

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF OHIO VALLEY GAS)
CORPORATION AND OHIO VALLEY GAS, INC. FOR (1))
AUTHORITY TO INCREASE THEIR RATES AND)
CHARGES FOR GAS UTILITY SERVICE; (2) APPROVAL)
OF NEW SCHEDULES OF RATES AND CHARGES,)
INCLUDING APPENDICES, AND CHANGES TO THEIR)
GENERAL RULES AND REGULATIONS APPLICABLE)
TO GAS UTILITY SERVICE; (3) APPROVAL OF A RATE)
STRUCTURE BASED ON THEIR COMBINED COST OF)
SERVICE; (4) APPROVAL OF CHANGES IN)
DEPRECIATION RATES; (5) AUTHORITY TO REMOVE)
GAS COSTS FROM BASE RATES; (6) AUTHORITY TO)
CONSOLIDATE THEIR THREE GCA FILINGS INTO)
ONE GCA FILING; AND (7) AUTHORITY FOR WAIVER)
OF THE REVENUE TEST SET FORTH IN 170 IAC 5-1-27)
FOR CUSTOMER CONTRIBUTIONS TO MAIN)
EXTENSION COSTS)

CAUSE NO. 44147

APPROVED: DEC 05 2012

ORDER OF THE COMMISSION

Presiding Officers:
Carolene R. Mays, Commissioner
Aaron A. Schmoll, Senior Administrative Law Judge

On January 13, 2012, Ohio Valley Gas Corporation (“OVGC”) and its wholly-owned subsidiary Ohio Valley Gas, Inc. (“OVGI”) (collectively, “OVG” or “Joint Petitioners”) filed their Petition in this Cause. Joint Petitioners filed the testimony and exhibits constituting their case-in-chief on January 23, 2012.

Pursuant to notice duly published as required by law, on February 22, 2012, the Commission conducted a prehearing conference and preliminary hearing. Joint Petitioners and the Indiana Office of Utility Consumer Counselor (“OUCC”) appeared and participated. The schedule agreed upon by the parties at that prehearing conference was set forth in this Commission’s Prehearing Conference Order issued on March 7, 2012.

Pursuant to notice duly published as required by law, on July 11, 2012 the Commission conducted a field hearing at the Winchester Community High School Auditorium in Winchester, Indiana at which OVG and the only other party to this cause, the OUCC appeared. No members of the public appeared at the field hearing.

Pursuant to notice duly published as required by law, on August 28, 2012, the Commission conducted an evidentiary hearing in this Cause, which was continued on the record to October 4, 2012. On that day, Joint Petitioners and the OUCC appeared and presented their respective pre-

settlement cases as well as their settlement agreement and supporting testimony and exhibits. No members of the public participated at the hearing.

Having considered the evidence of record and the applicable law, the Commission now finds that:

1. **Notice and Jurisdiction.** Notice of the time and place of the hearings conducted by the Commission in this Cause were given as provided by law. OVG and OVGI are both public utilities as defined in Ind. Code § 8-1-2-1, and are subject to the Commission's jurisdiction under Ind. Code ch. 8-1-2. Accordingly, the Commission has jurisdiction over Joint Petitioners and the subject matter of this Cause.

2. **Joint Petitioner's Characteristics.** Petitioner OVG is a corporation duly organized and existing under the laws of the State of Indiana. OVG has its principal office at 111 Energy Park Drive, Winchester, Indiana. OVG is engaged in rendering natural gas utility service to the public in portions of Dubois, Jay, Randolph, Spencer, and Wayne counties in Indiana, and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

Petitioner OVGI is a corporation duly organized and existing under the laws of the State of Indiana. OVGI has its principal office at 111 Energy Park Drive, Winchester, Indiana. OVGI is engaged in rendering natural gas utility service to the public in portions of Greene, Knox, Pike, Sullivan, and Vigo counties in Indiana, and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

3. **Relief Requested.** Joint Petitioners seek authority to increase rates and charges for gas utility service based on the two utilities' combined cost of service, but excluding all costs of the natural gas commodity, along with approval of a new schedule of rates and charges reflecting such increased rates. They also sought authorization to harmonize their slightly disparate depreciation rates; to consolidate their three¹ quarterly gas cost adjustment ("GCA") filings into a single quarterly GCA filing; to expand their previously-approved normal temperature adjustment ("NTA") mechanism to include school transportation service customers; and to modify the revenue test specified in our general administrative rule governing main extensions.

4. **Joint Petitioners' Case-in-Chief.** OVG filed testimony from six witnesses to support its request for relief: Ronald L. Loyd, Mark H. Mayfield, S. Mark Kerney, Paul R. Moul, Kerry A. Heid and Sondra L. Heeter.

