

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS)
CORPORATION FOR AUTHORITY TO CHANGE)
ITS RATES, CHARGES, TARIFFS, RULES, AND)
REGULATIONS; AUTHORIZATION OF THE)
ISSUANCE OF LONG-TERM DEBT; AND)
APPROVAL OF AN ALTERNATIVE)
REGULATORY PLAN PURSUANT TO INDIANA)
CODE § 8-1-2.5-6 FOR PURPOSES OF)
IMPLEMENTING AN ENERGY EFFICIENCY)
PROGRAM, ASSOCIATED FUNDING AND)
DECOUPLING MECHANISMS, AND CHANGES)
TO PETITIONER'S CALCULATION OF COSTS)
FOR EXTENSION OF DISTRIBUTION MAINS)

CAUSE NO. 44063

APPROVED: NOV 7 2012

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On August 22, 2011, Midwest Natural Gas Corporation ("Petitioner" or "Midwest"), filed its Petition with the Indiana Utility Regulatory Commission ("Commission").

In lieu of a pre-hearing conference in this Cause, on October 20, 2011 the Petitioner and the Indiana Office of Utility Consumer Counselor ("OUCC") jointly submitted a motion containing an agreed test year, procedural schedule, and waiver of a pre-hearing conference. The Presiding Officers issued a docket entry on November 1, 2011 establishing the test year and procedural schedule in this Cause.

This matter was initially scheduled for hearing on April 11, 2012, but based upon the agreement of the parties, was continued on the record until June 6, 2012. On June 6, 2012, the Commission conducted an evidentiary hearing in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At such hearing, representatives of the Petitioner and the OUCC were present and participated. On June 20, 2012, the Petitioner filed its Late-Filed Exhibit 1 providing such additional information as requested by the Commission. No members of the general public appeared or sought to testify at the hearing in this Cause.

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

1. **Notice and Jurisdiction.** Due, legal, and timely notice of these proceedings was given and published by the Commission as required by law. Petitioner is a public utility as defined in Indiana Code § 8-1-2-1. Petitioner is also an energy utility as defined by Indiana

Code § 8-1-2.5-4. Pursuant to Indiana Code ch. 8-1-2 and Indiana Code ch. 8-1-2.5, the Commission has jurisdiction over this Petitioner and the subject matter of this cause.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner has a principal office at 107 S.E. Third Street, P.O. Box 520, Washington, Indiana, 47501. Petitioner is a public utility currently providing natural gas service to its customers in the following Indiana counties: Clark, Daviess, Greene, Jackson, Jennings, Knox, Monroe, Orange, Scott, and Washington.

3. **Existing Rates, Test Year, and Relief Requested.** Petitioner's current base rates are those established by this Commission on November 20, 2007, in Cause No. 43229. The test year for this proceeding is June 30, 2011, as adjusted for changes fixed, known, and measurable and occurring within 12 months following the end of such test year. Petitioner's cut-off date for determining the used and useful nature of its utility plant in service and the value of its rate base is October 31, 2011. Based on its Petition and its direct case-in-chief, Petitioner seeks to increase its rates by \$755,629; issue long term debt in an amount up to \$500,000 at an annual interest rate of up to 6.5%; implement the Energy Efficiency Program with accompanying funding and decoupling mechanisms previously authorized by this Commission in Cause No. 43995; and implement a change in the method of calculating the costs associated with main extensions from its current calculation based on gross revenue to one based on operating margins exclusive of gas costs.

4. **Evidence of the Parties.**

A. **Petitioner's Case-in-Chief.** Petitioner offered in its direct case the testimony and exhibits of its financial and accounting witnesses from London Witte Group, Duane C. Mercer, Bonnie J. Mann, and Earl L. Ridlen, III. Mr. Mercer's testimony explained that Petitioner is not currently earning the authorized return approved by this Commission in Petitioner's last base rate case, Cause No. 43229. Mr. Mercer opined that Petitioner's rates and charges should be increased to permit Petitioner to earn a reasonable return on its investments and allow Petitioner to cover all current operating expenses. Mr. Mercer described Petitioner's current capital structure, including the cost of the elements of that capital structure, and noted that he had also included the proposed long term debt requested in this proceeding in that capital structure. In order to properly cover Petitioner's current operating expenses and provide a reasonable return to Petitioner's investors, Mr. Mercer proposed that Petitioner be authorized to increase its rates and charges by \$755,629 exclusive of the cost of gas recovered through the gas cost adjustment ("GCA") proceedings.

Mr. Mercer also offered testimony in support of Petitioner's proposed implementation of an Energy Efficiency Program with accompanying funding and decoupling mechanisms pursuant to an alternative regulatory plan ("ARP"). As Mr. Mercer noted, this Petitioner was one of eight small gas utilities¹ that participated in a proceeding before the Commission in Cause No. 43995 seeking approval of the elements of this ARP. The Commission authorized Petitioner to

¹ The other seven gas utilities that participated in Cause No. 43995 were Boonville Natural Gas Corporation, Community Natural Gas Co., Inc., Fountaintown Gas Company, Inc., Indiana Natural Gas Corporation, Indiana Utilities Corporation, South Eastern Indiana Gas Company, Inc., and Switzerland County Natural Gas Co.

implement such ARP subject only to the filing of a base rate case. Additionally, Mr. Mercer supported the Petitioner's separate ARP for changing the calculation involved in determining the amount of customer provided funding for main extensions. Mr. Mercer noted that gross revenues for this Petitioner include the commodity cost of gas. Such gas cost revenue is recovered or returned through the GCA, and thus provides no funds to the Petitioner for constructing main extensions. Mr. Mercer, along with Petitioner's witness Osmon, proposed an alternative calculation based on the operating margins authorized by the Commission. He notes that a six year margin recovery calculation would be appropriate, and would be similar to the methodology used by other gas utilities currently operating within the State of Indiana with respect to their main extension calculations.

Petitioner's witness Mann offered testimony and exhibits describing and supporting Petitioner's pro forma adjustments to its test year operating results in order to establish an appropriate revenue requirement. Ms. Mann specifically proposed an exclusion of both revenue and expenses directly associated with the purchase of natural gas. She proposed an upward adjustment for purposes of annualizing test year payroll and wage increases of \$93,446. She proposed an upward adjustment to recognize the increased costs associated with Petitioner's defined pension plan expense, as determined by Petitioner's actuarial report, of \$40,530. She suggested an upward adjustment of \$10,416 to recognize the cost of health screenings of Petitioner's employees as part of its new wellness program. She described an upward adjustment of \$31,043 to recognize rate case expense for this fully litigated proceeding. Ms. Mann proposed an upward adjustment of \$13,001 to recognize the increase in health insurance costs for Petitioner's employees, which was also described by workpapers filed in this proceeding. She proposed a downward adjustment of (\$6,734) to the IURC fee.

Ms. Mann described an upward adjustment of \$1,101 to recognize Petitioner's increase in the cost of its property and casualty insurance. She proposed a downward adjustment of (\$300) to recognize a decrease in Director fee expense. She proposed an upward adjustment of \$5,607 to recognize the increased expense associated with Petitioner's employee stock ownership plan ("ESOP"). She described a downward adjustment of (\$39,970) to reflect the elimination of a contract related to its consultant, Henry Gwaltney. She proposed an upward adjustment of \$7,205 to recognize the increase in bad debt expense based on a two year average. She described an upward adjustment of \$34,138 for certain miscellaneous adjustments, which includes the increased operating costs for Petitioner's billing system; the elimination of energy efficiency rebates under the Normal Temperature Adjustment ("NTA") agreement; and the additional regulatory costs associated with reporting and filing requirements under the new Energy Efficiency Program and decoupling mechanism. Ms. Mann proposed an upward adjustment of \$32,800 for recovery of the cost of Petitioner's participation in the Energy Efficiency Program and decoupling proceedings amortized over the three year life of the initial pilot program. Finally, Ms. Mann calculated an upward adjustment of \$53,998 representing the increased depreciation expense for Petitioner's utility plant in service reflecting Petitioner's utility plant.

In addition to pro forma adjustments associated with gas purchases and various O&M expenses, Ms. Mann also provided testimony and exhibits supporting Petitioner's original cost rate base which includes Petitioner's utility plant in service as of the cut-off date of October 31, 2011, at its original cost net of depreciation. Ms. Mann calculated and provided an amount for

working capital, using the FERC 45-day working capital formula, which as she testified, has been accepted for gas utilities the size of Petitioner in lieu of performing a lead-lag study. Ms. Mann also calculated and included a 13 month average of materials and supplies in Petitioner's rate base.

Petitioner's witness Ridlen explained adjustments to Petitioner's test year related to various taxes. Mr. Ridlen proposed an upward adjustment of \$7,149 due to increased payroll taxes for the increase in Petitioner's payroll. He also described and calculated an upward adjustment in property taxes of \$44,399 to reflect the utility plant in service as of October 31, 2011. Mr. Ridlen proposed a downward adjustment of (\$136,739) to reflect the pro forma present rate adjustments to revenue multiplied by the utility receipts tax rate of 1.4%. Mr. Ridlen also described a downward adjustment of (\$234,711) representing a decrease in both state and federal income tax based on the pro forma present rate adjustments that Petitioner filed.

Both Ms. Mann and Mr. Ridlen offered additional testimony and adjustments to reflect the pro forma revenue requirement in order to collect sufficient funds to cover the IURC fee, bad debt expense, and taxes once Petitioner is authorized to increase its rates and charges. We also note that these London Witte Group witnesses have filed workpapers reflecting their various adjustments described here.

