

**ORIGINAL**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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PETITION OF INDIANA NATURAL GAS )  
CORPORATION FOR AUTHORITY TO )  
CHANGE ITS RATES, CHARGES, TARIFFS, )  
RULES, AND REGULATIONS; 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. 44453

APPROVED: JUL 30 2014

ORDER OF THE COMMISSION

**Presiding Officers:**

**David E. Ziegner, Commissioner**

**Gregory R. Ellis, Administrative Law Judge**

On January 30, 2014, Indiana Natural Gas Corporation, ("Petitioner" or "Indiana Natural Gas") filed its Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to change its rates, charges, tariffs, rules, and regulations; and approval of an alternative regulatory plan ("ARP") to implement the Energy Efficiency Program ("EEP"), associated funding and decoupling mechanisms and other appropriate regulatory practices consistent with the Commission's order in Cause No. 43995. Petitioner is also seeking approval of an ARP to change the calculation method which determines the cost borne by customers associated with distribution main extensions from the current calculations based on estimated gross revenue to one based on estimated non-gas revenue.

Petitioner filed its case-in-chief on January 30, 2014, consisting of the prefiled testimony and exhibits of its witnesses David A. Osmon, Duane C. Mercer, Bonnie J. Mann, and Kerry A. Heid. On January 31, 2014 and February 4, 2014, Petitioner filed supporting workpapers. On February 25, 2014, the Petitioner and the Office of Utility Consumer Counselor ("OUCC") filed their Joint Submission of Agreed Test Year, Procedural Schedule, and Waiver of Prehearing Conference. The Commission issued a docket entry establishing the procedural schedule for this Cause on February 25, 2014. On March 27, 2014, the OUCC filed its case-in-chief consisting of the prefiled testimony and exhibits of its witnesses Laura J. Anderson, Sherry L. Beaumont, Bradley E. Lorton, and Mark H. Grosskopf. On April 9, 2014, the Parties filed a Notice of Settlement in Principle and requested a modification to the procedural schedule. Petitioner also filed information regarding its notice to customers on this proceeding on April 9, 2014. On April 17, 2014, the Parties filed their Stipulation and Settlement Agreement (the "Settlement Agreement") in this Cause. Both Petitioner and the OUCC filed testimony and exhibits supporting the Settlement Agreement on April 17, 2014.

A public hearing was conducted in this Cause on May 1, 2014, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and offered into evidence their respective pre-filed testimony and exhibits, which were admitted into the record without objection. No members of the public appeared or sought to testify.

Based upon the applicable law and the evidence presented, the Commission finds:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of these proceedings was given and published as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1. Petitioner is also an energy utility as defined in Ind. Code § 8-1-2.5-2 and has elected to be subject to the Commission's jurisdiction over ARPs pursuant to Ind. Code § 8-1-2.5-4. The Commission has authority to approve rates for utility service under Ind. Code §§ 8-1-2-42 and 61, and to approve ARPs under Ind. Code § 8-1-2.5-6. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is an investor-owned public utility, organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 1080 West Hospital Road in Paoli, Indiana. Petitioner renders natural gas utility service to the public in Bartholomew, Brown, Crawford, Dubois, Harrison, Lawrence, and Orange counties in Indiana; and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such service.

3. **Existing Rates, Test Year, and Relief Requested.** Petitioner's current base rates and charges were established by this Commission on October 8, 2008, under Cause No. 43434. Based on a test year ending August 31, 2013, as adjusted for changes fixed, known, and measurable and occurring within the 12 months following such date, Petitioner proposes to adjust its base rates and charges in order to: (1) recover increased operating expenses; (2) earn a reasonable return; and (3) recover its costs of participation in the EEP. The result of Petitioner's proposed adjustments would be an increase in its current base rates and charges of approximately 15.87% and would increase its authorized revenue by \$499,067. Petitioner proposes to allocate such increased revenue across-the-board to all customer classes. Petitioner also proposes to change its rates, charges, and language of its tariff to include the proposed Energy Efficiency Rider ("EER"). Finally, Petitioner proposes to implement the EEP and change the calculation of costs for determining customer funding of main extensions.

4. **Evidence of the Parties.**

A. **Petitioner's Case-in-Chief.** Petitioner offered in its direct case-in-chief the testimony and exhibits of its witnesses Mercer, Mann, Osmon, and Heid. Along with the testimony of the witnesses, Petitioner submitted exhibits in support of its Petition.

Mr. Mercer, a certified public accountant with London Witte Group, LLC, explained that his firm had been engaged to analyze Petitioner's current financial information and advise Petitioner as to appropriate adjustments to those current financial results that should be sought in order to provide a reasonable return on investment in used and useful property to serve Petitioner's customers; as well as cover all operation, maintenance, and tax expenses of the utility. Mr. Mercer testified Petitioner is not earning a reasonable rate of return on its investment and that Petitioner is not

recovering sufficient funds to cover its reasonable operating expenses. Mr. Mercer proposed Petitioner should be authorized to increase its overall rates and charges by \$499,067. Mr. Mercer noted that this would result in an authorized net operating income of \$409,970 based on a 9.47% overall return on Petitioner's rate base, established on an original cost basis. Mr. Mercer also noted that the suggested net operating income assumes a cost of equity of 10.1%. He indicated that in a return on equity of 10.1% is a reasonable starting point in light of recent Commission decisions on other small gas utilities, specifically citing the litigated cases in Cause Nos. 44062 and 44063. He also noted that in four recently settled cases, Cause Nos. 44128, 44129, 44147, and 44298, the Commission found that a 10.1% return on equity was reasonable. However, Mr. Mercer also testified that because Petitioner may have some unique risks the other gas utilities do not have, such return on equity could be higher. He opined that a return on equity closer to 10.4% is more appropriate, which would result in a net operating income of \$421,659 and an increase in operating revenue of \$518,598.