A. *Mr. Loyd.* Mr. Loyd, OVG's President and Chief Executive Officer², described OVG's need for additional revenue arising from its significant investments in utility plant and increases in its operating costs since its last rate case, making its current rates

¹ The two utilities receive their gas supply from three different transmission pipelines connecting to their three separate service areas.

² Between the January 23, 2012 date when his direct testimony was filed and the October 4, 2012 date of the settlement hearing in this cause, Mr. Loyd retired from OVG. OVG's Vice President and Chief Financial Officer, S. Mark Kerney, adopted Mr. Loyd's testimony and exhibits for purposes of their introduction into the record.

insufficient, unjust and confiscatory. He also explained why the Joint Petitioners' rates should be based on the two entities' combined non-commodity costs as well as the advantages of removing all gas commodity costs from base rates and combining OVG's three GCAs into a single GCA. Finally, he described the expansion of OVG's NTA to include its school customers purchasing gas transportation service and the proposed replacement with a revenue margin test of the revenue test specified in the Commission's administrative rule governing customer contribution of the cost of a main extension.

Mr. Loyd described how the separate legal entities of OVGC and OVGI have historically been operated as a single utility with common senior management and common engineering and administrative support personnel with identical programs and offerings to their respective customers. He noted that combining their rate bases and GCAs would materially reduce the burden of administering them separately. He also pointed out that OVGI is significantly smaller than OVGC, such that cost recovery of investments like the recent \$5.7 million gas main replacement on OVGI's system, would produce untenably high rates if those customers remained isolated from the rest of OVG's customers. His exhibits included the Joint Petition initiating this cause as well as a redlined version of the proposed combined tariff for the Joint Petitioners.

B. Mr. Mayfield. Mr. Mayfield, OVG's Vice President and Chief Engineer, testified that the fair value of OVG's utility plant in service was \$136,578,910 as of June 30, 2011. He also testified that OVG had completed utility plant additions totaling more than \$20.5 million since OVGC's and OVGI's last rate cases, including several significant projects to add new industrial customers and upgrade existing facilities. Joint Petitioners also retired two infrequently-used 40+ year-old propane air facilities.

C. Mr. Kerney. Mr. Kerney, OVG's Vice President and Chief Financial Officer, provided the financial detail in support of OVG's new revenue requirement based on the Joint Petitioners' combined cost of service. Using a test year ending June 30, 2011, he sponsored OVG's balance sheet and income statement and numerous schedules reflecting adjustments to test year revenues and expenses and setting forth various calculations necessary to determine the new revenue requirement.

D. Mr. Moul. Mr. Moul, Managing Consultant with P. Moul & Associates in Haddonfield, New Jersey, testified as to the rate of return this Commission should authorize OVG to earn on its common equity capital. He described a variety of considerations he relied on in developing the rate of return he recommended be applied to OVG's rate base and included with operating costs to be recovered through rates. He analyzed OVG's particular capital structure, including its lack of long-term debt due to the utilization of its internally generated funds and significant income tax benefits to fund its construction program, as well as risk factors applicable to gas utilities generally and for OVG specifically, such as its relatively small size. He also performed an analysis using four industry-standard methods of assessing the cost of equity – discounted cash flow, risk premium, capital asset pricing, and comparable earnings models. Mr. Moul recommended a cost of equity of 11.25% to adequately compensate OVG's investors for the use of their capital.

E. Mr. Heid. Mr. Heid, an independent rate consultant, prepared OVG's cost of service study, which distributed required revenues among OVG's rate classes and calculated the

rates and charges applicable to each rate class. Mr. Heid explained why it was reasonable for OVG to transition to single-tariff pricing.

F. Ms. Heeter. Ms. Heeter, Assistant Vice President, Actuarial Services with McCready and Keene, Inc. in Indianapolis, Indiana, testified as to her determination that OVG would be required to make a cash contribution of \$918,419 for the 2012 calendar year to meet the funding requirements for OVG's employee defined benefit pension plan.

3. OUC's Case-in-Chief. The OUC filed testimony from four witnesses: Sherry L. Beaumont, Jon C. Dahlstrom, Mark H. Grosskopf and Bradley E. Lorton.

A. Ms. Beaumont. Ms. Beaumont, Utility Analyst at the OUC, reported on her review of the Joint Petitioners' *pro forma* payroll, rate case expense and its amortization, employee dependent scholarships, uncollectible accounts, and non-allowed expenses. She also testified about OVG's request to file a single combined GCA for both utilities and all three pipeline service areas.

Ms. Beaumont disagreed with OVG's proposed inclusion in payroll expense of the cost associated with two vacant positions: an Assistant District Manager and a welder. She also proposed to reduce the pension cost expert's fees included in rate case expenses from \$40,000 to \$25,000 based on the OUC's acceptance of that expert's testimony in this cause, and to reduce from \$20,000 to \$5,638 the cost of OVG's certified public accountant advisors in the rate case. She then recommended that total rate case expenses be amortized over five years instead of the three years requested by OVG based on the fact that the average time between Joint Petitioners' last three rate cases was closer to five years.

