

ORIGINAL

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) CAUSE NO. 37399 GCA 109
 SUCCESSOR TRUSTEE OF A PUBLIC)
 CHARITABLE TRUST, FOR APPROVAL OF GAS) APPROVED: FEB 23 2011
 COST ADJUSTMENTS TO BE APPLICABLE IN)
 THE MONTHS OF MARCH, APRIL AND MAY)
 2011)

BY THE COMMISSION:

Loraine L. Seyfried, Administrative Law Judge

On December 22, 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 March through May 2011 with the Indiana Utility Regulatory Commission (“Commission”). On January 28, 2011, Petitioner prefiled revised Schedules and the direct testimony of Jill A. Phillips, Manager, Rates & Regulatory Affairs and LaTona S. Prentice, Executive Director of Regulatory Affairs. On February 7, 2011, in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) 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 10:00 a.m. on February 15, 2011 in Room 222, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated in the public evidentiary hearing. The prepared 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, 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 Petitioner and the subject matter herein.

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 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 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 March, April and May 2011. 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 9.79% of the actual commodity volumes and 17.34% of the projected commodity volumes were purchased pursuant to physical hedge transactions. Approximately 35.99% of the actual commodity volumes and 16.64% 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 use 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 of record, we find that Petitioner has demonstrated it has followed 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, 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 of gas 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 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 a public utility earning a return in excess of the return authorized by the last Commission proceeding 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 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 September 2010 through November 2010 (the “Reconciliation Period”) yielded an under-estimated weighted average error of 6.35%. 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
September 2010	\$5.898	\$5.256	12.21%
October 2010	\$5.271	\$5.880	(10.36)%
November 2010	\$5.370	\$5.872	(8.55)%
Weighted Average	\$5.429	\$5.797	(6.35)%

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 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 under-collection of \$2,748,115, which results in an increase in the net cost of gas. The total balancing demand variance for the Reconciliation Period was an under-collection of \$274,440, which results in an increase in the net cost of gas. A portion of these respective variances should be included, based on estimated sales percentages in this GCA, and the next three GCAs, as follows:

GCA	Gas Supply Variance	Balancing Demand Variance
109	\$ 656,862	\$ 68,290
110	\$ 146,703	\$ 43,768
111	\$ 424,898	\$ 59,239
112	\$ 1,519,652	\$103,143

The gas supply variance from prior recovery periods applicable to the current recovery period is an over-collection of \$1,413,865 and the balancing demand variance is an over-collection of \$36,205. Therefore, the total gas supply variance including prior periods is an over-collection of \$757,003, which results in a decrease in the net cost of gas. The total balancing demand variance including prior periods is an under-collection of \$32,085, 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 that will 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 Factors.

A. March 2011

The estimated net cost of gas to be recovered during March 2011 is \$26,536,599. Adjusting this total for the variance, refund amounts, and net write-off recovery costs for March 2011 yields gas costs to be recovered through the GCA of \$26,336,582. 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 March 2011:

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	\$0.5859	N/A	N/A
D2 – Residential Heating	\$0.6048	N/A	N/A
D3 – General Non-Heating	\$0.5366	\$0.0076	\$0.0004
D4 – General Heating	\$0.5920	\$0.0065	\$0.0003
D5 – Large Volume	\$0.5812	\$0.0111	\$0.0006
D7 – Compressed Natural Gas	\$0.5219	\$0.0076	N/A
D9 – High Volume	N/A	\$0.0527	\$0.0026

Petitioner also recommended the following GCA factors for March 2011:

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

Capacity \$0.0678 Commodity \$0.5285 Gas Supply Charge \$0.5963

Usage Balancing Charge (\$ Per Therm):

Gas Supply Charge - Negative Imbalance \$0.5911
 Gas Supply Charge - Positive Imbalance \$(0.5183)

Using the March 2011 GCA factor for “Gas Rate D2 – Residential Heating” to illustrate the effects on residential customers, a factor of \$6.048/Dth represents an increase of \$0.053/Dth from the current (February 2011) GCA factor of \$5.9950/Dth. The effects of this increase on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (March 2011)
vs.
Currently Approved GCA Factor (February 2011)

