ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF KOKOMO GAS AND FUEL COMPANY, INC. FOR APPROVAL OF A GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF MAY 2009 THROUGH JULY 2009, PURSUANT TO IND. CODE § 8-1-2-42.	)	CAUSE NO. 37396 GCA 64 APPROVED: APR 29 2009

BY THE COMMISSION:
Gregory D. Server, Commissioner
Loraine L. Seyfried, Administrative Law Judge

On February 25, 2009, in accordance with Ind. Code § 8-1-2-42, Kokomo Gas and Fuel Company, Inc. ("Petitioner" or "Kokomo") filed its Verified Petition in this Cause for approval of a Gas Cost Adjustment ("GCA") to be applicable during the months of May, 2009 through July, 2009. On the same day, Petitioner prefiled the direct testimony and supporting exhibits of Katherine A. Cherven, Manager of Compliance, Rates Department; Karl E. Stanley, Executive Director, Energy Supply and Trading; and Mitchell E. Hershberger, Controller. On March 27, 2009, in accordance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its statistical report and direct testimony and exhibits of Pamela Sue Sargent Haase, CPA at London Witte Group, LLC.

On April 14, 2009, the Presiding Officers issued a Docket Entry requesting additional information concerning Petitioner's Price Volatility Mitigation Plan. Petitioner filed its response to the Docket Entry on April 15, 2009.

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, an evidentiary hearing was held in this Cause on April 16, 2009 at 1:45 p.m., in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The prefiled testimony and exhibits of both Petitioner and the OUCC were admitted into the record. Mr. Karl Stanley testified at the hearing concerning Kokomo's near-term plans for acquiring gas supply. No members of the general public appeared or sought to testify at the hearing.

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

1. **Statutory Notice and Commission Jurisdiction**. Due, legal and timely notice of the public hearing 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 Cause. Therefore, this Commission has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics**. Petitioner is corporation organized and existing under the laws of the State of Indiana, with its principal office located at 900 East Boulevard, Kokomo, Indiana 46904. Petitioner is engaged in rendering gas distribution service to the public in Carroll, Cass, Clinton, Howard, Miami and Tipton counties within the State of Indiana. It owns, operates, manages and controls plants and equipment within the State of Indiana 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 natural gas supplies in order to provide gas to its retail customers at the lowest gas cost reasonably possible.

Since the filing of its last GCA, Petitioner has renewed its long-term firm contracts with Panhandle Eastern Pipeline Company ("Panhandle") and Trunkline Gas Company ("Trunkline"). Mr. Karl Stanley testified that the previous contract quantities were renewed and an additional 500,000 Dth of storage on Panhandle and associated transportation were added. He indicated that this additional storage would allow Petitioner to reduce its dependence on winter priced, city gate delivered purchases with traditionally lower cost summer priced, field based purchases. Petitioner also has short-haul firm transportation service in the market area that allows Petitioner to transport gas on and off its system as needed.

During the winter months, Mr. Stanley indicated that Petitioner continues to rely on storage inventories to supply approximately 30% of its demand requirements. The remaining winter requirements are fulfilled by firm purchase arrangements on a term and spot basis. In addition, Petitioner has established a Price Volatility Mitigation Plan ("Plan") that targets hedging the price of approximately 30% of its projected gas supply purchase requirements.

Mr. Stanley testified that Petitioner's Plan follows a dollar cost averaging methodology which provides for making gas supply purchases at preplanned times and preplanned volumes. Tr. at p. 8. Mr. Stanley also indicated that Petitioner follows a similar plan with respect to filling storage inventories by purchasing one-seventh of its storage each month during the seven summer months. Tr. at p. 15. While acknowledging that gas prices have not been as low as they now are since 2002 and that it may be prudent to consider alternatives to strictly following the Plan, Mr. Stanley indicated that Petitioner did not intend to deviate from its Plan. Tr. at pp. 14, 16-17.

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 designed to mitigate price volatility. However, the Commission recommends that Petitioner's Plan should include the flexibility to take advantage of current market conditions or opportunities to not only mitigate price volatility, but to effectively reduce the overall weighted cost of natural gas so as to provide the lowest gas cost reasonably possible in order to meet anticipated customer requirements.