Ms. Beaumont removed \$39,818 from OVG's unadjusted test year expenses for OVG's secondary education scholarships offered to its employees' children, on the grounds that ratepayers receive no benefit from such expense. She also adjusted downward OVG's proposed adjustment for losses from uncollectible accounts, and she removed various small test year expenses totaling \$12,870. Ms. Beaumont testified that the OUC does not object to authorizing OVG to consolidate its three GCA filings into a single GCA filing prospectively, but recommended that OVG submit a sample GCA for Commission and OUC review and that OVG allocate any existing refunds and variances to those service areas that had generated the refund or variance.

B. Mr. Dahlstrom. Mr. Dahlstrom, a Senior Utility Analyst at the OUC, testified regarding OVG's cost of service, rate design, and proposed tariff. Mr. Dahlstrom disagreed with Mr. Heid's testimony with respect to his cost allocation judgments and proposed higher Facilities Charges. However, Mr. Dahlstrom noted that the OUC did not object to the tariff language changes proposed by OVG, including its request concerning the cost of gas main extensions and its request to expand its NTA mechanism to School Transportation service customers.

C. Mr. Grosskopf. Mr. Grosskopf, a Utility Analyst at the OUC, addressed OVG's need for a rate increase. After applying various adjustments to test year operating expenses he proposed, and those recommended by Ms. Beaumont, and accepting his colleague Mr.

Lorton's recommended rate of return for OVG's common equity capital, he recommended an annual revenue increase of \$2,887,913, which represented an increase of 18.51% over OVG's current non-gas cost revenues, or revenue margin. Mr. Grosskopf proposed to fully eliminate the small amount of gas costs in OVG's adjusted test year operating expenses representing unaccounted for gas costs due to an error in OVG's calculation of *pro forma* unaccounted for gas costs. Mr. Grosskopf also proposed a reclassification of a software upgrade from operating expenses to fixed assets. This reclassification affects depreciation expense and rate base as well. He testified on changes made to Petitioner's *pro forma* public utility fee expense, removing the \$1,000 exemption and updating the bad debt expense amount to coincide with Ms. Beaumont's adjustment to bad debt expense. Additional adjustments were made by Mr. Grosskopf to payroll taxes, utility receipts tax, state and federal income taxes, and the working capital included in the rate base calculation, based on changes made to the revenue requirements. Mr. Grosskopf also recommended Joint Petitioners file an update to their pipeline safety tracking mechanism within three months of the final order in this Cause. Mr. Grosskopf agreed with Joint Petitioners' request to combine the two respective depreciation rates for each company.

D. *Mr. Lorton.* Mr. Lorton, a Utility Analyst at the OUCC, testified as to what rate of return OVG should be allowed to earn on its common equity capital. His analysis of the same proxy group of gas utility companies identified in OVG witness Moul's testimony, and his own discounted cash flow and capital asset pricing model calculations led him to recommend a cost of equity of 8.9%.

4. **Joint Petitioner's Rebuttal Case.** OVG filed rebuttal testimony from three witnesses: Messrs. Kerney, Heid and Moul.

A. *Mr. Kerney.* Mr. Kerney rebutted certain adjustments to the Joint Petitioners' *pro forma* operating expenses proposed by OUCC witnesses Ms. Beaumont and Mr. Grosskopf. He also commented on the OUCC's proposed treatment of OVG's combined GCA filing. Responding to Ms. Beaumont's proposed adjustment to reduce OVG's payroll expense by \$85,219 to reflect two currently vacant positions, Mr. Kerney described both positions, neither of which is new, as both operationally important and the subject of active efforts by OVG to fill them. He also opposed Mr. Grosskopf's proposed adjustment to reduce OVG's payroll tax expenses relating to these same two currently vacant positions. Mr. Kerney agreed with Ms. Beaumont's reduction from \$40,000 to \$25,000 in OVG's rate case expenses in light of the OUCC's acceptance of OVG's proposed pension costs, which eliminated the need for OVG's outside expert, Ms. Heeter, to prepare and present rebuttal testimony. Mr. Kerney did not agree with Ms. Beaumont's reduction from \$20,000 to \$5,638 for OVG's expenses for external certified public accountant advisors to OVG's rate filing due to additional assistance yet to be provided.

Rebutting Ms. Beaumont's proposal to amortize rate case expense and certain other expenses over five years, Mr. Kerney argued five years was unreasonably long. However, he agreed that a four-year amortization period could be supported by the record. Mr. Kerney also agreed to exclude \$9,587 from OVG's annual revenue requirement for various non-allowed expenses. He did not accept Ms. Beaumont's proposal to remove \$3,283 of additional costs, nor did he accept her proposed elimination of OVG's \$48,040 of *pro forma* employee benefit expense for dependent scholarships.