Petitioner's Executive Vice President, David Osmon, presented direct testimony in support of Petitioner's request. He described his ongoing work with the consultants in this case and Petitioner's President relative to the various issues raised in this cause. Mr. Osmon described the general increase in operating revenues the Petitioner was seeking, the terms for long term debt the Petitioner was seeking, its request to implement the Energy Efficiency Program and mechanisms approved in Cause No. 43995, and its request to change the calculation used in determining when funds should be obtained from customers where main extensions are requested. Mr. Osmon noted that Petitioner is not seeking an increase in its authorized net operating income by its Petition in this case. Mr. Osmon described his knowledge of the utility plant in service, including both the used and useful status of that utility plant, as well as his opinion of the original cost value and the fair value of Petitioner's utility plant. Finally, Mr. Osmon described Petitioner's intent to roll out the Energy Efficiency Program and implement the associated funding and decoupling mechanisms following an order from this Commission in this cause.

Petitioner offered the direct testimony of John A. Boquist, Professor Emeritus at the Indiana University Kelley Graduate School of Business. Dr. Boquist described his review of the Petitioner; his analysis of a proxy group of regulated natural gas utility companies; his opinion as to the current economic conditions faced by the Petitioner; and ultimately opined as to Petitioner's cost of capital and a reasonable return on the equity investment made in Petitioner's rate base by the utility's investors. Dr. Boquist described that the cost of common equity should be set by the Commission at a return that was sufficient to attract capital; maintain the company's financial integrity; allow the Petitioner to render continuous and reliable service to its customers; and provide the company with a return commensurate with that available on investments in other enterprises of corresponding risk. Dr. Boquist explained the risks faced by this Petitioner, including financial risk, liquidity risk, business risk, and regulatory risk. He

pointed out that Petitioner, in addition to these risks, has risks associated with its small size, lack of marketability, and competition from alternative energy sources that provide energy in and around its service territory.

Dr. Boquist described that he had performed a discounted cash flow (“DCF”) analysis and a capital asset pricing model (“CAPM”) analysis for Petitioner, but was required to apply such analysis to a proxy group since Petitioner is not publicly traded. Dr. Boquist described in detail the analysis that he performed and concluded that an average unadjusted DCF for the proxy group would result in a DCF calculated cost of equity of 9.38% based on the market value (fair value) of the proxy group’s equity investment and an unadjusted average of 12.37% based upon the book value (original cost) of the proxy group’s equity investment. Dr. Boquist indicated that it is necessary to analyze the DCF on both market value and book value to avoid the problem created by applying a market derived common equity cost to an original cost rate base. Such a direct application would cause the establishment of lower cost of common equity than the DCF analysis would suggest. Dr. Boquist noted that in addition, an adjustment was required to be made due to Petitioner’s small size, limited marketability, and limited service territory. Following this adjustment, Dr. Boquist’s DCF results ranged from 10.38% to 13.37%.

Dr. Boquist’s CAPM analysis of the proxy group resulted in an unadjusted CAPM equity cost of 7.33%. Once adjusted, as specified by Ibbotson and Associates, in recognition of Petitioner’s size as a micro-cap company, Dr. Boquist’s CAPM analysis for this Petitioner results in an 11.40% cost of equity capital. In concluding his direct testimony, Dr. Boquist recommended that the Commission authorize a 10.89% return on equity capital as a fair and reasonable return, when the Commission establishes Petitioner’s revenue requirement. In Dr. Boquist’s opinion, such a return would recognize both the mathematical results of the various DCF and CAPM analysis performed and would provide an appropriate adjustment in recognition of Petitioner’s specific risks relative to the proxy group.

Petitioner’s witness Kerry Heid offered testimony and exhibits reflecting the allocation of Petitioner’s proposed revenue requirement through a cost of service study Mr. Heid performed. Mr. Heid provided an overview of his approach to preparing the cost of service study, including the allocation of costs to the various customer classes on function. He described the results of such allocation relative to Petitioner’s volumetric rates and monthly service charges. Finally, as to his cost of service study, he noted the use of such study would move Petitioner’s rates and charges closer to cost based rates by further reducing current interclass subsidies. Mr. Heid also described the application of an Energy Efficiency Rider (“EER”) for residential customers made up of the energy efficiency funding component (“EEFC”) and the sales reconciliation component (“SRC”) for purposes of funding the previously approved energy efficiency program and decouple Petitioner’s operating margins. As Mr. Heid noted, the Commission previously approved in Cause No. 43995 the use of both an EEFC and SRC for this Petitioner and other small gas utilities in Cause No. 43995.

B. OUCG’s Case-in-Chief. The OUCG offered in its case-in-chief the testimony and exhibits of Heather R. Poole, Bradley E. Lorton, and Jon C. Dahlstrom. The OUCG accepted a number of Petitioner’s proposals and proposed revenue requirement adjustments. The testimony and exhibits of Poole, Lorton, and Dahlstrom reflect agreement by

the OUCC on the following: Petitioner's proposed long-term debt; Petitioner's proposed change in calculating main extensions; Petitioner's proposed elimination of revenue associated with natural gas purchases (though not the specific amount); and pro forma O&M adjustments related to purchased gas, wellness programs, health insurance, property and casualty insurance, director fees, consulting fees, bad debt, property tax, and deferred income taxes.

Ms. Poole proposed several adjustments. She suggested the elimination of Petitioner's proposed adjustment for unaccounted for gas, suggesting that the gas sale revenue included in the test year already accounted for unaccounted for gas and thus, no further adjustment is necessary. Ms. Poole accepted Petitioner's pro forma payroll adjustment, except that portion related to a new position which had not been filled as of the time of the OUCC's testimony (\$42,000). She proposed a downward adjustment to Petitioner's pension expenses of (\$8,363) to recognize that Petitioner's pension program also covers other companies. She proposed a downward adjustment of (\$20,738) to recognize a different rate case expense and a different amortization period (seven years) used to recover such rate case expense. Ms. Poole proposed a different IURC fee adjustment of (\$4,904) to reflect an updated IURC fee as of the filing of her testimony. She proposed a different pro forma expense for Petitioner's ESOP based on the difference in pro forma payroll described above.

Ms. Poole's testimony included acceptance of a number of administrative and general expenses collectively described as miscellaneous adjustments and includes cost for Petitioner's new billing system, the removal of certain energy efficiency rebates included in the NTA agreement, but a slightly different adjustment related to future regulatory filings on the energy efficiency program and decoupling mechanisms. This different adjustment indicates that Petitioner's test year should be increased by \$34,367. While accepting that Petitioner should recover the costs associated with its participation in the recent energy efficiency proceeding, Cause No. 43995, the OUCC proposed a different adjustment described as decoupling fees based on the estimated costs referenced in that prior proceeding and an amortization period of seven years rather than the three years proposed by Petitioner. The result of these adjustments is the annual recovery of \$14,349, which is \$18,451 below what Petitioner requests.

Ms. Poole proposed a downward adjustment of (\$51,728) to remove the expense incurred by Petitioner during the test year for plugging old wells used to store natural gas, but also to recognize the recovery of an amount to fund future plugging of wells. Ms. Poole also proposed a downward adjustment of (\$16,608) to remove certain professional fees she categorized as non-recurring and to amortize such fees over a seven year period she recommends for rate case amortization. Ms. Poole suggests these professional fees relate to legal fees incurred by Petitioner for its participation in the substitute natural gas case, Cause No. 43976. While removing such fees as an adjustment to the test year, Ms. Poole recognizes the reasonableness of incurring such fees and acknowledges that amortization for recovery of such fees is appropriate. Ms. Poole suggests a downward adjustment of (\$36,845) for what she categorizes as other administrative and general expenses which she notes includes various items, including advertising and sponsorship costs, lobbying, country club expenses, out of state fuel purchases, and various food and beverage expenses. Additionally, Ms. Poole makes various flow-through adjustments to payroll taxes, utility receipts taxes, and income taxes associated with the OUCC's proposed revenue requirement.

Ms. Poole also suggests changes in Petitioner's depreciation expenses related to the cut-off date of October 31, 2011. Additionally, she indicates Petitioner has incorrectly booked depreciation expense since Petitioner's last rate case order. Ms. Poole opines that this incorrect booking of depreciation caused an over-collection which should be refunded to Petitioner's rate payers through a further downward adjustment of (\$20,465).

Finally, Ms. Poole suggested changes to Petitioner's rate base to recognize that as of the cut-off date, Petitioner's net utility plant in service is \$12,385,387. Ms. Poole also adjusted Petitioner's capital structure to update the capital structure for deferred taxes and common equity as of August 31, 2011.

OUCG witness Lorton offered his analysis and recommendation of the appropriate return to be included in the revenue requirement as it relates to Petitioner's equity capital. He indicates that Petitioner's cost of equity is 9.0%. Mr. Lorton's testimony explains that he has used the same proxy group as Petitioner's witness, Dr. Boquist, and applied a similar DCF and CAPM analysis to the proxy group. His testimony indicates his use of different inputs for his DCF and CAPM analysis from those used by Dr. Boquist which in turn causes his mathematical results to be 9.0% for his DCF and 7.63% for his CAPM analysis. From a macro-economic viewpoint, Mr. Lorton described his opinion as to the general economy and those factors such as inflation, interest rates, and economic growth which he believes would impact the conclusion as to an appropriate return on equity. In that regard, Mr. Lorton noted that interest rates remain low; economic growth remains lower than that experienced in the 1990s; and inflation remained relatively low once the impact of energy and food price volatility were removed. Mr. Lorton concluded his opinion with a recommendation Petitioner's ROE be set at 9.0%. Mr. Lorton goes on to discuss the different inputs in his DCF and CAPM analysis from that used by Dr. Boquist. Ultimately, he observes that the main difference between his recommended ROE and Dr. Boquist's recommended ROE are the adjustments Dr. Boquist makes adjustments to the resulting DCF and CAPM mathematical results for certain companies specific risk including Petitioner's size. Mr. Lorton indicates that it is questionable to make adjustments for Petitioner, such as an adjustment for size.

