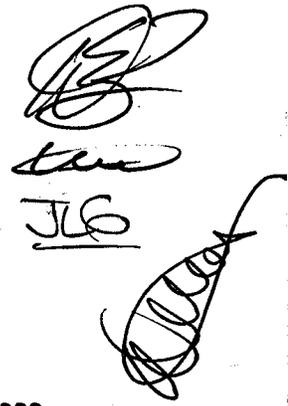


**ORIGINAL**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

  
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**IN THE MATTER OF THE INVESTIGATION ON )  
THE COMMISSION'S OWN MOTION INTO )  
RATE DESIGN ALTERNATIVES AND ENERGY )  
EFFICIENCY MEASURES FOR NATURAL GAS )  
UTILITIES )**

**CAUSE NO. 43180**

**APPROVED: OCT 21 2009**

**BY THE COMMISSION:**

**David E. Ziegner, Commissioner  
Aaron A. Schmoll, Administrative Law Judge**

On December 1, 2006, the Indiana Utility Regulatory Commission opened its investigation in this Cause, naming all regulated gas utilities as respondents. On February 8, 2007, the Commission conducted a Technical Conference in this Cause, during which, a procedural schedule was established for the filing of comments from the utilities and other parties.

On March 23, 2007 and May 14, 2007, Citizens Action Coalition of Indiana, Inc. and Indiana Industrial Group, respectively, filed petitions to intervene.

On September 9, 2008, the Presiding Officers convened an Attorney's Conference to determine a schedule for the filing of additional comments.

Pursuant to notice, duly given and published as required by law, proof of which was incorporated into the record by reference and placed in the Commission's official file, a public evidentiary hearing in this Cause was held on May 14, 2009 at 2:30 p.m., in Room 224 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Respondents Northern Indiana Public Service Company, Inc. ("NIPSCO"), Northern Indiana Fuel and Light Company ("NIFL"), Kokomo Gas and Fuel Company ("Kokomo Gas"), Indiana Gas Company, Inc. ("Vectren"), Southern Indiana Gas and Electric Company ("SIGECO"), and 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 ("Citizens"), the Indiana Office of Utility Consumer Counselor ("OUCC") and the Indiana Industrial Group appeared by counsel and offered their respective evidence, which was admitted into evidence without objection. No members of the public appeared or participated at the hearing.

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

- 1. Commission Jurisdiction and Notice.** Proper notice of the hearing in this Cause was given as required by law. Pursuant to I.C. 8-1-2-58, the Commission has authority to initiate an investigation into matters relating to any public utility. The Commission is responsible for analyzing the means by which the citizens of Indiana will continue to receive reliable, efficient and cost effective natural gas service. Pursuant to I.C. 8-1-2-4, the Commission is also

empowered to require every public utility to furnish reasonably adequate service and facilities. Additionally, I.C. 8-1-2-48 gives the Commission authority to inquire into the management of a utility. Based upon the foregoing statutes, the Commission finds that it has jurisdiction over the parties and subject matter of this Cause.

**2. Parties.** The Respondents in this Cause include all regulated natural gas utilities within the State of Indiana. The following utilities filed written comments in this proceeding.

NIPSCO is a corporation organized under the laws of the State of Indiana, with its principal office and place of business located at 801 East 86<sup>th</sup> Avenue, Merrillville, Indiana. NIPSCO provides electric service to approximately 450,000 retail electric customers located in 21 counties in northern Indiana. NIPSCO also provides natural gas service to over 600,000 customers located in 28 counties in northern Indiana.

Vectren is a corporation organized and existing under the laws of the State of Indiana, with its principal office located at One Vectren Square, Evansville, Indiana. It is engaged in rendering natural gas and electric utility service to the public within the State of Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such service. Vectren North provides gas utility service to approximately 555,000 customers in forty-nine counties in central and southern Indiana. Vectren South provides gas utility service to approximately 110,000 customers in nine counties in southwestern Indiana.

Citizens' principal office is located at 2020 North Meridian Street, Indianapolis, Indiana. Its Gas Division is engaged in rendering natural gas utility service to the public within the State of Indiana and owns, operates, manages and controls plant equipment used for the distribution and furnishing of such service. Citizens provides gas service to approximately 265,000 customers in and around Marion County, Indiana.

Midwest Gas Corporation is located at 107 S. E. Third Street, Washington, Indiana. It owns, operates, manages and controls plant and equipment used for the distribution, delivery and furnishing of gas utility service. Midwest provides service in ten counties in and around Daviess County, Indiana.