B. Mr. Heid. Mr. Heid rebutted Mr. Dahlstrom's criticism of his cost-of-service and rate design evidence. He agreed to make a correction to his allocation of OVG's depreciation reserve so that the same total was re-allocated to OVG's plant accounts other than land and land rights, which had a de minimus impact on his cost-of-service calculation. He also rebutted Mr. Dahlstrom's criticism of Mr. Heid's allocation of various other OVG's accounts, and he took particular exception to Mr. Dahlstrom's criticism of his use of a zero-intercept methodology for purposes of classifying and allocating to customers the cost of OVG's gas mains. Finally, Mr. Heid defended his use of a correction factor in this case as being a standard input, which can either increase or decrease the appropriate level of rates.

C. Mr. Moul. Mr. Moul disagreed with Mr. Lorton's proposed 8.9% rate of return for OVG's cost of common equity as unreasonably low and explained why his proposed 11.25% rate was more reasonable when compared to the same group of nine proxy gas utilities referenced in Mr. Lorton's testimony.

5. Stipulation and Settlement Agreement. After the parties filed their respective direct cases and OVG filed its rebuttal case, the parties reached a settlement. The Stipulation and Settlement Agreement ("Settlement") and the accompanying settlement testimony from OUCC witness Dahlstrom and OVG witness Kerney set forth the terms of their compromise and explained how that compromise translated into recommended new rates. The Settlement, a copy of which is attached to this order, addresses and resolves all of the parties' differences as set forth in their pre-settlement evidence. Specifically, the parties have agreed to the following:

A. Return on Equity and Authorized Return. OVG's weighted cost of capital should be calculated assuming a return of 10.10% on shareholder's equity. The parties acknowledge that this return on equity is less than that requested by OVG in this case and greater than that recommended by the OUCC, but is within the range supported by the evidence. They further agree that it reflects a reasonable compromise in light of other contemporaneous gas utility rate proceedings, including the contested matter involving Indiana Utilities Corporation, Cause No. 44062, in which this Commission issued an order on September 5, 2012.

Based on OVG's capital structure, the parties agreed that OVG is entitled to and should be authorized to earn an overall return of 8.00% on a rate base of \$45,837,952, which for settlement purposes the parties agreed represents the fair value of OVG's used and useful property, plant, and equipment.

B. Depreciation Rates. The depreciation rate applicable to all of the Joint Petitioners' depreciable plant other than transportation, office and communications equipment should be 2.92%. This figure was determined by taking the weighted average of OVGC's and OVGI's currently separate depreciation rates. No change to Joint Petitioners' depreciation rates on other types of property were provided.

C. Revenue and Expense Adjustments. The mutually-acceptable *pro forma* adjustments to OVG's test year operating income that differ from Joint Petitioners' direct or rebuttal testimony are set forth in settlement schedules 6 and 7 attached to the Settlement.

D. Revenue Requirement. OVG's adjusted test year total operating revenues are \$15,835,776. OVG should be authorized to increase its base rates for gas utility service to produce additional annual revenues of \$3,655,149. OVG has not requested any adjustments to its miscellaneous operating revenues. After taking these revenues into account, the total annual revenues under the proposed rates reflect an overall increase in adjusted operating revenues of 23.08%. This increase is calculated to produce net operating income of \$3,667,036 and total annual operating revenues of \$19,490,925.

E. Cost of Service, Tariff, and Facilities Charges. The Settlement includes a tariff setting forth proposed new rates reflecting the parties' mutually-agreed rate design. These rates were further supported by the evidence submitted by OVG in response to the Presiding Officers' October 2, 2012 Docket Entry. The Settlement reflects the parties' agreement to make no changes to Joint Petitioners' Facilities Charges.

F. Single GCA Filing for OVGC and OVGI. Between them, OVGC and OVGI file three separate GCAs under Cause Nos. 37352, 37353, and 37354, for the utilities' three different pipeline service areas. The OUCC's agreement with OVG's request to combine these three GCA causes into a single quarterly GCA filing was repeated in the Settlement. Beginning with the first GCA filed after an order approving the Settlement, the Joint Petitioners' commodity gas costs, pipeline demand charges, supply mix, and storage gas costs will be pooled, with any variances and net refunds on a prospective basis allocated in a similar fashion. Before filing its first such consolidated GCA petition, OVG will prepare and informally distribute a draft of the filing and also meet with the OUCC and Commission staff to discuss the mechanics of the combined filing. OVG will also resolve the allocation methodology to be applied to any outstanding variances and refunds occurring as a result of the transition to a merged GCA with the OUCC and Commission staff.

