

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)
SUCCESSOR TRUSTEE OF A PUBLIC)
CHARITABLE TRUST, FOR APPROVAL OF)
CHANGES IN ITS GAS RATES THROUGH A GAS)
COST ADJUSTMENT IN ACCORDANCE WITH)
IND. CODES § 8-1-2-42(g) FOR THE PERIOD)
SEPTEMBER, OCTOBER AND NOVEMBER 2013)

CAUSE NO. 37399 GCA 119

APPROVED:

AUG 28 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Aaron A. Schmoll, Senior Administrative Law Judge

On July 1, 2013, in accordance with Ind. 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 billing cycles of September 2013 through November 2013. On July 31, 2013, Petitioner prefiled the direct testimony and revised schedules of Brenda T. Royal, Rates & Regulatory Analyst of Regulatory Affairs and Korlon L. Kilpatrick II, Manager, Rates and Business Applications, supporting the proposed GCA factor. On August 7, 2013 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. On August 8, 2013, Petitioner filed a notice of correction to the testimony of Brenda T. Royal.

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 9:30 a.m. on August 20, 2013 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) and Ind. Code § 8-1-11.1-3(c)(9), 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 in order to provide gas to its retail customers at the lowest gas cost reasonably possible.

Petitioner's witness Brenda T. Royal provided evidence concerning the tariff sheets and supporting schedules filed with Petitioner's gas cost adjustment to be effective for September, October, and November 2013. 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. None of the actual commodity volumes nor the projected commodity volumes were purchased pursuant to physical hedge transactions. Approximately 43.19% of the actual commodity volumes and 27.94% 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 considers market conditions and the price of natural gas on both current and forward-looking bases. Based on the evidence offered, we find that Petitioner has demonstrated that 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.** Ind. Code § 8-1-2-42(g)(3)(B) requires that Petitioner's pipeline gas suppliers 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 proposed gas costs include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. 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 proceeding in which the gas utility's basic rates and charges were approved. 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.** Ind. 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 estimates with the corresponding actual costs. The evidence presented indicates that Petitioner's estimating techniques during the reconciliation period of March through May 2013 ("Reconciliation Period") yielded an under-estimated weighted average error of 0.71%.

Months	Estimated Cost of Gas (\$/Dth)	Actual Cost of Gas (\$/Dth)	Percent Estimate Over or (Under) Actual
Mar. 2013	\$4.263	\$4.312	(1.12%)
Apr. 2013	\$4.933	\$5.272	(6.44%)
May 2013	\$5.776	\$5.871	(1.62%)
Weighted Average	\$4.690	\$4.723	(0.71%)

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.** Ind. 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 evidence presented in this proceeding establishes that the total gas supply and balancing demand variances for the Reconciliation Period is an under-collection of \$1,056,776 from Petitioner's customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCA's. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is \$206,990.

GCA	Gas Supply Variance	Balancing Demand Variance
119	\$ 196,410	\$ 10,580
120	\$ 526,719	\$ 8,823
121	\$ 227,434	\$ 10,251
122	\$ 65,656	\$ 10,903

The gas supply and balancing demand variances from prior recovery periods applicable to the current recovery period is an under-collection of \$321,451. Combining this amount with the Reconciliation Period variance, results in a total under-collection of \$528,441 to be applied in this GCA as an increase in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factors.** The estimated net cost of gas to be recovered for September 2013 is \$3,801,161, for October 2013 is \$7,304,491, and for November

2013 is \$14,659,094. Adjusting this total for the variance, refund and net write-off amounts yields gas costs to be recovered through the GCA factor of \$3,995,158 for September 2013, \$7,512,832 for October 2013, and \$15,074,422 for November 2013. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are \$5.232/Dth for September 2013, \$5.164/Dth for October 2013, and \$5.000/Dth for November 2013.

9. Effects on Residential Customers. Petitioner requests authority to approve the GCA factor of \$5.232/Dth for September 2013, \$5.164/Dth for October 2013, and \$5.000/Dth for November 2013. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the gas costs to what a residential customer paid most recently (July 2013/\$6.060Dth) and a year ago (September 2012/\$4.6110 Dth, October 2012/\$4.5080 Dth and November 2012/\$4.8110 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 (10Dth)	Current		Year Ago	
		Gas Costs (10Dth)	Difference from Current	Gas Costs (10Dth)	Difference form Year Ago
Sept. 2013	\$52.32	\$60.60	(\$8.28)	\$46.11	\$6.21
Oct. 2013	\$51.64	\$60.60	(\$8.96)	\$45.08	\$6.56
Nov. 2013	\$50.00	\$60.60	(\$10.60)	\$48.11	\$1.89

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 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 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. Changes in the market price included in the flex are limited to a maximum adjustment (higher or lower) of \$1.00 from the initial market price.

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 with the Commission under this Cause the applicable rate schedules for the

factor.

3. In accordance with Ind. 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 which were incurred in connection with this Cause:

Commission Charges:	\$ 1,096.07
OUCG Charges:	\$ 7,352.44
Legal Advertising Charges:	\$ <u>34.10</u>
Total:	\$ 8,482.61

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

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

APPROVED: **AUG 28 2013**

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



Brenda A. Howe
Secretary to the Commission