Indiana Natural Gas Corporation is located at 107 S. E. Third Street, Washington, Indiana. Indiana Natural owns, operates, manages and controls, among other things, plant and equipment used for the distribution and furnishing of such services to the public. Indiana Natural provides service in eight counties in and around Orange County, Indiana.

NIFL's principal office is located at 1153 Auburn Drive, Auburn, Indiana. It owns, operates, manages and controls plants and equipment used for the furnishing of such service to the public. NIFL provides service in five counties.

Kokomo Gas's principal office is located at 900 East Boulevard, Kokomo, Indiana. It owns, operates, manages and controls plants and equipment used for the furnishing of such service to the public. Kokomo provides service in five counties.

Intervenor CAC is a membership organization operating as not-for-profit Corporation under the laws of the State of Indiana and its principal office is at 5420 North College, Indianapolis, Indiana.

Intervenor Industrial Group is an ad hoc group of industrial customers located in the State of Indiana, including National Starch & Chemical Co. and Rolls-Royce Corporation.

**3. Scope of Investigation.** This investigation was initiated as a result of natural gas utilities requesting variations of decoupling mechanisms. Decoupling separates the recovery of fixed costs from the volume of natural gas sold. The Commission has acknowledged that natural gas utilities have experienced difficulty earning authorized returns. The factors contributing to the difficulty earning authorized returns include declining usage per customer, weather variations, and rising fixed costs. At the same time, many environmental, governmental, and consumer groups have advocated for increased energy efficiency and conservation. Under traditional ratemaking methodologies, initiation of energy conservation measures could cause cost/revenue issues for utilities.

Indiana gas utilities have begun seeking approval of programs to address these issues. The Commission issued an Order in Cause Nos. 42943 & 43046 (December 1, 2006), whereby Joint Petitioners, Indiana Gas, Inc. and SIGECO (collectively referred to as "Vectren"), sought approval of an Energy Efficiency Program including an energy efficiency rider consisting of two (2) components: the energy efficiency-funding component ("EEFC") and the sales reconciliation component ("SRC"). The program's intent is to decouple consumption and utility profitability due to decreasing sales and the promotion of gas conservation. The Commission approved a settlement but excluded a proposed return on equity ("ROE") test as an earning test measure proposed by Petitioners.

Initial comments from those participating in this case were a result of the technical conference held by the Commission. The topic of discussion for the technical conference included the approved energy efficiency program for the Vectren companies in Cause Nos. 42943 & 43046. On February 28, 2007, the Commission authorized a Normal Temperature Adjustment mechanism for Citizens in Cause No. 43202. NIPSCO was granted a rate simplification and energy efficiency program in the Commission's May 9, 2007 Order in Cause No. 43051. On August 29, 2007, the Commission issued its Order on Rehearing in Cause No. 42767, which approved a decoupling program for Citizens. Following the September 9, 2008 Attorney's Conference, Citizens, NIPSCO, and Vectren submitted additional comments concerning each utility's respective experience with the alternative rate design and its associated energy efficiency programs.

**4. Initial Comments.**

**A. *Vectren.*** While Vectren is pleased with their current decoupling mechanisms and normal temperature adjustment ("NTA"); they support the consideration of other alternative rate design mechanisms such as straight-fixed variable and revenue stabilization. Vectren provided a

history of volumetric rate design and the deficiencies associated with volumetric rate designs and cost recovery issues.

Vectren discussed two types of NTAs: Real-Time NTA and Tracker NTA. Vectren has approval for a real-time NTA that adjusts each temperature-sensitive customer's bill at the time of billing to reverse the volumetric billing impact of abnormal weather. The tracker NTA calculates and defers the net impact of abnormal weather and reflects deferred amounts in a tracker over a subsequent period.

Additional information was provided on alternative rate designs. Vectren described the straight-fixed variable rate design as having two (2) components: fixed and variable. The fixed component allows a utility recovery of 100% of their fixed costs whereas the variable component allows 100% recovery of gas costs. This design recognizes that there is typically the same infrastructure to providing standard service to residential customers. Therefore, it is a reasonable conclusion that residential customers share the same average total cost for delivery of service.

Vectren points out that the straight-fixed variable rate design avoids issues with weather normalization and conservation, thus simplifying rates. Without the decoupling of volumetric rates, there is no incentive for gas utilities to promote and invest in conservation efforts. Before switching from volumetric rates to a fixed delivery charge or straight-fixed variable rate design, Vectren recommends a transition period before a uniform fixed charge can be achieved.