G. Changes affecting School Transportation Service Customers and Customers Requiring a Main Extension. The parties agreed that application of OVG's NTA mechanism should be expanded to include customers subject to OVG's tariff for school transportation service. Also, when determining whether it can require a customer to contribute to the cost of a main extension, instead of relying on the revenue test prescribed in the Commission's administrative rules at 170 IAC 5-1-27, OVG can require the customer requesting the extension to contribute to the cost of that extension based on whether the total anticipated revenue margin from the increased sales made possible by the extension after five and one-half years is equal to or greater than the estimated cost of the extension.

H. Pipeline Safety Cost Recovery (PSA). The parties agree that an update to the PSA cost tracker should be filed to accommodate a general review of OVG's PSA tracking mechanism, and to reconcile and develop new PSA rate factors based on historic recoveries and expenses. This filing shall be filed within (3) three months of a final order in this cause. Additionally, the parties agree to a subsequent one-year review period between the PSA rate reconciliations to allow for the matching of actual costs with recovery, and maintaining a timely review of the usefulness of the PSA tracking mechanism.

6. Evidence in Support of Settlement. OVG and the OUCC jointly sponsored the Settlement, which included settlement financial schedules. The OUCC also sponsored settlement

testimony from Mr. Dahlstrom. OVG also sponsored settlement testimony from Mr. Kerney who included, as an exhibit, a redlined tariff showing proposed changes to OVG's tariff currently in effect.

Mr. Dahlstrom described how the Settlement was the product of arm's-length negotiations between OVG and the OUCC, reflecting a balanced resolution in the best interest of OVG's ratepayers. He noted that OVG had initially proposed to increase its revenue from base rates by 29.09%, while the OUCC had recommended an increase of 18.51%. The Settlement calls for an increase in total operating revenues of 23.08%. Mr. Dahlstrom also described the capitalization of certain OVG computer software expenditures, which resulted in a settled rate base amount of \$45,837,952 and an increase in OVG's proposed depreciation expense. OVG also accepted the OUCC's purchased gas expense reduction and the proposed elimination of the employee dependent scholarship program and miscellaneous expenses. Rather than increasing its monthly Facilities Charges, OVG instead agreed to reflect the total revenue increase through its volumetric rates. It also agreed to the OUCC's proposed depreciation expense of \$2,236,285, which reflected the capitalized software costs, and the OUCC's proposed reduction of OVG's bad debt expense. The OUCC agreed to the payroll expense for OVG's vacant welder position and the applicable payroll tax expenses. The parties also agreed to a four-year amortization period for OVG's rate case and SNG legal expenses with the provision that at the conclusion of the four-year amortization period, OVG will refile its tariff reflecting the removal of the amortized expenses from the settled revenue requirement.

Mr. Kerney's settlement testimony likewise reviewed in detail all of the settlement adjustments and echoed Mr. Dahlstrom's explanation of OVG's agreement to nearly all of the operating expense adjustments proposed by the OUCC. Mr. Kerney also described the settlement schedules he prepared that were attached to the Settlement.

Mr. Kerney's settlement testimony was supplemented by his responses to questions asked by the Presiding Officers in their October 2, 2012 Docket Entry. Mr. Kerney's responses to the docket entry included a revised redlined version of OVG's tariff, filed on October 3, 2012 and admitted into the record at the October 4, 2012 Hearing, which corrected an error in one of the Facilities Charges and otherwise cleaned up the version of the tariff that was filed with his settlement testimony.

7. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2007). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* Thus, the Commission "may not accept a settlement merely because the private parties are satisfied, rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996). Furthermore, any Commission decision, ruling or order including the approval of a settlement must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum*, 735 N.E.2d at 795. The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(D). Therefore, before the Commission can approve the Settlement, we must determine whether the evidence in this Cause sufficiently supports the

conclusions of the Settlement as reasonable, just and consistent with the purposes of Ind. Code ch. 8-1-2 and that such agreement serves the public interest.

Our review of the reasonableness of the Settlement is aided by the parties' agreement on the rate base and rate of return to be used in determining the Joint Petitioners' revenue requirement, and also their agreement on each *pro forma* adjustment made to OVG's test year results used to determine the adjusted financial results based on OVG's present rates as well as at the increased rates set forth in the Settlement and accompanying documentation. The agreed-upon *pro forma* adjustments are supported by the evidence of record. We have examined all of the components of OVG's proposed new rates and find the rates as proposed in the Settlement and accompanying tariff to be reasonable and amply supported by evidence in the record.³

The cost of equity evidence presented in this proceeding included a review of returns recently authorized for nine other regulated gas distribution utilities, all of which are much larger than OVG. Mr. Moul's rebuttal testimony indicated the proxy companies reflected a range from 9.85% to 11.71%, with an average rate of 10.39% and a median rate of 10.26%.⁴ Given the fact that the settled rate of 10.10% in this case is within that range and taking into account Joint Petitioners' specific characteristics, including its particular capital structure, we are persuaded that the settled allowed return on common equity of 10.10% is reasonable.

