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 88** **APPROVED:** OCT 31 2012

ORDER OF THE COMMISSION

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

On August 21, 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 November 2012 through January 2013. On August 22, 2012, Petitioner prefiled the direct testimony of its President, Frank Czeschin, supporting the proposed GCA factor. On September 20, 2012, Petitioner filed supplemental testimony and revised schedules from Frank Czeschin, supporting revised GCA factors. September 25, 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 October 1, 2012, Petitioner filed an amended Appendix reflecting the correct flex factor for January 2012.

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 9:45 a.m. on October 2, 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, using an analysis of risks, and considering historic information and trends. Mr. Czeschin also addressed the change in Petitioner's calculation of its GCA to remove compressor fuel amounts from the calculation. Petitioner has been advised by its accountants that subtracting the amount of compressor fuel from the total commodity amount would provide a more accurate presentation for reviewing unaccounted for 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 relevant to this Cause in which Petitioner's base rates and charges were approved is Cause No. 43520.[1] 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 June 30, 2011, Petitioner's actual net operating income was $235,853. Therefore, based upon the evidence of record, the Commission finds Petitioner is not earning in excess of that authorized in the Final Order in Cause No. 43520.

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[1] The Commission issued an order in Cause No. 44062 on September 5, 2012 approving a new schedule of rates and charges for Petitioner. The net operating income approved in that Cause will be applied to Petitioner's next GCA filing.

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 February through April 2012 (the "Reconciliation Period") yielded an under-estimated weighted average error of 11.37%. Mr. Czeschin testified that the variance was caused by warmer than expected weather, which caused a change in the supply mix. Because of reduced demand, Petitioner only used fixed contract gas and did not need to use storage gas or make spot purchases. 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 $45,642. 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 $20,600.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $34,076. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $13,476 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. **Indiana Income Tax Rate.** On July 1, 2012, the Indiana adjusted gross income tax rate, which is used in the conversion factor to calculate the Utility Receipts Tax, changed from 8.5% to 8.0%. Petitioner's calculations incorrectly used the 8.5% rate. The GCA factors discussed below reflect the new tax rate of 8.0%.

9. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is $868,212. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $854,736. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.4617/Dth for November, $5.3825/Dth for December, and $5.3348/Dth for January.

10. **Effects on Residential Customers.** The GCA factor of $5.4617/Dth for November represents an increase of $0.3878/Dth from the current GCA factor of $5.0739/Dth. The GCA factor of $5.3825/Dth for December represents an increase of $0.3086 from the current GCA factor of $5.0739/Dth. The GCA factor of $5.3348/Dth for January represents an increase of $0.2609/Dth from the current GCA factor of $5.0739/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

November 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 63.98	$ 54.66	$ 9.32	17.05%
10	$115.45	$ 99.31	$16.14	16.25%
15	$162.71	$140.60	$22.11	15.73%
20	$209.97	$181.89	$28.08	15.44%
25	$257.23	$223.18	$34.05	15.26%

December 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 63.58	$ 54.66	$ 8.92	16.32%
10	$114.66	$ 99.31	$15.35	15.46%
15	$161.52	$140.60	$20.92	14.88%
20	$208.39	$181.89	$26.50	14.57%
25	$255.25	$223.18	$32.07	14.37%

January 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 63.34	$ 54.66	$ 8.68	15.88%
10	$114.19	$ 99.31	$14.88	14.98%
15	$160.81	$140.60	$20.21	14.37%
20	$207.43	$181.89	$25.54	14.04%
25	$254.05	$223.18	$30.87	13.83%

The GCA factor of $5.4617/Dth for November represents a decrease of $1.6371/Dth from the GCA factor of $7.0988/Dth billed one year ago. The GCA factor of $5.3825/Dth for December represents a decrease of $1.7163 from the GCA factor of $7.0988 billed one year ago. The GCA factor of $5.3348/Dth for January represents a decrease of $1.5766 from the GCA factor of $6.9114 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

November 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 63.98	$ 64.78	($ 0.80)	-1.23%
10	$115.45	$119.56	($ 4.11)	-3.44%
15	$162.71	$170.97	($ 8.26)	-4.83%
20	$209.97	$222.39	($12.42)	-5.58%
25	$257.23	$273.80	($16.57)	-6.05%

December 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 63.58	$ 64.78	($ 1.20)	-1.85%
10	$114.66	$119.56	($ 4.90)	-4.10%
15	$161.52	$170.97	($ 9.45)	-5.53%
20	$208.39	$222.39	($14.00)	-6.30%
25	$255.25	$273.80	($18.55)	-6.78%

January 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 63.34	$ 63.85	($ 0.51)	-0.80%
10	$114.19	$117.68	($ 3.49)	-2.97%
15	$160.81	$168.16	($ 7.35)	-4.37%
20	$207.43	$218.64	($11.21)	-5.13%
25	$254.05	$269.12	($15.07)	-5.60%

11. **<u>Interim Rates</u>.** 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.

12. **<u>Monthly Flex Mechanism</u>.** 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.

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. 9, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 11.

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, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: OCT 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