The revenue stabilization (aka rate stabilization or return stabilization) mechanism adjusts revenues to pre-approved revenue or return targets. Vectren contends that this mechanism ensures that a utility does not over or under recover its authorized fixed costs. An expedited rate study would be performed in lieu of a general rate case. This approach would reduce regulatory lag and allow for efficient recovery of costs.

**B. NIPSCO, NIFL, and Kokomo Gas.** NIPSCO, NIFL, and Kokomo Gas, collectively referred to as the Northern Indiana Energy Group of NiSource, Inc. ("NIE") provided initial comments to the Commission, agreeing that alternative rate designs should be considered. NIE recommends that the Commission not design a "one-size-fits-all approach" because of unique characteristics and service territories that vary from one utility to another. NIE supports a straight-fixed variable rate design, but would suggest a gradual implementation. NIE proposes that some level of standardization could be achieved yet providing flexibility for different decoupling mechanisms.

NIPSCO has experienced reductions in residential customer usage similar to those identified in the American Gas Association ("AGA") regional study of the Midwest. NIE expects residential usage to continue to decline, as suggested by the Energy Information Administration ("EIA"). Declining usage per residential customer appears to be the trend, even where there is an increase in the number of customers served.

NIE contends that a gas utility should not be required to adopt an energy efficiency program in exchange for a decoupling rate design. NIE proposes that there are substantial benefits to the utility from decoupling mechanisms that improve financial health and benefit

customers. Eventually, NIE suggests that cost-effective conservation programs will be exhausted but decoupling may still be needed.

**C. *Midwest Natural Gas Corporation & Indiana Natural Gas Corp.*** Midwest Natural Gas Corporation (“Midwest”) and Indiana Natural Gas Corp. (“Indiana Natural”) filed joint comments. These comments included appreciation for the Commission’s approval of NTAs and energy efficiency programs. These utilities agree that the NTA mechanism is different from decoupling. The NTA addresses the impact of weather on energy usage, which customers cannot control; whereas decoupling addresses declining usage, which customers can partially control. There are situations where a customer may have the desire to upgrade efficiencies, but lacks the resources. Both utilities agree that it is the “right thing” for utilities to educate and encourage customers to use less energy. These utilities have routinely made presentations encouraging their customers to use less energy without the opportunity or incentive of recovering lost margin. Midwest and Indiana Natural recommend that decoupling mechanisms should include consideration for low-income customers.

Midwest and Indiana Natural also discussed straight-fixed variable rate design. These companies contend that higher service charges will not allow them to be competitive with electric utilities. Electricity is a necessity in homes whereas natural gas is an alternative energy source. Small LDCs are especially concerned that increases in service charges will drive customers away, at a time when they struggle to retain customers. There are variations of the straight-fixed variable rate design that may be more beneficial by allowing for customer usage patterns (i.e., summertime consumption versus wintertime consumption) or the option of a larger shift of costs in the first rate block. While both Midwest and Indiana Natural do not want to dismiss the straight-fixed variable rate design, there are concerns that need consideration.

**D. *OUCC.*** The OUCC supports energy efficiency and conservation and recommends that the Commission allow sufficient time for the currently approved programs to succeed, during which these programs can be assessed and evaluated. The OUCC finds that decoupling mechanisms decrease the uncertainty by reducing business risk, which ultimately should result in a lower authorized cost of capital. While decoupling is not equivalent to conservation, the OUCC recommends that any decoupling mechanisms include energy efficiency and conservation programs. The OUCC prefers oversight by a third party administrator employing measurable performance management.

The initial comments by the OUCC included a discussion of various types of decoupling mechanisms, including straight-fixed variable and revenue stabilization. The OUCC suggests that the straight-fixed variable mechanism may drive consumers to electric heat due to high fixed charges. Any reduction in the number of natural gas customers ultimately results in a higher fixed charge for remaining customers. Since the distribution charge is the same regardless of demand, the design is inequitable. Those straight-fixed variable programs that include various rate classes based on demand are complex in nature.

Revenue stabilization mechanisms allow for annual adjustments for a utility to achieve authorized earnings. The OUCC contends that this type of rate design is “cost-plus regulation” rather than “cost-based regulation”. An annual tracking mechanism for earnings leads to

frequent rate adjustments, resulting in weak incentives for cost effective management between rate cases.

