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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 82**
	)	**APPROVED:** APR 27 2011

<u>BY THE COMMISSION</u>:
Kari A.E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On February 23, 2011, in accordance with Ind. Code § 8-1-2-42, Indiana Utilities Corporation ("Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition for a gas cost adjustment ("GCA") with attached schedules to be applicable during the months of May through July, 2011. On March 15, 2011, Petitioner prefiled the direct testimony of its President, Frank Czeschin, supporting the proposed GCA factor. On March 25, 2011, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Sherry L. Beaumont, Utility Analyst in the Natural Gas Division.

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 1:00 p.m., on April 14, 2011, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and the OUCC were admitted into the record. No members of the general public appeared or sought to testify at the hearing.

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

1. **<u>Statutory Notice and Commission Jurisdiction</u>.** 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. Therefore, the Commission has jurisdiction over the parties and the subject matter herein.

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

3. **Source of Natural Gas.** Ind. Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term gas supplies so as to provide gas to its retail customers at the lowest cost reasonably possible.

Mr. Czeschin testified that Petitioner has hedged all of its estimated sales for this GCA period through fixed contracts and also has storage gas available if necessary. In recent GCA proceedings, the Commission has questioned Petitioner regarding its purchase of fixed contracts. In GCA 78, in response to the Commission's April 19, 2010 Docket Entry, Petitioner indicated it had entered into two separate fixed price contracts. The first contract expired in October 2010, and the second contract will continue through 2011. Petitioner stated that it entered into these contracts due to concern at the time about the upward spike in natural gas prices and the resulting volatility in monthly bills. Petitioner further stated that the financial crisis that began in the Fall of 2008 resulted in decreased natural gas sales, with the result that the fixed contracts have covered Petitioner's entire supply requirement. Petitioner explained that at the time it entered into these fixed contracts (July, 2008), it did not know the effect would be to lock in all of its supply requirements for estimated sales; although Petitioner did recognize it was hedging a significant portion of its supply requirements.

The Commission has indicated 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. The Commission notes that Petitioner's current fixed contract prices are significantly higher than prices available on the spot market. Although we accept Petitioner's explanations regarding the reasonableness of its decisions at the time it entered into these fixed price contracts, we are also concerned with the fact that Petitioner has placed itself into a situation where it is unable to take advantage of spot market prices that are lower than its current fixed contract prices.

Based upon the evidence offered, we find Petitioner has demonstrated 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 the requirement of this statutory provision has been fulfilled. However, the Petitioner shall file testimony in its next GCA indicating when the current fixed price contract will expire, explaining its going forward purchasing strategy, and explaining what steps it will take to allow room in its portfolio for spot market purchases in the future.

4. **Purchased Gas Cost Rates.** Ind. Code § 8-1-2-42(g)(3)(B) requires Petitioner's pipeline suppliers to have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factor. The evidence of record indicates gas costs in this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission 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 the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment that results in Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent

proceeding in which Petitioner's base rates and charges were approved is Cause No. 43520. The Commission's January 21, 2009 Order in that Cause authorized Petitioner to earn a net operating income of $422,993. Petitioner's evidence indicates for the twelve (12) months ending December 31, 2010, Petitioner's actual net operating income was $152,770. Therefore, based upon the evidence of record, the Commission finds Petitioner is not earning in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires Petitioner's estimate of its prospective average gas costs for each future recovery period to be reasonable. The Commission has determined this requires, in part, a comparison of prior estimations with the eventual actual costs. The evidence presented indicates the estimating techniques of Petitioner during the reconciliation period of August through October, 2010, (the "Reconciliation Period") yielded an under-estimated weighted average error of 4.92%. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliation.** Ind. Code § 8-1-2-42(g)(3)(D) also requires Petitioner to reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding establishes the variance for the Reconciliation Period is an under-collection of $26,098 from its customers. This amount should be included, based upon estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is $2,456.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $1,516. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $940 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Application. Based upon the evidence presented, the Commission finds Petitioner's proposed GCA properly reconciles the difference between the actual gas costs for the Reconciliation Period and the gas costs recovered during that same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is $303,741. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $304,681. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $8.7902/Dth.

9. **Effects on Residential Customers.** The GCA factor of $8.7902/Dth represents a decrease of $0.4461/Dth from the current GCA factor of $9.2363/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Effect on Residential Customers
Proposed vs. Currently Approved GCA Factor

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 73.24	$ 75.47	$ (2.23)	-2.95%
10	136.47	140.93	(4.46)	-3.16%
15	196.34	203.03	(6.69)	-3.30%
20	256.21	265.14	(8.93)	-3.37%
25	316.09	327.24	(11.15)	-3.41%

The GCA factor of $8.7902/Dth represents a decrease of $2.2108/Dth from the GCA factor of $11.0010/Dth billed one year ago. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 2
Effect on Residential Customers
Proposed vs. GCA Factor One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Prior Yr GCA Factor	Dollar Change	Percent Change
5	$ 73.24	$ 84.30	$(11.06)	-13.12%
10	136.47	158.58	(22.11)	-13.94%
15	196.34	229.51	(33.17)	-14.45%
20	256.21	300.43	(44.22)	-14.72%
25	316.09	371.36	(55.27)	-14.88%

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 has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation 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 a gas cost adjustment for natural gas service, as set forth in Finding Paragraph 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 Commission under this Cause, 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 schedule on these amendments.

3. Petitioner shall file testimony in its next GCA indicating when the current fixed price contract will expire, explaining its going forward purchasing strategy, and explaining what steps it will take to allow room in its portfolio for spot market purchases in the future.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: APR 27 2011

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

Shala M. Coe

Shala M. Coe
Acting Secretary to the Commission