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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF WESTFIELD GAS CORPORATION, D/B/A CITIZENS GAS OF WESTFIELD FOR A CHANGE IN ITS GAS COST ADJUSTMENT CHARGE FOR THE PERIOD MARCH, APRIL AND MAY 2011	)))))	**CAUSE NO. 37389 GCA 85** **APPROVED:** FEB 23 2011

<u>BY THE COMMISSION:</u>
Loraine L. Seyfried, Administrative Law Judge

On December 22, 2010, in accordance with Indiana Code § 8-1-2-42, Westfield Gas Corporation d/b/a Citizens Gas of Westfield ("Petitioner" or "Westfield Gas") filed its Application for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of March, April and May 2011 with the Indiana Utility Regulatory Commission ("Commission"). Also, on December 22, 2010, Petitioner prefiled the direct testimony of Jill A. Phillips, Manager, Rates & Regulatory Affairs. On January 28, 2011, Petitioner submitted the prefiled supplemental direct testimony and updated exhibits of Jill A. Phillips. On February 4, 2011, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Heather Poole, Utility Analyst, constituting its case-in-chief.

Pursuant to notice duly published as required by law, proof of which is incorporated into the record by reference and placed in the official files of the Commission, a public evidentiary hearing was held in this Cause on February 15, 2011, at 9:30 a.m., in Room 222, PNC Center, 101 W. Washington St., Indianapolis, Indiana. Petitioner and the OUCC were present and participated in the public evidentiary hearing. The testimony and exhibits of both Petitioner and the OUCC were admitted into the record without objection. No member of the 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 public 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 Petitioner and the subject matter herein.

2. **<u>Petitioner's Characteristics</u>.** Westfield Gas is a corporation organized and existing under the laws of the State of Indiana, and has its principal office at 2020 N. Meridian Street, Indianapolis, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in Boone and Hamilton counties in the State of Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such service.

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 natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible.

Jill A. Phillips provided evidence concerning the tariff sheet and supporting Schedules filed with Petitioner's GCA to be effective during March 2011 through May 2011. That evidence showed Petitioner's rates and charges reflect recovery of transportation and storage costs based upon filings with the Federal Energy Regulatory Commission ("FERC"). A portion of the commodity will be priced using NYMEX futures settlement prices at Henry Hub for the three-month period, adjusted for basis, fuel, and transportation for delivery to Petitioner's city-gate. The remaining commodity will be priced according to fixed price agreements. Petitioner also pays commodity reservation charges in return for performance guarantees, which are treated in the gas cost adjustment in the same manner as pipeline reservation charges. The evidence established that Petitioner has made physical hedge purchases and has secured storage gas as part of its supply portfolio.

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 followed 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.** Indiana Code § 8-1-2-42(g)(3)(B) requires that Petitioner's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory agency the costs proposed to be included in the GCA factor. The evidence of record indicates that gas costs in this Application include transportation rates that have been filed by Westfield's pipeline suppliers in accordance with FERC procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs 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 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 Commission's February 27, 2002 Order in Cause No. 42095 U authorized Petitioner to earn a net operating income of $180,450, while the Commission's March 10, 2010 Order in Cause No. 43624 authorized Petitioner to earn a net operating income of $586,924. Petitioner's evidence herein indicates that for the twelve (12) months ending November 30, 2010, Petitioner's actual net operating income was $564,806, and its prorated authorized net operating income was $471,107. Therefore, based upon the evidence of record, the Commission finds that Petitioner is earning in excess of the prorated amount authorized in its last two rate cases.

Because Petitioner has earned a return in excess of the amount authorized, Indiana Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded through the variance in this Cause. A refund is only appropriate, however, if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Indiana Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence of record, as shown on Petitioner's Exhibit 10 at 37, the Commission finds that the sum of the differentials during the relevant period is negative $1,172,368, which is less than zero and, therefore, it is not appropriate to require a refund of any of the amount of excess earnings in this Cause.