Witness Dahlstrom offered testimony objecting to Petitioner's allocation of the revenue requirement through the cost of service study prepared and filed by Petitioner's witness Heid. Mr. Dahlstrom raised concerns about various inputs in the cost of service study and argued that the resulting customer service charge should be set on an avoided cost basis, not on the embedded cost reflected in the cost of service study as proposed by Petitioner. Witness Dahlstrom suggests that a new cost of service study be required and Petitioner should keep the monthly customer service charge the same; and allocate the cost of mains should based upon annual through-put, winter through-put above annual through-put, and design day demand above winter through-put. Mr. Dahlstrom also testified that the Commission should deny Petitioner's request to implement its Energy Efficiency Rider because he was unable to verify Petitioner's potential order granted margins ("OGM") and order granted margins per customer ("OGMPC") which form the basis of the SRC element of the Energy Efficiency Rider. Mr. Dahlstrom goes on to note that without knowing the number of customers, the sales, or the actual OGM or OGMPC, the OUCG is unable to determine whether the proposed SRC is appropriate. However,

Mr. Dahlstrom agrees with the EEFC component of the Energy Efficiency Rider and the proposed assessment of \$0.83 per residential customer per month.

C. Petitioner's Rebuttal Case. In its rebuttal case, Petitioner offered the testimony of its witnesses Boquist, Mann, Ridlen, Osmon, Mercer, and Heid.

Dr. Boquist's rebuttal addressed the OUCC's analysis and recommendations on an appropriate rate of return for Petitioner's equity capital and also rebuts the criticism Mr. Lorton suggests of Dr. Boquist's original analysis. He indicates that Mr. Lorton's estimate of 9.0% cost of common equity is not supported by an appropriate application of the DCF or CAPM models. On Mr. Lorton's DCF analysis, Dr. Boquist questions the attempt to find an annual dividend result by applying one-half of the dividend growth per year. He also questions why the OUCC used a half year method when all of the companies included in the proxy groups paid dividends on a quarterly basis. Dr. Boquist questioned the averaging of projected earnings per share, dividends per share and book value per share, pointing out that the companies in the proxy group experienced different growth rates for those inputs. Dr. Boquist notes that in his analysis, he used a two-stage quarterly dividend growth model to alleviate this problem of averaging. With respect to the OUCC's CAPM analysis, Dr. Boquist questioned the decision by Mr. Lorton to average the arithmetic mean and the geometric mean to determine the appropriate market risk premium to use in this analysis.

Dr. Boquist went on to question Mr. Lorton's use of large company equity risk premiums over long term bonds, noting the interest on bonds should be subtracted from the total bond return in order to establish the true difference between risky stocks and the generally riskless return on long term bonds. As Dr. Boquist notes, investors can only expect the interest from the Treasury bond investments to be truly riskless and thus using the total return on treasury bonds is problematic. Dr. Boquist indicates that Mr. Lorton has also confused the CAPM analysis with Ibbotson's "build up method" to estimate the cost of equity capital. Dr. Boquist then recalculates the OUCC's analysis under Ibbotson's "build up method" as outlined in the SBBI Valuation Edition 2011 Yearbook which would result in a cost of equity of 12.3%. Dr. Boquist points out that Mr. Lorton's 9.0% return on equity is well below the 9.75% return on equity recommended by the OUCC in the Cause No. 43624, where Westfield had a parent company on which to rely for creditworthiness and had no debt. He points out that the Petitioner here has no similar parent company and is employing debt in its capital structure.

In responding to Mr. Lorton's criticisms of company specific adjustments associated with size and marketability, Dr. Boquist describes that these adjustments must be made after the mathematical calculation of the DCF and CAPM where proxy companies who are significantly larger and whose stock is regularly traded have been used. He points to the Commission's addition of a size adjustment for Boonville Natural Gas in Cause No. 43342 to the recommended ROE from the OUCC. Dr. Boquist noted that the Commission added 140 basis points to Mr. Lorton's recommended ROE of 9.0%. He went on to note that similar company specific adjustments for the risks facing Midwest are warranted in this case. He describes that Midwest lacks the size and marketability of the proxy group and that Mr. Lorton had offered no adjustments to recognize those differences. Dr. Boquist points to Ibbotson and other economic analysts, suggesting that at a minimum, a size adjustment is required. Dr. Boquist concluded his

rebuttal by suggesting that a reasonable ROE for Midwest required a greater ROE than that found by the Commission for Westfield in Cause No. 43624. He also noted that he had seen nothing in the testimony from the OUCC to dissuade him from the return that he had originally recommended.

In addition to offering rebuttal testimony to various OUCC proposed accounting adjustments, Petitioner's witness Mercer also offered testimony rebutting Mr. Lorton's proposed 9% ROE. Mr. Mercer cited, among other matters, Mr. Lorton's recent testimony in Cause No. 43624, where Mr. Lorton proposed a 9.75% ROE for Westfield and the Commission found a 10.1% ROE would be appropriate. Mr. Mercer pointed out that in that case, the Petitioner had no debt and was owned by Citizens Energy, a much more creditworthy entity. He then pointed out that Midwest has debt, is not owned by a larger creditworthy entity, and was not involved in any acquisition adjustment issues as reflected in the Order issued under Cause No. 43624. Finally, Mr. Mercer noted that the equity markets, as reflected in the Dow Jones Industrial Averages, shows significant improvement in stock prices. Mr. Mercer concluded that in his opinion, the economy in Indiana is clearly improving and has improved since Mr. Lorton's testimony in Cause No. 43624. As such, Mr. Mercer suggests that the Westfield Gas decision indicates that an appropriate return on equity for Midwest would clearly be higher than the 10.1% ROE the Commission determined in Cause No. 43624. As part of his conclusion he also notes that Westfield Gas itself had been provided a much higher ROE when it was a stand alone company (12%).

Mr. Mercer turned to the rate case expense adjustment proposed by the OUCC. His rebuttal points out that an appropriate estimate of rate case expense could and should be determined from the cost actually incurred from recently litigated natural gas rate cases, not a settled case as proposed by the OUCC here. He notes that in Boonville Natural Gas, Cause No. 43342, the company actually incurred rate case expense of \$267,961 in a proceeding, which was concluded in 2008. He believes it is unreasonable to expect that the Petitioner in this case would be able to litigate this proceeding utilizing less rate case expense than actual rate case costs four years ago. He pointed out the recent testimony in Indiana Utilities' rate case, Cause No. 44062, which indicates that Indiana Utilities rate case costs will exceed the rate case expense requested by Midwest here. Mr. Mercer also objected to the OUCC's amortization period for recovery of rate case expense, noting that he and others had several discussions with Petitioner's management about the filing of the next rate case in three or four years. He pointed out that the energy efficiency program, which in part drives this rate case, is a three year pilot program and would require a new filing in three years. He pointed to the use of the NTA mechanism, which had been described as having similar rate case delaying effects as the OUCC suggests for the decoupling mechanism here. But Mr. Mercer testified that the NTA had not increased the time period between rate cases. He concluded that a three or four year amortization period would be the appropriate amortization period to use.

Next Mr. Mercer disagreed with the OUCC's suggestion that a refund was necessary because of over-collection of depreciation. Mr. Mercer testified that misapplication of depreciation rates on Petitioner's books did not change the rates actually charged to Petitioner's rate payers. He suggests that the correct resolution of such bookkeeping error is a recalculation of accumulated depreciation. In so doing, correct depreciation rates can be used, causing a

change to accumulated depreciation. This recalculated accumulated depreciation can be applied to Petitioner's current rate base. He notes that this is the same approach that was previously adopted by the Commission where a gas utility had misapplied depreciation rates on its books. Finally, he indicates that he and his colleague, Ms. Mann, have made this change and included an exhibit showing the appropriate accumulated depreciation and its effect on rate base.

The testimony and exhibits of Petitioner's rebuttal witness Mann indicates that the Petitioner has accepted the OUCC's suggestion that no adjustment to test year natural gas purchases for unaccounted for gas is necessary. Ms. Mann goes on to note that the Petitioner agrees with the OUCC's adjustment for pension expense. She points out that the Petitioner does not agree with the OUCC's adjustment for expenses associated with future regulatory filings for the energy efficiency program collectively included in a miscellaneous adjustment, but will not further debate the adjustment in light of its minimal impact. Ms. Mann's testimony also indicates that the Petitioner and the OUCC are in agreement that the Commission should use the latest IURC fee rate when the Commission issues an order in this case. She also notes that while the Petitioner and the OUCC disagree on the appropriate numerical adjustment for the expense associated with the ESOP, various taxes, and working capital in the rate base, the parties agree on the methodology which should be used, indicating that their numbers simply differ because of differing inputs. However, Ms. Mann's testimony indicates the Petitioner disagrees with a number of the OUCC proposed adjustments, including the following:

On the adjustment to payroll, Ms. Mann points out that the OUCC's only objection is that a position which Petitioner had included in his proforma payroll had not been filled as of the March date of the OUCC's testimony. Ms. Mann points out that the adjustments to the test year run through June 2012 and thus the cutoff date for adjustments has not occurred. Ms. Mann goes on to note that she believes the Petitioner is actively interviewing candidates and anticipates filling the position before the adjustment period is over. Ms. Mann also testifies that once filled, this additional payroll will potentially impact additional adjustments such as payroll tax and employer ESOP expense. (As noted below, Petitioner's witness Osmon has provided evidence that this position has now been filled).

