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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF 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, FOR APPROVAL OF GAS COST ADJUSTMENTS TO BE APPLICABLE IN THE MONTHS OF SEPTEMBER, OCTOBER AND NOVEMBER 2010	)	**CAUSE NO. 37399 GCA 107** **APPROVED:** AUG 25 2010

BY THE COMMISSION
James D. Atterholt, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On June 29, 2010, 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 Verified Petition in this Cause for approval of a Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of September 2010 through November 2010 with the Indiana Utility Regulatory Commission ("Commission"). On August 2, 2010, Petitioner prefiled revised Schedules and the direct testimony of Jill A. Phillips, Rates Manager and LaTona S. Prentice, Executive Director of Regulatory Affairs. On August 5, 2010, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC" or "Public") prefiled the direct testimony and exhibits of Pamela Sue Sargent Haase, CPA.

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, an evidentiary hearing was held in this Cause at 1:30 p.m. on August 12, 2010, in Room 222, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Petitioner and the Public were present and participated. The prepared testimony and exhibits of Petitioner and 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 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 municipal gas utility, and as such, is subject to the jurisdiction of this Commission as provided by the laws of the State of Indiana, including certain sections of 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 Petitioner and the subject matter of its verified Petition.

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 has its principal office at 2020 North Meridian Street, Indianapolis, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in 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 in order to provide service to its customers at the lowest gas cost reasonably possible.

Petitioner's witness Jill A. Phillips provided evidence concerning the tariff sheets and supporting schedules filed with Petitioner's gas cost adjustment to be effective for September, October, and November 2010. The evidence showed 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 settlement 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 or financial hedge transactions. Approximately 22.94% of the actual commodity volumes and 6.97% of the projected commodity volumes were purchased pursuant to physical hedge transactions. Approximately 35.04% of the actual commodity volumes and 18.38% of the projected commodity volumes were purchased pursuant to financial hedge transactions. Petitioner also pays commodity reservation charges in return for performance guarantees, which are treated in the gas cost adjustment in the same manner as pipeline reservation charges.

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 supplier(s) of gas 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 proceeding include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with FERC jurisdiction and 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 Commission held in its Order in Cause No. 37091 on May 14, 1986, 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 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 March 2010 through May 2010 (the "Reconciliation Period") yielded an over-estimated weighted average error of 6.22%. Ms. Phillips' testimony reports Petitioner's estimating accuracy for this period as follows:

Months	Estimated Cost of Gas ($/Dth)	Actual Cost of Gas ($/Dth)	Percent Estimate Over or (Under) Actual
March 2010	$6.387	$6.626	(3.61%)
April 2010	$5.962	$5.896	1.12%
May 2010	$6.208	$3.958	56.85%
Weighted Average	$6.234	$5.869	6.22%

As part of the stipulation entered at the hearing and discussed in Para. 9, *infra*, Petitioner will file, in GCA 108, additional testimony explaining its May 2010 estimation results. Based on the evidence presented, the Commission finds that 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. Petitioner's evidence presented in this current proceeding established that the total gas supply variance for the Reconciliation Period was an over-collection of $3,443,905, which results in a decrease in the net cost of gas. The total balancing demand variance for the Reconciliation Period was an under-collection of $233,613, which results in an increase in the net cost of gas. A portion of these variances should be included, based on estimated sales percentages in this GCA, GCA 108, GCA 109 and GCA 110, as follows:

GCA	Gas Supply Variance	Balancing Demand Variance
107	($ 562,987)	$ 49,199
108	($1,854,929)	$ 93,077
109	($ 814,054)	$ 56,643
110	($ 211,935)	$ 34,694

The gas supply variance from prior periods applicable to the current recovery period is an over-collection of $747,475 and the balancing demand variance is an over-collection of $25,147. Therefore, the total gas supply variance including prior periods is an over-collection of $1,310,462, which results in a decrease in the net cost of gas. The total balancing demand

variance including prior periods is an under-collection of $24,052, which results in an increase in the net cost of gas.

Petitioner did not receive a refund during the Reconciliation Period. Petitioner has no refunds from prior periods applicable to the current recovery period to be returned in this GCA proceeding.

Based upon the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual gas supply costs for the Reconciliation Period and the gas supply costs recovered during that same period.

