ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ober	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH ("CEI SOUTH") FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENTS IN ACCORDANCE WITH I.C. 8-1-2-42(g) and 8-1-2-42.3.	))))))	**CAUSE NO. 37366 GCA 151** **APPROVED: JUL 28 2021**

ORDER OF THE COMMISSION

Presiding Officers:
David E. Veleta, Senior Administrative Law Judge

On June 2, 2021, in accordance with Ind. Code § 8-1-2-42, Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("Petitioner" or "CEI South") filed its Petition for Gas Cost Adjustment ("GCA"), with attached schedules, to be applicable during the months of August, September, and October 2021. Petitioner also pre-filed the verified testimony and exhibits of Katie J. Tieken, Director, Regulatory and Rates, Paula J. Grizzle, Director of Gas Supply and Portfolio Optimization, and Brittany A. Fleig, Manager, Regulatory Reporting, supporting the proposed GCA factors. On June 22, 2021, Petitioner filed revised schedules. On July 2, 2021, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Yi Gao, Utility Analyst, Natural Gas Division.

The Commission set this matter for an Evidentiary Hearing to be held on July 14, 2021, at 9:30 a.m. in room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. On July 8, 2021, a docket entry was issued advising that the hearing would be conducted via teleconference and provided related participation information. Petitioner and the OUCC participated, by counsel, in the hearing via teleconference. At the hearing, the testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection.

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

1. Statutory Notice and Commission Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Petitioner's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. Petitioner's Characteristics. Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 211 NW

Riverside Drive, Evansville, Indiana. Petitioner renders natural gas utility service to the public in the State of Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

3. Source of Natural Gas. Ind. Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term natural gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

According to the testimony of Petitioner's Witness Grizzle, a portion of Petitioner's gas purchases are made in advance of the heating season, pursuant to the Advance Purchase Plan as described in her testimony. Petitioner relies upon certain contracts for the provision of firm interstate supply services to its city gate in providing firm supply to customers. As part of her testimony, Witness Grizzle presented detail regarding Petitioner's firm transportation services utilized on pipeline systems.

In the Order dated August 8, 2012 for Cause No. 44021, the Commission approved Petitioner's proposal to adjust the hedging percentages associated with its winter gas supply purchases and annual gas supply purchases. These modifications allow Petitioner the flexibility to take advantage of favorable market conditions when the opportunity is available. Furthermore, the Commission granted Petitioner permission to enter into long-term contracts, with terms up to ten years, allowing the opportunity to take advantage of low prices available for future gas supply. The Hedging Program percentages were adjusted as follows: winter deliveries from 75% to 70% and annual purchases from 60% to 50%.

Also, per the Order in Cause No. 44021, Petitioner has increased the Advance Purchase Plan from six calendar quarters' duration to eight calendar quarters' duration and incorporated both physical fixed-priced purchases and financial hedges including caps to fulfill the quarterly volumes. The Commission's Order in Cause No. 37366 GCA 121 granted Petitioner approval to modify the Advance Purchase Plan from a quarterly approach to a seasonal approach to better align with supply planning and storage management seasons, along with the acquisition pattern of commodity purchases.

Ms. Grizzle testified that Petitioner has entered into a long-term fixed price purchase transaction pursuant to the Commission's Order in Cause No. 37366 GCA 135 issued on July 26, 2017, which approved CEI South's proposal for a new long-term transaction. She described the long-term fixed-price purchase as a five-year transaction for the term November 2018 through October 2023 at a fixed price not to exceed $3.25 per Dth. The volume is for 90,000 Dth per month.

Ms. Grizzle testified that Petitioner has entered into an additional long-term fixed price purchase transaction pursuant to the Commission's Order in Cause No. 37366 GCA 136 issued on October 28, 2017, which approved CEI South's proposal for a new long-term transaction. She described the long-term fixed-price purchase as a five-year transaction for the term April 2019 through March 2024 for a price not to exceed $3.25 per Dth. The volume is for 50,000 Dth per month. She stated the transaction will be shown as a separate line item in Schedule 3

for each month for the term of the transaction. She also stated this transaction will be shown as a separate line item in the Schedule 8 supplement for each month of the reconciliation quarter for the term of the transaction.

