

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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| PETITION OF THE BOARD OF DIRECTORS FOR )<br>UTILITIES OF THE DEPARTMENT OF PUBLIC )<br>UTILITIES OF THE CITY OF INDIANAPOLIS, AS )<br>SUCCESSOR TRUSTEE OF A PUBLIC )<br>CHARITABLE TRUST, FOR APPROVAL OF GAS )<br>COST ADJUSTMENTS TO BE APPLICABLE IN )<br>THE MONTHS OF SEPTEMBER, OCTOBER, )<br>NOVEMBER 2016 ) | CAUSE NO. 37399 GCA 131<br><br>APPROVED: AUG 24 2016 |
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ORDER OF THE COMMISSION

**Presiding Officer:**  
**Aaron A. Schmoll, Senior Administrative Law Judge**

On July 1, 2016, in accordance with Indiana Code § 8-1-2-42, the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust, d/b/a Citizens Gas (“Petitioner” or “Citizens Gas”) filed its Petition for Gas Cost Adjustment (“GCA”) with attached Schedules to be applicable during the months of September through November 2016. Also on July 1, 2016, Petitioner filed the direct testimony of Brenda T. Royal, Rates & Regulatory Analyst and the direct testimony of John F. Lamb, Manager of Rates & Business Applications. On July 21, 2016, Petitioner filed the supplemental direct testimony and revised attachments of Ms. Royal. On August 1, 2016 in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the testimony and exhibits of Pamela Sue Sargent Haase, CPA. On August 10, 2016, Petitioner filed a Notice of Correction in reference to one page in the direct testimony of Ms. Royal.

The Indiana Utility Regulatory Commission (“Commission”) conducted an evidentiary hearing at 9:30 a.m. on August 17, 2016 in Room 222, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of 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, the Commission finds:

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a municipally owned utility as defined in Ind. Code § 8-1-2-1(h). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Petitioner’s rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust, doing business as Citizens Gas. Petitioner's principal office is located at 2020 North Meridian Street, Indianapolis, Indiana. Petitioner renders natural gas utility service to the public in and around Marion County in the State of Indiana, and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such service.

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's witness Brenda T. Royal provided evidence that Petitioner's rates and charges reflect recovery of transportation and storage costs based upon filings made with the Federal Energy Regulatory Commission ("FERC"). The majority of the commodity will be priced using NYMEX futures prices at Henry Hub for the three-month period, adjusted for basis, fuel, and transportation for delivery to Petitioner's city gate. The remaining commodity will be priced according to physical hedge transactions. None of the projected commodity volumes was purchased pursuant to physical hedge transactions. Approximately 28.67% of the projected commodity volumes were purchased pursuant to financial hedge transactions.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on current and forward-looking bases. Based on the evidence offered, we find that Petitioner has demonstrated it has and continues to follow a policy of securing natural gas at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, we find 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 for a change in the costs of gas proposed to be included in the GCA factor. The evidence of record indicates that proposed gas costs include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with FERC procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in a public utility earning a return in excess of the return authorized by the last Commission Order in which the gas utility's basic rates and charges were approved. The Commission, in its May 14, 1986 Order in Cause No. 37091, found that the earnings test in Indiana Code § 8-1-2-42(g)(3)(C) does not apply to municipally owned gas utilities. Petitioner is a municipally owned gas utility; therefore, the earnings test does not apply to Petitioner.

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 a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates that Petitioner's 12-month rolling average comparison was negative 2.46% for the period ending May 31, 2016. Based on Petitioner's historical accuracy in estimating the cost of gas, we find that the 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 Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The total gas supply variance for the reconciliation period of March through May 2016 ("Reconciliation Period") is an over-collection in the amount of \$138,840. The amount to be included in this GCA as a decrease in the net cost of gas is \$20,857. The gas supply variance from the prior periods totals an over-collection of \$459,398. Combining this amount with the gas supply variance amount to be included in this GCA results in an over-collection of \$480,255, which results in a decrease in the estimated net cost of gas.

The total balancing demand cost variance for the Reconciliation Period is an over-collection of \$724,149. The amount to be included in this GCA is a decrease in the net cost of gas in the amount of \$145,554. The demand variance from the prior periods totals an under-collection of \$119,889. Combining this amount with the balancing demand cost variance amount to be included in this GCA results in an over-collection of \$25,665, which results in a decrease in the estimated net cost of gas.

