense will remain in base rates and the gas cost component will be removed. Finally, the Settlement contemplates a review of this methodology after three years. Mr. Albertson sponsored an exhibit illustrating how bad debt gas costs will be projected and reconciled in GCA proceedings. He also provided a step by step explanation of the bad debt gas cost recovery methodology and procedures. This methodology is consistent with that approved for Vectren South in its recent gas rate case.

Mr. Albertson testified that Petitioner and the OUCC conducted a review of the PSA and, as a result, the parties have agreed to: (1) eliminate the amortization of Safety Act costs in base rates; (2) continue the PSA under new terms, and; (3) provide for the recovery of the deferred costs and prospective costs, subject to a revised negotiated cap, via the PSA. He also discussed the PSA procedures agreed to in the Settlement, including the treatment of deferred balances that exceed the cap, the reconciliation of variances, the allocation of costs in accordance with the rate schedule margins approved in this Cause, and the time schedule for the next PSA review. He said except for the annual cost recovery cap amount of $4.5 million, the PSA procedures are the same as those approved for Vectren South in its recent gas rate case. Mr. Albertson also summarized the Settlement terms on DIMP which provide for a compliance plan after the federal rules are finalized and a future petition by Petitioner for including DIMP compliance costs as part of the PSA.

Mr. Albertson described the changes to the Tariff agreed upon in the Settlement. He also sponsored the Settlement Tariff as an exhibit as well as a black-lined version showing all changes from the current tariff. Following the December 17, 2007 Technical Conference, on January 25, 2008, Petitioner filed a revised tariff. Among the changes are:

> Adding an Interim Supply Service provision for Rates 245 (Large General Transportation Service) and 260 (Large Volume Transportation Service) that applies in the event a customer is temporarily unable to obtain gas supply from a supplier or pool operator.
>
> Adding a dedicated telephone line provision to Rates 245, 260 and 270 (Long-Term Contract Service).
>
> Adding a $50.00 fee for Pool Operator creditworthiness evaluations.
>
> Increasing the Fraudulent or Unapproved Use of Gas minimum charge from $44.00 to $70.00.
>
> Adding a provision allowing Petitioner to issue an Operational Flow Order for the entire system or a specific operating system.
>
> Resetting the UAFG percentage applicable to transportation customers, school suppliers, and pool operators to 0.50%.
>
> Updating the PSA rate schedule allocation to reflect the margins determined in this proceeding.
>
> Implementing 100% of the difference between actual and approved margins in the SRC.

Mr. Albertson testified the new rates reflect an allocation of the non-tracker revenue increase among all rate schedules on an across-the-board basis. Tracker related revenue increases are based on the allocation methodologies applicable to those trackers. Rates for residential and general service customers have been determined by increasing the monthly Customer Facilities Charge by agreed to amounts and allocating the remaining revenue differences to the block rates on an equal per therm basis. Mr. Albertson sponsored an exhibit showing illustrative margins and bill comparisons for the various rate schedules as well as the monthly margins for SRC calculation purposes.

Mr. Albertson also provided a margin proof demonstrating the margin generated by the Settlement rates. He also identified the Customer Facilities Charge for each rate schedule. He said the average residential customer would see an annual bill increase of $42.89 or 3.88%, over the annual total bill amount (including gas costs) at present rates.

Mr. Francis testified regarding the current cost estimate for the Greensburg Pipeline Project of $26,650,000 and compared that estimate to the initial $24.7 million estimate submitted in Cause No. 43098 and the $25.8 million estimate in Petitioner's case-in-chief. Mr. Francis explained the reasons for the increase which include increased use of directional boring (rather than open trenching) to cross wetlands, increases in easement acquisition costs due to changes in market values, and installation of 2.85 additional miles of pipe attributed to changes in the final pipeline route. Mr. Francis said the contractor's construction bid was evaluated by an independent third party evaluator selected by the OUCC. This evaluation showed the bid was competitive and was lower than an estimate provided to the bid evaluator by another pipeline contractor based on the same project specifications. Mr. Francis testified the current cost estimate is reasonable and reflects all known characteristics of the project. He stated the 16-inch pipeline portion of the project was in service as of November 5, 2007 and the 8-inch pipeline portion would be finished in December.

Mr. Francis testified the current cost estimate for the Greencastle Pipeline Project was $12,600,000 and explained it was higher than the original estimate because of current conditions in the construction industry, competition for critical resources, and the need for one additional mile of more costly rock boring. Mr. Francis confirmed the current estimate is reasonable and reflects all known characteristics of the project. He said this project was in service by December 10, 2007.

Mr. Francis said after the final hearing Petitioner would file an exhibit showing the final actual costs of these projects. Consistent with the Settlement, the Company will adjust its revenue requirement to the extent the final cost of the projects is less than the estimates used for purposes of the agreed upon revenue increase.

B. <u>OUCC's Evidence.</u> Tyler E. Bolinger, Director of the OUCC's Gas Division, testified for the OUCC in support of the Settlement. Mr. Bolinger pointed out that the Settlement describes in detail the various pro forma adjustments, resolves each and every adjustment and explains the resolution of many of them. He said the Settlement also resolves several policy issues with respect to the PSA, the DRA, UAFG, and bad debt expense.

Mr. Bolinger described the process used by the OUCC to investigate and ultimately resolve the issues. This included participation of many staff members, data request questions (many with multiple subparts), direct discussions with Petitioner's personnel, technical discussions by telephone and in person, and use of other sources of information such as reports to DOT. Mr. Bolinger asserted that this investigation enabled the OUCC to develop its conclusions. He further commented that the OUCC's work was aided by the fact that the OUCC had recently worked through many similar issues in the Vectren South electric and gas rate cases.

Mr. Bolinger stated that Petitioner's proposed bare steel and cast iron replacement program itself generated little, if any, controversy. However, there was disagreement about Petitioner's proposed DRA because the OUCC has serious concerns about the use of capital cost trackers in the gas distribution industry. These concerns were articulated in the recent Vectren South Gas rate case. The Settlement resolves the issue by allowing post-in-service AFUDC and deferred depreciation on projects up to a maximum investment of $20.0 million per year, generally limited to a four year period from the in-service date of each separate project. Mr. Bolinger said the four year limitation may lead to more frequent base rate cases, but that is generally to be expected for utilities undertaking large construction programs. He described the resolution as responsive to both Petitioner's concerns about earnings attrition and the OUCC's concerns about gas utility capital cost trackers.

With respect to the agreed upon maintenance program adjustments, Mr. Bolinger testified that the significant reporting requirements in Appendix D that will allow the Commission and the OUCC to monitor and evaluate the progress and results of the upgraded programs were of great importance to the OUCC. He said the requirement that Petitioner submit a depreciation study in its next rate case was included because the programs create at least the possibility of extending the useful lives of certain equipment.

Mr. Bolinger referred to the embedding of UAFG costs in base rates without tracking as the traditional approach that arguably provides the maximum incentive for utilities to minimize UAFG. However, the traditional approach provides no relief to the utility for market changes in the commodity price of gas (over which management has little control) even if the utility carefully manages its UAFG ratio. According to Mr. Bolinger, the OUCC was willing to resolve this issue if incentives to manage the UAFG ratio were retained. Mr. Bolinger said the negotiated 0.80% UAFG ratio cap for GCA recovery accomplishes this objective. If commodity prices rise between rate cases, Petitioner will not under recover its UAFG costs as long as its UAFG ratio is at or below 0.80%. If commodity prices fall between rate cases, then ratepayers will not over compensate Petitioner for UAFG.

Likewise, Mr. Bolinger pointed out, bad debt has traditionally been embedded in base rates with no tracking between rate cases. The amount is typically calculated by applying a reasonable ratio to pro forma revenue. In this case, the parties agreed to a bad debt ratio of 0.90%, which is very consistent with actual experience in recent years. Mr. Bolinger described Petitioner's proposal to split bad debt expense into a gas cost component and a margin (non-gas cost) component as logical and sound, and as the means to consider alternative ratemaking approaches that reflect fundamental differences between utility gas supply service and distribution/transportation service. Mr. Bolinger stated, however, that the OUCC continues to have concerns about a possible weakening of incentives to manage bad debt caused by dollar-for-dollar tracking of the gas cost component. The concern was resolved in the Vectren South Gas settlement through an alternative approach of applying a fixed bad debt ratio to total gas costs in the GCA. Under this approach, the utility's opportunity to recover the gas cost component rises and falls with the price of gas, but is always calculated based on the fixed bad debt ratio. In this case, the parties reached essentially the same resolution using a fixed bad debt ratio appropriate for Petitioner of 0.90%. Mr. Bolinger stated the margin component will be embedded in base rates with no tracking whatsoever. In each GCA, the fixed ratio will be applied to total gas costs to determine the recoverable bad debt gas costs. In Mr. Bolinger's opinion, this alternative provides an improved opportunity for the utility to fully recover its gas costs, provides for increased accuracy of recovery, and establishes strong incentives to manage bad debts and the bad debt ratio.

In conclusion, Mr. Bolinger recommended approval of the Settlement, which he said reflects a reasonable resolution of the issues and good faith bargaining among well informed parties.

Mark H. Grosskopf, an OUCC Gas Analyst, testified there were numerous OUCC technical staff members of various professional disciplines involved in analyzing the revenue requirements presented in this Cause and in the settlement discussions. He said the schedules supporting the Settlement were evaluated by the OUCC for reasonableness and accuracy, including verification through use of the OUCC's own revenue requirements model. Mr. Grosskopf expressed the opinion that the Settlement represents a reasonable resolution of the various issues in this cause.

Mr. Grosskopf expressed agreement with the Settlement rate base but pointed out the final costs of the Greencastle Pipeline Project and the Greensburg Pipeline Project are not presently known. He explained that if the estimates used in the Settlement exceed the actual costs, Petitioner is required to late-file an exhibit to reflect the lower actual costs. If the actual costs exceed the estimates, there will be no update in this case for the excess, although the excess costs will be eligible for rate base inclusion in Petitioner's next rate case to the extent they are deemed reasonable and prudent.

Mr. Grosskopf said he has been involved personally in the review and verification of each previous PSA filing of Vectren North and Vectren South. Although the 2004 Rate Order provided for a review of the continuation of the PSA mechanism after it has been in effect for three years, Mr. Grosskopf stated that the OUCC has reached agreement with Petitioner on the future of the PSA in settlement discussions in this case. He testified the OUCC and Petitioner jointly support extension of the PSA because Safety Act compliance costs are not sufficiently known, fixed and measurable to embed them in base rates, due to the lack of sufficient cost history. Also, due to the current and anticipated level of deferred PSA costs, the parties propose an increase in the annual cost recovery cap to $4.5 million and a three year amortization of non-recovered deferred costs as of July 31, 2007 within the PSA. Mr. Grosskopf called attention to the similarity of the provisions in the Settlement in this case to the Vectren South Gas rate case settlement in Cause No. 43112.

