

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION


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APPLICATION OF THE CITY OF LOGANSPORT)
ELECTRIC DEPARTMENT FOR A CHANGE IN) CAUSE NO. 38705 FAC 85
ITS FUEL CHARGE FOR ELECTRIC SERVICE)
FOR THE MONTHS OF JANUARY, FEBRUARY) APPROVED: DEC 16 2009
AND MARCH, 2010.)

BY THE COMMISSION:
James D. Atterholt, Commissioner
David E. Veleta, Administrative Law Judge

On October 14, 2009, in accordance with Indiana Code 8-1-2-42, the City of Logansport Electric Department ("Applicant") filed its Verified Application with the Indiana Utility Regulatory Commission ("Commission") in this Cause requesting approval of a change in its fuel cost charge for the billing cycles of January, February and March 2010. On October 14, 2009, Applicant filed the testimony of Luann Davis, Applicant's Controller. On October 30, 2009, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony of Stacie R. Gruca, Utility Analyst.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this matter on December 1, 2009 at 10:00 a.m. in Room 222 of the National City Center, 101 W. Washington St., Indianapolis, Indiana. Petitioner and the OUCC were present at the hearing and presented evidence relevant to this Cause. No member of the public appeared at the hearing or otherwise sought to testify.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the commencement of the public hearing in this Cause was given and published by the Commission as required by law. Applicant operates a municipal electric utility and as such is subject to the jurisdiction of this Commission as provided in 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 parties and the subject matter therein.

2. **Applicant's Characteristics.** Applicant is engaged in rendering electric utility service to the public and owns and operates an electric utility generating plant and distribution system for production, transmission, delivery and furnishing of this service.

3. **Source of Fuel.** Applicant's Exhibit No. 2, the direct testimony of Luann Davis, Applicant's Controller, indicated that Applicant purchases approximately 55% of its power from Duke Energy Indiana ("Duke"). The remainder of its energy is self-produced through the use of

coal-fired generation. Applicant also has natural gas-fired generation that it uses for peak shaving and as standby power.

According to Ms. Davis, Applicant currently purchases up to 70% of its coal under a three-year contract. The remainder is purchased at the best available price in the open market when this is below its contractual cost. Applicant is still operating under an administrative consent order from the Environmental Protection Agency and must purchase coal meeting stringent standards, and this causes increased costs. In addition, pursuant to contract provisions, Duke provides Applicant with firm electric capacity and electric energy. Duke provides non-firm electric capacity and energy in excess of the maximum demand. Ms. Davis testified that non-firm maintenance energy may be required to off-set Applicant's increased electrical demand requirements.

The evidence shows that Applicant, by its fuel purchase policies and its purchase of power, is endeavoring to obtain available fuel for power as economically as possible. The Commission finds that Applicant has made every reasonable effort to acquire fuel and generate or purchase power, or both, so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

4. **Operating Expenses.** Indiana Code 8-1-2-42(d)(2) requires the Commission to examine whether actual increases in a utility's fuel cost have been offset by decreases in other operating expenses when compared to the level approved in the utility's last case in which its basic rates and charges were approved. Applicant's basic rates and charges were last approved in the Commission's Order in Cause No. 42768, dated May 25, 2005. In that Cause, Applicant's test year total operating expenses, excluding fuel costs, were found to be \$14,684,623. In this filing, Applicant's total operating expenses, excluding fuel costs, for the twelve months ended September 30, 2009 are \$19,135,913.41, as shown by Appendix B, Page 1 of Applicant's Exhibit 2. Thus, Applicant's actual increases in fuel costs have not been offset by actual decreases in other operating expenses.

5. **Return Earned.** Indiana Code 8-1-2-42(d)(3), in effect, prohibits a fuel adjustment charge which results in an applicant earning a return in excess of the return authorized in the last Commission Order in which its basic rates and charges were approved. The Order in Cause No. 42768, dated May 25, 2005, did not authorize a specific return on original cost rate base. It did, however, allow Applicant a return in the form of net operating income of \$0.00. Appendix B, Page 2, of Applicant's Exhibit 2, indicates that Applicant's net operating income for the twelve months ended September 30, 2009, is \$(860,586). The Calculation of Excess Earnings, Schedule #1 of Applicant's Exhibit 2, shows the alternative method of calculation provided for in Indiana Code 8-1-2-42.3 and indicates that Applicant's cumulative earnings during the relevant period is \$(17,020,345). Because Applicant's cumulative earnings based upon the alternative method of calculation as shown in the Calculation of Excess Earnings is not greater than zero, Applicant is not required to include an excess earning adjustment in the calculation of the fuel cost adjustment factor.