In addition to supporting the proposed increase in rate revenue, Mr. Mercer described Petitioner's request to initiate the EEP approved for a number of small gas utilities in Cause No. 43995. Mr. Mercer explained Petitioner's request to change the calculation associated with distribution main extensions from the current calculations based on estimated gross revenue over three years to one based on estimated margin or non-gas revenue over six years. He noted this proposed methodology is consistent with that approved by the Commission for the other small gas utilities in Cause Nos. 44062, 44063, and settled Cause Nos. 44128, 44129, and 44298.

Petitioner's witness Ms. Mann, also a certified public accountant with London Witte Group, LLC, testified that Petitioner's books and records were kept in accordance with the uniform system of accounts for a gas utility for the 12 months ended August 31, 2013, the proposed test year for this rate request. She offered testimony describing and supporting the various pro forma adjustments to Petitioner's test year accounting schedules used to establish Petitioner's requested revenue requirement in this case. Petitioner's proposed pro forma adjustments included adjustments to: eliminate Gas Cost Adjustment ("GCA") revenues from operating revenues, apply new heating degree day normals issued by the National Oceanic and Atmospheric Administration for the 1981-2010 time period, decrease operating revenues to eliminate unaccounted for gas in Petitioner's base rates, remove the cost of natural gas from base rates, recognize changes to payroll and to employee retirement plan contributions, recover rate case expense, reflect the current IURC fee, recognize changes in various insurance costs, establish bad debt expenses, recover expenses associated with Petitioner's participation with other small gas utilities in the EEP under Cause No. 43995, recover costs of Petitioner's participation in the GCA investigation proceeding Cause No. 44374, recover costs associated with Petitioner's participation in the substitute natural gas ("SNG") proceeding Cause No. 43976, recognize the increase in management fees; recognize the existence of an information technology ("IT") support contract, recognize the increase in postage, recognize appropriate depreciation rates and depreciation expense to reflect current utility plant, recognize changes in taxes other than income taxes, and recover funds for state and federal income taxes. Ms. Mann stated that the appropriate revenue based on the test year and rate base cutoff of August 31, 2013 falls within the range discussed by Mr. Mercer.

Petitioner offered the testimony of Mr. Osmon, Executive Vice President of Indiana Natural Gas. Mr. Osmon testified that Petitioner is seeking to increase its rates and charges in order to increase operating revenues within a range of approximately \$499,000 to \$518,000, as reflected in the testimony of Mr. Mercer and Ms. Mann. Mr. Osmon indicated Petitioner's request in this

proceeding would be a reduction in the net operating income previously authorized in Cause No. 43434. He noted Petitioner is proposing to allocate the rates and charges across-the-board to all rate classes consistent with the recommendations of Mr. Heid. Petitioner is also seeking the authority to implement the EEP along with the associated funding and decoupling mechanisms consistent with the Commission's order in Cause No. 43995. Mr. Osmon also described the used and useful nature of Petitioner's utility plant and the other elements of its rate base. Mr. Osmon further explained Petitioner's request for an ARP to change the calculation of costs to be used in future cases of main extensions. He noted the Commission's current rules call for estimating the cost of extending mains to customers and that part of the rules call for free main extensions to customers when the estimated total or gross revenue for a period of three years from the prospective customer is equal to or exceeds the cost of extending those mains. He testified that gross revenue includes funds for the actual cost of gas, but funds used for gas purchases are not available for main extensions. He indicated that since Indiana Natural Gas is proposing to decouple its operating margins from the commodity cost, it is appropriate to change the main extension analysis to reflect only non-gas revenue that can be anticipated.

Mr. Heid testified that he is an independent utility rate consultant engaged by Indiana Natural Gas to consider the appropriate application of its revenue requirement to rates, recommend a rate design, and review Indiana Natural Gas's tariff for necessary changes in light of its Petition. He offered testimony and exhibits reflecting the allocation of Petitioner's proposed revenue requirement. Mr. Heid concluded a reasonable rate design would provide Petitioner a structure to recover a greater portion of its costs through monthly service charges. Once the service charges were established for each rate schedule, then the remaining revenue requirement was allocated across-the-board to all rate classes. Mr. Heid's exhibits demonstrated the impacts of such changes on typical customers within such customer classes.

Mr. Heid also offered testimony describing a proposed EER for the Petitioner which would provide for the Energy Efficiency Funding Component ("EEFC") and the Sales Reconciliation Component ("SRC") previously recognized by the Commission in Cause No. 43995. He noted Petitioner is proposing to assess customers a \$10.00 per year charge for the EEFC of the EER to recover the costs of funding energy efficiency and customer education efforts throughout Petitioner's service area. The SRC will reconcile the differences between actual margins and adjusted order granted margins for the applicable rate schedules. Mr. Heid also explained how the EEFC and the SRC would be applied to residential customers only. Finally, Mr. Heid offered testimony on a proposed tariff noting that various rates, charges, and language of the tariff was being changed as requested by Petitioner's management and required by the changes in Petitioner's revenue requirement.