The Settlement provides for a new revenue requirement and new rates that are less than what the Joint Petitioners sought in their case-in-chief. Approval of the Settlement eliminates the risks, uncertainty and consumption of time and other resources that would otherwise be required in a fully-litigated proceeding. The Settlement resolves various disputed issues and addresses in a reasonable way a number of additional issues facing the Joint Petitioners. Furthermore, it promotes greater efficiency by, among other things, basing rates on OVGC and OVGI's combined costs and allowing OVG to file a single quarterly GCA instead of the three separate GCA filings as currently made.

The Settlement provides for Joint Petitioners to increase revenues by \$3,655,149. However, OVG's revenue increase calculation omitted the deduction of bad debt expense from total revenues in the calculation of the IURC fee adjustment under the proposed rates. Therefore, OVG is authorized to increase its rates and charges in order to produce additional operating revenue of \$3,655,137, net of the cost of gas, to provide OVG with the opportunity to earn approximately 8.00% on its original cost rate base of \$45,837,952. The increase represents an approximate 23.08% increase in OVG's total operating revenues. The following table sets forth the approved settlement revenue requirement:

³ Upon questioning from the bench at the settlement hearing, OVG's witness Kerney acknowledged that the calculation of the additional utility fee expense on Settlement Schedule 7 neglected to reflect the additional \$10,234 bad debt adjustment shown elsewhere on that schedule. This change has no material impact on the settled rates.

⁴ Table on Exhibit PRM-R, page 3 of 16 reflects the ROE range of the proxy companies in the May 2012 AUS Utility Report.

Settlement Revenue Requirement	
Description	Settlement
Rate Base	\$45,837,952
Times: Rate of Return	8.00%
Net Operating Income	3,667,036
Less: Adjusted Net Operating Income	1,502,207
Increase in Net Operating Income	2,164,829
Times: Revenue Conversion Factor	1.6884
Recommended Revenue Increase	\$3,655,137
Overall % Increase	23.08%

This Commission previously authorized OVGC and OVGI to recover their Pipeline Safety Act expenses through a separate PSA cost tracker mechanism. The Settlement calls for the Joint Petitioners to file within three months of a final order in this Cause a reconciliation of their PSA expenses and recoveries and updated tracker rates, and to thereafter maintain a one-year review period between PSA rate reconciliations. We agree these are reasonable and appropriate terms, and find that OVG shall file the update described in the Settlement within three months of this Order's issuance and should thereafter perform such reconciliation and tracker rate updates on an annual basis.

We also agree with the settling parties' proposal that we grant OVG's request to expand the application of its normal temperature adjustment mechanism to schools purchasing gas transportation service, and also to modify the rule governing OVG's recovery of the cost of a main extension. Both of these changes will allow OVG to more appropriately recover its authorized revenue margin and recover its investment in utility plant required to serve new or expanding customers.

The parties agree that the terms of their Settlement should not be used as precedent in any other proceeding for any purpose other than to implement or enforce its terms. With regard to future citation of the Settlement, we find that our approval herein should be construed in a manner consistent with our order in *Richmond Power & Light*, Cause No. 40434 (IURC, March 19, 1997.)

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

1. The Stipulation and Settlement Agreement between the Joint Petitioners and the OUCC filed in this case on September 19, 2012 and attached hereto shall be and is hereby approved as set forth herein.

2. Joint Petitioners 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 Joint Petitioners 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 and placed into effect by OVG.

3. The Joint Petitioners shall file their first quarterly GCA filing following the issuance of this order on a combined basis including its present three quarterly GCA filings as described in the Settlement Agreement. Before filing its first such consolidated GCA petition, OVG will prepare and informally distribute a draft of the filing and meet with the OUCC and Commission staff to finalize the mechanics of the combined filing.

4. The Joint Petitioners shall within three months of the date of this Order file a reconciliation of their incurred Pipeline Safety Act ("PSA") expenses under the PSA tracking mechanism and update the PSA tracker rates, and to thereafter perform such reconciliation and update the tracker rate on an annual basis.

5. The Joint Petitioners are authorized to expand the application of their Normal Temperature Adjustment mechanism to schools to which they provide gas transportation service.

