

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF THE CITY OF LOGANSPORT )  
ELECTRIC DEPARTMENT FOR A CHANGE IN )  
ITS FUEL CHARGE FOR ELECTRIC SERVICE )  
FOR THE MONTHS OF JULY, AUGUST, AND )  
SEPTEMBER, 2010. )

CAUSE NO. 38705 FAC 87

APPROVED:

JUN 03 2010

BY THE COMMISSION:

James D. Atterholt, Commissioner  
Jeffery A. Earl, Administrative Law Judge

On April 14, 2010, in accordance with Indiana Code section 8-1-2-42, the City of Logansport Electric Department ("Logansport") filed its Application with the Indiana Utility Regulatory Commission (the "Commission") in this Cause requesting approval of a change in its fuel cost charge for the billing cycles of July, August, and September, 2010. Also on April 14, 2010, Logansport filed the testimony of Luann Davis, its Controller. On May 6, 2010, Logansport filed an amended exhibit, correcting inadvertent errors made in its pre-filed evidence. On May 7, 2010, 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 May 17, 2010, at 9:30 a.m., in Room 224 of the National City Center, 101 W. Washington St., Indianapolis, Indiana. Petitioner and the OUCC appeared 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. Logansport operates a municipal electric utility, and as such, it 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. **Logansport's Characteristics.** Logansport is engaged in rendering electric utility service to the public. Logansport owns and operates an electric utility generating plant and distribution system for the production, transmission, delivery and furnishing of this service.

3. **Source of Fuel.** Logansport's Exhibit No. 2, the direct testimony of Luann Davis, Logansport's Controller, indicates Logansport 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. Logansport also has natural gas-fired generation that it uses for peak shaving and as standby power.

According to Ms. Davis, Logansport 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. Logansport is still operating under an administrative consent order from the Environmental Protection Agency and must purchase coal meeting stringent standards; this causes increased costs. In addition, pursuant to contract provisions, Duke provides Logansport with firm electric capacity and electric energy. Duke also provides non-firm electric capacity and energy in excess of the maximum demand. The contract has a ratchet provision for non-firm maintenance energy, requiring Logansport to pay the higher of actual demand or 60% of the highest peak in the prior twelve-month period.

The evidence shows Logansport, 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 Logansport 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 section 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 last case approving the utility's basic rates and charges. The Commission last approved Logansport's basic rates and charges in its Order in Cause No. 42768, dated May 25, 2005. In that Cause, Logansport's test year total operating expenses, excluding fuel costs, were found to be \$14,684,623. In this filing, Logansport's total operating expenses, excluding fuel costs, for the twelve months ended March 31, 2010, are \$19,100,036, as shown by Appendix B, Page 1 of Logansport's Exhibit No. 3. Thus, Logansport's actual increases in fuel costs have not been offset by actual decreases in other operating expenses.

**5. Return Earned.** Indiana Code section 8-1-2-42(d)(3), in effect, prohibits a fuel adjustment charge that results in an applicant earning a return in excess of the return authorized in the last Commission Order approving the applicant's basic rates and charges. 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 Logansport a return in the form of net operating income of \$0.00. Appendix B, Page 2, of Logansport's Exhibit No. 3, indicates Logansport's net operating income for the twelve months ended March 31, 2010, is \$(1,711,984). The Calculation of Excess Earnings, Schedule #1 of Logansport's Exhibit No. 3, shows the alternative method of calculation provided for in Indiana Code section 8-1-2-42.3 and indicates Logansport's cumulative earnings during the relevant period is \$(17,181,139). Because Logansport's cumulative earnings based upon the alternative method of calculation as shown in the Calculation of Excess Earnings is not greater than zero, Logansport is not required to include an excess earning adjustment in the calculation of the fuel cost adjustment factor.