8. **<u>True Up Adjustment For Major Projects.</u>** As discussed above, the rate increase provided for in the OUCC Settlement reflected estimated costs for the Greensburg Pipeline Project and Greencastle Pipeline Project. The Settlement further provided that if the actual costs of these projects were less than the estimates, Petitioner would submit a late-filed exhibit reflecting the lower cost. On January 25, 2008, Petitioner submitted such a late-filed exhibit verifying that the two projects were in service and the actual costs of each project. The late-filed exhibit showed that the actual cost of the Greensburg Pipeline Project was less than the

Settlement estimate.[2] The late-filed exhibit calculated the impact of this reduction on Petitioner's revenue requirement. Accordingly, to reflect these lower plant and depreciation costs, Petitioner adjusted the Settlement authorized net operating income to $61,827,974 (rather than $62,143,147), resulting in a Settlement annual revenue requirement of $841,768,508 (rather than $842,351,150) and an overall revenue increase of 1.97% (rather than 2.04%). On January 25, 2008, Petitioner filed a revised proposed Gas Tariff containing the Settlement rates adjusted to reflect this lower revenue increase.

9. <u>Alcoa Settlement.</u> Mr. Bailey testified for Petitioner in support of the Alcoa Settlement and the Alcoa Agreement that is attached to the Alcoa Settlement.

Mr. Bailey stated the Alcoa Settlement and Alcoa Agreement resulted from good faith, arms-length negotiations between Petitioner and Alcoa. He said since June, 1998 Petitioner has provided Alcoa with gas service to its facilities in Lafayette, Indiana ("Lafayette Operations") pursuant to a special contract approved by the Commission. Mr. Bailey testified the Lafayette Operations produce structural parts for the airline industry. Mr. Bailey said that as product globalization expands and the demand for aluminum increases, Alcoa is striving to continue to produce a cost effective product. According to Mr. Bailey, the Alcoa Agreement will help Alcoa remain viable in a highly competitive aluminum market and assist Petitioner in maintaining this large employer as a customer in the Lafayette area. Mr. Bailey stated the negotiated rates have been structured to provide a potential incentive to Alcoa to pursue future expansions at the Lafayette Operations which in turn would produce positive economic growth for Tippecanoe County. Thus, Mr. Bailey explained, the Alcoa Agreement is designed to attract and preserve load and assure Alcoa's long-term presence as a distribution customer of Petitioner.

Mr. Bailey testified the rates established in the Alcoa Agreement are sufficient to cover the cost of the existing meters and service lines currently used to provide gas service to Alcoa and will provide a contribution to the recovery of Petitioner's fixed costs. Because Alcoa is an existing customer, no new investment is required to continue to serve Alcoa. Mr. Bailey said Petitioner's existing and future gas customers will benefit from the continued contribution made by Alcoa to fixed cost recovery because the rates established under the Agreement will cover the incremental cost of providing service to Alcoa. Mr. Bailey asserted that Alcoa has agreed to a minimum level of service which provides further assurance that the Lafayette Operations will maintain gas service during the term of the Agreement. Furthermore, according to Mr. Bailey, Alcoa will benefit from the rate stability and competitive rates provided by the Agreement. Mr. Bailey testified the Agreement will not alter any of Petitioner's other existing rates or contracts, and will not adversely impact the adequacy or reliability of service provided to other customers.

Mr. Bailey testified that Petitioner requested the following portions of the Alcoa Agreement be treated as confidential information: (1) specific delivery information in Section 4; (2) the customer facilities charges in Section 5.1; (3) the distribution charges and applicable time periods in Section 5.2; (4) the term in Section 6; and (5) the usage and volume based billing information in Section 8 (collectively "Confidential Information"). Mr. Bailey said these provisions were negotiated between Alcoa and Petitioner on a confidential basis. Mr. Bailey

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[2] In re-computing the revenue requirement in the late-filed exhibit, Petitioner excluded the 8-inch pipeline component of the project because it was delayed by weather and easement acquisition requirements.

testified that if the Confidential Information became generally known or readily ascertainable to other parties with whom Petitioner is negotiating or to potential suppliers and marketers with whom Petitioner would compete, this knowledge would provide considerable economic value to such parties and establish a price ceiling in future negotiations, thereby limiting the potential benefits that could accrue to Petitioner and its other customers. According to Mr. Bailey, disclosure of the Confidential Information also would allow interstate pipeline companies to more effectively compete with Petitioner to supply the large industrial customers in Petitioner's territory. He also commented that disclosure of the Confidential Information would be of significant value to Alcoa's competitors through knowledge of Alcoa's product output and its cost structure, which could prove harmful to Alcoa. Mr. Bailey described Petitioner's efforts to protect the secrecy of the Confidential Information and to restrict access thereto to persons directly involved in negotiating, obtaining approval of and monitoring compliance with the Agreement.

Mr. Bailey discussed the significant provisions of the Alcoa Agreement. The rates and charges that will be paid by Alcoa consist of (a) a fixed monthly facilities charge; (b) volumetric rates applicable to monthly consumption up to 5,000 Dths, the next 25,000 Dths and over 30,000 Dths; and (c) charges pursuant to certain identified Appendices to Petitioner's Gas Tariff. If the sum of the rates and charges provided in the Agreement exceed the normal Tariff rates for any billing period, Alcoa will pay the lower Tariff rates. After expiration of the specified term of the Agreement, it will continue in effect on a year to year basis until terminated by either party upon twelve months prior written notice. The Agreement provides that Petitioner shall be the sole and exclusive supplier of gas transportation service to the Lafayette Operations during the term of the Agreement. Alcoa agrees that it will not bypass Petitioner during the term of the Agreement, with bypass being defined as either delivering gas to the Lafayette Operations through any pipeline other than that owned by Petitioner, or by engaging in fuel switching.

Mr. Bailey testified that the Agreement will provide stable and competitive gas transportation rates that will help maintain the viability of the Lafayette Operations which is important for the economic health of Petitioner's service area. In Mr. Bailey's opinion, approval of the Agreement is necessary and reasonable.

10. <u>Commission Findings On The OUCC Settlement.</u> Settlements presented to the Commission are not ordinary contracts between private parties. *United State Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy, Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition,* 664 N.E.2d at 406.

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 790 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 IAC 1-1.1-17(d). Therefore, before the

Commission can approve the Settlement Agreement, we must determine whether the evidence in this cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code 8-1-2, and serves the public interest.

Our review of the reasonableness of the Settlement is aided by the parties' express agreement on the rate base and rate of return to be used in determining Petitioner's revenue requirement and each pro forma adjustment to the test year results used to determine the adjusted financial results at present and settlement rates. Therefore, we are able to examine the basis for all of the components of the increase in basic rates and charges provided for in the Settlement and hereby find they are reasonable for purposes of settlement and adequately supported by the evidence of record. We also note that a number of the issues are similar to issues addressed in the recent Vectren South Gas rate case, *Petition of Indiana Gas Company, Inc.*, Cause No. 43112 (Aug. 1, 2007), and have been resolved in a manner similar to the approved settlement agreement in that cause.

As pointed out by OUCC Witness Bolinger in his testimony in support of the Settlement, under the GCA recovery approach provided for in the Settlement, Petitioner will continue to have a financial incentive to minimize UAFG costs and bad debt expense. With respect to the Distribution Replacement Program, we note that the investments that will be eligible for post-in-service and deferred depreciation accounting treatment relate to non-revenue producing plant, i.e., the replacement of existing facilities with new facilities using modern materials. We also find important that with respect to the UAFG, bad debt, PSA, and Distribution Replacement Program provisions, the Settlement imposes time limits and future reviews after more experience has been gained.

With respect to the bare steel/cast iron replacement program, Petitioner will invest up to $20 million per year to fund the program. The Settlement provides that Petitioner will notify the Commission and the OUCC upon the commencement of the program, and will make periodic reports "regarding the status of the Program and the investments made pursuant thereto in conjunction with its annual PSA filings." Settlement at 19. In order to keep the Commission apprised of Petitioner's progress in implementing the program, the annual filings should include the budgeted amounts for the upcoming year, with a listing of projects that would be planned for that year. Initially, this information should be provided in Petitioner's notice of commencement of the program. Additionally, Petitioner should file with the Commission on a quarterly basis, under this Cause, work orders that indicate upcoming projects and budget amounts, and completion verification upon the conclusion of the listed work. Finally, Petitioner should notify the Commission's Pipeline Safety Division of the expected start dates of projects prior to beginning work.

Our Order dated December 1, 2006 in *Verified Petition of Indiana Gas Co.*, Cause Nos. 42943 and 43046 provided for the implementation by Petitioner of an Energy Efficiency Rider containing an Energy Efficiency Funding Component and the SRC. The settlement agreement approved by that Order ("Efficiency Settlement") provided that Petitioner's SRC would be implemented immediately but would reflect only 85% of the margin difference otherwise recoverable via the SRC "[t]o reflect the fact that implementation of the SRC will occur between rate cases without an opportunity to fully review the implications on Vectren Energy's overall financial performance." Efficiency Settlement ¶27. Because the Commission approves new base rates in this Order and all of the components of Petitioner's revenue requirement have been fully reviewed in this cause, it is reasonable and appropriate for the Tariff approved herein to now provide for full recovery of the margin difference in the SRC.

In reviewing the Settlement, we have considered the effect of this decoupling mechanism on Petitioner's risk, cost of capital and required ROE. We find that the 10.20% ROE used in the Settlement is reasonable in the context of the Settlement, based upon the evidence in this case which included recent ROE findings for other gas utilities.

In summary, we find that the Settlement, including the provisions regarding UAFG costs, company use gas costs, the gas cost component of bad debt expense, the PSA, and the bare steel and cast iron pipeline replacement program, is reasonable, supported by the evidence of record and in the public interest and should be approved. We further find that the new Tariff For Gas Service filed on January 25, 2008, including but not limited to the rates and charges set forth therein, is fair, just and reasonable and should be approved subject to the terms and conditions contained in the Settlement.

We further find that for purposes of the earnings test component of the GCA, Petitioner's authorized annual net operating income shall be $61,827,974.

With regard to future citation of the Settlement Agreement, we find the Settlement Agreement and our approval of it should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (Mar. 19, 1997).

