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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA UTILITIES)
CORPORATION FOR APPROVAL OF)
CHANGES IN ITS GAS COST)
ADJUSTMENT IN ACCORDANCE WITH)
IND. CODE § 8-1-2-42 (g))

CAUSE NO. 37357 GCA 74

APPROVED: APR 22 2009

BY THE COMMISSION:

Gregory D. Server, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On February 25, 2009, in accordance with Indiana Code § 8-1-2-42, Indiana Utilities Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment to be applicable during the billing cycles of May 2009 through July 2009 with the Indiana Utility Regulatory Commission ("Commission"). Petitioner filed the Verified Testimony of its witness Frank Czeschin, President of Petitioner, on March 10, 2009. On March 27, 2009, the Indiana Office of Utility Consumer Counselor ("OUCC") filed Testimony and Exhibits prepared by its witness Sherry L. Beaumont.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 10:15 a.m. on April 16, 2009, in Room 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC offered their respective prefiled testimony and exhibits, which were admitted into the record without objection. No member of the rate paying public appeared at the hearing.

Based upon the applicable law, the evidence presented herein, and being duly advised, the Commission now finds:

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

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana, and has its principal office at 123 West Chestnut Street, Corydon, Indiana. It is engaged in rendering natural gas utility service to the public within the State of Indiana and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

3. **Source of Natural Gas.** Indiana Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long term gas supplies in order to provide service to its customers at the lowest gas costs reasonably possible.

Mr. Czeschin testified about Petitioner's procurement practices directed towards reducing volatility including: acquiring fixed contracts and use of stored gas; keeping itself apprised of market conditions; and implementing a normal temperature adjustment mechanism ("NTA"). Mr. Czeschin described Petitioner's hedging activities for this GCA period as including fixed contracts, noting that approximately 69% of Petitioner's estimated sales for the May through July period involved in this GCA have been covered by these hedging activities. Mr. Czeschin also noted that stored gas would not be used for these non-heating months due to storage being refilled.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that works to mitigate gas price volatility and considers market conditions and the price of natural gas on a current and forward-looking basis. Based on the evidence offered, we find that Petitioner has demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Ind. Code § 8-1-2-42(g)(3)(B) requires Petitioner's pipeline supplier(s) of gas to have requested or filed for a change of cost of gas pursuant to the jurisdiction and procedures of a duly constituted regulatory agency. The evidence of record indicates that gas costs in this application include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission ("FERC") jurisdiction and procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the cost to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in the Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's base rates and charges were approved. The most recent proceeding in which Petitioner's base rates and charges were approved in Cause No. 43520 on January 21, 2009. However, the rates in effect for purposes of reviewing Petitioner's earnings were those authorized in Cause No. 42426. The Commission's November 25, 2003, order in that Cause authorized Petitioner to earn a net operating income of \$346,653. Petitioner's evidence herein indicates that for the twelve (12) months ending December 31, 2008, Petitioner's weather adjusted net operating income was \$273,062. Based on the evidence of record, the Commission finds that Petitioner did not earn in excess of that authorized in its last rate case during the twelve-month review period.

6. **Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimations with the eventual actual costs.

The evidence indicates that the estimating techniques during the reconciliation period of August 2008 through October 2008 (the "Reconciliation Period"), yielded a weighted over-estimated average error of 14.46%. Petitioner's witness Czeschin's testimony indicated that this variance and the more significant variance in October was created by a run-up in the price of

natural gas which did not level off and begin to decline until after the estimates for the months of the Reconciliation Period were made. Based on Petitioner's historical accuracy in estimating the cost of gas and Petitioner's explanation here, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the petitioning utility reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence of record established that the variance for the Reconciliation Period is an under-collection of \$21,839. This amount should be included, based on estimated sales percentages, in this and in the next three GCAs. The amount of the Reconciliation Variance to be included in this GCA is an under-collection of \$2,031, to be applied in this GCA as an increase in the net cost of gas.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$45,508. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$47,539 to be applied in this GCA as an increase in the net cost of gas.

Petitioner received no new refunds during the Reconciliation period, and has no refunds from a prior period applicable to this GCA period. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period and the gas costs recovered during that same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is \$328,824. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of \$376,363. After dividing that amount by estimated sales and correcting for Indiana Utility Receipts Tax, Petitioner recommends a GCA factor of \$11.2743/Dth. The Commission finds Petitioner's recommended GCA factor should be accepted.

9. **Effects on Residential Customers.** The GCA factor of \$11.2743/Dth represents a decrease of \$1.5149 from the current GCA factor of \$12.7892/Dth. The effects of this decrease for various consumption levels of residential customer bills are shown in the following table:

Table 1
Proposed vs. Currently Approved GCA Factor
For Residential Customers

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	\$85.66	\$88.68	(\$3.02)	(3.41%)
10	\$161.31	\$168.35	(\$7.04)	(4.18%)
15	\$233.60	\$245.28	(\$11.68)	(4.76%)
20	\$305.90	\$322.21	(\$16.31)	(5.06%)
25	\$378.19	\$399.14	(\$20.95)	(5.25%)

The GCA factor of \$11.2743/Dth represents an increase of \$2.3547 from the GCA factor \$8.9196 billed one year ago. The effects of this increase for various consumption levels of residential bills are shown in the following table:

Table 2
Proposed vs. Prior Year Approved GCA Factor
For Residential Customers

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	\$85.66	\$69.33	\$16.33	23.55%
10	\$161.31	\$129.66	\$31.65	24.41%
15	\$233.60	\$187.23	\$46.37	24.77%
20	\$305.90	\$244.82	\$61.08	24.95%
25	\$378.19	\$302.40	\$75.79	25.06%

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

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

1. The Petition of Indiana Utilities Corporation for the gas cost adjustment for natural gas service, as set forth in Finding No. 8, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 10.
2. Indiana Utilities Corporation shall file with the Natural Gas Division of this Commission, prior to placing in effect the gas cost adjustment factors approved herein, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedules on these amendments.
3. This Order shall be effective on and after the date of its approval.

GOLC, SERVER, AND ZEIGNER CONCUR; HARDY AND LANDIS ABSENT:

APPROVED: APR 22 2009

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



 Brenda A. Howe
 Secretary to the Commission