**B. OUCG's Testimony.** The OUCG offered the testimony and exhibits of its witnesses Lorton, Anderson, Beaumont, and Grosskopf. Mr. Lorton, a Utility Analyst in the Natural Gas Division of the OUCG, provided testimony explaining his review of Petitioner's case-in-chief and analysis of an appropriate rate of return on common equity for Petitioner. Mr. Lorton noted that he disagreed with Petitioner's witness Mercer that a return on equity higher than 10.1% might be required and opined that a return on equity as low as 9.0% is reasonable and supported by commonly used models for estimating return on equity. However, he indicated that Petitioner proposed a compromise of 10.1% return on equity and the OUCG considers 10.1% a reasonable compromise return on equity for Indiana Natural Gas. He also pointed out that such a return was similar to the return the Commission had authorized recently for other small Indiana gas utilities.

Therefore, he recommended that a return on equity of 10.1% be used in the capital structure of this Petitioner for purposes of establishing an appropriate revenue requirement.

OUCC witness Anderson, also a Utility Analyst in the OUCC's Natural Gas Division, described her review of Petitioner's books, records, testimony, exhibits, audited financial statements, and annual reports. She indicated the OUCC's review supports the need for an increase in annual revenue of \$352,909 resulting in an 11.25% rate increase. She also noted her disagreement with the Petitioner's proposed adjustments to operating revenues related to the GCA revenue and the Normal Temperature Adjustment ("NTA") revenue. She also described her disagreements with various operating expense adjustments including: the cost of gas to be removed from base rates, the IURC fee, depreciation expense, property taxes, utility receipts taxes, and federal and state income taxes. Ms. Anderson also noted adjustments to Petitioner's rate base for a total original cost rate base of \$4,326,162 as compared to \$4,329,165 that Petitioner calculated.

Ms. Beaumont, a Utility Analyst in the Natural Gas Division of the OUCC, addressed additional operating expense adjustments for Petitioner with which the OUCC disagreed. Her testimony reflects disagreement with the following: payroll, rate case expense, property insurance, employee retirement plan contributions, energy efficiency costs, management fees, IT contract, GCA investigation costs, SNG proceeding costs, miscellaneous expenses, energy efficiency contribution from the NTA, and payroll taxes.

Mr. Grosskopf, a Senior Utility Analyst in the Natural Gas Division of the OUCC, described his review of Petitioner's proposed allocation of its revenue requirement and tariff. He noted the OUCC agrees with the methodology of the allocation, the proposed implementation of the EEP including the EER, the proposed changes to Petitioner's tariff, and the proposed main extension calculation changes as described by Petitioner's witnesses. He also noted the OUCC agrees with the change in the monthly service charges as proposed by the Petitioner with remaining revenue requirement to be applied to volumetric charges across-the-board to all of the rate classes. He recommended approval of the Petitioner's proposed tariffs on volumetric charges provided that any compliance filing following the Commission's Order in this Cause be based on the final revenue requirement.

**C. The Petitioner's Settlement Testimony and Exhibits.** Petitioner offered the settlement testimony of its witness Mr. Mercer describing the Settlement Agreement between the Parties in this Cause. Mr. Mercer explained that Petitioner and the OUCC reached an agreement on all issues raised in this Cause, reduced the agreement to writing, and filed the Settlement Agreement with the Commission. Mr. Mercer opined that the Settlement Agreement is reasonable because it provides the Petitioner with revenue relief, appropriately authorizes the Petitioner to participate in the EEP, provides a reasonable analysis for determining whether and to what extent main extensions are provided free of charge, and ultimately causes the provision of natural gas service to Petitioner's customers at reasonable rates and charges. He explained that the Petitioner and the OUCC had reached an agreement as to all operating expense adjustments, all issues related to Petitioner's capital structure and the cost of Petitioner's capital, and all issues associated with the Petitioner's rate base as of the test year. He described generally how the Parties had accepted positions prefiled in direct testimony or reached agreement through compromise on the various adjustments initially proposed by Petitioner or the OUCC. Mr. Mercer also noted the Parties reduced their compromise to a numerical exhibit DCM-1S.

Petitioner also offered the settlement testimony of Mr. Heid. Mr. Heid testified that Petitioner's settlement rates and charges and the agreed settlement revenue requirement reflect decreases from the rates and charges and revenue requirement proposed in Petitioner's case-in-chief. He noted that the settlement rates and charges along with the revenue requirement still reflect increases as compared to present rates. He indicated that the Parties have agreed on the methodology and results of applying Petitioner's increased revenue to Petitioner's customer classes. Mr. Heid concluded his settlement testimony by opining that the Settlement Agreement is reasonable and recommended approval by the Commission.

**D. The OUCC's Settlement Testimony and Exhibits.** The OUCC offered the settlement testimony of its witness Beaumont in support of the Parties' Settlement Agreement. She opined that, if approved by the Commission, the proposed Settlement Agreement will resolve all disputed issues in this Cause in a reasonable and prudent manner and it is in the public interest. Ms. Beaumont's testimony described all adjustments to rate calculations that the Parties agreed to in the Settlement Agreement. She noted the Parties agreed that Petitioner should be permitted to increase rates and charges by 12.24% to generate additional annual revenue from rates and charges of \$383,724.

