ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF KOKOMO GAS AND FUEL COMPANY FOR APPROVAL OF A GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF MAY 2010 THROUGH JULY 2010, PURSUANT TO IND. CODE § 8-1-2-42.	)))))	**CAUSE NO. 37396 GCA 68** **APPROVED:** APR 30 2010

BY THE COMMISSION:
Angela Rapp Weber, Administrative Law Judge

On February 25, 2010, 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 May 2010 through July 2010 with the Indiana Utility Regulatory Commission ("Commission"). On the same day, Petitioner prefiled the direct testimony and schedules of Katherine A. Cherven, Manager of Compliance, Rates Department; Roger A. Huhn, Director, Resource Planning in Energy Supply and Trading; and Mitchell E. Hershberger, Controller, supporting the proposed GCA factor. On March 29, 2010, in accordance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Partner at London Witte Group, LLC. On April 7, 2010, the Presiding Officers issued a Docket Entry requesting a response from Petitioner concerning data contained on Schedule 13. Petitioner provided a response to that Docket Entry on April 8, 2010.

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 April 13, 2010 in Room 224 of the National City Center, 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 without objection. 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. 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 located at 900 East Boulevard, Kokomo, Indiana. It is engaged in rendering gas distribution service in Carroll, Cass, Clinton, Howard, Miami and Tipton counties in Indiana. Petitioner 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.

According to Mr. Huhn, Petitioner has long-term firm contracts with Panhandle Eastern Pipeline Company ("Panhandle") and Trunkline Gas Company. Petitioner also has a firm storage service contract with Panhandle that provides an annual storage capacity of 1,400,000 Dth. Petitioner also has short-haul firm transportation service in the market area that allows Petitioner to transport gas on and off of its system as needed. Finally, during the winter months, Petitioner relies on storage inventories to supply approximately 45% of its demand requirements. The remaining winter requirements are fulfilled by firm purchase arrangements on a term and spot basis.

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 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.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment 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. Petitioner's evidence herein indicates that for the twelve (12) months ending January 31, 2010, Petitioner's actual net operating income was $1,561,911. Accordingly, based on the evidence of record, the Commission finds that Petitioner is not earning a return 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 estimates with the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of November 2009 through January 2010 ("Reconciliation Period") yielded an over-estimated weighted average error of 18.2%. Ms. Cherven explained that sales volumes and costs increased significantly over the estimates, which caused a high variance percentage of 21.80% for November 2009 and 22.19% for December 2009. She testified that sales volumes

increased, while total actual costs decreased, which resulted in a variance percentage of 14.26% for January 2010. Ms. Cherven added that the main factor that caused the high weighted average error was the lower commodity costs on average when compared to those estimated in GCA 66. 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.** 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 $1,374,613 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 $114,923.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $185,137. Combining this amount with the Reconciliation Period variance results in a total under-collection of $70,214 (commodity portion of a negative $42,728 and demand portion of $112,942) to be applied in this GCA as a increase in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period, and has $7,970 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $7,970 in 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 $1,501,855. Adjusting this total for the commodity variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of $1,451,157. 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
Residential Non-Heat	$1.103		
Residential Heat	$2.851		
Commercial Small	$2.870		
Commercial Large	$1.840	$0.225	
Commercial Seasonal	$0.942	($0.809)	
Industrial Small	$1.565	$0.096	
Industrial Large	$0.0000	$0.000	
Public Authority	$2.031	$0.606	
Small Industrial Pooling Service			(1.778)
Large Industrial Pooling Service			(1.778)
Large Commercial Pooling Service			0.0000
Public Authority Pooling Service			(1.778)

9. **Effects on Residential Customers.** The GCA factor of $2.8510/Dth represents an increase of $0.3660/Dth from the current GCA factor of $2.4850/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**				
Monthly Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year GCA Factor**	**Dollar Change**	**Percent Change**
5	$53.11	$51.28	$1.83	3.57%
10	$89.72	$86.06	$3.66	4.25%
15	$126.35	$120.86	$5.49	4.54%
20	$162.96	$155.64	$7.32	4.70%
25	$199.59	$190.44	$9.15	4.80%

The GCA factor of $2.8510/Dth represents an increase of $0.8933/Dth from the GCA factor of $1.9577/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 **Proposed GCA Factor** **vs.** **GCA Factor One Year Ago**				
Monthly Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Current GCA Factor**	**Dollar Change**	**Percent Change**
5	$53.11	$48.64	$4.47	9.19%
10	$89.72	$80.79	$8.93	11.05%
15	$126.35	$112.95	$13.40	11.86%
20	$162.96	$145.09	$17.87	12.32%
25	$199.59	$177.25	$22.34	12.60%

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 Commission under this Cause, prior to placing into effect the gas cost adjustments approved herein, 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.

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

APPROVED: APR 3 0 2010

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