Finally, the OUCC discussed the inclusion of NTA mechanisms along with energy efficiency programs and trackers. The OUCC claims that the existence of a decoupling mechanism and an NTA is not redundant, since the NTA filters out the impact of the weather. This provides for isolation of non-weather related consumption, thus allowing a better understanding of conservation.

**E. CAC.** The CAC points out that decoupling does not determine the appropriate level of revenue nor does it allow for the full recovery of fixed costs. Therefore the CAC recommends that the determining of actual costs and the appropriate level of revenue should be done in a rate case. The granting of any decoupling mechanisms should also be implemented within the context of a rate case. Within the traditional ratemaking framework, utilities are compensated for risk. This risk is measured through the return on equity (or cost of capital) component. The higher the risk, all else held equal, the higher the return on equity. With recent ratemaking options of pre-approval of expenditures, pre-approval of cost deferrals, and the number of trackers, utilities have shifted their risk exposure and uncertainty of cost recovery to customers. The CAC believes that this shift, along with the utility no longer bearing the risk of usage reduction should equate to a reduction in a utility's return on equity.

The CAC purports to understand the rationale behind decoupling but contends that any application should be monitored by adjusting target margins for changes in number of customers, usage per customer, and costs. Poorly designed decoupling programs may allow a utility to achieve a given margin level expected without energy-efficiency programs. Therefore, these programs must be well-balanced and provide verifiable efficiency incentives. The CAC recommends that those utilities with decoupling programs should be required to have rates reviewed every three (3) to five (5) years.

The straight-fixed variable methodology is problematic for customers because current rate structures have customers with higher usage paying a greater percentage of a utility's margin than customers with less usage. This shifts the recovery and not all customers within a class cost the same to serve. If the Commission implements a straight-fixed variable form of decoupling, "good public policy" should be demonstrated.

## **5. Responsive Comments.**

**A. Vectren.** The Vectren companies disputed the comments from the OUCC and the CAC regarding the straight-fixed variable rate design. Vectren believes that volumetric rate design sends the wrong price signal to customers and that straight-fixed variable rate design with true volumetric charges is sufficient incentive for customers to conserve. Vectren finds that the best representation of service costs for a residential class is the average service cost for residential services. In reducing inequities, there may need to be a transition period of several years before the appropriate uniform fixed delivery charge is achieved. Vectren stated that the issue of low-income customers' ability to pay utility bills exists under any rate design and not just under the straight-fixed variable rate design.

Vectren supports the revenue stabilization approach as proposed, due to the incentives of cost control between rate cases allowing an annual review and audit. The authorized ROE provides for revenue sharing when the utility's earnings exceeds the ROE range, thus sharing savings with customers annually rather than the next rate case.

**B. NIPSCO, NIFL, and Kokomo Gas.** The NIE companies opposed the comments by the CAC regarding the reduction of risk associated with decoupling mechanism within the risk premium component in determining a utility's return on equity. NIE recommends that any risk premium analysis should be considered in a rate proceeding along with other risks and inclusive of any decoupling rate design.

**C. OUCC.** The OUCC provided responsive comments noting that all parties to this case agree on two (2) critical points: natural gas utilities have substantial fixed costs and gas commodity prices are at such high levels that energy efficiency and conservation are in the customer's best interest. The straight-fixed variable rate design may be "simplistic," but there was lack of consensus amongst the parties; small gas utilities were concerned with competition from electric utilities. This approach may not encourage energy conservation.

The OUCC criticized the revenue stabilization methodology as proposed by Vectren. The proposed methodology is distinctly different from the currently approved Vectren proposal of guaranteeing authorized margins. This proposal included a "streamline" process, permitting annual rate changes. This "streamline" approach is outside the statute governing the petitioning of base rate changes. The OUCC adamantly opposes revenue stabilization forms of decoupling because of the reduction and shift of risk to customers along with the lack of incentive to effectively manage costs.

**D. Indiana Industrial Group.** The Indiana Industrial Group intervened in this case, and provided responsive comments recommending that the Commission reject any decoupling rate designs affecting industrial customers. Since industrial customers operate as transportation customers who purchase gas commodity in the market and operate within certain tolerances paying penalties for storage and balancing costs, they are distinctly different from residential and commercial customers. The consumption of these customers typically does not vary considerably with weather. Indiana Industrial Group customers pursue their own energy efficiency measures with technical resources to utilize energy efficiency measures and therefore need no incentives from the utilities.