11. Commission Findings On The Alcoa Settlement. Alcoa has entered into a written contract with Petitioner which specifies the terms and conditions of the service to be provided. The Presiding Officers, in a December 5, 2007 Docket Entry, determined that certain terms constituted trade secrets within the meaning of Ind. Code § 5-14-3-4(a) as defined by Ind. Code § 24-2-3-2, and accordingly found that this information should be exempt from public access under Ind. Code § 8-1-2-29 and shall be held confidential and protected from public disclosure by the Commission. The Agreement has been filed with this Commission for approval and the rates and charges for gas service are specified in the Agreement. The rates provide for the recovery of incremental costs of serving Alcoa plus a contribution to the recovery of Petitioner's fixed costs. Alcoa has agreed that during the term of the Agreement, Petitioner shall be the sole and exclusive supplier of gas transportation service to the Lafayette Operations and that it will not bypass Petitioner's system by the delivery of gas to the Lafayette Operations through any pipeline other than that owned by Petitioner, or by engaging in fuel switching. The Alcoa Agreement will help assure Petitioner retains Alcoa as a customer. The Agreement is the result of arms length negotiations and will result in a direct benefit to Petitioner's other customers for the reasons discussed by Mr. Bailey, including the preservation of Alcoa's contribution to Petitioner's fixed cost recovery.

We find the Alcoa Agreement and the rates and terms and conditions contained therein are just and reasonable, practical and advantageous to the parties and not inconsistent with the purposes of the Public Service Commission Act, Ind. Code Chap. 8-1-2. We find the Agreement to be in the public interest. We therefore find that the Agreement should be approved pursuant to Ind. Code § 8-1-2-24 and § 8-1-2-25.

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

1. The Stipulation and Settlement Agreement between Petitioner and the OUCC ("OUCC Settlement") filed in this cause on November 16, 2007, shall be and hereby is approved by the Commission in its entirety without modification.

2. Petitioner is hereby authorized to implement the rates and charges for gas utility service described herein, in the OUCC Settlement and in the Tariff for Gas Service. Prior to placing these rates into effect, Petitioner shall file its revised Tariff with the Commission's Natural Gas Division. These rates are effective for applicable gas service on and after Natural Gas Division approval of the Tariff.

3. Petitioner shall notify the Commission regarding its Distribution Replacement Program as set forth in Paragraph 10.

4. Alcoa Settlement and the Alcoa Agreement between Petitioner and Alcoa shall be and hereby are approved by the Commission in its entirety without modification or change.

5. The Confidential Information contained in the Alcoa Agreement described herein is determined to be confidential trade secret information as defined in Ind. Code § 24-2-3-2 and shall continue to be exempt from public access and disclosure pursuant to Ind. Code § 5-14-3-1 and § 8-1-2-29.

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

<u>GOLC, LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT</u>:
APPROVED: FEB 13 2008

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission

AS

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA GAS COMPANY, INC. d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN NORTH") FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR GAS UTILITY SERVICE; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (3) AUTHORITY, TO THE EXTENT NECESSARY AS AN ALTERNATIVE REGULATORY PLAN, TO TRACK ITS UNACCOUNTED FOR GAS COSTS AND THE GAS COST COMPONENT OF ITS BAD DEBT EXPENSE IN ITS GAS COST ADJUSTMENT FILINGS; (4) APPROVAL OF A DISTRIBUTION REPLACEMENT ADJUSTMENT TO RECOVER THE COSTS OF A PROGRAM FOR THE ACCELERATED REPLACEMENT OF CAST IRON MAINS AND BARE STEEL MAINS AND SERVICE LINES; (5) APPROVAL OF REVISIONS TO THE SALES RECONCILIATION COMPONENT OF THE ENERGY EFFICIENCY RIDER APPROVED IN CAUSE NOS. 42943 AND 43046 TO PROVIDE FOR RECOVERY OF 100% OF THE DIFFERENCE BETWEEN ACTUAL AND APPROVED MARGINS; (6) APPROVAL OF VARIOUS CHANGES TO ITS TARIFF FOR GAS SERVICE, INCLUDING INCREASES IN CERTAIN NON-RECURRING CHARGES; AND (7) CONSIDERATION AND APPROVAL IN PHASE II OF THE PROCEEDING OF AN ALTERNATIVE REGULATORY PLAN FOR A REVENUE STABILIZATION PLAN	FILED NOV 16 2007 INDIANA UTILITY REGULATORY COMMISSION CAUSE NO. 43298

STIPULATION AND SETTLEMENT

The Indiana Office of Utility Consumer Counselor ("OUCC"), and Vectren Energy Delivery of Indiana, Inc., a/k/a Indiana Gas Company, Inc. ("Company" or "Vectren North") (collectively, the "parties"), in the interest of efficiency and in order to consider a number of policy issues raised in the Company's testimony, have devoted significant time to the review of data and discussion of issues, have succeeded in reaching agreement on all issues in this proceeding and therefore stipulate and agree to the terms and conditions set forth below.

In negotiating this Stipulation, the parties have reviewed the proposed maintenance programs and certain cost recovery proposals that were similar in most respects to proposals filed in the recent Vectren South Gas rate case, Cause No. 43112. In the Vectren South Gas proceeding, after an initial hearing on Vectren South's case-in-chief, as well as the filing of the OUCC's responsive testimony and the Company's rebuttal testimony, the parties were able to reach a settlement and the Commission approved the settlement.

The settlement process in this proceeding benefited from the time devoted to similar issues in the Vectren South Gas rate case; differences between the cases were discussed and are reflected in this settlement as a result of the negotiations that took place. The settlement reduces the Company's filed request for a $41.14 million rate increase to an agreed upon $27.53 million increase consisting of a base rate increase of $16.86 million, and the recovery of $10.67 million of increased costs in existing trackers, specifically unaccounted for gas costs and the gas cost component of bad debt expense in the Company's GCA and a limited-term amortization of prior deferred costs of compliance with the Pipeline Safety Improvement Act of 2002 (Safety Act) in the Company's existing Pipeline Safety Adjustment (PSA).

The terms of the Stipulation are as follows:

1. Rate Increase.

Petitioner shall be authorized to increase its basic rates and charges (collectively "rates") for gas utility service. The rates shall be designed to produce additional annual base rate revenues of $16,860,808 representing an overall revenue increase of approximately 2.04%. These rates reflect allocation of the non-tracker revenue increase among all rate schedules on an across-the-board basis. The allocations of the tracker-related revenue increases were based on the previously approved allocation methodologies for those trackers. Rates for the residential and general service rate schedules have been determined by increasing the monthly customer facilities charge by agreed-to dollar amounts and allocating the remaining revenue differences to the block rates on an equal per unit basis.

The agreed-upon rate increase reflects the following original cost rate base, cost of capital and financial results (See Appendices A & B) which the Parties agree are reasonable for purposes of compromise and settlement:

Rate Base

	($000's)
Utility Plant in Service	$ 1,288,415
Acquisition Adjustment	20,300
Greencastle Project	12,600
Greensburg Project	28,300
Less: Accumulated Depreciation	(621,742)
Less: Acc. Amort. on Acquisition Adj.	(8,296)
Net Utility Plant	$ 719,578
Materials & Supplies	2,441
Prepaid & Underground Storage Gas	74,688
Total	$ 796,707

Capital Structure

	Amount ($000's)	Weight	Cost	Weighted Cost
Common Equity	$ 467,282	48.99%	10.20%	5.00%
Long Term Debt	371,338	38.93%	6.86%	2.68%
Customer Deposits	19,842	2.08%	5.00%	0.10%
Cost Free Capital	93,652	9.82%	0.00%	0.00%
Post 1970 JDITC	1,731	0.18%	8.72%	0.02%
Total	$ 953,844			7.80%

Pro Forma Proposed Rates

	($000's)
Revenue	$ 842,351
Cost of Gas	(578,652)
Gross Margin	$ 263,699
Operations & Maintenance	102,118
Depreciation	50,611
Income Taxes	27,022
Other Taxes	21,804
Total Operating Expenses	$ 201,556
Net Operating Income	$ 62,143

Authorized Return. Effective upon implementation of the rates, which shall be set forth in a revised Vectren North Tariff for Gas Service, I.U.R.C. No. G-19, ("Tariff") described hereafter and submitted with the testimony filed in support of the Settlement, Company's authorized return for purposes of the earnings test component of the gas cost adjustment (Ind. Code §§ 8-1-2-42(g)(3)(C) and -42.3) shall be $62,143,147. (See Appendix A, page 2 of 2). This represents a return of 7.80% on an original cost rate base of $796,707,009. As a component of this return, the parties have agreed upon a Return on Equity ("ROE") of 10.2%. The parties agree, solely for purposes of settlement and compromise, that this represents a reasonable return on the Company's investment in used and useful property, plant and equipment.

The original cost rate base includes the Greencastle and Greensburg pipeline projects, as updated throughout this proceeding, which will be in service by December 1 or shortly thereafter. To the extent that the estimated project costs used in the settlement exceed actual costs, the Company will file a late filed exhibit after the final hearing to reflect the lower, actual costs. The current estimated cost of the Greensburg pipeline project reflected in rate base per this agreement exceeds the pre-approved amount of $24,687,770 based on the Company's preliminary estimate as set forth in Cause No. 43098. The parties agree that consistent with the Cause No. 43098 Order, the Company will provide evidence as part of its testimony in support of the settlement, regarding the reasonableness and prudency of the final project costs. To the extent the final costs exceed the construction estimates used to establish the rate base amounts, no update will be made to rate base in this case and such reasonable and prudent incremental amounts will be eligible for inclusion in rate base in the Company's next base rate case.

Depreciation Rates. Vectren North's current depreciation rates shall remain in effect. Based in part upon the maintenance programs agreed to herein, which are designed to improve the condition of existing above ground facilities, as well as the agreed upon accounting support for the bare steel/cast iron replacement program to begin to systematically eliminate the oldest pipe in the Vectren North system, the Company has agreed that as part of its next base rate case filing it will perform and submit a depreciation study.

2. Pro Forma Adjustments.

All of the agreed upon adjustments are set forth in Appendix C. After detailed discussions regarding Company planning and activities, review of responses to 284 data requests, many with multiple subparts, and lengthy negotiations, all material issues related to pro forma adjustments have been resolved in this

Stipulation and are separately discussed in this section with a reference to the adjustment numbers used in the original direct testimony of Company witness M. Susan Hardwick. As set forth below, the parties have agreed to remove the cost of unaccounted for gas and the gas cost component of bad debt expense from base rates. These costs have been removed from the revenue requirement in the base rate design process as shown on Appendix C, lines 13 and 41a and as explained further in Settlement Testimony. The parties determined that no revenue adjustments were necessary.