On the OUCC's proposed reduction in estimated rate case expense, Ms. Mann points out that the estimate proposed by Petitioner is based on a number of factors including: information from the consultants involved in the case; the anticipated level of discovery expected in the case; and the rate case expense actually incurred by these same consultants in Boonville Natural Gas, Cause No. 43342, and different consultants in Lawrenceburg Gas, Cause No. 43090. Boonville Gas and Lawrenceburg Gas were two fully litigated rate cases. She also points to her own testimony in the recent Indiana Utilities rate case, Cause No. 44062. She notes that her testimony on March 14, 2012 describes rate case costs exceeding what Midwest is requesting in this Cause. She also questions the basis for the OUCC rate case expense adjustment, noting that it relies on the last Midwest rate case, which was settled. She suggests that a settled case provides no reasonable basis for estimating rate case costs where the case is fully litigated. She notes that the current Midwest rate case has been fully litigated and has involved extensive discovery, neither of which existed in Midwest's last rate case, which was settled.

On the issue of the amortization, Ms. Mann points out that amortization should be established based upon the length of time that a particular set of rates are anticipated to be in effect before the Petitioner needs to return to the Commission. She notes that the energy efficiency program order of Cause No. 43995 indicates that this Petitioner would return to the Commission in three years. She also describes her own participation in the Cause No. 43995 and indicates there is nothing in that Cause to suggest that approval of the decoupling mechanism will push Petitioner's next rate case out seven years. She concludes by indicating that a three year period of amortization should be used.

On the issue of the Petitioner's cost for participation in the prior energy efficiency program proceedings under Cause No. 43995 (also described as decoupling expense), Ms. Mann notes that the OUCC has made no objection as to Petitioner recovering its costs of participation but suggests that Petitioner recover the amount based on the estimates included in Cause No. 43995 not the amount actually invoiced to and paid by the Petitioner. Ms. Mann suggests that the appropriate adjustment here is the actual amount paid by the Petitioner. As to the amortization period for recovery of this expense, she notes that this expense relates to Cause No. 43995 which establishes a three year pilot program. As such, she believes that a three year amortization is the appropriate period to be used here.

On the issue of providing appropriate operating expenses for plugging gas wells required of Petitioner, Ms. Mann points out that the OUCC accepts the fact that Petitioner has such responsibility, and accepts the need to provide funding to fulfill such responsibility, but calculates that funding in a manner which effectively removes appropriate funding. Ms. Mann points out that the appropriate adjustment is to begin with the actual costs incurred in the test year, thereafter estimate any additional costs that might be required for future plugging, and apply an appropriate amortization period in order to calculate the annual expense that should be included in Petitioner's revenue requirement. To begin her calculation, Ms. Mann suggests that the Commission use the actual total expense Petitioner has incurred of \$63,255 plus the additional future costs as calculated by the OUCC of \$21,085 for a total cost of \$84,340. With the application of the three year amortization period, an expense of \$28,113 would be appropriate. Comparing this annual amount to the test year amount of \$54,740 results in a downward adjustment to the test year of (\$26,627).

Ms. Mann explains that she disagrees with the OUCC's elimination of professional fees as non-recurring noting that Petitioner will continue to incur professional fees for the foreseeable future even if those professional fees did not relate to the precise matter for which they were incurred during the test year. She notes that the OUCC does amortize the recovery of these professional fees thus acknowledging that they were appropriate. But Ms. Mann believes a better approach is to reject any adjustment to the test year for these fees. She points out that the testimony of Petitioner's Executive Vice President specifically speaks about the ongoing costs Petitioner is likely to face for professional fees in the foreseeable future. Therefore Ms. Mann suggests that no adjustment to test year expenses is required. To the extent that the OUCC's recommended portion of professional fees be set aside and amortized, she suggests that a three year amortization period in keeping with the anticipated life of these rates would be more appropriate.

Ms. Mann explains that she disagrees with the OUCC's removal of (\$36,845), collectively referred to as "other administrative and general expenses" in the test year. Ms. Mann points out that the OUCC has lumped together a variety of business expenses, including both those traditionally excluded with those that are typical business expenses which are traditionally included. Ms. Mann notes that while lobbying expenses are excluded through the OUCC's adjustment, the OUCC has excluded the cost of coffee and water provided in Petitioner's offices for its employees and visitors. When excluding out of state transportation related expenses, the OUCC fails to recognize the requirement that Petitioner go out of state because a number of its vendors and suppliers are out of state. While the OUCC excludes certain holiday meals or meals purchased at a country club, the OUCC fails to recognize that a number of these expenses were reimbursed and thus already removed from the test year. Ms. Mann concludes that while some of these expenses should be removed from Petitioner's test year, a significant portion of these expenses should not. She suggests that the appropriate way to deal with this issue from a pro forma perspective is to simply divide these expenses in half, disallowing 50% and allowing 50%. The result of such an approach would be a downward adjustment of (\$18,423) to Petitioner's test year.

On depreciation expenses, Ms. Mann agreed with a change in accumulated depreciation reflecting the final update to Petitioner's utility plant. But she disagreed with the OUCC's characterization that the Petitioner over-collected depreciation expenses from its rate payers, requiring a refund. She points out that the depreciation rates referenced by Ms. Poole were the ones used to establish the rates. As such, there was no over-collection and no refund required. For purposes of recognizing the correct depreciation rates from Petitioner's last rate case, she testified that an adjustment to accumulated depreciation should be made, which in turn would impact rate base, retained earnings, and deferred taxes. Ms. Mann provided a rebuttal exhibit that reflects the impact of applying the appropriate depreciation rate from Petitioner's last rate case.

Petitioner's witness Ridlen offered rebuttal testimony and exhibits that reflect his disagreement with the OUCC's comments about the engagement letters of London Witte Group and Petitioner's ability to review any invoice. He noted that Midwest has the ability to contact London Witte Group on any question as to any invoice, but of greater importance is London Witte Group's practice is one in which it competes with several other CPAs. If London Witte Group's billings were insufficient or not supported by the work actually performed, Mr. Ridlen opines that London Witte Group would not be able to retain its clients. Mr. Ridlen also described his agreement with the OUCC's adjustment as to property taxes, noting that the OUCC had adjusted the Petitioner's utility plant in service by increasing it as of the cut-off date, but did not make a similar adjustment for an increase in property taxes. Mr. Ridlen indicates that he has provided such an increased adjustment on property taxes to his colleague, Ms. Mann, which was included in her Exhibit BJM-R2. He then pointed out his disagreement on deferred income tax component as part of the OUCC's recalculation of Petitioner's capital structure. Mr. Ridlen indicates that he has recalculated deferred taxes, provided an exhibit on such recalculation (ELR-R1), and that his colleague, Ms. Mann, has used that recalculation in her presentation of a recalculated capital structure in the rebuttal exhibits.

Petitioner's witness Osmon offered rebuttal testimony on a number of the OUCC adjustments. As to the OUCC's reduction of payroll due to the fact that the position had not been filled as of the filing of the OUCC's testimony, Mr. Osmon indicated at the evidentiary hearing that that position has now been filled. He also pointed out that the OUCC did not object to the need for the position. He described how the position was filled and indicated that the salary of the individual would be the same salary as originally proposed, but that such salary would not kick in immediately. Mr. Osmon indicated that he would provide to the Commission as part of the Petitioner's Late Filed Exhibit 1 the current payroll effect of the filling of this position, and in turn, the filling of a second position that was opened up because of the promotion of an internal candidate for the new employee position discussed in these proceedings. We note that the Petitioner has now filed such information as part of its Late Filed Exhibit 1.

Mr. Osmon also objected to the OUCC's rate case expense adjustment. He described in detail how the rate case expense estimate was determined. He described that he was aware of the rate case expenses incurred by other small gas utilities. He noted his personal experience in numerous proceedings before the Commission and that he had relied on that experience in determining the time and effort that would be required by the consultants in this case. He noted that the rate case discovery in this proceeding was significantly greater than the last proceeding, pointing out that the Petitioner had received several data requests before it had even filed its case-in-chief. As to the issue of invoices from London Witte Group and Petitioner's inability to accurately gage the reasonableness of those invoices, Mr. Osmon described his review of each invoice and in turn, discussion of those invoices with other members of the management team. He concluded his testimony indicating the rate case expenses requested was a reasonable amount. On the issue of amortization, Mr. Osmon indicated that the Petitioner would be back before this Commission in three, but no more than four, years.

On the OUCC adjustment of (\$16,608) related to Petitioner's participation in the substitute natural gas case (SNG), Cause No. 43976, Mr. Osmon indicated that the test year amount would be recurring, either for that case or similar cases. He pointed out that the order in the SNG case itself describes future work and potential future proceedings on the issue of the utility management agreements (UMAs). He described additional professional fees of approximately \$22,000 that already have been incurred as of the March 2012 rebuttal filing. Petitioner explained these additional professional fees were incurred to deal with its retirement plan and were not included in the test year. He pointed to Petitioner's anticipated new certificate of territorial authority case for which further professional fees will be incurred and which are also not in the test year. He pointed out that even the OUCC notes that there were additional fees for the SNG case beyond the test year. In light of the professional fees already incurred following the test year and the professional fees to be incurred following the test year, Mr. Osmon suggested that the test year professional fees remain unadjusted.