6. **Estimation of Fuel Cost.** Applicant's estimate of its prospective average fuel cost for the requisite three calendar months is reasonable after taking into consideration: (1) the actual fuel cost experienced by Applicant during the last three calendar months for which actual fuel costs are available and (2) the estimated fuel costs for the last three calendar months for which actual fuel costs are available.

Appendix A, Page 3a-3c of Applicant's Exhibit 1 shows a comparison of estimated and actual fuel cost for the months of July, August and September 2009. An analysis of this data yielded a weighted average error of 6.81%. No party in this cause disputed the techniques or results of Applicant's forecasting methodology. Thus, based upon the evidence presented and Applicant's historical accuracy in estimating its fuel costs, the Commission finds that Applicant's estimating techniques appear to be sound and its estimates for January, February and March 2010 should be accepted.

7. **Resulting Fuel Cost Factor.** Applicant is requesting approval of an increase in the fuel cost charge to be applied in its January, February and March 2010 billing cycles. Appendix A, Page 1 of Applicant's Exhibit 1 indicates the total sales for the months mentioned above are estimated to be 33,490,000 kWh (line 5) and the associated costs are estimated to be \$1,717,041 (line 10). The reconciliation of July, August and September 2009 produced a total variance of \$(436,448) (line 13). Dividing the variance by the sales generates a variance factor of (4.344) mills per kWh (line 14). When this factor is added to the fuel cost per sales ratio of 51.270 mills per kWh (line 11), the result is an adjusted fuel cost factor of 46.926 mills per kWh (line 15). Deducting the base cost of fuel of 19.670 mills per kWh (line 16) and adjusting for the Indiana Utility Receipts Tax yields a final fuel cost factor of 27.643 mills per kW as shown on Appendix A, Page 1 (line 18). This factor is an increase of 3.32 mills/kWh from the current factor. The Commission finds that Applicant's request for a fuel cost adjustment factor in the amount of \$.027643 per kWh for the billing cycles of January, February and March 2010 appears reasonable, just, is supported by the evidence and should be approved.

The average residential customer, using 1,000 kWh per month, should experience an increase of \$3.32 per month on his or her electric bill.

8. **Benchmark Requirement.** Petitioner made no power purchases during the three-month period other than its firm power purchase from Duke Energy Indiana. Accordingly, no benchmark evidence was presented herein.

9. **Interim Rates.** The Commission is unable to determine if Applicant will earn an excess rate of return while this fuel adjustment charge is in effect. The Commission therefore finds that the rates approved herein should be interim rates, subject to refund in the event an excess rate of return is earned.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Applicant shall be and is hereby authorized to place into effect a \$.027643 per kWh fuel cost adjustment factor with respect to all of Applicant's tariffs for which the fuel cost

adjustment charge is applicable. The fuel cost adjustment herein approved shall be in effect for the billing cycles January, February and March 2010.

2. The rates approved herein shall be interim rates subject to refund, consistent with Finding No. 9 above.

3. Applicant shall file with the Electricity Division of the Commission, prior to billing the fuel cost charge herein approved, a separate amendment to its rate schedules with reasonable reference therein reflecting that such a change is applicable to the rate schedules reflected in the amendment.

4. In accordance with Indiana Code 8-1-2-70, Applicant shall pay within twenty (20) days from the date of this Order into the Treasury of the State of Indiana, through the Secretary of this Commission, the following itemized charges, as well as any additional charges which were or may be incurred in connection with this Cause:

Commission charges:	\$543.10
Legal Advertising Charges:	\$ 35.98
OUCC Charges:	<u>\$132.56</u>
 TOTAL	 \$711.64

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

HARDY, ATTERHOLT, GOLC, LANDIS, AND ZIEGNER CONCUR:

APPROVED: DEC 16 2009

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



Brenda A. Howe
Secretary to the Commission