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 (1) APPROVAL OF GAS COST ADJUSTMENTS TO BE APPLICABLE IN THE MONTHS OF SEPTEMBER, OCTOBER AND NOVEMBER 2014; (2) APPROVAL OF REVISED DEMAND ALLOCATION FACTORS; AND (3) APPROVAL OF A RE-DISTRIBUTION OF CERTAIN PRIOR PERIOD VARIANCES BASED ON THE REVISED DEMAND ALLOCATORS	)	CAUSE NO. 37399 GCA 123 APPROVED: AUG 27 2014

INTERIM ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On July 1, 2014, 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 months of September 2014 through November 2014. On August 1, 2014, Petitioner prefiled the direct testimony and revised schedules of Brenda T. Royal, Rates and Regulatory Analyst of Regulatory Affairs and supplemental testimony Korlon L. Kilpatrick II, Director, Regulatory Affairs, supporting the proposed GCA factor.

The Indiana Utility Regulatory Commission ("Commission") conducted a technical conference at 2:00 p.m. on July 29, 2014 in Room 222, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated.

On August 11, 2014, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its "Motion to Dismiss Citizens' Proposed Revised Demand Allocation Factors and Redistribution of Prior Period Variances, or Alternatively, Motion for Subdocket." On August 13, 2014, in conformance with the statute, the OUCC filed the statistical report and direct testimony of Pamela Sue Sargent Haase, CPA.

The Commission conducted an evidentiary hearing at 10:00 a.m. on August 20, 2014 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 in order 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 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 hedge transactions. None of the projected commodity volumes was purchased pursuant to physical hedge transactions. Approximately 18.53% 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 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.** 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 Ind. 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 estimates with the corresponding actual costs. The evidence presented indicates that Petitioner's estimating techniques during the reconciliation period of March 2014 through May 2014 ("Reconciliation Period") yielded an over-estimated weighted average error of 3.14%.

Months	Estimated Cost of Gas ($/Dth)	Actual Cost of Gas ($/Dth)	Percent Estimate Over or (Under) Actual
March 2014	$5.708	$5.352	6.65%
April 2014	$5.508	$6.065	(9.18%)
May 2014	$6.343	$5.812	9.14%
Weighted Average	$5.749	$5.574	3.14%

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 evidence presented in this proceeding establishes that the total gas supply, and balancing demand variances, and net write offs for the Reconciliation Period is an over-collection of $1,640,958 from Petitioner's customers. This amount should be included, based on estimated sales percentages, in this GCA and Petitioner's next three GCA's. The amount of the Reconciliation Period variance to be included in this GCA, as a decrease in the estimated net cost of gas, is $304,903.

GCA	Gas Supply Variance	Balancing Demand Variance	Total Variance
123	($ 300,371)	($ 4,532)	($ 304,903)
124	($ 808,705)	($ 13,182)	($ 821,887)
125	($ 375,237)	($ 5,868)	($ 381,105)
126	($ 131,230)	($ 1,833)	($ 133,063)
Total	($1,615,543)	($ 25,415)	($1,640,958)

The gas supply and balancing demand variances from prior recovery periods applicable

to the current recovery period is an under-collection of $572,259. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $267,356 to be applied in this GCA as an increase in the estimated net cost of gas.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered for September 2014 is $5,192,752, for October 2014 is $7,942,093, and for November 2014 is $15,965,869. Adjusting the foregoing amounts for variance, refund, and net write-off amounts yields gas costs to be recovered through the GCA factor of $5,296,901 for September 2014, $8,103,613 for October 2014, and $16,290,605 for November 2014. 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 2014	October 2014	November 2014
Variable Rate Supply per Dth			
D1 –Residential Domestic	$5.634	$5.468	$5.289
D2 – Residential Heating	$5.988	$5.746	$5.481
D3 – General Non-Heating	$5.010	$4.911	$4.778
D4 - General Heating	$6.092	$5.895	$5.643
D5 - Large Volume	$7.970	$7.802	$7.522
D7 - CNG	$4.940	$4.842	$4.711
Balancing Charges per Dth			
D3 – General Non-Heating	$0.047	$0.041	$0.034
D4 - General Heating	$0.039	$0.033	$0.025
D5 - Large Volume	$0.052	$0.045	$0.038
D7 - CNG	$0.047	$0.041	$0.034
D9 - High Load	$0.309	$0.303	$0.296
Basic Balancing Charges per Dth			
D3 - General Non Heating	$0.002	$0.002	$0.002
D4 -General Heating	$0.002	$0.002	$0.001
D5 - Large Volume	$0.003	$0.002	$0.002
D9 - High Load	$0.015	$0.015	$0.015
Back Up Supply per Dth			
Gas Supply	$5.912	$5.750	$5.518
Commodity	$4.895	$4.733	$4.501
Capacity	$1.017	$1.017	$1.017

9. Effects on Residential Customers. Petitioner requests authority to approve the GCA factor of $5.988/Dth for September 2014, $5.746/Dth for October 2014, and $5.481/Dth for November 2014. 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 2014 - $6.696/Dth) and a year ago (September 2013 - $5.085/Dth, October 2013 - $5.161/Dth and November 2013 - $4.898/ 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.

		Current		Year Ago	
Month	**Proposed Gas Costs (10Dth)**	**Gas Costs (10Dth)**	**Difference from Current**	**Gas Costs (10Dths)**	**Difference from Year Ago**
September	$59.88	$66.96	($7.08)	$ 50.85	$ 9.03
October	$57.46	$66.96	($9.50)	$ 51.61	$ 5.85
November	$54.81	$66.96	($12.15)	$ 48.98	$ 5.83

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 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 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.

12. **Interim Order.** Petitioner requested the revision of demand cost allocators and a redistribution of prior period variances based on those revised allocators. The OUCC filed its Motion to Dismiss that portion of the requested relief. Because of the pending nature of the Motion to Dismiss, including the due process to respond, the Commission, by agreement of the parties, is addressing the GCA factors in this interim order so that Petitioner may implement the approved factors in a timely manner. Once the Motion to Dismiss is fully briefed, the Commission will make its final determination on all of Petitioner's requested relief.

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 Nos. 10 and 12.

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:	$ 2,670.43
OUCC Charges:	$11,622.83
Legal Advertising Charges:	$ 74.46
Total:	$14,367.72

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

STEPHAN, MAYS-MEDLEY, WEBER AND ZIEGNER CONCUR;

APPROVED: AUG 27 2014

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