**E. Settlement Agreement.** The Parties filed their Settlement Agreement, which describes the compromise they have reached, with this Commission. The results of the Parties' compromises indicate that Petitioner's current rates and charges should be changed in order to increase Petitioner's operating revenue by \$383,724 or 12.24%. The Parties also agreed that Petitioner's utility plant as of August 31, 2013 is \$14,362,644, accumulated depreciation is \$10,475,206, working capital is \$257,154, materials and supplies is \$185,275, with a final rate base of \$4,329,867. The Parties agreed that that Petitioner should be authorized to earn 9.47% on its original cost rate base of \$4,329,867 for the opportunity to earn a net operating income of \$410,038. The following table illustrates the Parties' original proposed revenue requirements and the final Settlement Agreement amounts:

<u>Description</u>	<u>Petitioner</u>	<u>OUCC</u>	<u>Settlement</u>
<b>Rate Base</b>	\$4,329,165	\$4,326,162	\$4,329,867
<b>Rate of Return</b>	9.47%	9.47%	9.47%
<b>Net Operating Income</b>	\$409,972	\$409,688	\$410,038
<b>Revenue Increase</b>	\$499,067	\$352,909	\$383,724
<b>Overall Percentage Increase</b>	15.87%	11.25%	12.24%

The Parties also agreed to the following capital structure:

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$7,198,293	92.74%	10.10%	9.37%
Customer Deposits	\$123,266	1.59%	6.00%	0.10%
Deferred Taxes	\$440,339	5.67%	0.00%	0.00%
Total	\$7,761,898	100.00%		9.47%

The terms of the Settlement Agreement indicate Petitioner should be authorized to file its proposed tariff, as changed only by the reduced revenue requirement; to implement the EEP with its associated funding and decoupling mechanisms; and to implement an ARP to change the calculation of costs associated with distribution main extensions. Finally, the Settlement Agreement requests the Commission accept and approve these compromises and base the Order in this Cause on the terms of the Settlement Agreement.

**5. 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. 2000). When the Commission approves a settlement, that settlement “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). 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*, 664 N.E.2d at 406. Furthermore, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence, *United States Gypsum*, 735 N.E. 2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N. E. 2d 330, 331 (Ind. 1991)). 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 Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just and consistent with the purpose of Ind. Code ch. 8-1-2, and that such agreement serves the public interest.

The terms of the Settlement Agreement are supported by the evidence. They represent a just and reasonable resolution of the issues presented to the Commission and are in the public interest. The evidence in this Cause indicates Petitioner’s current rates and charges are insufficient to provide Petitioner appropriate funds to operate its utility and earn a reasonable return on its investment in utility rate base. The evidence supports adjusting Petitioner’s test year revenue and operating expenses as determined by the terms of the Settlement Agreement.

Based upon the evidence of record, we find that Petitioner should be authorized to increase its rates and charges by approximately 12.24% in order to produce additional operating revenue of \$383,724. This will allow Petitioner to earn approximately a 9.47% return on its total original cost rate base of \$4,329,867, which authorizes Petitioner the opportunity to earn net operating income of \$410,038.

We find that the Parties’ proposed rate design is reasonable. We agree that the Petitioner should be authorized to implement the EEP as described by our Order in Cause No. 43995, along with the accompanying funding and decoupling mechanisms. We further find Petitioner’s proposed ARP to change the calculation of costs to be used in main extensions using non-gas revenue is appropriate.

Finally, we find that the Settlement Agreement is consistent with the purposes and requirements of Ind. Code ch. 8-1-2 and is in the public interest. As such, we find that the Settlement Agreement should be approved as presented, and will incorporate the attached Settlement Agreement as part of this Order. Pursuant to the terms of the Settlement Agreement, the Parties agree that the Settlement should not be used as precedent in any other proceeding or for any

other purpose except to the extent necessary to implement or enforce its terms. However, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459, at \*19-22 (IURC March 19, 1997).

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

1. The attached Settlement Agreement is hereby approved and incorporated by reference herein.
2. Petitioner is authorized to increase its rates and charges in accordance with our findings in Paragraph 5 of this Order to produce an additional \$383,724 in annual operating revenues.
3. Petitioner is authorized to implement the EEP previously approved in Cause No. 43995, subject to the terms of our Order in Cause No. 43995 and in accordance with our findings in Paragraph 5 of this Order.
4. Petitioner is authorized to implement its proposed ARP to change its calculations for main extensions in accordance with our findings in Paragraph 5.
5. Petitioner shall file with the Commission under this Cause, prior to placing into effect, its rates, charges, and its terms and conditions for gas service authorized herein through appropriate 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 and placed into effect by Petitioner.
6. This Order shall be effective on and after the date of its approval.

**STEPHAN, MAYS, WEBER, AND ZIEGNER CONCUR:**

**APPROVED: JUL 30 2014**

**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**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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STIPULATION AND SETTLEMENT AGREEMENT

Indiana Natural Gas Corporation, (hereafter "Petitioner") and the Indiana Office of Utility Consumer Counselor (hereinafter "OUCC") have, through their respective representatives, exchanged information, considered the evidence of record and what would be offered, and discussed the potential for compromise of all issues in this cause. Following extensive negotiation and a willingness to compromise, the Petitioner and the OUCC (hereinafter collectively the "Parties"), have reached a settlement on all issues as described by this Stipulation and Settlement Agreement (hereinafter the "Settlement Agreement").