The Industrial Group agrees with the OUCC and the CAC that any decoupling program should be reviewed in the context of a general rate case and the shifting of any risks should result in a lower return on equity component. The Industrial Group also agrees that the Commission should reject any proposed revenue stabilization mechanisms.

## **6. Additional Comments.**

**A. Joint Comments by Citizens, Vectren, and NIPSCO.** On January 16, 2009, Citizens, Vectren, and NIPSCO submitted additional comments concerning each utility's

experiences implementing its respective alternative rate design and its associated energy efficiency mechanisms.

*i. Citizens Gas.* Citizens states that the decoupled rate structure initiated pursuant to the Commission's August 29, 2007 Order on Rehearing in Cause No. 42767 has allowed Citizens to institute a wholesale cultural change and expand its prior efforts to provide additional energy efficiency alternatives to its customers. It has also offered opportunities for collaboration with Indianapolis Power & Light to offer total energy efficiency solutions.

Citizens has educated its employees on the new rate design and offered energy conservation education to supervisory and customer relations staff, in addition to marketing and sales staff that work with various trade allies and customer groups. Citizens initiated the "Let's Chat" messages with its CEO, Carey B. Lykins, providing additional opportunities to educate Citizens' customers. Finally, Citizens has been designated as a "Green Company" by the Indianapolis Chamber of Commerce and is working with the Chamber to promote energy efficiency and conservation with its members.

In addition, Citizens formed a collaborative Oversight Board, pursuant to the settlement agreement approved in Cause No. 42767. The Oversight Board worked in conjunction with a selected energy conservation consultant to establish a portfolio of energy efficiency programs and to monitor and administer the progress and effectiveness of the programs. The programs are continually monitored by the Oversight Board which includes representatives from various interest groups and the OUCC.

Along with the approval of energy efficiency in Cause No. 42767, Citizens was also granted an alternative rate design for a decoupling tracker. The decoupling tracker, called the Sales Reconciliation Component (SRC), enables Citizens to promote energy efficiency initiatives while providing an opportunity for the utility to recover non-gas costs even with declining customer usage. Given that approximately 80% of a customer's bill is gas-related costs, the SRC adjusts only the approximately 20% of the customer's bill related to the cost of delivered service. Since a reduction in energy usage results in lost margin, the utility decoupled difference is calculated and deferred. Customer bill impact to the average residential customer has been modest.

The Commission also authorized another form of decoupling called a Normal Temperature Adjustment (NTA) for Citizens in Cause No. 43202 on February 28, 2007. The NTA is designed to mitigate impact on Citizens and customers of abnormal weather. Without the NTA during colder-than-normal weather, Citizens' customers would pay more than necessary for the utility to recover its authorized costs. Likewise, the opposite is true when the weather is warmer-than-normal as the utility recovers less than its authorized costs. Recent reports from ratings agencies indicate that these rate designs favorably impact the utility's credit rating. Customers may also benefit from improved credit strength through reduced borrowing costs, since borrowing costs are ultimately recovered through rates.

*ii. Vectren Energy.* Vectren adopted a decoupling mechanism in Cause No. 42598, which has allowed Vectren to institute a wholesale cultural change from one that for decades

relied on consumption to support fixed cost recovery, to one that encourages conservation. This includes structural changes in management providing additional resources focusing on energy efficiency, including the addition of a Vice President of Sales and Conservation, as well as a Director of Conservation and support staff.

Vectren launched a new effort called "Live Smart." Through education and awareness programs, Vectren has empowered employees and customers to "Live Smart" by partnering with the Company to use energy wisely and avoid adverse reaction to high energy prices. To realize the full potential of conservation, the across-the-board cultural change must align customer and Company interests for both gas and electric operations. Therefore, Vectren proposed decoupling on the electric side of the business.

The cultural changes include focusing on the most efficient and environmentally responsible use of energy. This commitment is demonstrated in a settlement agreement with Duke Energy where both companies agree to work together on energy efficiency programs to avoid fuel switching.

Vectren participates in a conservation collaborative or Oversight Board, involving representatives from various interest groups and using a third-party administrator to perform a comprehensive study that included a market assessment and a recommended action plan consisting of programs to implement to assist customers and measure the effectiveness of each program. These programs incorporate efforts to increase public awareness, through Vectren's "Conservation Connection," which utilizes multiple information channels to promote energy efficiency.