As to depreciation expense and the OUCC's suggestion of over-collection, Mr. Osmon pointed out that the Commission's last order does not specifically deal with depreciation expense. He also pointed out that the OUCC's suggested over-collection of rate payer funds because of this bookkeeping entry was impossible. He noted that the Petitioner had put into place rates which were designed only to collect the revenue requirement last authorized. Therefore, no over-collection could have occurred.

On the OUCC's adjustment of (\$36,845) characterized as "other administrative and general" expenses, Mr. Osmon pointed out that the OUCC has added together a number of very small expenses such as out of state fuel receipts and has suggested that the entire amount be disallowed. He notes that he reviewed the OUCC workpapers several times, but could never tie out the workpapers to the recommended adjustment. He points out that this OUCC adjustment eliminates appropriate business expenses. He points to the elimination of certain expenses as advertising expense, even though such expenses included public service announcements of "call before you dig". He described that the OUCC's elimination of all food and beverage expense included the elimination of food and beverage for various business meetings, coffee for Petitioner's offices, and bottled water for Petitioner's service employees working outside. He described the elimination of all out of state fuel purchases, eliminating expenses required to be incurred by Petitioner to meet with its marketer, natural gas pipelines, and other suppliers who are located in Tennessee and Kentucky. He noted that Petitioner's employees are encouraged to fill up their fuel out of state whenever possible because out of state fuel purchases are cheaper than fuel purchases in Indiana, thus reducing Petitioner's fuel expense in its revenue requirement.

With respect to the focus on Petitioner's President, whose residence has changed from Washington, Indiana, to Nashville, Tennessee, he notes that while the OUCC would throw out all fuel expense for the President, the fuel expense for the President now is approximately the same as it was when his residence was in Washington, Indiana. Finally, Mr. Osmon noted that a number of the expenses had been reimbursed. When the OUCC removed the reimbursed expense from test year expenses, it was effectively removing the expense twice since it had already been removed due to such reimbursement. In conclusion, Mr. Osmon noted that because the adjustment included page after page of very small items, a better approach would be to recognize some should be disallowed, but some should be allowed. He has suggested disallowing 50% of this amount, but allowing 50% as ongoing business expenses. The result is that the Petitioner would agree to an adjustment of (\$18,423) to resolve the concerns of the OUCC.

Mr. Heid's rebuttal testimony indicates extensive disagreement with the suggested concerns and proposed positions of the OUCC. He disagreed with the concerns expressed by the OUCC's witness Dahlstrom as to the Energy Efficiency Rider and in particular, the concerns expressed on the OGM and the OGMPC. He notes that the OGM and the OGMPC will change as the Commission modifies the Petitioner's original proposed revenue requirement. Further he points out that any future review of those margins through the review of the SRC will not occur until the SRC has actually been in place for one year. He points out that the SRC as designed in this proceeding would relate only to residential customers and would be in keeping with the SRC approved by the Commission in Cause No. 43995. During the hearing he noted that these residential customers within rate class "A" would be coded to ensure the SRC applied only to residential customers, not small commercial customers. On the OUCC's suggestion that customer service charges be based on avoided cost, he points out that the Commission has never implemented an allocation based on avoided cost. The sole case cited by Mr. Dahlstrom was *Citizens Gas*, Cause No. 42767, which was ultimately resolved by way of a settlement of the parties and the rates were not based on avoided costs. On the concerns raised by Mr. Dahlstrom that the inputs in the cost of service were incorrect, Mr. Heid indicates that he has re-run the cost

of service with what Mr. Dahlstrom describes as correct inputs, revealing that the change is de minimis. On the allocation of mains, Mr. Heid explained in detail how he used the zero inch main study to make such allocation. He also pointed out that Mr. Dahlstrom's suggested allocation of mains uses an approach which has not been accepted by this Commission, other regulatory bodies, nor supported by NARUC. On the suggestion that the current customer service charge of \$11 remain the same because inappropriate price signals would be sent if the customer charge were changed, Mr. Heid points out that just the opposite would occur if the customer charge remained the same. He notes that holding the customer charge the same when rates and charges are increasing could create intra-class subsidies. He also points out that the proposed \$12 per month per residential customer was a reasonable customer service charge in light of the customer service charge collected by other utilities. Mr. Heid believes that the allocation of the final revenue requirement approved by this Commission should be in accordance with Petitioner's proposed cost of service study and its Energy Efficiency Rider should be approved.

5. Discussions and Findings

A. Pro Forma Operating Expenses. Through the pre-filed evidence of record, both direct and rebuttal, as well as that evidence developed during our hearing, the parties have presented a number of issues that appear to have been resolved as noted above. We therefore find that the evidence supports the adjustments to test year for operating revenues from gas sales, purchased gas, pension expense, Petitioner's wellness program, health insurance, property and casualty insurance, directors' fees, consulting fees, and the methodology used to calculate various flow through expenses such as taxes and the IURC fee. However the evidence indicates that the parties continue to dispute matters involving payroll, which also impacts employee benefits; rate case expense; recovery of costs associated with Petitioner's participation in Cause No. 43995 (decoupling proceeding/decoupling fees); future costs associated with the regulatory filings on the energy efficiency program (miscellaneous adjustments); ESOP; storage wells; professional fees; other administrative and general expenses; and the resulting dollar amount for the adjustments from the flow-through expenses noted above. The parties appear to agree as to depreciation rates, but disagree on how Petitioner's application of its current depreciation rates should impact this rate case. We will deal with each of these disputed issues separately below.

1. Payroll/Employee Benefits. The dispute on payroll and associated employee benefits relates only to whether Petitioner has filled a new position or not. Petitioner's rebuttal evidence, through its Executive Vice President, indicates that the position has now been filled via an internal promotion. Such internal promotion created a new opening, which was filled by an outside candidate. Petitioner's Executive Vice President explained that the Petitioner was able to fill these positions with individuals whose pay initially will be slightly less than that originally anticipated and included in Petitioner's pre-filed case-in-chief. Petitioner, through its Late Filed Exhibits, has indicated what the initial effect on payroll and employee benefits would be for this promotion and this new hiring. Therefore, we approve Petitioner's payroll adjustment as reflected in Petitioner's Late Filed Exhibit 1, reflecting an upward increase to annualize test year payroll and wage increases of \$83,973, along with an increase in the health insurance premiums requiring an upward adjustment of \$13,866. We note

that because of Petitioner's hiring of internal candidates or candidates from affiliated companies, no impact has occurred on Petitioner's pension expense. Accordingly, we will authorize a downward adjustment to test year expense of (\$8,363) related to this pension expense.

2. **Rate Case Expense.** As we examine this issue of the reasonableness of the estimated rate case, we must initially note that we reject the OUCC's citation and use of Petitioner's last rate case, Cause No. 43229, as evidence of the reasonableness of the OUCC's proposed rate case expense in this proceeding. The OUCC proposed an increase over Petitioner's last settled rate case, plus the expense estimated for the participation of Petitioner's economist, Dr. Boquist. Our Order in that Cause approved the parties' settlement on all issues, including rate case expense, and that the parties agreed that any future citation to that settlement should be treated in a manner consistent with our Order in *Richmond Power & Light*, Cause No. 40434 (Mar. 19, 1997). Because the rate case amount in that case was agreed to by the parties, that value has no probative effect in this Cause.

Petitioner's witnesses Mercer and Mann reflect their opinion that the rate case expense should not begin with Petitioner's last settled rate case, but rather, should begin with the actual rate case expense incurred from prior fully litigated small gas utility rate cases. Witness Mercer notes that in *Boonville Natural Gas*, Cause No. 43342, the actual expenses incurred in 2008 were more than requested in this Cause. Witness Mann also notes that the actual expense incurred for the fully litigated 2007 case of *Lawrenceburg Gas*, Cause No. 43090 was more than requested here, even though no cost of equity witness was presented. Witness Mann and witness Mercer both pointed out that the rate case expense requested here is less than the actual rate case expense incurred in *Indiana Utilities*, Cause No. 44062 (Sept. 5, 2012). Witness Osmon points out that as the Executive Vice President of the Petitioner, he considered the rate case expense requested in Petitioner's adjustments a reasonable amount in light of the issues, discovery, and the proceedings that have actually occurred.

As we consider the evidence of record, it is appropriate to note that this rate case has indeed been fully litigated. The OUCC acknowledged its extensive discovery, both through formal data requests and three days of review at Petitioner's headquarters. If a petitioning utility is required to expend significant work by its consultants and witnesses, the costs incurred are necessarily higher than they otherwise would have been and are subject to recovery as rate case expense. However, we must be critical of some portions of Petitioner's rate case expense, such as the expert witness fees, which should have been better negotiated especially when the same witnesses are preparing similar or identical testimony for other pending rate cases. This fact should have lowered overall rate case expense. Further, while Petitioner refers to estimated rate case expense, no substantial evidence was offered concerning the costs actually incurred. Since the petitioning utility has the burden of proof, Petitioner must demonstrate the accuracy of its estimated rate case expense.

In this Cause, Petitioner has requested a \$250,000 rate case expense. Petitioner also included an additional \$2,500 for postage, which was not disputed by the OUCC. The evidentiary hearing was concluded in less than one day. Accordingly, we find that a rate case expense of \$243,000 is appropriate. After including \$2,500 for postage, Petitioner's final rate case expense is \$245,500.