Additional Employees. (A17)

The Company sought a pro forma adjustment of $3,538,819 to support the addition of 70 employees. The parties reviewed the business justification for each employee, as well as the status of recruiting and hiring these new employees. Many of these new positions are in the process of being approved or recruited, but have not yet been filled. While the Company in settlement discussions continued to support the need for these positions in the future, the parties have reached agreement that the majority of these positions (41) will not be included for purposes of cost recovery in this proceeding. The Settlement reflects the inclusion of the new positions that either have been filled and/or approved in the recent Vectren South rate cases, as well as three additional compliance related engineers required by the Company to meet ever increasing federal DOT pipeline safety regulations, a conservation analyst to support the Company's increasing efforts to promote energy efficiency, and an Employee Relations Director. These five (5) positions must be filled by the date of a

Commission order in this cause. If the Company fails to confirm the hiring of any of these 5 positions, then within 10 days of a Commission order, the Company will file a revised tariff to remove from rates the cost of any of these 5 positions to the extent not filled. Accordingly, the Company's pro forma adjustment has been reduced by $2,246,572 to $1,292,247.

<u>Maintenance Programs.</u> (A22, A23, A24, A25)

The Company proposed in its case-in-chief a number of maintenance programs to protect and improve both the long-term performance of its above ground facilities and access to its pipelines through right of way maintenance activities. Similar to both recent Vectren South rate case settlements, the OUCC is generally supportive of these proposed new or expanded programs, but carefully scrutinized the program objectives, implementation efforts and costs, in order to determine the proper level of funding to allow the programs to commence while also obtaining the opportunity to review program results over the next few years. In total, the parties have agreed to 67% of the requested maintenance program funding in these areas, representing an overall reduction to the pro formas of $1,633,554. The two largest programs—Distribution Maintenance (right of way clearing) and Regulator Station Maintenance—were also approved in the Vectren South Gas settlement. As part of this agreement, the Company shall at the time of its annual PSA filing submit progress reports to the Commission and OUCC regarding these four programs. For example, these reports will specifically address the number of regulator stations painted and costs incurred, the number of storage wells logged and their condition, and the miles of right of way cleared and the costs of that activity. Company officials will be available to answer questions or provide additional relevant information requested by the OUCC or Commission related to these programs. The nature of these reporting requirements is set forth in Appendix D. With respect to the funding level for each specific program, the parties have agreed as follows:

Gas Storage Facilities Maintenance (A22)

The Company proposed a pro forma adjustment of $343,488 in order to conduct gas well logging on a ten year cycle in order to assess storage well conditions and implement repairs as necessary to minimize lost gas. The pro forma also included costs to paint above ground storage and propane facilities over a five year cycle, and to replenish sulfatreat towers used to remove contaminants from stored gas. This pro forma adjustment remains as proposed in order to allow the Company to address the condition of these important facilities which greatly impact the delivery of gas during the heating season.

Distribution Maintenance (A23)

The Company proposed a pro forma adjustment of $2,169,154 in order to clear its distribution pipeline right of way on a 20 year cycle, and its transmission pipeline right of way (other than the transmission pipeline segments covered by the Safety Act) on a 10 year cycle. These cycles compare to the Vectren South Gas settlement right of way clearing cycle of 10 years. The lengthened cycle for distribution pipe clearing recognized the cost impact, as well as the ability to effectively manage a program of this magnitude given the breadth of the North system. Pursuant to the Settlement, the pro forma amount has been reduced to $1,843,290, primarily due to a move to a 15 year cycle to conduct the transmission pipeline clearing activity.

Regulator Station Maintenance (A24)

The Company's pro forma adjustment covered a number of proactive maintenance activities at its 1,400 regulator stations, including periodic painting, building repair, fencing repair, and ground maintenance. The Company proposed a pro forma adjustment of $1,253,218, and the parties have agreed to a final adjustment of $817,628. This reduction reflects a move to a 10 year cycle for regulator station maintenance, and a 20 year cycle for both painting, fencing repairs and rock replacement.

Meter Maintenance (A25)

Vectren North proposed a pro forma adjustment of $1,275,212 to begin periodic painting of larger meter sets and to conduct audits of meter pressure factors in its billing system to confirm billing accuracy. The parties reviewed these proposals, and have reduced the pro forma amount to $403,112, which allows the Company to conduct these activities on a more focused basis. The Company will focus its audit efforts on areas with the greatest opportunity for potential pressure factor deviations. Reports in this area will help assess the cost and benefits of these activities.

Uncollectible Accounts Expense. (A26)

The Company in its case-in-chief based its bad debt expense on a three year historic average percentage of write-offs to revenue (0.91%). The Stipulation reflects the parties' agreement on use of (0.90%) which is generally representative of an historic average percentage of write-offs to revenue. This percentage is also used as the fixed ratio of bad debt write-offs to revenue for purposes of recovering the gas cost component of bad debt as discussed below. The resulting pro forma adjustment is ($118,309).

Safety Communication Costs. (A29)

The Company proposed both a school based safety education program as well as a mass media approach to customer safety education at a cost of $719,424. Like the Vectren South Electric settlement, the parties agreed to the school safety education program with a cost of $219,424, but eliminated the remaining $500,000 from this pro forma. Each year, the Company will provide a detailed breakdown of the actual costs for the current reporting period and provide a list of the schools where education programs were delivered, as well as examples of the materials used.

Economic Development Expense. (A30)

The parties agreed to a pro forma adjustment of $110,660 to support the Company's contributions to economic development organizations in its service territory. Other activities such as surveys and data research were eliminated from the original pro forma of $288,263. Each year the Company will provide a report on its contributions to economic development organizations in Indiana.

Rate Case Expense. (A32)

The Company's rate case expense, as filed, will be amortized over three years, and at the end of that period, the Company will file revised tariffs that eliminate that expense from its base rates.

Deferred Pipeline Safety Act Costs. (A33)

In its case-in-chief the Company reflected in the base rate revenue requirement the amortization and recovery of pipeline safety costs that have been deferred because they exceeded the annual cap applicable to the PSA. Consistent with the settlement agreement in the Vectren South Gas rate case, the parties have conducted a review of the PSA costs as part of this case and have agreed to continue to provide for the recovery of all deferred costs and prospective costs, subject to a negotiated revised cap, and to amortize the existing deferred expenses via the PSA. The modified PSA is described below.

Claims Expense. (A35)

The parties agreed to a 5 year amortization of claims paid, which results in a total pro forma adjustment of $299,243, a reduction of $(351,399) from the Company's filed position.

Asset Charge. (A39)

The parties have agreed on the calculation methodology used to determine this cost, which is the same as that used in both recent Vectren South rate cases (see Pet. Ex. No. MSH-3, Adjustment 39). The calculation using the agreed upon 10.2% ROE has been performed and is reflected on Appendix C, line 59.

Income Taxes, IURT Taxes (A41, A42 and A43)

The parties agree that these items have been determined based upon the settlement amounts in this case.

4. Unaccounted For Gas Costs.

The Company will be authorized to recover in its Gas Cost Adjustment ("GCA") the actual cost of unaccounted for gas ("UAFG") volumes, up to a maximum UAFG percentage of 0.8%. No UAFG costs will be included in base rates. This methodology removes the risk of over recovery of gas costs from sales customers, and ensures that customers are not at risk for increasing UAFG volumes. Transportation customers (including school suppliers and Pool Operators) will continue to provide retained gas volumes to the Company at the percentage set forth in Appendix F of the tariff.

UAFG costs will be estimated in the GCA at a level of 0.8%. The actual UAFG percentage will be determined annually, for the twelve months ending August 31. If the actual annual UAFG percentage is less than or equal to 0.8%, then all actual UAFG costs will be recoverable. If the actual annual UAFG percentage exceeds 0.8%, then UAFG costs recoverable will be determined as 0.8% of actual commodity costs incurred during the twelve month period. UAFG costs recovered and recoverable will be reconciled annually in the GCA which reconciles August gas costs. The OUCC and the Company will review this UAFG cost recovery methodology after three (3) years. Either the OUCC or the Company may propose changes to the methodology at that time, which, if accepted by the Commission, would be effective prospectively.

Consistent with Vectren North's proposal in its case-in-chief, volumes attributable to Company Use (which have historically been included as part of UAFG) will be excluded from UAFG and recovered in the GCA. Vectren North will include appropriate workpapers in its quarterly GCA filings to facilitate review and audit of Company Use Volumes. Company Use Volumes will be allocated to both sales and transportation customers in the GCA.

5. Bad Debt Gas Costs.

The Company will be authorized to recover in its GCA the gas cost component of bad debt expense at a fixed bad debt ratio of 0.90%. No gas costs associated with bad debt expense will be included in base rates. The margin (i.e. non gas cost) component of bad debt expense will remain in base rates at the same ratio of 0.90%. This methodology provides an incentive for the Company to continue to diligently manage its bad debt expense, while ensuring that customers pay bad debt gas costs at the fixed ratio of 0.90%.

Bad debt gas costs will be estimated in the GCA at a level of 0.90% of total (demand plus commodity, inclusive of UAFG) gas costs. In each quarterly GCA, actual recoverable gas costs (again, inclusive of demand, commodity and UAFG) will be multiplied by the fixed bad debt ratio of 0.90%, resulting in "recoverable bad debt gas costs". Actual bad debt gas cost recoveries and recoverable bad debt gas costs will be reconciled in each GCA. The OUCC and the Company will review this bad debt gas cost recovery methodology after three (3) years. The OUCC and/or the Company may propose changes to the methodology at that time, which, if accepted by the Commission, would be effective prospectively.

6. Pipeline Safety Adjustment.

The parties have agreed that the Company will be authorized to continue to recover incremental expenses caused by the requirements of the Pipeline Safety Improvement Act of 2002 via its PSA mechanism. The parties have reviewed the issues and have agreed that the terms of the PSA shall be modified as follows:

Deferred expenses eligible for inclusion in each annual PSA filing will be capped at $4.5 Million.

Incremental deferred expenses above the $4.5 Million annual cap may be included in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap. Amounts above the cap will be deferred and be eligible for future base rate case or PSA recovery.

Any deferred balance existing at July 31, 2007, excluding deferred expenses for the 12 months ending July 31, 2007 that are included in the Company's PSA filing for that period, will be amortized over a 3-year period within the PSA, without carrying costs. This amortized amount will be considered incremental to the $4.5 Million annual cap (i.e. the amortized amount does not count toward expenses that are deferred in each 12-month period that may be recovered under the cap). The amortized amount will be removed from the PSA at the end of the 3-year period. Recovery variances associated with the amortized amount will be recoverable or refundable consistent with the reconciliation and treatment of other PSA cost recovery variances.