As with Citizens, Vectren was granted approval of alternative rate designs including a NTA approved in Cause No. 42890 and a SRC approved in Cause Nos. 42943/43046. These alternative rate designs assist in stabilizing a utility's fixed cost recovery by eliminating the effects of abnormal weather and declining average usage per customer.

*iii. NIPSCO.* NIPSCO was granted a rate simplification and energy efficiency program in the Commission's May 9, 2007 Order in Cause No. 43051. The objective of the rate simplification element was to revise the rate structure for residential customers in order to provide a clear linkage between the charges and tariff rates, and the amounts appearing on a customer's bill. The new rates were designed to encourage customers, where possible, to reduce their usage by sending a price signal at particular usage volumes on the tariff.

NIPSCO is also engaged with an Oversight Board that includes representation from various interest groups and a third-party administrator. NIPSCO has implemented their energy efficiency programs and expects that in the future, programs will be expanded to achieve the its goal of reducing residential usage.

**7. Findings and Discussion.** This investigation was initiated following our approval of the decoupling rate design for Vectren in Cause Nos. 42943 and 43046. At that time, neither Citizens nor NIPSCO had implemented a decoupled rate design, and a majority of the smaller gas companies had yet to seek approval for NTA mechanisms. Since our initiation of

this investigation, however, in Cause 42767, Citizens implemented a program similar to Vectren's, and in Cause 43051, NIPSCO has simplified its rate structure to move away from pure volumetric rate design. Further, nearly all regulated gas companies in Indiana are utilizing NTA mechanisms to reduce volatility caused by abnormal weather.

Rate design alternatives to traditional volumetric rate design offer solutions to declining usage and increasing demand for energy efficiency and conservation. However, decoupling is not energy efficiency. While a rate design that decouples a utility's fixed costs from the volume of gas sold relieves the utility from declining usage and lost margins, utilities should include measurable energy efficiency programs in their rate designs. For Citizens, Vectren, and NIPSCO, Indiana's three largest gas utilities, each has implemented energy efficiency programs involving an Oversight Board. Each Board oversees and evaluates the proposed energy efficiency programs, costs, and benefits.

In general, we find that the parties' comments as they relate to addressing rate design in base rate cases to be reasonable. In the context of a rate case, parties, and ultimately this Commission, can address and thoroughly review issues regarding revenues, expenses, and cost of service. Further, we agree with the OUCC's comments that decoupling mechanisms clearly shift risk from the utility to ratepayers, and that reduction of risk should be considered in determining the appropriate return on equity of for-profit gas utilities.

While the Commission need not standardize the type of decoupling used by utilities, any proposed mechanism must be fair and equitable to all customers. Based on the comments made by smaller gas utilities Midwest and Indiana Natural Gas, increased customer charges through a decoupling mechanism could make gas less competitive compared to other energy options. Decoupling may not be advantageous in some markets. The impacts of decoupling on ratepayers should be analyzed through a rate case with protective measures and conservation alternatives recommended.

Going forward, the Commission finds that straight-fixed variable rate designs are attractive because they align basic cost causation principals of ratemaking. However, these designs do present concerns regarding rate shock and conservation efforts. Issues of rate shock could be tempered in a phased manner through a steady transition, reducing volumetric rate design by a fixed percentage in each rate case. This transition period would be consistent with Commission efforts to reduce inter-class subsidies, i.e., gradualism. The placement of efficiency or low-income assistance program charges on the higher usage block rates may be a reasonable means of designing intra-class subsidies while creating an inclining block rate structure conducive to conservation. All of these concerns should be addressed in the context of base rate cases.

Finally, revenue stabilization mechanisms go beyond those issues which decoupling is intended to address; namely decreasing margins and overcoming a utility's reluctance to encourage energy efficiency. These types of mechanisms provide a guarantee to earn authorized returns. If the utility does not earn the authorized revenue/return granted in its last rate case for a particular year, rates are adjusted the following year for the under-earnings (or vice versa). While in theory, any rate design will result in the same revenues being collected over time (all

things being equal), revenue stabilization mechanisms appear to be unnecessary options that create disincentives for efficient operation of a utility.

Based on the comments submitted and our findings made herein, we hereby find that our investigation into rate design alternatives for natural gas utilities is concluded.

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

1. Consistent with the findings set forth in this Order, the investigation initiated on December 1, 2006 is hereby closed.
2. This Order shall be effective on and after the date of its approval.

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

**APPROVED: OCT 21 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**