8. Resulting Gas Cost Adjustment Factor.

A. September 2010

The estimated cost of gas to be recovered during September 2010 is $5,843,852. Adjusting this total for the variance, refund amounts, and net write-off recovery costs for September only yields gas costs to be recovered through the GCA of $5,680,613. After dividing that amount by estimated sales for the same period, and correcting for the application of the Indiana Utility Receipts Tax, Petitioner recommended the following GCA factors for September 2010:

Gas Rate	Variable-Rate Supply Charge Per Therm	Balancing Charges Standard Delivery Service Per Therm	Balancing Charges Basic Delivery Service Per Therm
D1 – Residential Domestic	$0.5305	N/A	N/A
D2 – Residential Heating	$0.5673	N/A	N/A
D3 – General Non-Heating	$0.4833	$0.0092	$0.0005
D4 – General Heating	$0.5465	$0.0084	$0.0004
D5 – Large Volume	$0.5210	$0.0113	$0.0006
D7–Compressed Natural Gas	$0.4769	$0.0099	N/A
D9 – High Volume	N/A	$0.0523	$0.0026

Petitioner also recommended the following GCA factors for September 2010:

Back-up Gas Supply Charge ($ Per Therm):

Capacity $0.0670 Commodity $0.4948 Gas Supply Charge $0.5618

Usage Balancing Charge ($ Per Therm):

Gas Supply Charge - Negative Imbalance $0.5607
Gas Supply Charge - Positive Imbalance ($0.4790)

Pursuant to the Stipulation and Settlement Agreement on Gas Cost Adjustment Modification Issue approved by Order in Cause No. 37399 GCA 75 on September 4, 2002, the Amended Stipulation approved by Order in the same Cause on March 17, 2004, the Second Amended and Restated Stipulation and Settlement Agreement filed on August 23, 2005, and the Third Amended and Restated Stipulation and Settlement Agreement filed on August 3, 2007 ("collectively the "GCA75 Stipulation"), the GCA factors for September, October and November are subject to change, according to a Monthly Price Update filing.

Using the September 2010 GCA factor for "Gas Rate D2 – Residential Heating" to illustrate the effects on residential customers, a factor of $5.673/Dth represents a decrease of $1.213 from the current (August 2010) GCA factor of $6.886/Dth. The effects of this decrease on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (September 2010)
vs.
Currently Approved GCA Factor (August 2010)

Monthly Consumption DTH	Bill At Proposed GCA Factor	Bill At Current GCA Factor	Dollar Change	Percent Change
5	$ 55.58	$ 61.65	($ 6.07)	(9.85%)
10	$ 95.67	$107.80	($12.13)	(11.25%)
15	$135.75	$153.95	($18.20)	(11.82%)
20	$175.84	$200.10	($24.26)	(12.12%)
25	$215.92	$246.25	($30.33)	(12.32%)

The same Residential Heating factor of $5.673/Dth for September 2010 represents an increase of $1.312/Dth from the GCA factor of $4.361/Dth approved one year ago. The effects of this increase on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (September 2010)
vs.
GCA Factor One Year Ago (September 2009)

Monthly Consumption DTH	Bill At Proposed GCA Factor	Bill At Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 55.58	$ 49.26	$ 6.32	12.83%
10	$ 95.67	$ 83.03	$ 12.64	15.22%
15	$135.75	$116.79	$ 18.96	16.23%
20	$175.84	$150.56	$ 25.28	16.79%
25	$215.92	$184.32	$ 31.60	17.14%

B. <u>October 2010</u>

The estimated cost of gas to be recovered during October 2010 is $9,391,606. Adjusting

this total for the variance, refund amounts, and net write-off recovery costs for October only yields gas costs to be recovered through the GCA of $9,091,254. After dividing that amount by estimated sales for the same period and correcting for the application of the Indiana Utility Receipts Tax, Petitioner recommended the following GCA factors for October 2010:

Gas Rate	Variable-Rate Supply Charge Per Therm	Balancing Charges Standard Delivery Service Per Therm	Balancing Charges Basic Delivery Service Per Therm
D1 – Residential Domestic	$0.5133	N/A	N/A
D2 – Residential Heating	$0.5386	N/A	N/A
D3 – General Non-Heating	$0.4695	$0.0075	$0.0004
D4 – General Heating	$0.5272	$0.0067	$0.0003
D5 – Large Volume	$0.5042	$0.0096	$0.0005
D7 – Compressed Natural Gas	$0.4654	$0.0086	N/A
D9 – High Volume	N/A	$0.0506	$0.0025

Petitioner also recommended the following GCA factors for October 2010:

Back-up Gas Supply Charge ($ Per Therm):

Capacity $0.0670 Commodity $0.4766 Gas Supply Charge $0.5436

Usage Balancing Charge ($ Per Therm):

Gas Supply Charge – Negative Imbalance $0.5395
Gas Supply Charge – Positive Imbalance ($0.4657)

Using the October 2010 GCA factor for "Gas Rate D2 – Residential Heating" to illustrate the effects on residential customers, a factor of $5.386/Dth represents a decrease of $1.500 from the current (August 2010) GCA factor of $6.886/Dth. The effects of this decrease on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (October 2010)
vs.
Currently Approved GCA Factor (August 2010)