Given that Petitioner's current strategy does mitigate price volatility, 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 that Petitioner's pipeline supplier(s) 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. As a result, the Commission finds that 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 GCA that results in the 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 basic rates and charges were approved is Cause No. 38096. The Commission's July 29, 1987 Order in that Cause authorized Petitioner to earn a net operating income of $2,280,607. The evidence of record indicates that for the twelve (12) months ending January 31, 2009, Petitioner's actual net operating income was $812,408. Therefore, the Commission finds that Petitioner is not earning a return in excess of that authorized in its last proceeding in which basic rates and charges were approved.

6. **Estimation of Purchased Gas Costs**. Ind. 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 estimates with the eventual actual costs. The evidence indicates that the estimating techniques during the reconciliation period of November 2008 through January 2009 ("Reconciliation Period") yielded an over-estimated weighted average error of 21.04%. Petitioner's witness Katherine Cherven explained that the discrepancy is due to lower commodity costs than was estimated. The actual average commodity cost of gas in November and December 2008 and January 2009 in GCA 64 Schedule 8 was $4.79, $6.95 and $7.12, respectively, compared to estimated costs in GCA 62 Schedule 3 of $6.52. $7.81 and $8.52 for those months. 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. **Reconciliation**. Ind. Code § 8-1-2-42(g)(3)(D) also requires that 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 $2,931,791 from its customers. This amount should be included, based on 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 $282,931.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $280,199. Combining this amount with the Reconciliation Period variance, the result is a total over-collection of $2,732 (commodity portion of $(43,000) and demand portion of $40,268) 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. **Resulting Gas Cost Adjustment Factor**. The estimated net commodity cost of gas to be recovered during the application period is $1,975,415. Adjusting this total for the commodity variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of $1,932,415. After dividing that amount by estimated sales, adding demand costs, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are:

Classes	**Sales/Dth**	**Transportation /Dth**	**Commodity Cost Adjustment/Dth**
Res. Non-Heat	$1.0797		
Res. Heat	$1.9577		
Comm. Small	$2.0116		
Comm. Large	$1.4898	($0.1618)	
Comm. Seasonal	$1.0043	($0.8124)	
Ind. Small	$1.7160	($0.2346)	
Ind. Large	$0.0000	($0.0000)	
Public Auth.	$1.7583	$0.0697	
Small Industrial Pooling Service	$0.0000		$0.0000
Large Industrial Pooling Service	$0.0000		$0.0000
Large Commercial Pooling Service	$0.0000		$0.0000
Public Authority Pooling Service	$0.0000		$0.0000

9. **Effects on Residential Customers**. The GCA factor of $1.9577/Dth represents a decrease of $2.2793/Dth from the current GCA factor of $4.2370/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 New vs. Current				
Monthly Consumption Dth	Bill At Proposed GCA Factor	Bill At Current GCA Factor	Dollar Change	Percent Change
5	$ 48.64	$ 60.04	($11.40)	(18.99)%
10	$ 80.79	$103.58	($22.79)	(22.00)%
15	$112.95	$147.14	($34.19)	(23.24)%
20	$145.09	$190.68	($45.59)	(23.91)%
25	$177.25	$234.24	($56.99)	(24.33)%

The GCA factor of $1.9577/Dth represents a decrease of $2.7765/Dth from the GCA factor of $4.7342/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 New vs. One Year Ago				
Monthly Consumption Dth	Bill At Proposed GCA Factor	Prior Approved GCA Factor	Dollar Change	Percent Change
5	$ 48.64	$ 62.52	($13.88)	(22.20)%
10	$ 80.79	$108.55	($27.76)	(25.57)%
15	$112.95	$154.59	($41.64)	(26.94)%
20	$145.09	$200.62	($55.53)	(27.68)%
25	$177.25	$246.67	($69.42)	(28.14)%

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 Kokomo Gas and Fuel Company, Inc. 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 10.

2. Kokomo Gas and Fuel Company, Inc. shall file with the Natural Gas Division of the Commission, prior to placing into effect the gas cost adjustments herein approved, separate

amendments to its rate schedule with reasonable reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

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

HARDY, GOLC, LANDIS, SERVER, AND ZIEGNER CONCUR:

APPROVED: APR 29 2009

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