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INDIANA UTILITY REGULATORY COMMISSION

PETITION OF KOKOMO GAS AND FUEL)
COMPANY FOR APPROVAL OF A GAS COST) CAUSE NO. 37396 GCA 72
ADJUSTMENT TO BE APPLICABLE IN THE)
MONTHS OF MAY 2011 THROUGH JULY) APPROVED: APR 27 2011
2011, PURSUANT TO IND. CODE § 8-1-2-42.)

BY THE COMMISSION:

Carolene Mays, Commissioner
Angela Rapp Weber, Administrative Law Judge

On February 24, 2011, in accordance with Indiana Code § 8-1-2-42, Kokomo Gas and Fuel Company ("Petitioner") filed its Petition for a Gas Cost Adjustment ("GCA") with attached schedules to be applicable during the months of May through July 2011 with the Indiana Utility Regulatory Commission ("Commission"). On March 21, 2011, Petitioner pre-filed the direct testimony and supporting exhibits of Katherine A. Cherven, Manager of Compliance, Rates Department; Roger A. Huhn, Manager of Energy Supply Strategic Initiatives and Trading; and Mitchell E. Hersherberger, Controller. On March 28, 2011, 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, 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 2:00 p.m. on April 5, 2011 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. 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:

1. **Statutory Notice and Commission Jurisdiction.** 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 the 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 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 natural gas utility service to the public in Carroll, Cass, Clinton, Howard, Miami, and Tipton counties 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 natural gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

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. 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 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 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 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 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 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 for the twelve months ending January 31, 2011, its actual net operating income was a loss of \$44,710. Therefore, based upon 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 Petitioner’s estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined this requires, in part, a comparison of prior estimates with the eventual actual costs. The evidence presented indicates the estimating techniques of Petitioner during the reconciliation period of November 2010 through January

2011 (“Reconciliation Period”) yielded an over-estimated weighted average error of 2.76%. 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 cost is reasonable.

7. **Reconciliation.** Indiana Code section 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 establishes that the variance for the Reconciliation Period is an over-collection of \$1,623,900 from its customers. This amount should be included, based upon estimated sales percentages, in this GCA and the next three GCAs.¹ The amount of the Reconciliation Period variance to be included in this GCA as a decrease in the estimated net cost of gas is \$124,906.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$114,957. Combining this amount with the Reconciliation Period variance, results in a total over-collection of \$9,949 (this figure reflects an over-collected commodity portion of \$27,209 and an under-collected demand portion of \$17,260) to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has received no new refunds during the Reconciliation Period, and has \$28,342 from prior periods applicable to the current recovery period. Therefore, Petitioner has \$28,342 in refunds to be returned in this Application. Based upon 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 \$1,468,831. Adjusting this total for the commodity variance and refund amounts yields commodity gas costs to be recovered through the GCA and Base Rates of \$1,413,280. After dividing that amount by estimated sales, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are:

¹ The Commission notes that a *Stipulation and Settlement Agreement* pending in consolidated Cause Nos. 43941, 43942, and 43943 would modify the reconciliation of current GCA variances as part of the proposed merger of Petitioner and Northern Indiana Fuel & Light Inc. into Northern Indiana Public Service Company.

Estimated GCA per Therm
May 2011

<u>Rate Classes</u>	<u>Sales</u>	<u>Transportation</u>	<u>Commodity Cost Adjustment</u>
Residential Non-Heat	\$0.0920		
Residential Heat	\$0.2241		
Commercial Small	\$0.2444		
Commercial Large	\$0.1678	\$0.0288	
Commercial Seasonal	\$0.0688	(\$0.0809)	
Industrial Small	\$0.1416	\$0.0138	
Industrial Large	\$0.0000	\$0.0000	
Public Authority	\$0.2057	\$0.0685	
Small Industrial Pooling Service			(\$0.1590)
Large Industrial Pooling Service			(\$0.1590)
Large Commercial Pooling Service			\$0.0000
Public Authority Pooling Service			(\$0.1590)

Estimated GCA per Therm
June 2011

<u>Rate Classes</u>	<u>Sales</u>	<u>Transportation</u>	<u>Commodity Cost Adjustment</u>
Residential Non-Heat	\$0.1244		
Residential Heat	\$0.2551		
Commercial Small	\$0.2754		
Commercial Large	\$0.1986	\$0.0287	
Commercial Seasonal	\$0.0999	(\$0.0809)	
Industrial Small	\$0.1731	\$0.0139	
Industrial Large	\$0.0000	\$0.0000	
Public Authority	\$0.2358	\$0.0688	
Small Industrial Pooling Service			(\$1.900)
Large Industrial Pooling Service			(\$1.900)
Large Commercial Pooling Service			\$0.000
Public Authority Pooling Service			(\$1.900)

Estimated GCA per Therm
July 2011

<u>Rate Classes</u>	<u>Sales</u>	<u>Transportation</u>	<u>Commodity Cost Adjustment</u>
Residential Non-Heat	\$0.1310		
Residential Heat	\$0.2630		
Commercial Small	\$0.2840		
Commercial Large	\$0.2053	\$0.0283	
Commercial Seasonal	\$0.1080	(\$0.0809)	
Industrial Small	\$0.1799	\$0.0136	
Industrial Large	\$0.0000	\$0.0000	
Public Authority	\$0.2436	\$0.0688	
Small Industrial Pooling Service			(\$1.979)
Large Industrial Pooling Service			(\$1.979)
Large Commercial Pooling Service			\$0.000
Public Authority Pooling Service			(\$1.979)

