ORIGINAL

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 85 APPROVED: JAN 25 2012

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On November 28, 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 February through April, 2012. On January 3, 2012, Petitioner prefiled the direct testimony of its President, Frank Czeschin, supporting the proposed GCA factor. On January 4, 2012, 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 9:15 a.m., on January 9, 2012, in Hearing Room 224, 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. **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. Therefore, the Commission 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. 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 regarding Petitioner's procurement practices, including acquiring fixed contracts, using storage gas, monitoring natural gas prices through NYMEX, and participating in various ARP programs. Mr. Czeschin stated that for the upcoming GCA period Petitioner has hedged 90,000 Dth in fixed contracts and 31,200 Dth in storage gas. Petitioner estimates it will purchase an additional 11,200 Dth of spot gas.

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. Petitioner shall continue to provide testimony and evidence in its GCA proceedings detailing its natural gas purchases and demonstrating how its overall purchasing strategy led to purchases that were reasonable based on the current market conditions at the time of purchase as ordered in GCA 83.

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 that 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 September 30, 2011, Petitioner's actual net operating income was $222,045. 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 May through July, 2011, (the "Reconciliation Period") yielded an over-estimated weighted average error of 21.60%.

Mr. Czeschin explained that the over-estimation was caused by an increase of injections into storage and a corresponding lower usage, resulting in a lower cost per unit from that previously estimated. In addition, Mr. Czeschin stated that Petitioner purchased spot gas for the month of July at a lower rate than it had estimated. Based upon the evidence presented in this Cause and 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 over-collection of $117,327 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 a decrease in the estimated net cost of gas is $41,524.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $27,788. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $13,736 to be applied in this GCA as a decrease 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 $852,437. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $838,701. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $6.4330/Dth.

9. **Effects on Residential Customers.** The GCA factor of $6.4330/Dth represents a decrease of $0.6658/Dth from the current GCA factor of $7.0988/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	$ 61.46	$ 64.78	($ 3.32)	(5.13)%
10	$112.90	$119.56	($ 6.66)	(5.57)%
15	$160.99	$170.97	($ 9.98)	(5.84)%
20	$209.07	$222.39	($13.32)	(5.99)%
25	$257.16	$273.80	($16.64)	(6.08)%

The GCA factor of $6.4330/Dth represents a decrease of $2.8033/Dth from the GCA factor of $9.2363/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	$ 61.46	$ 75.47	($14.01)	(18.56)%
10	$112.90	$140.93	($28.03)	(19.89)%
15	$160.99	$203.03	($42.04)	(20.71)%
20	$209.07	$265.14	($56.07)	(21.15)%
25	$257.16	$327.24	($70.08)	(21.42)%

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.

11. **Monthly Flex Mechanism.** In GCA 84, the Commission authorized Petitioner to implement a monthly flex mechanism. When a utility implements a flex mechanism, it must adjust the structure of its GCA schedules. Instead of one GCA factor for the entire three month period, a utility must calculate a separate factor for each month. In this proceeding, Petitioner submitted only a single GCA factor for the three month period. As a result, Petitioner is not authorized to flex its GCA factors for the months of February through April, 2012. In its next GCA, Petitioner shall submit schedules that include calculations for separate GCA factors for each month of the GCA period.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:

APPROVED: JAN 25 2012

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