The second issue related to rate case expense is the amortization period to be used for recovery of such expense. The Petitioner proposed a three year amortization period based on its expectation that it would return to the Commission in three years because of the energy efficiency program. The evidence from both the Petitioner and the OUCC indicates that this Petitioner has appeared before this Commission historically every three or four years. In opposing this three year amortization, the OUCC has suggested a seven year amortization. As we found in Cause No. 44062, we find that four years is an appropriate amortization period for rate case expense. Given that amortization period, we authorize an increase in the rate case expense of \$8,251.

3. Decoupling Proceedings/Decoupling Fees. Petitioner has proposed recovery of costs associated with Petitioner's participation with seven other small gas utilities in the energy efficiency proceedings under Cause No. 43995. The OUCC's testimony indicates that it does not object to the recovery of the costs. Rather, it objects to the amount referenced in Petitioner's pro forma revenue requirement and the amortization period. The OUCC suggests that the amount should be set, based on Petitioner's estimate of costs included in the Petitioner's energy efficiency program budget that was filed in Cause No. 43995. The OUCC also proposes a seven year amortization period in lieu of the three year amortization period proposed by Petitioner. The Petitioner rebuts the OUCC's position by indicating that the amount to be recovered through an amortization should be based on the actual amount invoiced, not a prior estimate. With respect to the amortization period, the Petitioner points out that the energy efficiency program developed in Cause No. 43995 which requires Petitioner to return after three years. Therefore, Petitioner believes its original three year amortization period is an appropriate time period to be used.

Unlike the rate case expense which must be estimated, this particular expense is the recovery of specific fees previously incurred. The Petitioner proposes to recover the fees based on what it actually paid. The OUCC proposes to increase that amount based on the estimate Petitioner used in Cause No. 43995. We agree with the Petitioner and will allow it to recover over time the actual expense incurred by this Petitioner. With respect to the amortization period, we note that this is a pilot program designed to run for three years. It may run longer, but only after the Petitioner comes before the Commission and files appropriate reports and seeks continuation of the program, either as currently anticipated or as modified. Since the Petitioner will be back before the Commission in three years, three years is an appropriate period for the amortized recovery of these costs.

4. Miscellaneous Adjustments for Billing System, Energy Efficiency, and Future Regulatory Costs Associated with Decoupling. The Petitioner and the OUCC each made adjustments to test year expenses collectively described as miscellaneous adjustments, which related to the costs associated with Petitioner's new billing system, the costs associated with removal of energy efficiency from its application in the NTA, and additional regulatory costs associated with future regulatory filings related to the energy efficiency program and decoupling mechanisms. There is but a small \$229 adjustment separating Petitioner and the OUCC. The Petitioner, in its rebuttal testimony, indicated that while not agreeing with the OUCC's adjustment, it would accept the adjustment rather than debate their differences in light

of the minimal amount involved. We believe that the OUCC's position is reasonable and will include an upward adjustment to test year of \$34,367 for these adjustments collectively called "miscellaneous adjustments."

5. **ESOP.** The Petitioner proposed an ESOP adjustment of \$5,607 in its direct case. Petitioner, through its Late Filed Exhibit 1, recognizing the change in payroll, has suggested a smaller adjustment of \$5,038 to test year related ESOP expenses. The OUCC proposed an alternative adjustment based only on its belief that a new position had not been filled, and therefore there would be less ESOP expense. In light of the our discussion above that the new position has now been filled, we agree with Petitioner's Late Filed Exhibit 1 that Petitioner's test year administrative and general expenses related to ESOP should be increased by the amount of \$5,038.

6. **Storage Wells.** The OUCC has proposed a downward adjustment to test year expenses of (\$51,728) related to the cost of plugging three storage wells by Petitioner. The OUCC proposed that the actual test year costs related to three wells would by necessity be reduced to one-third of such costs if Petitioner is only remediating one well. Petitioner indicated that it may have future plugging liabilities with respect to two wells in the Shaw Field and that it has potential responsibility for plugging one well in the Sears Field.

In any rate case, the Commission must review the historic test year expenses of a utility and determine whether such expenses are fixed, known, and measurable in order to allow the utility to recover, in an ongoing basis, those expenses. We do not believe that Petitioner has demonstrated that it will be plugging three wells annually for the life of the approved rates. We agree with the OUCC that the costs associated with one storage well are appropriate for rate recovery. As such, we agree with the OUCC's downward adjustment for costs related to storage wells. However, these expenses shall be amortized over four years for a final adjustment of (\$49,470).

7. **Professional Fees.** The OUCC proposes to reduce Petitioner's test year operating expenses to eliminate \$20,036 of professional fees included in the test year related to participation in Cause No. 43976, the Substitute Natural Gas case. Following the elimination, the OUCC proposes a seven year amortization period to recover these expenses. Petitioner's evidence indicates that it has incurred approximately \$22,000 in professional fees as of March 2012, which is outside the test year. We agree with the Petitioner because the Substitute Natural Gas case has not concluded due to future discussion of the underlying UMAs, and the evidence of record indicates that Midwest has and will continue to incur professional fees. Therefore, we reject the OUCC's proposed adjustment to professional fees.

8. **Other Administrative and General Expenses.** The OUCC has proposed an adjustment to Petitioner's test year to eliminate numerous small expenses collectively described as other administrative and general expenses which the OUCC indicates it found in its review of various invoices during its on-site review of Petitioner's offices. Rather than addressing these small items individually, Petitioner's proposal was to recover 50% of these expenses, but to exclude the remaining 50%. A number of the expenses, such as advertising, lobbying expenses, office expenses, club fees, and holiday party expenses exceed 50 percent of

the total amount of these small expenses, making Petitioner's proposal inappropriate. Instead, after eliminating the expenses related to those referenced items, we believe Petitioner's proposal of a 50 percent disallowance appropriate. The final adjustment is to reduce test year expenses by \$7,369.

9. Depreciation. The OUCG has proposed two adjustments related to depreciation. The first is essentially a recalculation of depreciation expense because the OUCG has updated Petitioner's utility plant in service through the cut-off date net of the non-recoverable capitalized transportation costs. The second adjustment relates to the OUCG's belief that the Petitioner has over-collected depreciation expense since Petitioner's last rate case, which in turn should be refunded to Petitioner's rate payers. With respect to the first depreciation adjustment, the Petitioner agrees with the OUCG's proposal. In fact, Petitioner's evidence reveals that some of the numbers the OUCG used to update Petitioner's utility plant in service were provided by Petitioner. Since the Petitioner and the OUCG are using the same depreciation rates, the Petitioner agrees with these updated depreciation expenses and agrees that they should be included in Petitioner's pro forma revenue requirement. However, with respect to the suggested over-collection of depreciation expense requiring a refund, Petitioner's witnesses explained that no over-collection actually occurred. As both witnesses Mercer and Osmon pointed out, Petitioner's rates from its last case were established to collect the revenue requirement the Commission found appropriate. To the extent that the Petitioner booked its depreciation following that order at rates different from what was used by the parties in their settlement, such bookkeeping entry is not an over-collection. Further, such bookkeeping entry can easily be resolved by recalculating accumulated depreciation from Petitioner's last rate case order through the test year. We agree with Petitioner's witnesses. Bookkeeping entries such as these after rates and charges have been established do not change the amount of revenue a utility collects from its rate payers. Thus no over-collection occurred. While we don't encourage such misapplication of depreciation rates, we note the evidence in this Cause reveals that our prior order makes no mention of the specific depreciation rates that are to be used. Thus it would appear that Petitioner's booking of depreciation following our last order was an understandable oversight. As such, we reject the OUCG's proposal for a further downward adjustment in order to provide for a refund.

10. Taxes. Both the Petitioner and the OUCG have proposed adjustments to payroll taxes, property taxes, utility receipts taxes, and federal and state income taxes. The witnesses for both the Petitioner and the OUCG acknowledge that the methodology that each used was the same for all of these taxes. The differences in their respective adjustments relate to the differences in the parties' proposed adjustments to payroll, utility plant in service, utility revenue, and net operating income to which these various taxes apply. Since we have made our finding as it relates to Petitioner's payroll above, and will make our findings as to Petitioner's utility plant in service, pro forma revenue requirement, and anticipated net operating income below; we will apply the methodology proposed by these parties in our final revenue requirement to establish appropriate funding for payroll taxes, property taxes, utility receipt taxes, and income taxes.

11. IURC Fee. The only difference between the parties as to the appropriate IURC fee relates to their use of different rates depending upon when they pre-filed

their testimony. Both parties have encouraged us to update the IURC fee to the latest rate when we issue our final order. We agree and will include the most recent rate established by the Commission and include a deduction to revenues for bad debt when we establish Petitioner's pro forma revenue requirement below.

12. Agreed Adjustments. As noted in our findings above, the parties have agreed on a number of adjustments to Petitioner's test year. Based on the evidence of record, we believe it is appropriate that Petitioner's test year operating results be adjusted to eliminate gas sales revenue and in turn, purchased gas expenses; increase funds for Petitioner's wellness programs by \$10,416; increase Petitioner's expenses to cover property and casualty insurance by \$1,101; decrease Director fees by (\$300); decrease consulting fees for Petitioner's former consultant, Henry Gwaltney by (\$39,970); and an increase bad debt expense by \$7,205. We will include the impact of these adjustments in our pro forma revenue requirement set forth below.