Monthly Consumption DTH	Bill At Proposed GCA Factor	Bill At Current GCA Factor	Dollar Change	Percent Change
5	\$ 57.90	\$ 57.63	\$0.27	0.47%
10	\$ 100.30	\$ 99.77	\$0.53	0.53%
15	\$142.70	\$141.90	\$0.80	0.56%
20	\$185.10	\$184.04	\$1.06	0.58%
25	\$227.50	\$226.17	\$1.33	0.59%

The same Residential Heating factor of \$6.048/Dth for March 2011 represents a decrease of \$0.319/Dth from the GCA factor of \$6.367/Dth billed one year ago. The effects of this decrease on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (March 2011)
vs.
GCA Factor One Year Ago (March 2010)

Monthly Consumption DTH	Bill At Proposed GCA Factor	Bill At Prior Year GCA Factor	Dollar Change	Percent Change
5	\$ 57.90	\$ 59.05	\$(1.15)	(1.95)%
10	\$100.30	\$102.61	\$(2.31)	(2.25)%
15	\$142.70	\$146.16	\$(3.46)	(2.37)%
20	\$185.10	\$189.72	\$(4.62)	(2.44)%
25	\$227.50	\$233.27	\$(5.77)	(2.47)%

B. April 2011

The estimated cost of gas to be recovered during April 2011 is \$14,761,771. Adjusting this total for the variance, refund amounts, and net write-off recovery costs for April 2011 yields gas costs to be recovered through the GCA of \$14,655,482. 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 April 2011:

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	\$0.5631	N/A	N/A
D2 – Residential Heating	\$0.5836	N/A	N/A
D3 – General Non-Heating	\$0.5141	\$0.0076	\$0.0004
D4 – General Heating	\$0.5698	\$0.0065	\$0.0003
D5 – Large Volume	\$0.5589	\$0.0111	\$0.0006
D7 – Compressed Natural Gas	\$0.5040	\$0.0076	N/A
D9 – High Volume	N/A	\$0.0527	\$0.0026

Petitioner also recommended the following GCA factors for April 2011:

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

Capacity \$0.0680 Commodity \$0.5062 Gas Supply Charge \$0.5742

Usage Balancing Charge (\$ Per Therm):

Gas Supply Charge – Negative Imbalance \$0.5695
 Gas Supply Charge – Positive Imbalance \$(0.4967)

Using the April 2011 GCA factor for “Gas Rate D2 – Residential Heating” to illustrate the effects on residential customers, a factor of \$5.836/Dth represents a decrease of \$0.159/Dth from the current (February 2011) GCA factor of \$5.995/Dth. The effects of this decrease on various consumption levels within this customer classification are shown below:

Proposed GCA Factor (April 2011)
 vs.
Currently Approved GCA Factor (February 2011)

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$ 56.84	\$ 57.63	\$(0.79)	(1.37)%
10	\$ 98.18	\$ 99.77	\$(1.59)	(1.59)%
15	\$139.52	\$141.90	\$(2.38)	(1.68)%
20	\$180.86	\$184.04	\$(3.18)	(1.73)%
25	\$222.20	\$226.17	\$(3.97)	(1.76)%

The same Residential Heating factor of \$5.836/Dth for April 2011 represents an increase of \$0.011/Dth from the GCA factor of \$5.8250/Dth billed one year ago. The effects of this increase on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (April 2011)
 vs.
GCA Factor One Year Ago (April 2010)

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	\$ 56.84	\$ 56.34	\$0.50	0.89%
10	\$ 98.18	\$ 97.19	\$0.99	1.02%
15	\$139.52	\$138.03	\$1.49	1.08%
20	\$180.86	\$178.88	\$1.98	1.11%
25	\$222.20	\$219.72	\$2.48	1.13%

C. May 2011

The estimated net cost of gas to be recovered during May 2011 is \$7,509,274. Adjusting this total for the variance, refund amounts, and for net write-off recovery costs for May 2011 yields gas costs to be recovered through the GCA of \$7,475,323. 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 May 2011.