6. Notwithstanding any provisions to the contrary set forth in this Commission's generally applicable rules governing the payment for gas main extensions, 170 IAC 5-1-27, the Joint Petitioners are authorized to replace the three (3) year revenue-based test included in the above rule with a five and one-half year margin-based test to determine the required customer contributions to the cost to construct extensions of their distribution system.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: DEC 05 2012

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



Brenda A. Howe
Secretary to the Commission

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INDIANA UTILITY REGULATORY COMMISSION

STATE OF INDIANA

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INTO ONE GCA FILING; AND (7) AUTHORITY)
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FORTH IN 170 IAC 5-1-27 FOR CUSTOMER)
CONTRIBUTIONS TO MAIN EXTENSION COSTS)

CAUSE NO. 44147

STIPULATION AND SETTLEMENT AGREEMENT

This stipulation and settlement agreement ("Settlement Agreement") is entered into by the Indiana Office of Utility Consumer Counselor ("OUCC") and the petitioners in this cause, Ohio Valley Gas Corporation ("OVGC") and its wholly-owned subsidiary, Ohio Valley Gas, Inc. ("OVGI") (collectively, "OVG"). OVG and the OUCC are collectively referred to herein as the "Parties." In the interest of efficiency and in order to consider a number of issues raised in OVG's and the OUCC's respective testimony, the Parties have devoted significant time to the review of data and discussion of issues, and have succeeded in reaching an agreement on all issues in this proceeding, and therefore stipulate and agree to the terms and conditions set forth below.

In this proceeding, this Settlement Agreement follows the initial filings of OVG's case-in-chief, the OUCC's responsive testimony and exhibits, and OVG's rebuttal thereof, all filed in advance of the evidentiary hearing conducted by the Indiana Utility Regulatory Commission

("Commission"). Those filings have framed the discussions between the Parties and formed the basis for the Parties' agreement on the terms reflected in this Settlement Agreement.

Each party has agreed to certain terms and conditions to which each may not have otherwise agreed but for the overall result produced by this Settlement Agreement. As set forth below and in the attached exhibits, the Parties' resolution of all issues encompasses OVG's revenue requirement and rate design. With few exceptions, the agreed-upon adjustments to the test year proposed in this case reflect either the testimonial positions of OVG or the OUCC, and they are thus grounded upon documented positions that are recorded in this proceeding. The terms of the Settlement Agreement are as follows:

1. Return on Equity Capital. OVG's weighted cost of capital shall be calculated assuming a return of 10.10% on shareholders' equity. While this amount is less than the amount requested by OVG in its case-in-chief and rebuttal, and is greater than advocated by the OUCC in its case, it is within the range of reasonable return on equity levels generally endorsed by the Parties' witnesses in this cause. The Parties also agree to a capital structure and overall cost of capital for purposes of this settlement as shown in Exhibit SA-1, Schedule 8 attached hereto and incorporated herein by reference.

2. Authorized Return. The Parties agree, for the purposes of this Settlement Agreement, that OVG is authorized to earn a return of 8.00% on its original cost rate base of \$45,837,952 as set forth in Exhibit SA-1, Schedule 4. The Parties agree solely for the purposes of settlement that this represents a fair return on the fair value of OVG's investment in used and useful property, plant and equipment.

3. Depreciation Rates. The Parties agree that the depreciation rate applicable to all of OVGC and OVGI's depreciable plant other than transportation, office and communications equipment, should be 2.92%, which was determined by taking the weighted average of the utilities' currently separate depreciation rates. All other depreciation rates of OVGC and OVGI are already uniform and would remain unchanged.

4. Revenue and Expense Adjustments. All issues related to the Parties' respective pro forma adjustments have been resolved in this Settlement Agreement. These adjustments are explained further in the testimony offered in support of this settlement, and all agreed-upon revenue and expense adjustments differing from OVG's direct or rebuttal testimony are set forth in Exhibit SA-1, Schedules 6 and 7.

5. Revenue Requirement. The Parties agree that OVG's adjusted test year total operating revenues are \$15,835,776. OVG shall be authorized to increase its base rates for gas utility service to produce additional annual revenues of \$3,655,149, representing an increase of approximately 23.43% in revenues from base rates. OVG did not request an adjustment to its miscellaneous operating revenues, and those revenues were not changed. Therefore, the additional annual revenues represent an overall increase in adjusted operating revenues of 23.08%. The increase is calculated to produce net operating income of \$3,667,036 and total operating revenue of \$19,490,925.

6. Cost-of-Service. As part of the Settlement Agreement, the OUCC and Petitioners reached a compromise on COS issues in this Cause. The parties filed individual COS studies with differing allocation methodologies with divergent results. The Agreement represents a compromise reached in the settlement negotiation process, with give and take by the settling parties on issues and concerns raised during this proceeding. The settling parties devoted considerable time and effort to balance Petitioners' interests with those of the ratepayers.

7. Facilities Charges. The Parties agree that OVG's current Facilities Charges for each of its rate classes will remain at the same level as present, including the \$14.50 Facilities Charge for OVG's Rate 1 residential and other smaller-volume customers.

8. Tariff. The proposed rates and charges supported by Exhibit SA-2 are reflected in OVG's revised Tariff (Exhibit SMK-SA-1 to the settlement testimony of Petitioner's Witness S.

Mark Kerney) which should be approved and accepted for filing by the Commission to be effective upon the Commission's order approving this Settlement Agreement. The rates and charges replace OVGI's and OVGC's rates and charges currently on file with the Commission.

