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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 87 APPROVED: JUL 31 2012

ORDER OF THE COMMISSION

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

On May 29, 2012, 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 August through October 2012. On June 28, 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. On June 29, 2012, Petitioner prefiled the direct testimony of its President, Frank Czeschin with revised schedules, supporting the proposed GCA factor.

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 1:30 p.m. on July 12, 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 Alternative Regulatory Programs. Mr. Czeschin stated that for the upcoming GCA period Petitioner has hedged 20,000 Dth in fixed contracts. These contracts will be used to meet the small sales load in the warmer months and to fill the majority of available storage. Any additional sales or storage needs will be filled with 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.

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 March 31, 2011, Petitioner's actual net operating income was $145,332. 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 November 2011 through January

2012 (the "Reconciliation Period") yielded an under-estimated weighted average error of 5.51%. 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 under-collection of $68,566. 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 $7,420.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $17,810. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $10,390 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. 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. 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.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is $205,796. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $195,407. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.0583/Dth for August, $5.0739/Dth for September, and $5.1906/Dth for October.

9. **Effects on Residential Customers.** The GCA factor of $5.0583/Dth for August represents an increase of $0.0458/Dth from the current GCA factor of $5.0125/Dth. The GCA factor of $5.0739/Dth for September represents an increase of $0.0614 from the current GCA factor of $5.0125/Dth. The GCA factor of $5.1906/Dth for October represents an increase of $0.1781/Dth from the current GCA factor of $5.0125/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

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

August 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 54.58	$ 54.35	$0.23	0.42%
10	$ 99.15	$ 98.70	$0.45	0.46%
15	$140.36	$139.68	$0.68	0.49%
20	$181.58	$180.66	$0.92	0.51%
25	$222.79	$221.64	$1.15	0.52%

September 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 54.66	$ 54.35	$0.31	0.57%
10	$ 99.31	$ 98.70	$0.61	0.62%
15	$140.60	$139.68	$0.92	0.66%
20	$181.89	$180.66	$1.23	0.68%
25	$223.18	$221.64	$1.54	0.69%

October 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.24	$ 54.35	$0.89	1.64%
10	$100.48	$ 98.70	$1.78	1.80%
15	$142.35	$139.68	$2.67	1.91%
20	$184.22	$180.66	$3.56	1.97%
25	$226.10	$221.64	$4.46	2.01%

The GCA factor of $5.0583/Dth for August represents a decrease of $2.9215/Dth from the GCA factor of $7.9798/Dth billed one year ago. The GCA factor of $5.0739/Dth for September represents a decrease of $2.9059 from the GCA factor of $7.9798 billed one year ago. The GCA factor of $5.1906/Dth for October represents a decrease of $2.7892 from the GCA factor of $7.9798 billed one year ago. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

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

August 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 54.58	$ 69.19	($14.61)	(21.12)%
10	$ 99.15	$128.37	($29.22)	(22.76)%
15	$140.36	$184.19	($43.83)	(23.80)%
20	$181.58	$240.01	($58.43)	(24.34)%
25	$222.79	$295.83	($73.04)	(24.69)%

September 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 54.66	$ 69.19	($14.53)	(21.00)%
10	$ 99.31	$128.37	($29.06)	(22.64)%
15	$140.60	$184.19	($43.59)	(23.67)%
20	$181.89	$240.01	($58.12)	(24.22)%
25	$223.18	$295.83	($72.65)	(24.56)%

October 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.24	$ 69.19	($13.95)	(20.16)%
10	$100.48	$128.37	($27.89)	(21.73)%
15	$142.35	$184.19	($41.84)	(22.72)%
20	$184.22	$240.01	($55.79)	(23.24)%
25	$226.10	$295.83	($69.73)	(23.57)%

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.** Petitioner utilizes a flex mechanism each month to adjust the GCA for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex are to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. Changes in the market price included in the flex are limited to a maximum adjustment (up or down) of $1.00 from the initial market price.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

12. GCA Calculation Methodology. Ms. Beaumont testified that the OUCC noticed what it believed to be a calculation error in Petitioner's Schedule 8. In response to an email inquiry from the OUCC, Petitioner indicated there was no error. Instead, Petitioner chose to include a line item for compressor fuel because it believed the inclusion more accurately reflects the total gas delivered and available to be sold. Petitioner provided no testimony in its case-in-chief supporting the change in its calculation methodology or even indicating that such a change had been made. Even after the OUCC raised the issue, Petitioner did not provide any supplemental or rebuttal testimony explaining the change.

Via email correspondence, the Commission ordered Petitioner to present its witness for cross-examination during the Evidentiary Hearing in this Cause for the purpose of explaining the change in the method of calculating the GCA. Rather than presenting Mr. Czeschin, who prefiled testimony that was admitted into the record of this Cause, Petitioner presented Mr. Benjamin Duke, an accountant with London Witte Group. Mr. Duke participated in the preparation of Petitioner's Schedules in this Cause but did not prefile any testimony. Mr. Duke testified that Mr. Czeschin made the decision to change the calculation methodology.

The Commission is very concerned by Petitioner's failure to highlight and explain the change to its GCA calculation methodology in its testimony in this Cause even after the change was discovered by the OUCC and by Petitioner's failure to present its witness for cross-examination. In its next GCA filing, Petitioner shall present evidence explaining its decision to change its GCA calculation methodology to include compressor gas. Going forward, Petitioner shall ensure that any further changes to its GCA calculation methodology are fully explained in its case-in-chief. In addition, when the Commission orders Petitioner to present its witnesses for cross-examination, Petitioner shall present any and all witnesses who have prefiled testimony in the case, not some other person of Petitioner's choosing. Failure to do so will result in an immediate continuation of the hearing.

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. In its next GCA filing, Petitioner shall present evidence explaining its decision to change its GCA calculation methodology to include compressor gas.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JUL 31 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