The Parties believe that the evidence of record as of the final hearing supports the terms of this Settlement Agreement. The Parties acknowledge that the terms and conditions of this Settlement Agreement are a result of compromise by both the Petitioner and the OUCC relative to the position each has taken or would take in further proceedings in this Cause. In the interest of efficiency, saving the limited resources of the regulatory bodies involved, and recognizing the

reasonableness of the results produced by this Settlement Agreement, the Parties herein stipulate and agree as follows:

1. **Rate Increase.** Based on the test year ending August 31, 2013, as adjusted for matters that are fixed, known, and measurable, and occurring within 12 months of the test year, Petitioner proposed in its direct case filed January 30, 2014, that its operating revenue should be increased, exclusive of the cost of gas, by \$499,067. (This would represent an increase of approximately 5.472% over adjusted test year operating revenues including gas costs and 15.87% excluding the cost of gas.) The OUCC through its direct case proposed operating revenue be increased by \$352,909. (This would represent an increase of approximately 3.878% over adjusted test year operating revenues including gas costs and 11.25% excluding the cost of gas.) The Parties now agree that Petitioner should be authorized to increase its base rates and charges to produce additional annual operating revenue, exclusive of the cost of gas, by \$383,724. This represents an increase of approximately 4.217% over adjusted test year operating revenue including the cost of gas; and an increase of approximately 12.242% over adjusted test year operating revenue excluding the cost of gas.

2. **Proforma Adjustments.** Petitioner proposed in its direct case various adjustments to its test year results as set forth numerically in Petitioner's Exhibit DCM-1, Exhibit C, and accompanying schedules. The pro forma adjustments were further described by the testimony of Petitioner's witnesses Mercer and Mann. Petitioner's proposed pro forma adjustments related to both operating revenue and operating expenses, and included: adjustments to eliminate revenues recovering gas commodity costs (GCA revenue) and the cost of natural gas purchased from base rates; an adjustment to revenue to remove unaccounted for gas revenue; an adjustment to set revenues based on new normal heating degree days (Normal

Temperature Adjustment (NTA) Revenue); adjustments to payroll and contributions to the employee retirement plan; recovery of rate case expense; an adjustment to reflect the current IURC fee; adjustments to recognize changes in various insurance costs; an adjustment to establish bad debt expenses based on a two year average; an adjustment to recover expenses associated with Petitioner's participation with seven (7) other small gas utilities proposing an Energy Efficiency Program (EEP) under Cause No. 43995; an adjustment for increased management fees; an adjustment for postage; an adjustment for ongoing decoupling expenses; an adjustment to recover costs associated with the GCA investigation in Cause No. 44374; an adjustment to recover the cost of participation in the substitute natural gas (SNG) proceeding Cause No. 43976; an adjustment for a new IT support contract; an adjustment to depreciation expense to reflect current utility plant in service and a new depreciation rate for distribution plant; adjustments for taxes other than income taxes; and adjustments to recover state and federal income taxes associated with and which flow from Petitioner's proposed increased revenue and expense adjustments. Petitioner also sought to establish the value of its original cost rate base as of the end of the test year; and the elements of and costs associated with its test year capital structure.

The OUCC's testimony and exhibits suggested different adjustment amounts related to the various proposals described in Petitioner's direct case-in-chief., including adjustments related to GCA revenue and revenue related to the NTA. The OUCC also suggested different adjustments to operating expenses related to natural gas purchased, payroll, rate case expense, IURC fee, property and business insurance, employee retirement plan, costs associated with the EEP, management fees, costs associated with the GCA investigation, costs associated with the SNG proceeding, costs associated with the IT contract, costs categorized as miscellaneous

expenses, costs associated with energy efficiency within the NTA proceeding, various taxes, and depreciation.

Through negotiation and compromise, the parties have resolved all of these issues, and reduced their numerical agreement to a settlement schedule (DCM-1S). The parties describe their settlement of each issue and the numerical result as follows:

A. **Operating Revenues.**

The Petitioner proposed to adjust its operating revenue by eliminating the GCA revenue included in the test year; eliminating the unaccounted for gas revenue included in current base rates; and decreasing operating revenues to reflect the use of updated normal heating degree days. The OUCC suggested different GCA revenue and NTA revenue resulting in a decrease in test year total operating revenues of \$9,292 which would increase Petitioner's proforma revenue requirement. Following a discussion, the Parties now agree to the OUCC's revenue adjustments. The Parties have concluded that revenue adjustments to Petitioner's test year are as follows: elimination of GCA revenue of \$4,031,121; removal of unaccounted for gas of \$113,490; and elimination of NTA revenue of \$154,552. Based upon these separate elements, the Parties agree the Petitioner's test year should be adjusted downward to reflect total pro forma present rate operating revenue of \$3,136,259.

B. **Operating Expenses.**

**Purchased Gas.** The Petitioner proposed an adjustment of \$3,958,931 to eliminate the commodity cost of purchased gas from its base rates. The OUCC proposed an adjustment to purchased gas expense in the amount of \$3,958,941. The difference between the Petitioner and the OUCC does not relate to methodology but rather to the OUCC's calculation of the updated test year GCA sales and applying the cost of natural gas. The Parties now agree to the OUCC's adjustment.

**Payroll Expense.** The Petitioner proposed to increase its test year operation and maintenance expenses for purposes of annualizing actual payroll the Petitioner expects going forward. Petitioner's suggested adjustment was \$38,587. The OUCC has proposed an adjustment of \$38,457 for purposes of increasing payroll. The Parties now agree for purposes of settlement to the payroll increase suggested by the OUCC.