9. **Effects on Residential Customers.** The May 2011 GCA factor of \$2.241/Dth for the applied billing cycle represents a decrease of \$0.120/Dth from the current GCA factor of \$2.361/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

<u>Table 1</u> <u>Proposed GCA Factor</u> <u>vs.</u> <u>Currently Approved GCA Factor</u>				
<u>Monthly Consumption Dth</u>	<u>Bill At Proposed GCA Factor</u>	<u>Bill At Current GCA Factor</u>	<u>Dollar Change</u>	<u>Percent Change</u>
5	\$50.06	\$50.66	(\$0.60)	(1.18%)
10	\$83.62	\$84.82	(\$1.20)	(1.41%)
15	\$117.20	\$119.00	(\$1.80)	(1.51%)
20	\$150.77	\$153.17	(\$2.40)	(1.57%)
25	\$184.34	\$187.34	(\$3.00)	(1.60%)

The June 2011 GCA factor of \$2.551/Dth for the applied billing cycle represents an increase of \$0.190/Dth from the current GCA factor of \$2.361/Dth. 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.				
Currently Approved GCA Factor				
Monthly Consumption Dth	Bill At Proposed GCA Factor	Bill At Current GCA Factor	Dollar Change	Percent Change
5	\$ 51.61	\$ 50.66	\$0.95	1.88%
10	\$ 86.72	\$ 84.82	\$1.90	2.24%
15	\$121.85	\$119.00	\$2.85	2.40%
20	\$156.96	\$153.17	\$3.79	2.47%
25	\$192.09	\$187.34	\$4.75	2.54%

The July 2011 GCA factor of \$2.630/Dth for the applied billing cycle represents an increase of \$0.269/Dth from the current GCA factor of \$2.361/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 3				
Proposed GCA Factor				
vs.				
Currently Approved GCA Factor				
Monthly Consumption Dth	Bill At Proposed GCA Factor	Bill At Current GCA Factor	Dollar Change	Percent Change
5	\$ 52.00	\$ 50.66	\$1.34	2.65%
10	\$ 87.51	\$ 84.82	\$2.69	3.17%
15	\$123.03	\$119.00	\$4.03	3.39%
20	\$158.55	\$153.17	\$5.38	3.51%
25	\$194.07	\$187.34	\$6.73	3.59%

The May 2011 GCA factor of \$2.241/Dth represents a decrease of \$0.610/Dth from the GCA factor of \$2.851/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 4
Proposed GCA Factor
 vs.
Prior Year GCA Factor

Monthly Consumption Dth	Bill At Proposed GCA Factor	Prior Year GCA Factor	Dollar Change	Percent Change
5	\$ 50.06	\$ 53.11	(\$ 3.05)	(5.74%)
10	\$ 83.62	\$ 89.72	(\$ 6.10)	(6.80%)
15	\$117.20	\$126.35	(\$ 9.15)	(7.24%)
20	\$150.77	\$162.96	(\$12.19)	(7.48%)
25	\$184.34	\$199.59	(\$15.25)	(7.64%)

The June 2011 GCA factor of \$2.551/Dth represents a decrease of \$0.300/Dth from the GCA factor of \$2.851/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 5
Proposed GCA Factor
 vs.
Prior Year GCA Factor

Monthly Consumption Dth	Bill At Proposed GCA Factor	Prior Year GCA Factor	Dollar Change	Percent Change
5	\$ 51.61	\$ 53.11	(\$1.50)	(2.82%)
10	\$ 86.72	\$ 89.72	(\$3.00)	(3.34%)
15	\$121.85	\$126.35	(\$4.50)	(3.56%)
20	\$156.96	\$162.96	(\$6.00)	(3.68%)
25	\$192.09	\$199.59	(\$7.50)	(3.76%)

The July 2011 GCA factor of \$2.630/Dth represents a decrease of \$0.221/Dth from the GCA factor of \$2.851/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 6
Proposed GCA Factor
 vs.
Prior Year GCA Factor

Monthly Consumption Dth	Bill At Proposed GCA Factor	Prior Year GCA Factor	Dollar Change	Percent Change
5	\$ 52.00	\$ 53.11	(\$1.11)	(2.09%)
10	\$ 87.51	\$ 89.72	(\$2.21)	(2.46%)
15	\$123.03	\$126.35	(\$3.32)	(2.63%)
20	\$158.55	\$162.96	(\$4.41)	(2.71%)
25	\$194.07	\$199.59	(\$5.52)	(2.77%)

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.

11. **Monthly Flex Mechanism.** Petitioner utilizes a monthly flex mechanism to adjust the GCA for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex will be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchase in the flex are to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. A change in the market price included in the flex is limited to a maximum adjustment (up or down) of \$1.00 from initial market price.

This Commission has indicated in prior orders that Indiana’s gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner’s monthly flex mechanism is designed to address the Commission’s concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

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

1. The Petition of Kokomo Gas and Fuel Company 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.

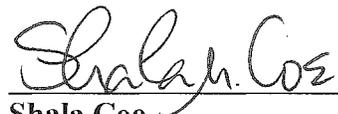
2. Kokomo Gas and Fuel Company shall file with the Commission under this Cause, prior to placing into effect the gas cost adjustments factors approved herein or any future flexed factor, separate amendments to its rate schedules with reasonable reference thereon reflecting that such charges are applicable to the rate schedule on the amendments.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: APR 27 2011

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



Shala Coe
Acting Secretary to the Commission