In each annual PSA filing, recoveries will be reconciled with recoverable costs. Recovery variances will be included in subsequent annual PSA filings. Such variances will also be considered incremental to the $4.5 million annual cap (i.e. variances do not count toward expenses that may be recovered under the cap).

Rate schedule margins as updated in this Cause shall be used as the basis for allocating eligible deferred expenses in future annual PSA filings.

The PSA will continue through the annual PSA filing for the twelve months ended July 31, 2010. Prior to that date, the parties will review the PSA to consider the appropriateness of the annual cap, whether the PSA should continue beyond the filing related to costs incurred prior to July 31, 2010, whether expenses have levelized sufficiently to be included in base rates, and any other related matters. Either as part of a base rate case filing, or as part of the annual PSA filing in fall

2010, the Company will provide a report to the Commission regarding the parties' recommendations related to the PSA. Absent agreement as to the prospective continuation of the PSA, the Company may make its own proposal at that time.

All other provisions of the Stipulation and Settlement Agreement, and Commission Order, in Cause No. 42598 as related to the PSA shall remain in effect.

In addition to the federal requirements for certain transmission pipelines under the Safety Act, the parties have engaged in discussions regarding the anticipated federal regulations and associated compliance activities related to Distribution Integrity Management Programs (referred to as "DIMP"), which have been delayed in 2007 but may be enacted shortly after completion of this case. The lack of final rules makes final agreement on cost recovery premature at this time. However, incremental costs to comply with federally mandated regulations, for a utility that has recently been through a base rate case, represents a category of anticipated expense that can be addressed in a constructive manner, especially where the PSA mechanism for cost recovery related to similar compliance activity already exists. Therefore, the Parties agree that once DIMP rules exist, Vectren North will share its compliance plan with the OUCC, estimated compliance costs will be reviewed, and the OUCC and Vectren North will discuss the recovery of such costs via the PSA. Vectren North will petition for inclusion of reasonable, necessary and incremental DIMP compliance costs as part of its PSA, including appropriate modification of the annual PSA cap, and the OUCC will not object to such recovery on the basis that DIMP related cost recovery constitutes single issue ratemaking.

7. Distribution Replacement Program.

Vectren North had proposed a 20 year accelerated bare steel/cast iron pipeline replacement program with a corresponding periodic rate adjustment mechanism to allow for recovery of the revenue requirement attributable to this large non-revenue producing capital investment. The estimated cost of the entire program is $345 million. The OUCC acknowledged the benefits derived from such replacement but did not believe that approval of the entire program and a 20 year rate mechanism to be appropriate at this time. The parties have discussed the prioritization of repair work and agree that based on leak history as well as the potential harm to service reliability and public safety, replacement of the bare steel/cast iron systems in the towns of Elwood, Anderson, Muncie, Marion and Clarksville should be undertaken. Together, these systems comprise approximately 245 miles of bare steel/cast iron pipelines. This is approximately 30% of the total bare steel/cast iron mains mileage in the Vectren North system.

The parties agree that in this limited circumstance where specific infrastructure has been identified that can be replaced with newer technology on an accelerated basis to improve reliability and safety, and where such activity requires significant capital expenditure over a short time period that is incremental to the ongoing required capital expenditures to operate the Company's distribution system, it is appropriate to support such an expenditure via accounting authority in this case in the same manner as agreed upon in the Vectren South Gas settlement. The annual plans to address pipe in the five identified areas may accommodate reasonable changes in replacement priority, for example such as replacements in another area to match timing of public projects.

Specifically, the parties have agreed that the Company shall be authorized to continue to accrue allowance for funds used during construction (AFUDC) and to defer the accrual of depreciation expense after the in-service date of distribution system infrastructure projects installed pursuant to Vectren North's accelerated bare steel and cast iron pipeline replacement program (Program) on the terms described herein. Investments made pursuant to the Program shall be accounted for as separate projects, following current project accounting practices at Vectren North. The amount of investments made that are eligible for post-in service AFUDC and deferred depreciation treatment (Accounting Treatment) shall be limited to $20 Million per year. Prior to initiating the Program, the Company shall provide notice to the Commission and the OUCC of the date on which the Program will commence. The Accounting Treatment shall terminate for each project after four (4) years from each project's in-service date, unless Vectren North has filed a base rate proceeding before the end of a specific project's four (4) year Accounting Treatment period. If Vectren North does file a base rate proceeding by such date, the Accounting Treatment shall continue for those projects (and investments in any subsequent projects that are included in rate base in that proceeding) until the date of a final order in that proceeding.

The AFUDC earnings from the Accounting Treatment will be treated as below-the-line income for purposes of the GCA earnings test consistent with normal accounting procedures for AFUDC. Vectren North will file with the Commission and serve on the OUCC informational reports regarding the status of the Program and the investments made pursuant thereto in conjunction with its annual PSA filings.

8. Tariff.

The Company's Tariff for Gas Service, I.U.R.C. No. G-19, to be filed herein with the supporting Settlement Testimony, shall be approved, authorized, and accepted for filing by the Commission to be effective upon its approval by the Commission. This tariff shall replace the Company's current gas tariff on file with the Commission. The new tariff, as filed in the Case-in-Chief, includes various provisions including the following:

- <u>Interim Supply Service</u>. A new provision, under Rate 245 and Rate 260, under which Company may provide Interim Supply Service in the event a customer is temporarily unable to obtain gas supply from a supplier or pool operator.

- <u>Other Charges</u>. Increases to certain Other Charges in Appendix C, including:

  - After Hours Charge (to $69.00)

- Fraudulent or Unapproved Use of Gas minimum charge (to $70.00)

- New Trip and Labor Charges for circumstances wherein a customer requests the Company to investigate "no gas" or "low pressure" problems, whereupon it is determined that the source of the problem is not on the Company's system. The Trip Charge is $16.00 during normal business hours and $23.00 outside of normal business hours. The Labor Charge is $12.00 per fifteen (15) minutes during normal business hours and $17.00 per fifteen (15) minutes outside of normal business hours.

o <u>Unaccounted For Gas Percentage</u>. A change in Appendix F to the unaccounted for gas percentage applicable to transportation customers, school suppliers and pool operators.

o <u>Energy Efficiency Rider</u>. Implementation of 100% of the Sales Reconciliation Component, along with the Energy Efficiency Funding Component, as filed in this proceeding.

o <u>Other Tariff Provisions</u>. All other changes to the Tariff for Gas Service set forth in the agreed upon form of the tariff shall be approved and authorized.

9. Request for Prompt Approval by the Commission.

The Parties acknowledge that a significant motivation for the Company to enter into the Settlement is the expectation that an order will be issued promptly by the Commission authorizing increases in its rates and charges. The Parties have spent many months reviewing data and negotiating this Settlement in an effort to eliminate time consuming and costly litigation. The resulting Settlement has reduced the Company's filed request for a rate increase and modified its other requested cost recovery mechanisms. Under these circumstances, the Parties ask that their request for prompt approval be seriously considered and acted upon.

10. Stipulation Effect, Scope and Approval.

The parties acknowledge and agree as follows:

(a) The Stipulation is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to any party. Each term of the Stipulation is in consideration and support of each and every other term.

(b) The Stipulation is the result of compromise in the settlement process and neither the making of the Stipulation nor any of its provisions shall constitute an admission or waiver by any party in any other proceeding. The Stipulation shall not be used as precedent in any other proceeding or for any other purpose except to the extent provided for herein or to the extent necessary to implement or enforce its terms.

(c) The evidence to be submitted in support of the Stipulation constitutes substantial evidence sufficient to support the Stipulation and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Stipulation.

(d) The communications and discussions and materials produced and exchanged during the negotiation of the Stipulation relate to offers of settlement and shall be privileged and confidential.

(e) The undersigned represent and agree that they are fully authorized to execute the Stipulation on behalf of their designated clients who will be bound thereby.

(f) The parties will either support or not oppose on rehearing, reconsideration and/or appeal, an IURC Order accepting and approving this stipulation in accordance with its terms.

ACCEPTED and AGREED this 16th day of November, 2007.

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR	VECTREN ENERGY DELIVERY OF INDIANA, INC. a/k/a INDIANA GAS COMPANY, INC
By: Leja D Courter	By: Robert E. Heidorn DWM