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 54.15	$ 61.65	($ 7.50)	(12.17%)
10	$ 92.80	$107.80	($15.00)	(13.91%)
15	$131.45	$153.95	($22.50)	(14.62%)
20	$170.10	$200.10	($30.00)	(14.99%)
25	$208.75	$246.25	($37.50)	(15.23%)

The same Residential Heating factor of $5.386/Dth for October 2010 represents an increase of $0.287 from the GCA factor of $5.099/Dth approved one year ago. The effects of this increase on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (October 2010)
vs.
GCA Factor One Year Ago (October 2009)

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 54.15	$ 52.95	$ 1.20	2.27%
10	$ 92.80	$ 90.41	$ 2.39	2.64%
15	$131.45	$127.86	$ 3.59	2.81%
20	$170.10	$165.32	$ 4.78	2.89%
25	$208.75	$202.77	$ 5.98	2.95%

C. **November 2010**

The estimated cost of gas to be recovered during November 2010 is $17,877,743. Adjusting this total for the variance, refund amounts, and for net write-off recovery costs for August only yields gas costs to be recovered through the GCA of $17,309,537. After dividing that amount by estimated sales for the same period and correcting for the application of the Indiana Utility Receipts Tax, Petitioner recommended the following GCA factors for November 2010.

Gas Rate	Variable-Rate Supply Charge Per Therm	Balancing Charges Standard Delivery Service Per Therm	Balancing Charges Basic Delivery Service Per Therm
D1 – Residential Domestic	$0.5505	N/A	N/A
D2 – Residential Heating	$0.5720	N/A	N/A
D3 – General Non-Heating	$0.5078	$0.0069	$0.0003
D4 – General Heating	$0.5635	$0.0061	$0.0003
D5 – Large Volume	$0.5417	$0.0090	$0.0004
D7–Compressed Natural Gas	$0.5007	$0.0077	N/A
D9 – High Volume	N/A	$0.0500	$0.0025

Petitioner also recommended the following GCA factors for November 2010:

Back-up Gas Supply Charge ($ Per Therm):

Capacity $0.0670 Commodity $0.5130 Gas Supply Charge $0.5800

Usage Balancing Charge ($ Per Therm):

Gas Supply Charge – Negative Imbalance $0.5745
Gas Supply Charge – Positive Imbalance ($0.5033)

Using the November 2010 GCA factor for "Gas Rate D2 – Residential Heating" to illustrate the effects on residential customers, a factor of $5.720/Dth represents a decrease of $1.166/Dth from the current (August 2010) GCA factor of $6.886/Dth. The effects of this decrease on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (November 2010)
vs.
Currently Approved GCA Factor (August 2010)

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 55.82	$ 61.65	($ 5.83)	(9.46%)
10	$ 96.14	$107.80	($11.66)	(10.82%)
15	$136.46	$153.95	($17.49)	(11.36%)
20	$176.78	$200.10	($23.32)	(11.65%)
25	$217.10	$246.25	($29.15)	(11.84%)

The same Residential Heating factor of $5.720/Dth for November 2010 represents a decrease of $0.605 from the GCA factor of $6.325/Dth approved one year ago. The effects of this decrease on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (November 2010)
vs.
GCA Factor One Year Ago (November 2009)

Monthly Consumption DTH	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 55.82	$ 59.08	($ 3.26)	(5.52%)
10	$ 96.14	$102.67	($ 6.53)	(6.36%)
15	$136.46	$146.25	($ 9.79)	(6.69%)
20	$176.78	$189.84	($13.06)	(6.88%)
25	$217.10	$233.42	($16.32)	(6.99%)

9. **Interim Rates.** The Petitioner and the OUCC stipulated that the GCA factor approved in this Cause should be made interim, subject to refund, and that Petitioner would provide additional testimony in its next GCA proceeding (Cause No. 37399 GCA 108) detailing the results of its meeting with the OUCC to discuss the adjusting entry it made to increase the level of unaccounted for sales to a "historically normal" level.

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. The Commission further finds that the subject to refund provisions of its prior GCA Order for Petitioner shall be removed for the GCA 105 period. Accordingly, the Commission finds that Petitioner's Gas Cost Adjustments shall be finalized for March 2010 through May 2010.

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 Finding Paragraph No. 8, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 9.

2. Petitioner 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. In accordance with I.C. 8-1-2-70, Petitioner shall pay the following itemized charges within twenty 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:	$	$499.30
OUCC Charges:	$	$6013.35
Legal Advertising Charges:	$	$24.08
Total:	$	$6536.73

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

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

APPROVED: AUG 25 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