B. Rate Base. The parties have each presented us with evidence on Petitioner's rate base used and useful to provide service to Petitioner's customers. We note that there is no dispute among the parties as to the used and useful nature of such rate base. Their only difference relates to the original cost of Petitioner's utility plant in service. The OUCC suggests and Petitioner agrees that the utility plant in service requires additional updating through the cut-off date of October 31, 2011. Based upon the evidence of the parties, including Petitioner's Late-Filed Exhibit 1, we find that Petitioner's utility plant in service as of October 31, 2011, on an original cost basis and net of depreciation to be \$12,238,825.

We also note that the Petitioner's Executive Vice President has offered evidence that the fair value of Petitioner's utility plant in service exceeds this amount. Mr. Osmon noted that if the utility plant in service net of depreciation were required to be reproduced, the fair value of Petitioner's utility plant would be at least \$23,800,000. Mr. Osmon stated that he previously testified before this Commission on the value of Petitioner's utility plant in service.

As we noted above in our discussion on rate case expense, Petitioner's last rate case resulted in a settlement between the OUCC and Petitioner, and the parties expressly stipulated that that Order had no precedential effect. Further, even if citation to that Order for the fair valuation was permissible, neither the Settlement Agreement nor the Commission's Order in that Cause resolved fair value.

As we noted in our Order in Cause No. 43526, we do not make a fair value determination as an academic pursuit. *Northern Ind. Pub. Serv. Co.*, Cause No. 43526, at 14 (Aug. 25, 2010). Although Ind. Code § 8-1-2-6 requires the Commission to make a fair value determination of a utility's used and useful property, it is incumbent on the utility to present evidence supporting its proposed fair value. In Cause No. 43526, NIPSCO did present fair value evidence, but did not request that we use the fair value for ratemaking purposes, requesting instead that we utilize its original cost evidence. Accordingly, we made a fair value finding, but indicated that the fair value was not being relied on for ratemaking and was explicitly given no weight. Here, Petitioner did not present adequate evidence for the Commission to make a fair value finding, and we decline to do so given that the parties have agreed to use original cost for ratemaking purposes.

The Petitioner and the OUCC also disagreed as to working capital. But as with other adjustments, we note that their disagreement was not as to methodology, but rather, as to the mathematical results flowing from their different pro forma operating expenses. In light of our decisions above regarding operating expenses, we find working capital in the amount of \$521,671 to be reasonable.

The Petitioner has also proposed the inclusion of materials and supplies in rate base. The OUCC has agreed that materials and supplies should be included, but has suggested an alternative amount based on an update to the rate base through the cutoff date of October 31, 2011. We note the Petitioner has accepted the OUCC's updated number through its rebuttal testimony and exhibits. We agree with the parties and will include materials and supplies of \$555,555. Based on our findings here, we find that the rate base of this Petitioner, calculated using its original cost as of October 31, 2011, net of accumulated depreciation, is \$13,316,051. We will use that rate base as part of our determination of an appropriate return on investment below.

C. Capital Structure. Through its direct evidence, Petitioner has presented a capital structure using audited financial information. Use of audited financial information for entities such as the Petitioner is a typical method of presenting the elements of the capital structure in rate case proceedings. The OUCC has proposed to update that structure through the test year of June 30, 2011, in order to include updated deferred tax amounts; separate contributions in aid of construction which carry no interest from customer deposits, which carry interest, and adjust Petitioner's common equity through the test year. The Petitioner, through its rebuttal testimony of witnesses Mann and Ridlen, accepts the OUCC's proposal to update the capital structure for deferred taxes, but also indicates that the deferred taxes to be used in the capital structure are impacted by accumulated depreciation which has now been recalculated, which changes both the rate base and retained earnings. The results of these changes to the capital structure are reflected in Petitioner's rebuttal exhibits and its Late Filed Exhibit 1. We agree with Petitioner that updates to its capital structure should include all updates including those impacted by the recalculation of accumulated depreciation. Therefore, we find that with the exception of the cost of equity, the capital structure presented by the Petitioner in its Late Filed Exhibit 1 is the capital structure to be used to determine Petitioner's regulated rate of return.

D. Cost of Capital. Petitioner, through its witness Dr. Boquist, offered evidence both as to the cost of Petitioner's equity capital and the appropriate weighted return. Dr. Boquist first calculated the COE using the mathematical results of his DCF and CAPM analyses. He then made further small utility adjustments to both cost model results to reflect that Petitioner's stock is not publicly traded.

Dr. Boquist's unadjusted DCF analysis reflected costs ranging from 9.38% to 12.37%. His unadjusted CAPM analysis reflected a cost of 7.33%. However, after adjusting his DCF test results for Petitioner's small size, limited marketability, and limited service territory, Dr. Boquist added 100 basis points to the results of his DCF analysis, increasing his estimated DCF COE

range to an adjusted range of 10.38% to 13.37%. Dr. Boquist made a 407 basis point adjustment to the results of his CAPM analysis, thereby, increasing his CAPM COE from 7.33% to 11.40%.

Dr. Boquist stated that the basis point difference in the size adjustments to his DCF and CAPM results was based on his knowledge and experience, calculated in a manner he believed to be consistent with recommendations by Ibbotson and Associates. Based on his knowledge and experience, Dr. Boquist recommended a 10.89% return on equity for the Petitioner, in contrast with the 9.0% return recommended by the OUCC.

OUCC witness Lorton offered evidence as to the cost of Petitioner's equity capital and the appropriate level of return to be authorized for this utility. Mr. Lorton used similar DCF and CAPM analyses, resulting in a DCF result of 9.00% and a CAPM result of 7.63%. Mr. Lorton recommended the higher amount, resulting in a 9.00% COE. Mr. Lorton did not propose any further separate adjustment based on Petitioner's size. His choice of the higher of the two model results already included a 140 basis point increase in his calculated DCF COE. Mr. Lorton did not consider any further small utility adjustment to be necessary.

We agree with Mr. Lorton that Petitioner's proposed 10.89% COE fails to give proper weight to current market conditions or the increased income protection from the combination of Petitioner's NTA² and SRC mechanisms. In Cause No. 43180, we investigated natural gas utility rate design alternatives and energy efficiency measures. *In re Investigation on the Commission's Own Motion Into Rate Design Alternatives and Energy Efficiency Measures for Natural Gas Utilities* ("Commission Investigation"), Cause No. 43180 (Oct. 21, 2009). In the Order concluding our investigation, we recognized "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." *Id.* at 10. We acknowledge that the utilities in Dr. Boquist's proxy group utilized some form of decoupling; but, we also believe that the addition of the SRC mechanism warrants a reduction to Petitioner's current COE. However, we do not believe that Mr. Lorton's recommended 9.00% adequately covers any size-based differential. Accordingly, we find that a 10.10% COE is appropriate for Petitioner at this time.

The following table reflects our findings with respect to the Petitioner's capital structure and the cost of each element of its capital structure:

² In 2006, Petitioner and a number of other small gas utilities filed cases requesting the implementation of a normalized temperature adjustment ("NTA") mechanism, to reduce the potential for under-recovery due to warmer than usual weather. The Commission granted the companies' requests. *Indiana Utilities Corp.*, Cause No. 43137 (IURC, Dec. 6, 2006).

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$7,037,030	53.68%	10.10%	5.42%
Long Term Debt – Existing	3,603,500	27.49%	4.51%	1.24%
Long Term Debt – New	500,000	3.81%	5.42%	0.21%
Customer Deposits	325,385	2.48%	6.00%	0.15%
Contributions in Aid	8,538	0.07%	0.00%	0.00%
Deferred Taxes	<u>1,633,884</u>	<u>12.46%</u>	0.00%	<u>0.00%</u>
Total	<u>\$13,108,337</u>	<u>100.00%</u>		<u>7.02%</u>

E. Return on Rate Base. Based on Petitioner’s rebuttal evidence and Petitioner’s Late-Filed Exhibit 1, it is clear that the parties agree to the original cost of Petitioner’s utility plant net depreciation. The evidence reflects that Petitioner’s utility plant as of June 30, 2011, is \$29,829,069. Additions to the plant through the cut-off date of October 31, 2011, should be included in the amount of \$1,355,260. The accumulated depreciation of the utility plant as of June 30, 2011, is (\$18,462,585). There is additional accumulated depreciation for the additional plant added through October 31, 2011 of (\$336,100). In addition, the OUCG has suggested that certain capitalized transportation items are non-recoverable and should be removed. We note the Petitioner has offered no objection to such removal and has included such removal in its Late Filed Exhibit 1. Therefore, we will include the amount of (\$257) in Petitioner’s rate base. In addition, the Petitioner proposes to recalculate the accumulated depreciation since the Petitioner’s last rate case, Cause No. 43229. Such recalculation causes Petitioner to remove additional accumulated depreciation, thus reducing utility plant further by (\$146,562). Thus, the net utility plant in service on an original cost basis as of the cut-off date for plant is \$12,238,825. In addition to this utility plant, both parties have added working capital and materials and supplies. Both parties used the same methodology to calculate working capital and materials and supplies, but propose slightly different results to working capital due to their differences on pro forma operating expenses. We note that each used the same FERC 45-day method to calculate working capital. Based on our findings above on operating expense, we find that the working capital to be included in Petitioner’s rate base is \$521,671. Materials and supplies to be included in Petitioner’s rate base is \$555,555. The total original cost rate base for this Petitioner as of the cut-off date is \$13,316,051.

We are required to provide rates sufficient to allow a regulated utility to earn a return on rate base, and the parties have proposed that we calculate the return using the weighted cost of capital. Based upon our previous findings as to Petitioner’s rate base and weighted cost of capital, we find the Petitioner should be authorized to increase its rates to an amount that is

sufficient to allow it an opportunity to earn \$934,786 on its investment in rate base, which provides Petitioner a 7.02% overall return on its investment.