INDS01 DWM 996346_3.DOC

VECTREN NORTH
ACTUAL AND PRO FORMA STATEMENT OF OPERATING INCOME
FOR THE TWELVE MONTH PERIOD ENDING DECEMBER 31, 2006

Line No.	Description	Actual Per Books	Pro Forma Adjustments Increases (Decreases)	Ref	Pro Forma Results Based on Current Rates	Pro Forma Adjustments Increases (Decreases)	Ref	Pro Forma Results Based on Proposed Rates
	A	B	C	D	E	F	G	H
	Operating Revenues							
1	Gas Revenue	$ 739,160,641			$ 825,490,342	16,860,808	A45	842,351,150
2	Normal Weather		$ 55,010,353	A01				
3	Normal Temperature Adjustment Revenue		$ (8,715,823)	A01				
4	Customer Count		$ 2,041,158	A02				
5	Miscellaneous Revenue		$ (291,899)	A03				
6	Large Customer Changes		$ (296,558)	A04				
7	Customer Migration		$ (38,538)	A05				
8	Unbilled Revenue		$ 1,000,466	A06				
9	Sales Reconciliation Rider Revenue		$ (653,611)	A07				
10	Pipeline Safety Act Cost Recoveries		$ 258,819	A08				
11	Energy Efficiency Funding Recoveries		$ 3,475,324	A09				
12	Cost of Gas		$ 30,938,590	A10				
13	Remove Unaccounted for gas costs to be recovered in GCA		$ 3,601,420	A10-S				
14	Total	$ 739,160,641	$ 86,329,701		$ 825,490,342	16,860,808		842,351,150
15	Cost of Gas	503,024,519			$ 578,652,382			578,652,382
16	Normal Weather		$ 45,459,436	A01				
17	Customer Count		$ 1,480,185	A02				
18	Cost of Gas		$ 28,688,242	A10				
19								
20		503,024,519	75,627,863		578,652,382	-		578,652,382
21	Gross Margin	$ 236,136,122	$ 10,701,838		$ 246,837,960	$ 16,860,808		$ 263,698,768
	Operation and Maintenance Expenses							
22	Operations and Maintenance Expenses	$ 79,121,734			$ 86,904,837			87,075,131
23	**Labor and Labor Related Costs**							
24	Labor Adjustments for Existing Headcount		$ 1,827,507	A11				
25	Labor-Related Costs		$ 692,344	A12				
26	Other Compensation		$ 1,101,812	A13				
27	Pension Expense		$ (370,900)	A14				
28	Postretirement Medical Expense		$ 125,112	A15				
29	Training Expense		$ 388,744	A16				
30	Additional Employees		$ 1,292,247	A17-S				
31	Human Resource Programs		$ 183,750	A18				
32	**Aging Workforce Related Costs**							
33	Aging Workforce		$ 535,687	A19				
34	**Operation and Maintenance Programs**							
35	Pipeline Safety Act Costs		$ 189,719	A20				
36	Energy Efficiency Funding Costs		$ 3,055,378	A21				
37	Gas Storage Facilities Maintenance Expense		$ 343,488	A22				
38	Distribution Maintenance Expense		$ 1,843,290	A23-S				
39	Regulator Station Maintenance Expense		$ 817,628	A24-S				
40	Meter Maintenance Expense		$ 403,112	A25-S				
41	Uncollectible Accounts Expense		$ (118,309)	A26-S				
41a	Remove Uncollectible Accounts Expense Gas Costs to be recovered in GCA		$ (5,207,871)	A26-S				
42	Miscellaneous Billing Expense		$ 211,990	A27-S				
43	Contact Center Expense		$ (194,367)	A28				
44	Safety Communication Expense		$ 219,424	A29-S				
45	Economic Development Expense		$ 110,660	A30-S				
46	Information Technology Expense		$ 428,724	A31				
47	**Amortization of Deferrals**							
48	Rate Case Expense		$ 120,589	A32				
49	Pipeline Safety Act Costs Amortization		$ 1,865,160	A33-S				
49a	Remove PSA amortization from base rates to be recovered in PSA tracker		$ (1,865,160)	A33-S				
50	**Other Costs/Adjustments**							
51	Property and Risk Insurance Expense		$ (115,058)	A34				
52	Claims Expense		$ 299,243	A35-S				
53	Other Cost Reductions		$ (427,956)	A36				
54	Changes in Cost Allocations		$ (96,648)	A37				
55	Pro Forma Level Uncollectible Accounts					151,747	A46	
56	IURC Fee		$ 123,764	A38		18,547	A47	
57								
58		$ 79,121,734	$ 7,783,103		$ 86,904,837	170,294		87,075,131
59	Asset Charge	15,141,583	$ (98,788)	A39-S	$ 15,042,795			15,042,795
60	Total Operations and Maintenance	$ 94,263,317	$ 7,684,315		$ 101,947,632	$ 170,294		$ 102,117,926

VECTREN NORTH
ACTUAL AND PRO FORMA STATEMENT OF OPERATING INCOME
FOR THE TWELVE MONTH PERIOD ENDING DECEMBER 31, 2006

Line No.	Description	Actual Per Books	Pro Forma Adjustments Increases (Decreases)	Ref	Pro Forma Results Based on Current Rates	Pro Forma Adjustments Increases (Decreases)	Ref	Pro Forma Results Based on Proposed Rates
	A	B	C	D	E	F	G	H
61	Depreciation and Amortization	$ 48,457,535	$ 2,153,661	A40-S	$ 50,611,196			50,611,196
	Taxes							
62	Income Taxes (Federal and State)	$ 14,941,723	$ 1,157,542	A41	$ 20,340,058	1,418,694	A48	27,022,014
63			$ 4,240,793	A42		5,263,262	A49	
64	Other Taxes (IURT and Property Tax)	20,276,128	$ 742,667	A43	$ 21,570,558	233,927	A50	21,804,485
65			$ 551,763	A44				
66	Total Taxes	$ 35,217,851	$ 6,692,765		$ 41,910,616	6,915,883		48,826,499
67	Total Operating Expenses	$ 177,938,703	$ 16,530,741		$ 194,469,444	$ 7,086,177		$ 201,555,621
68	Net Operating Income	$ 58,197,419	$ (5,828,903)		$ 52,368,516	9,774,631		62,143,147

VECTREN NORTH
Calculation of Proposed Revenue Increase
Based on Pro Forma Operating Results
Original Cost Rate Base Estimated at December 31 , 2006

Revenue Increase Based on Net Original Cost Rate Base

Line No.						
1	Net Original Cost Rate Base					$ 796,707,009
2	Rate of Return					7.80%
3	Required Net Operating Income (Line 1 x Line 2)					$ 62,143,147
4	Pro Forma Net Operating Income					52,368,516
5	Increase in Net Operating Income					$ 9,774,631
6	Effective Incremental Revenue/NOI Conversion Factor					58.0%
7	Increase in Revenue Requirement (Based on Net Original Cost Rate Base) (Line 5/Line 6)					$ 16,860,808
8	One		1.000000			
9	Less: IURC Fee		0.001100			
10	Less: Bad Debt		0.009000			
11	One Less Bad Debt, IURC Fee and IURT			0.989900		
12	One	1.000000				
13	Less: Bad Debt	0.009000				
14	Taxable Adjusted IURT		0.991000			
15	IURT Rate		0.014000			
16	Adjusted IURT			0.013874		
17	One	1.000000				
18	Less: IURC Fee	0.001100				
19	Less: Bad Debt	0.009000				
20	Taxable Adjusted Gross Income Tax		0.989900			
21	Adjusted Gross Income Tax Rate		0.085000			
22	Adjusted Gross Income Tax			0.084142		
23	Line 11 less line 22				0.891885	
24	One			1.000000		
25	Less: Federal Income Tax Rate			0.350000		
26	One Less Federal Income Tax Rate				0.650000	
27	Effective Incremental Revenue/NOI Conversion Factor (line 23 times line 26)					58.0%

VECTREN NORTH
Statement of Gas Property
Original Cost Ratebase at December 31, 2006

Line No.	Activity (FERC) No.	Description	Gas Plant Per Books at December 31, 2006	Eliminations	As Adjusted Pro Forma Rate Base December 31, 2006
		Utility Plant			
1	101	In Service - Unitized	$ 1,211,905,087	$ -	$ 1,211,905,087
2	104	Utility Plant Leased to Others	-	-	-
3	105	Property Held for Future Use	443,706	(443,706)	-
4	106	Completed Const. Not Classified	67,928,935	-	67,928,935
5	106	Greencastle 12" Transmission Line	-	12,600,000	12,600,000
6	106	Greensburg Pipeline & System Upgrade to Support Honda Plant	-	28,300,000	28,300,000
7	107	Const. Work in Progress	26,020,433	(26,020,433)	-
8	117	Cushion Gas	8,581,320	-	8,581,320
9			$ 1,314,879,481	$ 14,435,861	$ 1,329,315,342
		Accumulated Depreciation			
10	108	Utility Plant	(621,741,619)	-	(621,741,619)
			$ 693,137,862	$ 14,435,861	$ 707,573,723
11	114	Acquistion Adjustment (Westport, Terre Haute, Richmond)	22,538,065	(2,238,261)	20,299,804
12	115	Accumulated Depreciation Acquisition Adj's	(9,204,469)	908,891	(8,295,578)
13		Net Acquisition Adjustment	$ 13,333,596	$ (1,329,369)	$ 12,004,226
14		Net Utility Plant	$ 706,471,458	$ 13,106,491	$ 719,577,949
		Material & Supplies (13 Month Average)			
15	151	Liquefied Petroleum Gas	$ 780,037	$ -	$ 780,037
16	154	Utility Material & Supplies	2,209,704	-	2,209,704
17	163	Store Expense	231,535	-	231,535
18	164	Gas in Underground Storage	12,027,072	-	12,027,072
19	165	Prepaid Gas Delivery	61,880,712	-	61,880,712
20		Total Material & Supplies	$ 77,129,060	$ -	$ 77,129,060
21		TOTAL	$ 783,600,518	$ 13,106,491	$ 796,707,009

VECTREN NORTH

Capital Structure and Cost of Capital[A]

Twelve months ending December 31, 2006

Line No.	Type of Capital		Amount ($000's)	Percent	Cost	WCOC
1	**Long-Term Debt**					
2	Publicly Held	$	127,500	13.37%		
3	Notes to VUHI		243,838	25.56%		
4	Total Long-Term Debt	$	371,338	38.93%	6.86%	2.68%
5	**Common Equity**					
6	Common Stock	$	367,995	38.58%		
7	Retained Earnings		99,286	10.41%		
8	Common Shareholder's Equity	$	467,282	48.99%	10.20%	5.00%
9	**Investor Provided Capital**		838,620	87.92%		7.68%
10	**Customer Deposits**		19,842	2.08%	5.00%	0.10%
11	**Cost Free Capital:**					
12	Deferred Income Taxes	$	74,333	7.79%		
13	Customer Advances for Construction		2,304	0.24%		
14	Pre-1971 Investment Tax Credit		87	0.01%		
15	SFAS 106		16,928	1.78%		
16	Total Cost Free Capital	$	93,652	9.82%	0.00%	0.00%
17	**Job Development Investment Tax Credit (Post-1971)**	$	1,731	0.18%	8.72%	0.02%
18	**Total Capitalization**	$	953,844	100.00%		
19	**Rate of Return**					7.80%

Investor Provided Capital

Line No.	Type of Capital		Amount ($000's)	Percent	Cost	WCOC
20	Long-Term Debt	$	371,338	44.28%	6.86%	3.04%
21	Common Equity		467,282	55.72%	10.20%	5.68%
22	Total Capitalization	$	838,619	100.00%		8.72%

Interest Synchronization

Line No.		Percent	Cost		Weighted Cost
23	Long-term Debt	38.93%	6.86%		2.67%
24	Customer Deposits	2.08%	5.00%		0.10%
25	Interest Component of ITC	0.18%	6.86%		0.01%
26	Total				2.78%
27	Original Cost Rate Base			$	796,707,009
28	Synchronized Interest Expense			$	22,148,455