**Employee Retirement Plan.** As with payroll both the Petitioner and the OUCC indicated that it is appropriate to increase operating expenses to reflect the contributions to Petitioner's employee retirement plan. The Petitioner proposed an increase of \$4,435. The OUCC proposed an increase of \$4,615, based upon its review of Petitioner's test year books and records. The Petitioner agrees that the OUCC adjustment to test year operating revenue of \$4,615 is appropriate for Petitioner's employee retirement plan.

**Rate Case Expense.** Petitioner proposed rate case expense recovery of \$227,800 amortized over four years. The OUCC proposed a rate case expense recovery of \$166,801 amortized over five years. The exchange of information between the Petitioner and the OUCC included citations to recent decisions by the Commission for other small gas utilities. Specifically, the Petitioner noted the Commission's decision in Indiana Utilities Corporation, Cause No. 44062, Midwest Natural Gas Corporation, Cause No. 44063, and Boonville Natural Gas, Cause No. 44129. The OUCC cited to the settlement in Community Natural Gas Company, Inc., Cause No. 44298. While the Parties here acknowledge that such settled cases are not precedent and have not cited them here as an admission by either Party, the Parties recognize that the Commission's approval in those cases included approval of rate case expense and believe it is important to advise the Commission that both the Petitioner and the OUCC considered all of the above rate cases during the negotiations which have led to the compromise on rate case expense recovery. Based on the proposal of the Petitioner and the position of the OUCC; the Parties have agreed to the recovery of \$195,000 of rate case expense but amortized over five years. This compromise requires an adjustment to pro-forma current rate operating expense of \$35,170. The Parties further acknowledge that such a result is

reasonable for this Petitioner, based on the facts of this case, and as of the time of this settlement.

**IURC Fee.** The Petitioner and the OUCC, following a review of the position each took, recognized that the only difference in their respective positions is based upon the difference of proposed proforma revenues. Since this is a flow through adjustment, the parties now agree that an adjustment to test year operating expenses of \$3,621 is appropriate.

**Property and Business Insurance.** The Petitioner proposed an adjustment to property and business insurance of \$15,075 to recognize increased costs anticipated for such insurance. The OUCC suggested a different adjustment in order to recognize that the Petitioner has now elected not to continue with certain property insurance related to earthquake damage. The Petitioner agrees with the position taken by the OUCC and agrees that a downward adjustment of \$7,953 is appropriate.

**Reduction in Energy Efficiency Expense Associated With the NTA.** The OUCC proposed to recognize that some energy efficiency expenses would be included in the new Energy Efficiency Program and would thus no longer need to be recovered as an expense associated with the NTA. The OUCC suggested a downward adjustment of \$27,196, which represented Petitioner's test year expense for furnace and other appliance rebates. The

Petitioner indicated that the Energy Efficiency Program will only cover \$14,850 for furnace and other appliance rebates. The Parties now agree that the appropriate amount to be transferred from recovery under the NTA to the recovery under the Energy Efficiency Program requires a downward adjustment of \$14,850 to Petitioner's test year.

**Management Fees.** The Petitioner proposed an upward adjustment of \$18,000 to recognize the increased management fees Petitioner will be charged pursuant to a contract previously filed with the Commission as an affiliated interest contract. The OUCC agrees that an upward adjustment is appropriate but argues that Petitioner should have used a test year amount of \$69,000 instead of \$66,000. The Petitioner now agrees with the OUCC's position, and the Parties now agree that an upward adjustment of \$15,000 is appropriate.

**Postage.** The Petitioner proposed an upward adjustment of \$900 to reflect Petitioner's cost of postage. The OUCC agrees that such adjustment is appropriate.

**Health Insurance.** The Petitioner proposed an adjustment to reflect an increase in its health insurance costs by \$56,133. The OUCC, following a review of Petitioner's books and records, now agrees with the appropriateness of such adjustment to recognize the increased costs of health insurance for this Petitioner.

**Bad Debts.** The Petitioner proposed to adjust its bad debt costs by the average costs in bad debts it had experienced over the prior two year period ending with the test year. Petitioner's proposal was an adjustment of \$4,200. Following a review of Petitioner's books and records, the OUCC agrees with such adjustment.

**Expenses Associated with EEP.** The Petitioner proposed recovery of its cost in participating with other small gas utilities in Cause No. 43995 initiated to establish the EEP. Petitioner's proposal sought recovery of costs amortized over three years. Petitioner's adjustment provided for the annual recovery of \$23,249. While agreeing that recovery was appropriate, the OUCC proposed a five year amortization. Following discussion, the Parties now agree that the amount incurred by Petitioner should be amortized over five years to match the amortization period for recovery of rate case expense. This requires an upward adjustment of \$13,949. Additionally the Parties agree to a recovery of \$3,250 per year to begin to fund those ongoing decoupling expenses Petitioner will incur, as provided to South Eastern Indiana Natural Gas, Boonville Natural Gas, and Community Natural Gas (Cause Nos. 44128, 44129, and 44298).

**Miscellaneous Expenses.** The OUCC proposed a downward adjustment of \$19,885 to adjust operating expenses for the removal of certain miscellaneous items. The Petitioner indicated that its

rebuttal would challenge this amount. Following discussions and recognizing that settlement of this Cause is appropriate, the Parties have agreed that some miscellaneous expenses should be removed from test year operating expenses. The Parties have thus agreed to a downward adjustment of \$14,914 for miscellaneous expenses.