**6. Estimation of Fuel Cost.** Logansport's estimate of its prospective average fuel costs for the requisite three calendar months is reasonable after taking into consideration: (1) the actual fuel costs experienced by Logansport 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 4 of Logansport's Exhibit No. 3 shows a comparison of estimated and actual fuel costs for the months of January, February, and March 2010. An analysis of this data yields a weighted average error of 8.69% (actual < forecast). Based upon Petitioner's historical accuracy in estimating its fuel costs, the Commission finds Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of fuel costs is reasonable.

7. **Resulting Fuel Cost Factor.** Logansport requests approval of an increase in the fuel cost charge to be applied in its July, August, and September, 2010, billing cycles. Appendix A, Page 1 of Logansport's Exhibit No. 3 indicates the total sales for the months mentioned above are estimated to be 38,328,300 kWh per month (line 5) and the associated costs are estimated to be \$1,498,867.15 (line 10). The reconciliation of fuel cost variances for the months of January, February, and March, 2010, produced a total variance of \$(410,384.96) (line 13). Dividing the total variance by the total estimated sales of 114,985,000 kWh (line 5) generates a variance factor of (3.569) mills per kWh (line 14). Adding this factor to the fuel cost per sales ratio of 39.106 mills per kWh (line 11) results in an adjusted fuel cost factor of 35.537 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 16.092 mills per kWh as shown on Appendix A, Page 1 (line 18). This factor is an increase of 16.658 mills per kWh from the current factor.

The average residential customer, using 1,000 kWh per month, should experience an increase of \$16.66 per month on his or her electric bill, resulting in a monthly bill of \$81.54. Logansport's proposed fuel cost is based upon its forecast of demand for electricity, the ratio of the sources of electricity (generated or purchased), and the cost to generate or purchase electricity. Because the included fuel cost when Logansport generates electricity is higher than the included fuel cost when it purchases electricity from Duke, the specific ratio of the sources of electricity is a strong driver of fuel costs in any particular period. In its prior FAC, Logansport forecasted it would mainly purchase electricity to meet demand. This, combined with a reconciliation of costs from the period of October through December, 2009, in which Logansport was able to purchase a higher percentage of its electricity than originally forecasted, resulted in a decrease in the average residential customer's bill of \$28.21. Because of this, an average residential customer using 1,000 kWh per month had a bill of \$64.88, which was substantially below the average bill for the preceding seven FAC periods of \$89.73.

Logansport's ability to minimize its fuel costs by purchasing electricity from Duke is limited by the supply of electricity Duke can provide, especially during peak usage periods. In this current FAC, Logansport forecasts a need to generate a higher percentage of its electricity demand than in prior months, resulting in increased fuel costs. Although the increase of \$16.66 per month for an average residential customer using 1,000 kWh per month may seem large, the resulting monthly bill of \$81.54 remains below average as compared to prior FAC periods. Therefore, based upon the evidence presented, the Commission finds Logansport's request for a fuel cost adjustment factor in the amount of \$.016092 per kWh for the billing cycles of July, August, and September, 2010, appears reasonable and just, is supported by the evidence, and should be approved.

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 Logansport will earn an excess rate of return while this fuel adjustment charge is in effect. The Commission therefore finds 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. Logansport Electric Department shall be and is hereby authorized to place into effect a \$.016092 per kWh fuel cost adjustment factor with respect to all of its tariffs for which the fuel cost adjustment charge is applicable. The fuel cost adjustment herein approved shall be in effect for the billing cycles July, August, and September, 2010.

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

3. Logansport Electric Department 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 such a change is applicable to the rate schedules reflected in the amendment.

4. In accordance with Indiana Code section 8-1-2-70, Logansport shall, within twenty (20) days from the date of this Order, pay 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:	\$ 444.98
OUCG Charges:	\$ 666.75
Legal Advertising Charges:	\$ 39.67
<b>TOTAL</b>	<b>\$1,151.40</b>

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

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

**APPROVED: JUN 03 2010**

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



**Sandra K. Gearlds, Acting  
Secretary to the Commission**