(A) Please see workpapers provided under Witness Goocher, 8.2.2

VECTREN NORTH
PRO FORMA ADJUSTMENT SUMMARY - COMPARISON TO FILED
FOR THE TWELVE MONTH PERIOD ENDING DECEMBER 31, 2006

Line No.	Description	AS FILED Pro Forma Adjustments Increases (Decreases)	Ref	SETTLEMENT Pro Forma Adjustments Increases (Decreases)	Ref	Change	Line No.
	A	B	C	D	E	F = D-B	
	Operating Revenues						
1	Gas Revenue						1
2	Normal Weather	$ 55,010,353	A01	$ 55,010,353	A01	$ -	2
3	Normal Temperature Adjustment Revenue	$ (8,715,823)	A01	$ (8,715,823)	A01	$ -	3
4	Customer Count	$ 2,041,158	A02	$ 2,041,158	A02	$ -	4
5	Miscellaneous Revenue	$ (291,899)	A03	$ (291,899)	A03	$ -	5
6	Large Customer Changes	$ (296,558)	A04	$ (296,558)	A04	$ -	6
7	Customer Migration	$ (38,538)	A05	$ (38,538)	A05	$ -	7
8	Unbilled Revenue	$ 1,000,466	A06	$ 1,000,466	A06	$ -	8
9	Sales Reconciliation Rider Revenue	$ (653,611)	A07	$ (653,611)	A07	$ -	9
10	Pipeline Safety Act Cost Recoveries	$ 258,819	A08	$ 258,819	A08	$ -	10
11	Energy Efficiency Funding Recoveries	$ 3,475,324	A09	$ 3,475,324	A09	$ -	11
12	Cost of Gas	$ 30,938,590	A10	$ 30,938,590	A10	$ -	12
13	Removal of Unaccounted for gas to be recovered in GCA	$ -		$ 3,601,420	A10-S	$ 3,601,420	13
14	Total	$ 82,728,281		$ 86,329,701		$ 3,601,420	14
15	**Cost of Gas**						15
16	Normal Weather	$ 45,459,436	A01	$ 45,459,436	A01	$ -	16
17	Customer Count	$ 1,480,185	A02	$ 1,480,185	A02	$ -	17
18	Cost of Gas	$ 28,688,242	A10	$ 28,688,242	A10	$ -	18
19	Removal of Unaccounted for gas to be recovered in GCA						19
20		75,627,863		75,627,863		-	20
21	Gross Margin	$ 7,100,418		$ 10,701,838		$ 3,601,420	21
	Operation and Maintenance Expenses						
22	Operations and Maintenance Expenses						22
23	**Labor and Labor Related Costs**						23
24	Labor Adjustments for Existing Headcount	$ 1,827,507	A11	$ 1,827,507	A11	$ -	24
25	Labor-Related Costs	$ 692,344	A12	$ 692,344	A12	$ -	25
26	Other Compensation	$ 1,101,812	A13	$ 1,101,812	A13	$ -	26
27	Pension Expense	$ (370,900)	A14	$ (370,900)	A14	$ -	27
28	Postretirement Medical Expense	$ 125,112	A15	$ 125,112	A15	$ -	28
29	Training Expense	$ 388,744	A16	$ 388,744	A16	$ -	29
30	Additional Employees	$ 3,538,819	A17	$ 1,292,247	A17-S	$ (2,246,572)	30
31	Human Resource Programs	$ 183,750	A18	$ 183,750	A18	$ -	31
32	**Aging Workforce Related Costs**						32
33	Aging Workforce	$ 535,687	A19	$ 535,687	A19	$ -	33
34	**Operation and Maintenance Programs**						34
35	Pipeline Safety Act Costs	$ 189,719	A20	$ 189,719	A20	$ -	35
36	Energy Efficiency Funding Costs	$ 3,055,378	A21	$ 3,055,378	A21	$ -	36
37	Gas Storage Facilities Maintenance Expense	$ 343,488	A22	$ 343,488	A22	$ -	37
38	Distribution Maintenance Expense	$ 2,169,154	A23	$ 1,843,290	A23-S	$ (325,864)	38
39	Regulator Station Maintenance Expense	$ 1,253,218	A24	$ 817,628	A24-S	$ (435,590)	39
40	Meter Maintenance Expense	$ 1,275,212	A25	$ 403,112	A25-S	$ (872,100)	40
41	Uncollectible Accounts Expense	$ (68,533)	A26	$ (118,309)	A26-S	$ (49,776)	41
41a	Removal of Uncollectible Accounts Expense gas cost to be recovered in GCA	$ -		$ (5,207,871)	A26-S	$ (5,207,871)	41a
42	Miscellaneous Billing Expense	$ 221,990	A27	$ 211,990	A27-S	$ (10,000)	42
43	Contact Center Expense	$ (194,367)	A28	$ (194,367)	A28	$ -	43
44	Safety Communication Expense	$ 719,424	A29	$ 219,424	A29-S	$ (500,000)	44
45	Economic Development Expense	$ 288,263	A30	$ 110,660	A30-S	$ (177,603)	45
46	Information Technology Expense	$ 428,724	A31	$ 428,724	A31	$ -	46
47	**Amortization of Deferrals**						47
48	Rate Case Expense	$ 120,589	A32	$ 120,589	A32	$ -	48
49	Pipeline Safety Act Costs Amortization	$ 1,865,160	A33	$ 1,865,160	A33-S	$ -	49
49a	PSA deferral amortization to recovered in PSA tracker	$ -		$ (1,865,160)	A33-S	$ (1,865,160)	49a
50	**Other Costs/Adjustments**						50
51	Property and Risk Insurance Expense	$ (115,058)	A34	$ (115,058)	A34	$ -	51
52	Claims Expense	$ 650,642	A35	$ 299,243	A35-S	$ (351,399)	52
53	Other Cost Reductions	$ (427,956)	A36	$ (427,956)	A36	$ -	53
54	Changes in Cost Allocations	$ (96,648)	A37	$ (96,648)	A37	$ -	54
55	Pro Forma Level Uncollectible Accounts						55
56	IURC Fee	$ 119,803	A38	$ 123,764	A38	$ 3,961	56
57							57
58		$ 19,821,077		$ 7,783,103		$ (12,037,974)	58
59	Asset Charge	$ 478,466	A39	$ (98,788)	A39-S	$ (577,254)	59
60	Total Operations and Maintenance	$ 20,299,543		$ 7,684,315		$ (12,615,228)	60
61	Depreciation and Amortization	$ 1,977,581	A40	$ 2,153,661	A40-S	$ 176,080	61
62	**Total Pro Forma Adjustments**	$ 15,176,706		$ (863,862)		$ (16,040,568)	62

VECTREN
Energy Delivery

November 15, 2007

Vectren Proposal for Program Reporting to the OUCC

Vectren and the OUCC have worked collaboratively to assure the maintenance programs described in the present Vectren rate case are developed, focused, and implemented to benefit our rate payers. We expect to continue this collaboration for reporting in anticipation of modifications to the programs brought on by changes in business or compliance needs, available technology, and availability of activity level detail reports. The suggested initial reporting criteria are provided below.

- Vectren will provide an annual written report to the OUCC. .
- Vectren officials will be available for discussions on report content upon the OUCC receipt of required annual reporting.
- Report content and format will be dynamic and evolve as required.

The report will include a high level summary of the major maintenance programs listed and will typically include the data outlined below.

- Gas Storage Maintenance
    - Number of wells logged
    - Well logging results
    - Facilities painted
    - Status of Sulfatreat replacement and cost
    - Actual total cost of gas well logging for current reporting period
    - Actual total cost of painting for the current reporting period

- Distribution Maintenance (Right-of-Way maintenance)
    - Miles maintained
    - Maintenance methods used
    - Actual total cost of clearance, mowing and spraying for the current reporting period.

- Regulator Station Maintenance
    - Number of regulator stations painted
    - Number of facilities repaired or improved

VECTREN
Energy Delivery

- Summary of repairs completed
- Actual total cost of sandblasting and painting for the current reporting period
- Actual total cost of repairs

- Meter Maintenance
  - Delivery Pressure audits completed
  - Summary of audit results
  - Number of meter sets painted
  - Actual total cost of sandblasting and painting meter sets for the current reporting period
  - Actual total cost of audits for current reporting period.

INDS01 DWM Vectren Proposal for Program Reporting to the OUCC.DOC

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Stipulation and Settlement Agreement was served by depositing a copy thereof in the United States mail, first class postage prepaid, addressed to:

OFFICE OF THE UTILITY CONSUMER COUNSELOR
National City Bank Building
115 West Washington Street; Suite 1500 South
Indianapolis, Indiana 46204

Fred O. Towe
Geoffrey S. Lohman
FILLENWARTH DENNERLINE GROTH & TOWE
1213 N. Arlington Ave., Suite 204
Indianapolis, IN 46219

Timothy L. Stewart
Todd A. Richardson
LEWIS & KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282

this 16th day of November, 2007.

Daniel W. McGill

Daniel W. McGill

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA GAS COMPANY, INC. d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN NORTH") FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR GAS UTILITY SERVICE; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (3) AUTHORITY, TO THE EXTENT NECESSARY AS AN ALTERNATIVE REGULATORY PLAN, TO TRACK ITS UNACCOUNTED FOR GAS COSTS AND THE GAS COST COMPONENT OF ITS BAD DEBT EXPENSE IN ITS GAS COST ADJUSTMENT FILINGS; (4) APPROVAL OF A DISTRIBUTION REPLACEMENT ADJUSTMENT TO RECOVER THE COSTS OF A PROGRAM FOR THE ACCELERATED REPLACEMENT OF CAST IRON MAINS AND BARE STEEL MAINS AND SERVICE LINES; (5) APPROVAL OF REVISIONS TO THE SALES RECONCILIATION COMPONENT OF THE ENERGY EFFICIENCY RIDER APPROVED IN CAUSE NOS. 42943 AND 43046 TO PROVIDE FOR RECOVERY OF 100% OF THE DIFFERENCE BETWEEN ACTUAL AND APPROVED MARGINS; (6) APPROVAL OF VARIOUS CHANGES TO ITS TARIFF FOR GAS SERVICE, INCLUDING INCREASES IN CERTAIN NON-RECURRING CHARGES; AND (7) CONSIDERATION AND APPROVAL IN PHASE II OF THE PROCEEDING OF AN ALTERNATIVE REGULATORY PLAN FOR A REVENUE STABILIZATION PLAN	)	FILED NOV 16 2007 INDIANA UTILITY REGULATORY COMMISSION CAUSE NO. 43298 IURC PETITIONER'S EXHIBIT NO. TLB-2S 12-13-07 AT REPORTER

STIPULATION AND SETTLEMENT AGREEMENT

Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") and Alcoa Inc. ("Alcoa") (each a "Party" and collectively "Parties"), solely for the purpose of compromise and settlement and having been duly advised by their respective staff, experts, and counsel, stipulate and agree to the matters contained herein subject to their approval by and incorporation into a final order of the Indiana Utility Regulatory Commission ("Final

Order"). If the Commission does not approve this Stipulation and Settlement Agreement ("Agreement") in its entirety without changes or conditions unacceptable to any Party hereto, the entire Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties.