Combining the gas supply and balancing demand variances results in a total over-collection of \$505,920 to be applied in this GCA as a decrease in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for September 2016 is \$3,485,072, for October 2016 is \$5,272,037, and for November 2016 is \$9,586,915. Adjusting the foregoing amounts for variance, refund and net write-off amounts, yields gas costs to be recovered through the GCA factor of \$3,523,408 for September 2016, \$5,330,029 for October 2016, and \$9,692,371 for November 2016. After dividing the monthly amounts by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner recommends approval of the GCA factors set forth in table below:

|  | September<br>2016 | October<br>2016 | November<br>2016 |
|--|-------------------|-----------------|------------------|
| <b>Variable Rate Supply per Dth</b>    |                   |                 |                  |
| D1 – Residential Domestic              | \$3.730           | \$3.555         | \$3.685          |
| D2 – Residential Heating               | \$4.529           | \$4.159         | \$4.202          |
| D3 – General Non-Heating               | \$2.982           | \$2.986         | \$3.174          |
| D4 - General Heating                   | \$4.342           | \$4.069         | \$3.969          |
| D7 - CNG                               | \$2.940           | \$2.944         | \$3.130          |
|  |                   |                 |                  |
| <b>Balancing Charges per Dth</b>       |                   |                 |                  |
| D3 – General Non-Heating               | \$0.045           | \$0.047         | \$0.030          |
| D4 - General Heating                   | \$0.045           | \$0.047         | \$0.031          |
| D5 - Large Volume                      | \$0.055           | \$0.057         | \$0.041          |
| D7 - CNG                               | \$0.044           | \$0.046         | \$0.030          |
| D9 - High Load                         | \$0.040           | \$0.042         | \$0.026          |
|  |                   |                 |                  |
| <b>Basic Balancing Charges per Dth</b> |                   |                 |                  |
| D3 - General Non Heating               | \$0.002           | \$0.002         | \$0.002          |
| D4 -General Heating                    | \$0.002           | \$0.002         | \$0.002          |
| D5 - Large Volume                      | \$0.003           | \$0.003         | \$0.002          |
| D9 - High Load                         | \$0.002           | \$0.002         | \$0.001          |
|  |                   |                 |                  |
| <b>Back Up Supply per Dth</b>          |                   |                 |                  |
| Gas Supply                             | \$3.956           | \$3.802         | \$3.869          |
| Commodity                              | \$3.006           | \$2.996         | \$3.067          |
| Capacity                               | \$0.950           | \$0.806         | \$0.802          |

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factor of \$4.529/Dth for September 2016, \$4.159/Dth for October 2016, and \$4.202/Dth for November 2016. The table below shows the commodity costs a residential customer will incur under the proposed GCA factors based on 10 Dth of usage. The table also compares the gas costs to what a residential customer paid most recently (July 2016 - \$5.185/Dth) and a year ago (September 2015 - \$4.631/Dth, October 2015 - \$4.067/Dth and November 2015 - \$3.786/Dth). The table solely reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

| Month          | Proposed Gas Costs | Current           |                 | Year Ago           |                 |
|----------------|--------------------|-------------------|-----------------|--------------------|-----------------|
|                |                    | Gas Costs (10Dth) | Difference from | Gas Costs (10Dths) | Difference from |
| September 2016 | \$45.29            | \$51.85           | (\$6.56)        | \$46.31            | (\$1.02)        |
| October 2016   | \$41.59            | \$51.85           | (\$10.26)       | \$40.67            | \$0.92          |
| November 2016  | \$42.02            | \$51.85           | (\$9.83)        | \$37.86            | \$4.16          |

10. **Interim Rates.** The Commission finds that the rates approved herein should be interim rates, subject to refund, pending reconciliation of the gas costs in a subsequent GCA.

11. **Monthly Flex Mechanism.** The Commission indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of \$1.00 from the initial market price in this GCA proceeding. Finally, Petitioner shall file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:**

1. The Petition of Citizens Gas for the gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the GCA factors approved above or any future flexed factor, Petitioner shall file the applicable rate schedules for the factors for approval by the Commission's Energy Division.

3. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within 20 days from the date of the Order to the Secretary of this Commission, as well as any additional costs which were incurred in connection with this Cause:

|                            |                 |
|----------------------------|-----------------|
| Commission Charges:        | \$ 1,274.62     |
| OUCG Charges:              | \$ 7,366.96     |
| Legal Advertising Charges: | \$ <u>39.61</u> |
| Total:                     | \$ 8,681.19     |

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

**STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:**

**APPROVED:** AUG 24 2016

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

  
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Mary M. Becerra  
Secretary of the Commission