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 NOVEMBER 2010 THROUGH JANUARY 2011, PURSUANT TO IND. CODE § 8-1-2-42	))))))	**CAUSE NO. 37396 GCA 70** **APPROVED:** OCT 27 2010

BY THE COMMISSION:
James D. Atterholt, Chairman
Jeffery A. Earl, Administrative Law Judge

On August 25, 2010, in accordance with Ind. Code § 8-1-2-42, Kokomo Gas and Fuel Company ("Petitioner") filed with the Indiana Utility Regulatory Commission (the "Commission") its petition for a gas cost adjustment ("GCA") with attached schedules to be applicable during the months of November, 2010, through January, 2011. Also on August 25, 2010, Petitioner prefiled the direct testimony and supporting exhibits of Katherine A. Cherven, Manager of Compliance, Rates Department, Roger A. Huhn, Director of Planning, Energy Supply and Trading Department, and Mitchell E. Hershberger, Controller, supporting the proposed GCA factor. On August 31, 2010, Petitioner filed a Request for Leave to Submit Omitted Pages, which the Commission granted by docket entry on September 8, 2010. On September 23, 2010, Petitioner prefiled the supplemental testimony of Ms. Cherven with revised schedules. On September 24, 2010, Petitioner filed an Unopposed Request to Substitute Revised Supplemental Testimony for Previous Filing, which the Commission granted by docket entry on September 27, 2010. On September 28, 2010, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Hasse, CPA, Partner at London Witte Group, LLC.

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 2:30 p.m., on October 4, 2010, 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 public utility corporation duly organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 900 East Boulevard, Kokomo, Indiana. Petitioner is engaged in rendering gas distribution service to the public 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.** 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.

Petitioner has long-term firm contracts with Panhandle Eastern Pipeline Company ("Panhandle") and Trunkline Gas Company ("Trunkline"). Petitioner also has a firm storage service contract with Panhandle that provides an annual storage capacity of 1,400,000 Dth. In addition, Petitioner has short-haul firm transportation service in the market area that allows Petitioner to transport gas on and off of its system as needed. During the winter months, Petitioner relies on storage inventories to supply approximately 48% of its demand requirements. The remaining winter requirements are fulfilled by firm purchase arrangements on a term and spot basis.

The Commission has indicated 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 upon the evidence offered, we find Petitioner has demonstrated 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 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 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 in which Petitioner's base 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 for the twelve (12) months ending July 31, 2010, Petitioner's actual net operating income was $786,262. Therefore,

based upon the evidence of record, the Commission finds Petitioner is not earning in excess of the amount authorized in its last rate case.

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 May through July, 2010, (the "Reconciliation Period") yielded an under-estimated weighted average error of 4.60%. Based upon 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 established the variance for the Reconciliation Period is an under-collection of $1,075,505 from its customers. 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 $505,358.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $411,836. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $93,522 (this figure reflects an over-collected commodity portion of $313,050 and an under-collected demand portion of $406,572) to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has no new refunds applicable to the current recovery period. Petitioner has a negative annual unaccounted-for gas amount of $340,773 as reflected on Schedule 11A. This amount will be refunded to customers in this GCA and the next three GCAs as a decrease in the net cost of gas. The amount of the refund to be included in this GCA is $156,351.

Petitioner has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $156,351 in refunds to be applied in this GCA as a decrease in the net cost of gas. 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.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is $8,113,422. Adjusting this total for the commodity variance and refund amounts yields gas costs to be recovered through the GCA of $7,644,021. After dividing that amount by estimated sales 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	$1.055		
Residential Heat	$2.526		
Commercial Small	$2.604		
Commercial Large	$1.776	$0.380	
Commercial Seasonal	$4.330	($0.820)	
Industrial Small	$1.664	$0.263	
Industrial Large	$0.0000	$0.000	
Public Authority	$2.125	$0.828	
Small Industrial Pooling Service			(1.788)
Large Industrial Pooling Service			(1.788)
Large Commercial Pooling Service			0.0000
Public Authority Pooling Service			(1.788)

9. **Effects on Residential Customers.** The GCA factor of $2.5259/Dth for the applied billing cycle represents a decrease of $0.1641/Dth from the current GCA factor of $2.6900/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
Proposed vs. Currently Approved GCA Factor

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.48	$ 52.30	$ (0.82)	-1.57%
10	$ 86.47	$ 88.11	$ (1.64)	-1.86%
15	$121.47	$123.93	$ (2.46)	-1.99%
20	$156.46	$159.74	$ (3.28)	-2.06%
25	$191.46	$195.56	$ (4.10)	-2.10%

The GCA factor of $2.5259/Dth represents a decrease of $0.7319/Dth from the GCA factor of $3.2578/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
Proposed vs. One Year Ago

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.48	$ 55.14	$ (3.66)	-6.64%
10	$ 86.47	$ 93.79	$ (7.32)	-7.80%
15	$121.47	$132.45	$ (10.98)	-8.29%
20	$156.46	$171.10	$ (14.64)	-8.56%
25	$191.46	$209.76	$ (18.30)	-8.72%

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 for a 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 shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustment factors approved herein or any future flexed factor, 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.

LANDIS, MAYS AND ZIEGNER CONCUR; ATTERHOLT ABSENT:

APPROVED: OCT 27 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