6. <u>Estimation of Purchased Gas Costs</u>. 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 September 2010 through November 2010 (the "Reconciliation Period") yielded an over-estimated weighted average error of 4.7 percent. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas cost is reasonable.

7. <u>Reconciliation</u>. Indiana Code § 8-1-2-42(g)(3)(D) also requires that the Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an over-collection of $6,575 from Petitioner's customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs as a decrease in the cost of gas. The amount of the Reconciliation Period variance to be included in this GCA as a decrease in the estimated net cost of gas is $1,225.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $18,686. Combining this amount with the Reconciliation Period variance results in a total over-collection of $19,911 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 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. <u>Resulting Gas Cost Adjustment Factor</u>. The estimated net demand and commodity cost of gas to be recovered during the application period is $521,939. Adjusting this total for the variance, refund, and net write off recovery amounts yields gas costs to be recovered through the GCA of $503,634. After dividing that amount by estimated sales, adjusting for other related cost factors and the Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $5.840/Dth.

9. Effects on Residential Customers. The GCA factor of $5.840/Dth represents a decrease of $0.064/Dth from the current GCA factor of $5.9040/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1

Proposed GCA Factor (March, April and May 2011)
vs.
Currently Approved GCA Factor (December 2010, January and February 2011)

Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 58.90	$ 59.22	$(0.32)	(0.54)%
10	$112.00	$112.64	$(0.64)	(0.57)%
15	$160.16	$161.12	$(0.96)	(0.60)%
20	$205.03	$206.31	$(1.28)	(0.62)%
25	$249.90	$251.50	$(1.60)	(0.64)%

The GCA factor of $5.840/Dth represents a decrease of $0.380/Dth from the GCA factor of $6.220/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2

Proposed GCA Factor (March, April and May 2011)
vs.
Prior Year GCA Factor (March, April and May 2010)

Consumption Dth	Bill At Proposed GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	$ 58.90	$ 59.37	$(0.47)	(0.79)%
10	$112.00	$112.95	$(0.95)	(0.84)%
15	$160.16	$161.59	$(1.43)	(0.88)%
20	$205.03	$206.93	$(1.90)	(0.92)%
25	$249.90	$252.28	$(2.38)	(0.94)%

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 rates approved herein should be interim rates, subject to refund, pending reconciliation in the event an excess return is earned.

11. Pressure Correction Factor Issue. In Petitioner's GCA 84 proceeding, the OUCC filed a "Motion to Create Subdocket" for the purpose of allowing the OUCC additional time to investigate the issues surrounding Petitioner's changes to its Pressure Correction Factor ("PCF"). However, Petitioner and the OUCC agreed that issues related to Petitioner's PCF could be addressed in this GCA proceeding. The OUCC withdrew its "Motion to Create Subdocket" and the Commission found that the rates approved in GCA 84 should be subject to reconciliation based upon the resolution of PCF issues in GCA 85. In this proceeding, OUCC witness Heather Poole testified:

> [s]ubsequent to GCA 84, the staff at the OUCC has recalculated the prior period adjustments made in GCA 84. These recalculations involved previous GCA variances which have been thoroughly reviewed and documented with the proper work papers from the Petitioner to determine whether the adjustments have been calculated correctly. It is the OUCC's belief that the prior period adjustments that were applied to GCA 84 were correct.

OUCC's Exhibit 1 at 5. Accordingly, the Commission finds that the issues raised in GCA 84 relating to Petitioner's PCF are resolved and there is no need for reconciliation relating to those issues.

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

1. The Application of Westfield Gas d/b/a Citizens Gas of Westfield for the 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. Westfield Gas d/b/a Citizens Gas of Westfield shall file with the Commission under this Cause, prior to placing into effect the gas cost adjustment factors herein approved, separate amendments to its rate schedules with reasonable reference therein reflecting that such charge is applicable to the rate schedules reflected on the amendment.

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

ATTERHOLT, LANDIS AND ZIEGNER CONCUR; BENNETT AND MAYS NOT PARTICIPATING:

APPROVED: FEB 23 2011

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