**GCA Investigation.** The Petitioner proposed an upward adjustment of \$7,500 to recover its costs associated with the GCA investigation Cause No. 44374 for which this Petitioner was made a Respondent. The OUCC proposed elimination of this adjustment. The Parties now agree that an adjustment is warranted, but also recognize that funds to be collected should be amortized over five years in keeping with the rate case amortization. The Parties thus agree that an upward adjustment of \$1,500 is appropriate in this Cause.

**SNG Expenses.** The Petitioner proposed an upward adjustment of \$8,643 to recover the costs of its participation in the SNG case Cause No. 43976. The OUCC, initially proposing elimination of this adjustment, now recognizes that recovery should occur. The Petitioner's original amortization for this recovery was three years. The Parties now agree to a five year amortization in keeping with the amortization of the rate case expense of this Cause requiring an upward adjustment of \$5,186.

**IT Support Contract.** The Petitioner proposed an upward adjustment to operating expenses of \$10,678 based upon the anticipated cost of a contract it was negotiating for IT Support with a third party. The OUCC proposed an upward adjustment of \$7,565 based upon the final amount that was recently negotiated, as well as a corrected test year amount. The Petitioner agrees with the OUCC's adjustment and believes that an upward adjustment to operating expenses of \$7,565 is appropriate.

**Depreciation Expense.** The Petitioner proposed that its depreciable utility plant should be depreciated at 2.5% for distribution plant; 10% for general plant less transportation equipment; and 20% for transportation equipment. The result of Petitioner's depreciation is a downward adjustment to test year depreciation expense of \$62,945. The OUCC, while agreeing with the depreciation rates, disagreed with the value of Petitioner's plant indicating that certain transportation equipment had been fully depreciated. The result of the OUCC's position was a downward adjustment of \$85,638. The Petitioner now agrees with the position of the OUCC and agrees that a downward adjustment of \$85,638 in its test year depreciation expense is appropriate.

**Taxes Other Than Income Taxes.** The Petitioner and the OUCC both indicate that they have used the same methodology to calculate taxes other than income taxes. The resulting differences

in their respective positions relate to the differences as to payroll and revenue which result in different payroll taxes and utility receipts taxes. The OUCC also agreed with Petitioner's property tax calculation, but indicated the adjustment should be a downward adjustment because the test year property taxes were greater than the pro forma property taxes. Based upon the agreement of the Parties, the Parties now believe that taxes other than income taxes should be adjusted as follows: FICA tax, an upward adjustment of \$2,942; property tax, a downward adjustment of \$73; utility receipts tax, a downward adjustment of \$45,397.

**Income Taxes.** As with taxes other than income taxes the Parties agree as to the methodology to be used for income taxes. The Indiana state income tax rate will change from 7.5% to 7.0% on July 1, 2014. Petitioner calculated the state income tax using a tax rate of 7.5%. The OUCC proposed a state income tax rate of 7.0% be used in the state income tax calculation. Because the resulting rates for this Cause will be in effect after July 1, 2014, Petitioner has agreed to use a state tax rate of 7.0% in the state income tax calculation. Based upon their agreement as to proforma operating results the Parties believe that the following adjustments are appropriate: State income taxes, a downward adjustment of \$56,312; Federal income tax, a downward adjustment of \$117,883;

for a total downward adjustment to Petitioner's income tax liability of \$174,195 to test year operating results.

**Revenue Adjustments for Pro forma Operating Results Under Proposed Rates.** Both the Petitioner and the OUCC acknowledge that once Petitioner's operating revenues are changed to reflect an increase in revenues, various additional adjustments are required to appropriately recover the IURC fee, bad debts, taxes other than income tax (utility receipts tax), and income taxes. The Parties are in agreement that Petitioner's pro forma revenue requirement adjustments include the following:

IURC fee	\$ 510
Bad debts	\$ 1,259
Taxes other than income taxes (utility receipts tax)	\$ 5,354
Income taxes	
State income tax	\$ 26,737
Federal income tax	\$ 118,953

3. **Rate Base.** The Petitioner proposed a rate base, calculated using an original cost basis, of Petitioner's used and useful plant in service, as of August 31, 2013, in the amount of \$14,476,110 less accumulated depreciation of \$10,588,672 resulting in a net utility plant in service of \$3,887,438. Adding funds for working capital and materials and supplies, the Petitioner proposed a total original cost rate base of \$4,329,165. The OUCC agreed with the methodology, but disagreed with the value of Petitioner's used and useful plant in service, accumulated depreciation, the resulting net utility plant, and Petitioner's calculation of a thirteen-month average of materials and supplies. Because the OUCC also disagreed with the revenue requirement, the OUCC disagreed with proposed working capital. Following the exchange of

information, the Parties now agree that Petitioner's utility plant as of August 31, 2013, is \$14,362,644, that accumulated depreciation is \$10,475,206, that working capital is \$257,154, and that materials and supplies is \$185,275, for a total rate base for this Petitioner of \$4,329,867.

4. **Cost of Capital.** The Petitioner through its direct case and the OUCC through its direct case have agreed on both the elements and costs of Petitioner's capital structure. The Parties agree that the table below accurately reflects their agreement in this regard:

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	\$7,198,293	92.7388%	10.10%	9.37%
Customer Deposits	\$123,266	1.5881%	6.00%	0.10%
Deferred Taxes	\$440,339	5.6731%	0.00%	0.00%
Total	\$7,761,898	100%		9.47%

5. **Pro Forma Net Operating Income.** Based upon the agreement of the Parties as to Petitioner's rate base and Petitioner's cost of capital; and recognizing the Parties' agreement on all other elements of Petitioner's operating revenue and operating expenses; the Parties now agree the Petitioner should be authorized to earn 9.47% on its original cost rate base of \$4,329,867, for the opportunity to earn a net operating income of \$410,038.

