

ORIGINAL
STATE OF INDIANA



SRA


INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF KOKOMO GAS AND FUEL)
COMPANY, INC. FOR APPROVAL OF CHANGES)
IN ITS GAS RATES THROUGH A GAS COST)
ADJUSTMENT IN ACCORDANCE WITH IND.)
CODE § 8-1-2-42(g) FOR THE PERIOD OF)
AUGUST, SEPTEMBER, OCTOBER 2009)**

CAUSE NO. 37396 GCA 65

APPROVED: JUL 30 2009

BY THE COMMISSION:

**Larry S. Landis, Commissioner
Angela Rapp Weber, Administrative Law Judge**

On May 27, 2009, in accordance with Indiana Code § 8-1-2-42, Kokomo Gas and Fuel Company, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of August 2009 through October 2009 with the Indiana Utility Regulatory Commission ("Commission"). On May 27, 2009, Petitioner prefiled the direct testimony and revised schedules of Katherine A. Cherven, Manager Of Compliance in the Rates Department of the Northern Indiana Energy Group; Karl E. Stanley, Executive Director of Energy Supply and Trading for Northern Indiana Public Service Company, Kokomo Gas and Fuel Company, Inc., and Northern Indiana Fuel and Light Company, Inc.; and Mitchell E. Hershberger, Controller for Kokomo Gas and Fuel Company, Inc. supporting the proposed GCA factor. On June 22, 2009, Petitioner prefiled a revision to the direct testimony and revised schedules of Katherine A. Cherven. On June 29, 2009, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Management of Electric, Water, and Sewer Rate Studies for the London Witte Group LLC. On July 14, 2009, Petitioner prefiled a revision to Schedule 12B. On July 20, 2009, Petitioner filed Late-Filed Exhibit E in response to the Presiding Officers' Docket Entry dated July 16, 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, a public hearing was held in this Cause at 11:30 a.m. Eastern Standard Time, on July 14, 2009, in Suite 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and 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:

- 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. The Commission therefore 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 900 East Boulevard, Kokomo, Indiana 46904. Petitioner is engaged in rendering natural gas utility service to the public in Howard, Carroll, Cass, Clinton, and Tipton in Indiana; and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

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 gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

The gas supply is delivered to Petitioner under multiple long-term firm transportation arrangements with two interstate pipelines having access to multiple supply basins. Petitioner has long-term firm contractual storage services to meet customer requirements. Petitioner also purchases spot gas when available at reasonable costs and such purchases can be made without jeopardizing Petitioner's existing long-term contracts. Petitioner has a short-haul firm transportation service in the market area to move gas on and off its system, as needed. This winter, Petitioner will rely on storage inventories to satisfy approximately 45% of its customers' expected demand requirements. Remaining winter requirements will be satisfied with firm purchase arrangements on a term and spot basis. Petitioner also has established a volatility mitigation plan that targets fixing the price for approximately 30% of its projected gas supply purchase requirements.

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.** 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 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 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 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. Petitioner's evidence herein indicates that for the twelve (12) months ending April 30, 2009, Petitioner's actual net operating income was \$654,103. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** 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 presented indicates that the estimating techniques of Petitioner during the reconciliation period of February 2009 through April 2009 ("the Reconciliation Period") yielded an over-estimated weighted average error of 1.47%. 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 costs is reasonable.

7. **Reconciliation.** 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 under-collection of \$541,574 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 an increase in the estimated net cost of gas is \$38,520.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$251,082. Combining this amount with the Reconciliation Period variance, results in a total over-collection of \$212,562 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 cost of gas to be recovered during the application period is \$1,907,200. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of \$1,646,780. After dividing that amount by estimated sales, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is \$2.0206 /Dth.

9. **Effects on Residential Customers.** The GCA factor of \$2.0206/Dth represents an increase of \$0.0629/Dth from the current GCA factor of \$1.9577/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
Vs.
Currently Approved GCA Factor

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	\$ 48.95	\$ 48.64	\$ 0.31	0.64%
10	\$ 81.42	\$ 80.79	\$ 0.63	0.78%
15	\$ 113.89	\$ 112.95	\$ 0.94	0.83%
20	\$ 146.35	\$ 145.09	\$ 1.26	0.87%
25	\$ 178.83	\$ 177.25	\$ 1.58	0.89%

The GCA factor of \$2.0206/Dth represents a decrease of \$4.5509/Dth from the GCA factor of \$6.5715/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
Vs.
GCA Factor One Year Ago

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	\$ 48.95	\$ 71.71	\$(22.76)	(31.74)%
10	\$ 81.42	\$ 126.93	\$(45.51)	(35.85)%
15	\$ 113.89	\$ 182.15	\$(68.26)	(37.47)%
20	\$ 146.35	\$ 237.37	\$(91.02)	(38.35)%
25	\$ 178.83	\$ 292.60	\$(113.77)	(38.88)%

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 No. 10.

2. Kokomo Gas and Fuel Company, Inc. shall file with the Natural Gas Division of this Commission, 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 schedules on these amendments.

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

HARDY, ATTERHOLT, LANDIS, AND ZIEGNER CONCUR; GOLC ABSENT:

APPROVED: JUL 30 2009

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



**Brenda A. Howe
Secretary to the Commission**