F. Pro Forma Revenue Requirement. The Commission finds that, based on the foregoing discussion and findings, Petitioner’s current rates are insufficient to provide Petitioner with appropriate funds to operate its utility and earn a reasonable return on its investment. An increase in rate revenue is therefore required. A summary of our findings above are illustrated in the following table:

Petitioner’s Revenue Requirement

Total original cost rate base	\$13,316,051
Rate of return	7.02%
Approved net operating income	934,787
Pro forma present rate net operating income	700,794
Increase in net operating income	233,993
Tax conversion rate	1.6909
Approved operating revenue increase	\$395,665

Overall, the system average increase for this Petitioner over its current rates is 5.91% when gas costs, as described by the parties herein, are excluded.

G. Rate Design. Petitioner’s witness Heid described a cost of service study that he had prepared and proposed to use to allocate Petitioner’s revenue requirement to Petitioner’s customers. Mr. Heid explained that the cost of service study will ultimately move further towards reducing subsidies between customer classes while reasonably increasing each customer class’s fixed monthly charge and volumetric rate. He describes the proposed monthly service charge for all customer classes, noting that rate A, which includes residential customers, will be changed from \$11 per month to \$12. Additionally, Mr. Heid describes the proposed Energy Efficiency Rider, including two components, an Energy Efficiency Funding Component (“EEFC”) and a Sales Reconciliation Component (“SRC”). He notes that the proposed Energy Efficiency Rider is in keeping with the Commission’s Order in Cause No. 43995, a proceeding on energy efficiency programs and their respective funding in which this Petitioner and other small gas utilities, along with the OUCC, actively participated. Mr. Heid explains that the SRC will be calculated based upon the margins granted by the Commission’s final order in this case and ultimately, Petitioner’s recovery will be annually examined through the annual filings required under Commission’s Order 43995.

As noted above, the OUCC, through its witness Dahlstrom, raised a number of issues and concerns with Petitioner’s cost of service study, resulting allocation to rates and charges, and the implementation of the Energy Efficiency Rider, which Petitioner has proposed to begin following the final order in this cause.

In Petitioner’s rebuttal case, Petitioner’s witness Heid explained that the various concerns Mr. Dahlstrom raises on the inputs used in the cost of service study caused Mr. Heid to re-run the cost of service study, but that the effect was de minimis. He concludes that even with different

inputs as suggested by Mr. Dahlstrom, the results of the cost of service study, and ultimately the allocation of the revenue requirement to customer classes, would be the same. We conclude that the cost of service study prepared by the Petitioner should be used in allocating the revenue requirement we found appropriate in this cause.

With respect to Mr. Dahlstrom's other concerns regarding the monthly customer charge and his suggestion that it remain at \$11 per customer per month for residential customers, we agree with Mr. Heid's rebuttal evidence that the customer charge should be increased, which includes moving the residential customer charge to \$12 per month. As Mr. Heid notes, economically efficient pricing promotes good decision making by customers. Thus variable costs (i.e., primarily the cost of gas) would be in the volumetric charge, and all other costs that do not vary or vary significantly would be included in the fixed costs, such as a customer charge. Here the Petitioner is not proposing to include all non-variable charges in the customer charge. In fact, Petitioner has not proposed to increase the customer charge to the extent that its evidence would support. Further, we are mindful that the customer charge proposed here is not significantly different than the customer charges proposed by other regulated gas utilities operating in Indiana. As such, we believe the Petitioner's proposed cost of service study allocation, including its proposed customer charges, should be accepted.

As we stated in our Order in Cause No. 43180, "any proposed [decoupling] mechanism must be fair and equitable to all customers," and the "impacts of decoupling on ratepayers should be analyzed through a rate case with protective measures and conservation alternatives recommended." *Commission Investigation*, at 10. We order that Petitioner must move towards straight-fixed variable rate pricing, consistent with our discussion in our Order in Cause No. 43180, in order to continue implementing a decoupled rate design. This will require Petitioner to file a cost of service study in its next rate proceeding in order to increase the amount of fixed costs recovered through Petitioner's customer charges. With the addition of the SRC to Petitioner's rates, which reduces Petitioner's risk in earning its authorized margins, Petitioner must continue to demonstrate that its rates are cost-based.

With respect to Petitioner's proposed Energy Efficiency Rider, Petitioner will make certain annual filings relative to its SRC which will ultimately be based on the Order in this Cause. The OUCC will have an opportunity to participate in those proceedings and to verify whether the SRC has been properly calculated based on our findings in this case. Accordingly, we approve Petitioner's proposal to implement its Energy Efficiency Rider.

H. Long Term Debt. Petitioner has sought authority to increase its long term debt by an amount of up to \$500,000 at an interest rate up to 6.5% for a repayment period of up to 20 years. During the course of these proceedings, Petitioner has provided additional evidence that this interest rate maximum previously requested has now been established by Petitioner's proposed lender at an initial interest rate of 5.42%. Petitioner has explained how that rate is set using an interest rate based on a seven year swap rate, plus an additional 355 basis points. Petitioner has also explained that it has been required to pledge its headquarters building as collateral for the loan. Finally, Petitioner has explained that it has discussed potential borrowing from other lenders than Old National Bank, but that Old National Bank is its primary bank and it has the most familiarity with its organization, suggesting that the borrowing from Old

National Bank under the terms here are reasonable. We note that the OUCC's testimony indicates that it agrees with Petitioner's employment of additional long term debt under the terms Petitioner has proposed. As such, we find it reasonable to authorize Petitioner to borrow up to \$500,000 for a period of up to 20 years at an interest rate of up to 6.5%. However, as noted in our findings on the cost of Petitioner's capital, we have used the most current interest rate provided by Petitioner's lender of 5.42% and note that it is capable of changing after seven years if the note has not been paid off.

I. Alternative Regulatory Plan—Energy Efficiency Program. The Petitioner, along with seven other small gas utilities, sought the authority to implement an energy efficiency program with accompanying funding and decoupling mechanisms in a joint proceeding under Cause No. 43995. The Commission granted this Petitioner and the other seven utilities such authority on November 30, 2011, subject only to the filing of a base rate case. The Petitioner has now filed such a base rate case, and we believe it is appropriate for the Petitioner to begin the implementation of the energy efficiency program, along with the funding and decoupling mechanisms. In this proceeding, the Petitioner has requested authority to establish an Energy Efficiency Rider, which would include the energy efficiency funding component applied to all residential customers in the amount of \$0.83 per residential customer per month. No energy efficiency funding component will be applied to any non-residential customer. Based on our finding in Cause No. 43995 and the evidence in this case, we find such a funding component reasonable for this Petitioner.

The decoupling mechanism of Petitioner's Energy Efficiency Rider is proposed to be a sales reconciliation component ("SRC") which is also proposed to be applied only to residential customers. The purpose of such SRC is to allow the Petitioner to decouple its operating margins from usage. Petitioner's witness Heid indicates that Petitioner's Appendix F as presented in Petitioner's rebuttal case as Petitioner's Exhibit KAH-R2 and as further described in Petitioner's Late-Filed Exhibit 5 is the appropriate method to implement the SRC through Petitioner's tariffs. Based on the evidence of record, we agree that Petitioner should be authorized to implement its proposed SRC and that Petitioner's Appendix F, which includes both an appropriate energy efficiency funding component and an appropriate sales reconciliation component, should be approved. As we noted in our investigation in Cause No. 43180, we encourage utilities to continue to move toward straight-fixed variable rate design, and the implementation of the SRC is a step in that direction.

J. Alternative Regulatory Plan—Main Extension Calculation. Petitioner, through its witnesses Mercer and Osmon, has proposed an alternative regulatory plan to change the method of calculation for main extensions. Petitioner has proposed a change that would use operating margins, over a six year period for purposes of such calculation in lieu of the current calculation, which includes gross revenue. As both witnesses Mercer and Osmon explained, the Petitioner receives no revenue from that portion of its monthly bills to customers that cover the cost of gas which it can use to cover the cost of main extensions. The evidence also reveals that the amount of time necessary to begin to actually recover investment in such main extensions is much longer than six years. The OUCC has indicated that it has reviewed Petitioner's proposal and agreed with the proposed change. In light of the evidence of the parties, we will authorize Petitioner to implement a new main extension calculation as requested in this Cause.

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

1. Petitioner is hereby authorized to increase its rates and charges in order to produce an additional \$395,665 annually beyond that provided by its current rates.

2. Petitioner is authorized to implement its rate design in accordance with our findings in Paragraph 5G above.

3. Petitioner is authorized to implement an Energy Efficiency Program in accordance with our findings in Paragraph 5I above.

4. Petitioner is authorized to implement a revised rate to calculate main extensions in accordance with our findings in Paragraph 5J above.

5. Petitioner shall file with the Commission under this Cause, prior to placing into effect the rates and charges and Terms and Conditions for Gas Service authorized herein, tariff schedules set out in accordance with the Commission's rules for filing utility tariffs. Said tariffs, when filed by Petitioner and upon approval by the Commission's Natural Gas Division, shall cancel all present and prior rates and charges concurrently when said rates and charges herein are approved are placed into effect by Petitioner. Along with the tariff, Petitioner shall file a derivation of rates based on the approved revenue requirement in paragraph 5F which shall include an OGM and OGMPC calculation

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: NOV 7 2012

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



Shala M. Coe
Acting Secretary to the Commission