6. **Allocation of Revenue Requirement/Tariffs.** The Petitioner, in its direct case, proposed to allocate its revenue requirement to its rate classes generally across the board following the establishment of appropriate monthly charges. The OUCC, through the testimony of its witness Grosskopf agreed with the methodology used, and allocation to Petitioner's rates and charges. The Parties agree that the monthly service charge should be increased to: \$12 for residential customers (Tariff G), \$12 for small general service customers (Tariff G), \$24 for large

general service customers (Tariff C), and \$550 for transportation service customers (Tariff T). For school transportation service customers (Tariff STS), the Petitioner has proposed to set monthly service charges based upon the large general service charge, since schools that may use this tariff would migrate from the large general service. The Petitioner has also proposed that the service charge for transportation service for manufacturing end user customers (Tariff TM) should remain unchanged in order to keep this transportation service synchronized with Petitioner's other rate classes. Finally, the Parties agree that the remainder of the revenue requirement not collected through the fixed monthly charge should be allocated evenly on a volumetric basis.

As part of its direct case, the Petitioner also proposed an Energy Efficiency Rider to implement an Energy Efficiency Funding Component (EEFC) of 83¢ per month per residential customer for purposes of funding its EEP; and to implement a Sales Reconciliation Component (SRC) for all residential customers as its decoupling mechanism. Both the EEFC and the SRC flow from this Commission's order in Cause No. 43995. The OUCC agrees that the EEFC and the SRC should be implemented as proposed. As part of its direct case, the Petitioner also proposed additional language changes to the tariff currently in existence and the addition of new NTA tables. The OUCC's testimony indicates that it has reviewed the Petitioner's tariff and agrees with the proposed changes.

7. **Main Extension Policy.** The Petitioner, in its case-in-chief, proposed an ARP to change the calculation for main extensions from one involving gross revenue to one involving margin revenue. Petitioner also proposed that the three year estimate of revenue be changed to a six year estimate. The Petitioner provided information that this approach had previously been proposed, and approved by the Commission, for a number of small gas utilities including

Midwest Natural Gas, an affiliated entity with this Petitioner, in Cause No. 44063. The OUCC agrees that the main extension should be calculated on margin revenue and should use a six year period instead of a three year period.

8. **Request for Prompt Approval by the Commission.** The Parties acknowledge that a significant motivation for the Petitioner to enter into this Settlement Agreement is the expectation that a final order will be issued promptly by the Commission authorizing increases in its rates and charges as reflected herein. The Parties have spent significant time and effort to resolve the issues raised in this case. However, the Parties also recognize the insufficiency of Petitioner's current rates, as reflected by the prefiled evidence. Under these circumstances, the Petitioner requests prompt approval of this Settlement by way of a final order of the Commission.

9. **Sufficiency of the Evidence.** The Parties believe that the Petitioner's direct testimony and exhibits, the OUCC's direct testimony and exhibits, the OUCC's settlement testimony, the Petitioner's settlement testimony and exhibits, along with the Stipulation and Settlement Agreement, constitute substantial evidence sufficient to support settlement and provide an adequate evidentiary basis upon which the Commission may make findings of fact and conclusions of law necessary to issue a final order adopting and approving this Settlement Agreement.

10. **Settlement Effect, Scope, and Approval.** The Parties acknowledge and agree as follows:

- (a) This Settlement Agreement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without change or condition that is unacceptable to any party. Each term

of the Settlement Agreement is in consideration and support of each and every other term.

- (b) This Settlement Agreement is the result of compromise by the Parties within the settlement process. Neither the making of this Settlement Agreement nor any of the individual provisions or stipulations herein shall constitute an admission or waiver by any Party in any other proceeding; nor shall they constitute an admission or waiver in this proceeding if the Settlement Agreement is not accepted by the Commission. The Parties hereto shall not use this Settlement Agreement or the Commission's Order approving this Settlement Agreement as precedent, nor offer the same as an admission in any other proceeding; nor use for any other purpose except to the extent necessary to implement or enforce the terms of this Settlement Agreement. In the event this Settlement Agreement or the resulting Order is offered for any purpose not specifically allowed by the terms of the Settlement Agreement, the Parties agree that objections by the non-offering party are proper.
- (c) The communications and discussions among the Parties, along with the materials produced and exchanged during the negotiation of this Settlement Agreement, relate to offers of settlement and compromise, and as such, all are privileged and confidential. Such

material cannot be used in this or any other proceeding without the agreement of the Parties herein.

- (d) The undersigned represent and agree that they are fully authorized to execute this Settlement Agreement on behalf of their designated clients who will thereafter be bound by this Settlement Agreement.
- (f) The Parties hereto will either support; or not oppose on rehearing, reconsideration, and/or appeal; an IURC order accepting and approving this Settlement Agreement in accordance with its terms.

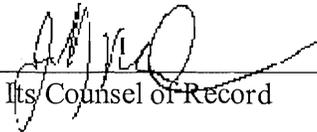
Accepted and agreed this 17th day of April, 2014.

INDIANA NATURAL GAS  
CORPORATION

By:  \_\_\_\_\_  
Its Counsel of Record

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INDIANA OFFICE OF UTILITY  
CONSUMER COUNSELOR

By:  \_\_\_\_\_  
Its Counsel of Record