9. Single GCA Filing for Both Ohio Valley Gas Utilities. Between them, OVGI and OVGC currently are subject to three different GCA causes, reflecting these two utilities' three different pipeline service areas. The Parties agree that these three different GCA causes should be combined, so that GCA factors for both utilities will henceforth be determined in a single GCA proceeding establishing GCA factors applicable to all three pipeline service areas. Many components of each of the three GCA filings presently differ from each other with respect to such costs as pipeline demand charges, the commodity cost of gas, the supply mix and storage gas costs. Beginning with the first GCA filed after the Commission order approving this Settlement Agreement, these costs will be pooled, while any variances and net refunds on a prospective basis will be allocated in a similar fashion. OVG will prepare and informally distribute before filing its first combined GCA petition a sample of the merged GCA and meet with the OUCC and the IURC staff to confirm the mechanics of the merged filing. OVG will also resolve any outstanding variance and refund allocations occurring as a result of the transition to a merged GCA with the OUCC and IURC staff.

10. Expansion of NTA to School Transportation Service Customers and Adjustment of Revenue Requirement for Main Extensions. The Parties agree that OVG's normal temperature adjustment mechanism should be expanded to include customers subject to OVG's tariff for school transportation service. The Parties also agree that when determining whether OVG can require a customer to pay for the cost of a main extension, instead of relying on the revenue test prescribed in the IURC Rules 170 I.A.C. 5-1-27, OVG can base the customer contribution requirement on whether the total anticipated revenue margin from increased sales resulting from the main extension after five and one-half years is equal to or greater than the estimated cost of the extension.

11. Pipeline Safety Cost Recovery (PSA). The Parties agree that an update to the PSA cost tracker should be filed to accommodate a general review of Petitioner's PSA tracking mechanism, and to reconcile and develop new PSA rate factors based on historic recoveries and expenses. This filing will be done within (3) three months of a final order in this Cause. Additionally, the Parties agree to a subsequent one-year review period between PSA rate reconciliations to allow for the matching of actual costs with recovery, and maintaining a timely review of the usefulness of the PSA tracking mechanism.

12. Request for Prompt Approval by the Commission. The Parties acknowledge that a significant motivation for OVG to enter into this Settlement Agreement is the expectation that an order will be issued promptly by the Commission authorizing increases in its rates. The Parties have spent significant time reviewing each other's cases and negotiating a settlement in an effort to eliminate time-consuming and costly litigation. OVG has agreed to accept a lower rate of return on shareholders' equity and other adjustments to its case-in-chief to avoid litigation to ensure the new rates are in effect for the upcoming winter heating season. The resulting settlement has reduced OVG's filed request for rate increases. Under these circumstances, OVG asks that this proposed resolution of OVG's request for rate relief, as set forth in this Settlement Agreement, be promptly considered and approved by the Commission. The OUCC does not object to this request.

13. Sufficient Evidence to Support Settlement Agreement. The Parties intend that this Settlement Agreement will be filed with the Commission in this cause along with settlement testimony exhibits. Together with their prefiled direct and rebuttal evidence, the settlement testimony and exhibits constitute substantial evidence forming a sufficient basis for the Commission to accept the Parties' Settlement Agreement and to enter findings of fact and conclusions of law necessary for the Commission to issue an order adopting and approving this Settlement Agreement.

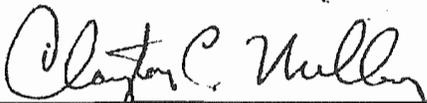
14. Stipulation, Effect, Scope and Approval. The Parties acknowledge and agree that (i) this Settlement Agreement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to either party; (ii) each term of this Settlement Agreement is the result of negotiation in the settlement process and the agreement to any particular term shall not constitute an admission or waiver by any party in any other proceeding; (iii) the Settlement Agreement shall not be used as a precedent in any other proceeding or for any other purposes except to the extent provided for herein or to the extent necessary to implement or enforce its terms; (iv) the communications and discussions of materials produced and exchanged during negotiation of the Settlement Agreement relate to the offers of settlement and shall be judged to be privileged and confidential.

15. Parties Authorized to Execute Settlement agreement. The undersigned represent and agree that each is fully-authorized to execute this Settlement Agreement on behalf of their designated clients, who will be bound thereby.

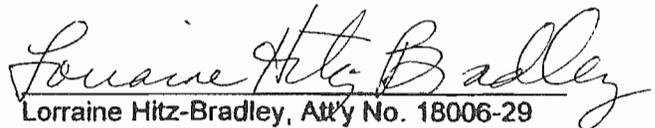
ACCEPTED AND AGREED this 19th day of September, 2012.

OHIO VALLEY GAS, INC. and
OHIO VALLEY GAS CORPORATION

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