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	\$0.5844	N/A	N/A
D2 – Residential Heating	\$0.6101	N/A	N/A
D3 – General Non-Heating	\$0.5347	\$0.0082	\$0.0004
D4 – General Heating	\$0.5932	\$0.0071	\$0.0004
D5 – Large Volume	\$0.5802	\$0.0117	\$0.0006
D7 – Compressed Natural Gas	\$0.5233	\$0.0077	N/A
D9 – High Volume	N/A	\$0.0533	\$0.0027

Petitioner also recommended the following GCA factors for May 2011:

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

Capacity \$0.0680 Commodity \$0.5291 Gas Supply Charge \$0.5971

Usage Balancing Charge (\$ Per Therm):

Gas Supply Charge – Negative Imbalance \$0.5930
 Gas Supply Charge – Positive Imbalance \$(0.5171)

Using the May 2011 GCA factor for “Gas Rate D2 – Residential Heating” to illustrate the effects on residential customers, a factor of \$6.101/Dth represents an increase of \$0.106/Dth from the current (February 2011) GCA factor of \$5.995/Dth. The effects of this increase on various consumption levels within this customer classification are shown below:

Proposed GCA Factor (May 2011)
 vs.
Currently Approved GCA Factor (February 2011)

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$ 58.16	\$ 57.63	\$0.53	0.92%
10	\$100.83	\$ 99.77	\$1.06	1.06%
15	\$143.49	\$141.90	\$1.59	1.12%
20	\$186.16	\$184.04	\$2.12	1.15%
25	\$228.82	\$226.17	\$2.65	1.17%

The same Residential Heating factor of \$6.1010/Dth for May 2011 represents an increase of \$0.270/Dth from the GCA factor of \$5.831/Dth billed one year ago. The effects of this increase on various consumption levels of residential heating bills are shown below:

Proposed GCA Factor (May 2011)
vs.
GCA Factor One Year Ago (May 2010)

Monthly Consumption DTH	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$ 58.16	\$ 56.37	\$1.79	3.18%
10	\$100.83	\$ 97.25	\$3.58	3.68%
15	\$143.49	\$138.12	\$5.37	3.89%
20	\$186.16	\$179.00	\$7.16	4.00%
25	\$228.82	\$219.87	\$8.95	4.07%

9. 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.

10. Pressure Correction Factor Issue. In Petitioner’s GCA 108 proceeding, the OUCC filed a “Motion to Create Subdocket” for the purpose of allowing the OUCC additional time to investigate the issues surrounding Petitioner’s changes to its Pressure Correction Factor (“PCF”). However, Petitioner and the OUCC agreed that issues related to the Petitioner’s PCF could be addressed in this GCA proceeding. The OUCC withdrew its “Motion to Create Subdocket” and the Commission found that the rates approved in GCA 108 should be subject to reconciliation based upon the resolution of PCF issues in GCA 109. In this proceeding, OUCC witness Haase testified: “Petitioner has provided the backup documentation necessary enabling the OUCC to thoroughly review the adjustments. It is the OUCC’s belief that the prior period adjustments that were included in the GCA 108 Factor calculations were correct.” OUCC’s Exhibit 1 at 4. Accordingly, the Commission finds that the issues raised in GCA 108 relating to Petitioner’s PCF are resolved and there is no need for reconciliation relating to those issues.

11. Monthly Flex Mechanism. Petitioner utilizes a flex mechanism each month 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 is to be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex is to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. Changes in the market price included in the flex are limited to a maximum adjustment (up or down) of \$1.00 from the 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 Citizens Gas for the gas cost adjustment for natural gas service, as set forth in Finding No. 8, shall be and hereby is approved, subject to refund and reconciliation 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 schedules on these amendments.

3. In accordance with Indiana Code § 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 that were incurred in connection with this Cause:

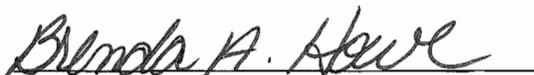
Commission Charges:	\$ 364.92
OUCG Charges:	\$2,976.88
Legal Advertising Charges:	\$ <u>29.31</u>
Total:	\$3,371.11

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

ATTERHOLT, LANDIS AND ZIEGNER CONCUR; BENNETT AND MAYS NOT PARTICIPATING:

APPROVED: FEB 23 2011

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



**Brenda A. Howe
Secretary to the Commission**