I. Terms and Conditions of Final Order.

1. The Parties have entered into negotiations culminating in a Confidential Natural Gas Transportation Agreement (Confidential Exhibit A) that will replace the existing special contract between Vectren North and Alcoa approved by the Commission's Order dated October 28, 1998 in Cause No. 41235. Confidential Exhibit A reflects terms agreed upon as a result of Vectren North's efforts to retain and increase Alcoa's load and contribution to Vectren North's recovery of fixed costs.

2. The Parties agree that Exhibit A represents a fair and reasonable resolution of the issues between them in this cause. Consistent with the Commission's rules, the Parties will seek a preliminary determination of confidentiality before filing the Agreement under seal with the presiding judge.

II. Presentation of the Agreement to the Commission.

The Parties shall support this Agreement before the Commission and request that the Commission accept and approve the Agreement without changes or conditions unacceptable to any Party. The Parties further agree that each will promptly prefile testimony in this cause supporting the Agreement.

III. Effect and Use of Agreement.

1. Neither the making of this Agreement nor any of its provisions shall constitute in any respect an admission by any Party in this or any other litigation or proceeding. Neither the making of this Agreement (nor the execution of any of the other documents or pleadings required to effectuate the provisions of this Agreement), nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein.

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 if necessary to enforce its terms before the Commission, or any state court 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 items resolved herein or in any future regulatory or other proceedings.

3. The evidence to be submitted in support of this Agreement will constitute substantial evidence sufficient to support the Agreement and will provide an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Agreement.

4. The communications and discussions during the negotiations and conferences which have produced this Agreement have been conducted on the explicit understanding that they are, or relate to, offers of settlement and shall be privileged and confidential, shall be

without prejudice to the position of any Party, and are not to be used in any manner in connection with any other proceeding or otherwise.

5. The undersigned Parties have represented and agreed that they are fully authorized to execute the Agreement on behalf of their designated clients who will be bound hereby.

6. The Parties shall support this Agreement, following its approval by the Commission, in the event of any appeal or a request for a stay by a person not a party hereto, giving due regard to resource limitations and other practical considerations.

7. The provisions of this Agreement shall be enforceable by any Party before the Commission, and thereafter in any state court of competent jurisdiction as necessary.

ACCEPTED and AGREED this 16th day of November, 2007

INDIANA GAS COMPANY, INC. d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.

By: Robert E. Heidorn OOWM
Robert E. Heidorn
VECTREN CORPORATION
One Vectren Square
211 N.W. Riverside Drive
Evansville, IN 47708

ALCOA, INC.

By: [signature]
Printed: Timothy L. Stewart

CONFIDENTIAL EXHIBIT A

This Confidential Exhibit will be submitted under seal to the presiding administrative law judge in accordance with the Commission's rules once the Commission has made a preliminary determination of confidentiality.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Stipulation and Settlement Agreement was served by depositing a copy thereof in the United States mail, first class postage prepaid, addressed to:

OFFICE OF THE UTILITY CONSUMER COUNSELOR
National City Bank Building
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Fred O. Towe
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Timothy L. Stewart
Todd A. Richardson
LEWIS & KAPPES, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282

this 16th day of November, 2007.

Daniel W. McGill

INDS01 DWM 995301_1.DOC

Natural Gas Transportation Service Agreement

This Natural Gas Transportation Service Agreement ("Service Agreement") sets forth the specific terms and conditions under which Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren") shall provide natural gas transportation and related services to the Alcoa Inc. ("Alcoa") facilities located in Lafayette, Indiana, known as Lafayette Operations. This Service Agreement shall, except as specifically set forth herein, be read in conjunction with and subject to the terms and conditions set forth in the then-effective Vectren IURC approved Tariff for Gas Service ("Tariff"). Vectren and Alcoa agree, except as otherwise provided herein, that the prices and agreements provided for in this Service Agreement shall not be changed as a result of any modification to the Tariff and shall remain in effect for the entire term of this Service Agreement.

Section 1 – Alcoa Names and Billing Addresses

Alcoa Inc.

For Billing Purposes:

Section 2 – Notices

Formal Notice to Alcoa:

Operational Notices to Alcoa:

phone
fax
__________________________ Pager Number

Any Notices to Vectren:
Jamoni Harper
550 West 125 Street
Lebanon, IN 46052
Phone: (317) 18-3660

Section 3 – Alcoa Meters

Meter Numbers N0844144

Section 4 – Specific Delivery Information

[redacted]

Section 5 – Transportation Rates

The combined monthly charges for transportation service provided to the Lafayette Operations shall consist of:

5.1 Customer Facilities Charge of $[redacted]; plus

5.2 Distribution Charge:

a. $[redacted] per dekatherm for the first 5,000 dekatherms for any volume consumed during a monthly billing, $[redacted] per dekatherm for the next 25,000 dekatherms, and $[redacted] per dekatherm for any volume consumed over 30,000 dekatherms; plus

5.3 Only the following other charges, to the extent that they otherwise apply to Alcoa as set forth under Vectren's Tariff Rate 260, shall be charged to Alcoa:

- Appendix A: Gas Cost Adjustment;
- Appendix C: Other Charges;
- Appendix E: Nomination and Balancing;
- Appendix F: Unaccounted for Gas Percentage;
- Appendix G: Universal Service Fund Rider; and
- Appendix H: Pipeline Safety Adjustment.

No other charges, riders or adjustments of any kind listed now or in the future in Rate Schedule 260 (Rate 260) or otherwise in Vectren's Tariff sheets shall apply to or be charged to Alcoa during the term of this Service Agreement. The rates and charges set forth in Sections 5.1, 5.2 and 5.3 above shall remain in effect for the entire term of this Service Agreement, except that the sum of these charges shall not exceed at any time the sum of the charges that would be applicable under Vectren's then-effective Tariff. If the sum of charges from Sections 5.1, 5.2, and 5.3 would exceed the sum of like charges under the Tariff for any billing period, Alcoa will be billed the lower Tariff amount for said billing period.

Section 6 – Term

This Service Agreement shall become effective upon its approval by the Indiana Utility Regulatory Commission and remain in full force and effect for [redacted] following said date. Thereafter, this Service Agreement shall continue on a year-to-year basis at the rates in effect under Section 5 unless and until terminated by either party by giving twelve (12) months' prior written notice to the other party. The effective date of such termination shall be the end of the 12th month immediately following the month the notice was given.

Section 7 – Confidentiality

Alcoa and Vectren agree that the rates and charges and other terms and conditions hereunder are confidential, and will only be shared with: a) Alcoa's affiliates and agents to whom Alcoa has delegated its procurement and/or balancing requirements, provided that such affiliates and agents shall maintain the information in strict confidence; b) any governmental agency claiming jurisdiction that requires such disclosure; c) any party to whom disclosure is required by law or d) the IURC to the extent necessary to resolve a dispute arising from this Service Agreement. If Alcoa or Vectren is required to disclose any terms of this Service Agreement pursuant to subparts b or c of this paragraph, such party will give as much notice as feasible to the other party prior to making such disclosure, will give the other party the opportunity to seek to limit disclosure, and will take all appropriate and reasonable steps to maintain the confidentiality of the information. The parties agree that in the event of a dispute about the interpretation or enforcement of this Service Agreement, the IURC shall have jurisdiction to resolve the dispute.

Section 8 – Exclusive Supplier

a. In exchange for and in consideration of the services obtained under this Service Agreement, including the rates and charges paid for the services to be performed hereunder, Alcoa agrees that Vectren shall be Alcoa's sole and exclusive supplier of natural gas transportation service at the Lafayette Operations for the term of this Service Agreement.
b. Alcoa's anticipated annual usage during the term of this Service Agreement is [redacted]
c. Alcoa agrees that it will not bypass during the term of this Service Agreement. Bypass is defined as delivering gas to the Lafayette Operations through any pipeline other than that owned by Vectren or switching from gas usage to use of an alternative fuel.

d. Should Alcoa breach its obligations under Section 8 a or 8 c, then Alcoa will either be responsible for the amount calculated under 8b each year if Alcoa remains a customer, or if Alcoa is no longer a customer, then it shall remain responsible for the following charges under this Service Agreement from the time of default until the end of the term of this Service Agreement: the Customer Facilities Charge and Distribution Charge set out in Section 5 calculated on [redacted] of annual usage, which shall be billed one-twelfth each month over each twelve month period, and any remaining months at the end of the term which are less that a full twelve month period shall be billed on a pro rata basis.
e. Taking test gas off of an alternate (non-Vectren) pipeline for up to two weeks in any twelve (12) month period shall not constitute a default under this Section 8.
f. Notwithstanding the foregoing, this Section 8 does not require Alcoa to take any specific amount of natural gas, and (i) a reduction in the consumption at the Lafayette Operations other than through bypass, or (ii) closure of the Lafayette Operations shall not constitute a default under this Service Agreement.
g. Alcoa may, at any time, elect to terminate this Service Agreement and go back to Vectren's then existing tariff rates.

Section 9 – Capacity to Contract

The parties warrant that the individuals executing this Service Agreement have the capacity and have been duly authorized to execute this Service Agreement.

Section 10 – Miscellaneous

This Service Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Indiana without regard to its conflict of law provisions. This Service Agreement and the rights and obligations of the parties hereto shall inure to the benefit of, and shall be binding upon, the designees, agents, successors and assigns of each of them, and is assignable by either party. This Service Agreement constitutes the entire agreement between the parties pertaining to the subject matter contained in it and supersedes all prior and contemporaneous agreements, representations and understandings of the parties. This Service Agreement may be amended or modified in whole or in part by agreement in writing executed by the parties hereto.

This Service Agreement supersedes the Natural Gas Supply Agreement dated June 4, 1998.

This Service Agreement is agreed to as of November 29, 2007.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Supplemental Direct Testimony and Exhibits in Support of Stipulation and Settlement Agreement between Vectren North and Alcoa, Inc. was served by depositing copies thereof in the United States mail, first class postage prepaid, addressed to:

OFFICE OF THE UTILITY CONSUMER COUNSELOR
National City Bank Building
115 West Washington Street; Suite 1500 South
Indianapolis, Indiana 46204

Fred O. Towe
Geoffrey S. Lohman
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1213 N. Arlington Ave., Suite 204
Indianapolis, IN 46219

Timothy L. Stewart
Todd A. Richardson
Lewis & Kappes, P.C.
One American Square, Suite 2500
Indianapolis, Indiana 46282

this 3rd day of December, 2007.

Daniel W. McGill

Daniel W. McGill

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