Ms. Grizzle testified regarding the historical high gas prices experienced during February 13-16, 2021, that resulted from the winter storm named "Uri" which brought cold weather to a significant portion of the U.S. and caused gas well freeze-offs and pipeline restrictions. Ms. Grizzle stated the winter storm caused significant disruptions in natural gas supply which combined with a sharp rise in natural gas demand led to an extraordinary increase in natural gas spot market prices. Ms. Grizzle testified that prices at delivery points to Indiana increased dramatically to as much as $65.60 per dekatherm at Rockies Express Pipeline, Zone 3, on February 13-16, in comparison to the February weighted average cost of gas of $3.17 per dekatherm included in the GCA 149 flex filing.

Ms. Grizzle stated that, in order to meet firm customer needs, CEI South uses a diversified gas supply portfolio consisting of a combination of baseload supplies, delivered supply, daily spot market purchases and storage which are designed to maintain reliability, while balancing price protection, stability of gas supply costs billed to customers, and reasonable prices. Ms. Grizzle testified that, during the weather event, CEI South withdrew 218,367 Dth from storage, which equals 21% of flowing supply to customers. Ms. Grizzle also stated that CEI South had adequate transportation capacity during the event. Ms. Grizzle testified that, given the threat of supply disruptions and potential pipeline penalties, additional supplies were delivered by the asset manager to both Indiana local distribution companies to ensure system reliability. Ms. Grizzle further testified that, although prices were extraordinarily high during the February winter event, CEI South contracted for firm pipeline capacity and was able to obtain all the necessary gas supply required in order to fully supply its obligations to its sales customers and to transport it into its distribution system for delivery to the end-use customers. Ms. Grizzle testified that, despite the volatile weather and market conditions, CEI South maintained reliable natural gas service for its customers in southern Indiana.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both a current and forward-looking basis. Per the testimony, the gas prices during the four days of February 13-16, 2021, were unprecedented. The evidence demonstrated CEI South executed its plan during the weather event such that its hedged gas supplies and storage helped mitigate the effect on its customers resulting from unprecedented market conditions and allowed Petitioner to maintain reliable natural gas service over February 13-16, 2021. Based on the evidence, we find CEI South has demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements; therefore, we find that the requirement of this statutory provision has been fulfilled.

4. <u>Purchased Gas Cost Rates</u>. Ind. Code § 8-1-2-42(g)(3)(B) requires that Petitioner's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the

GCA factor. The evidence of record indicates that the proposed gas costs include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor which results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's basic rates and charges were approved. Petitioner's current basic rates and charges were approved on August 1, 2007 in Cause No. 43112. The Commission authorized Petitioner to earn a net operating income ("NOI") of $8,760,160. The Commission's Order in Cause No. 44429 including sub dockets authorized a total of $13,566,371 in NOI adjustments for the GCA Earnings Test based on schedules provided in said proceeding. Therefore, Petitioner's authorized NOI for this GCA proceeding is $22,326,531.

Petitioner's evidence indicates that for the 12 months ending March 31, 2021, Petitioner's actual net operating income was $14,494,159. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last rate case.

Pursuant to the Commission's Orders in Cause Nos. 42943 and 43046, Petitioner conducted a return on equity ("ROE") earnings test. As a result of the earnings test, Petitioner's ROE was 5.11%, which is below the 10.15% ROE authorized in Petitioner's last rate case. The Commission finds Petitioner complied with the requirement for submission of the ROE calculation.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner's 12-month rolling average comparison was 35.83% for the period ending February 28, 2021 which included the extraordinary extreme weather event that occurred in February 2021. Given the extraordinary circumstances and based on Petitioner's historical accuracy in estimating the cost of gas, we find that Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the total demand variance for the months of December 2020, January, and February 2021 ("Reconciliation Period") is an over-collection in the amount of $550,557 from its customers.

This amount is to be included, based on the Petitioner's alternative methodology, in this GCA and the next three GCAs. The amount of the Reconciliation period demand variance to be included in this GCA as a decrease in the estimated net cost of gas is $80,673. The demand variance from prior periods totals an over-collection of $7,307. The total demand variance to be recovered in this GCA is an over-collection of $87,980 to be applied to this GCA as a decrease in the estimated net cost of gas.

The total commodity and bad debt variance for the Reconciliation Period is an under-collection in the amount of $19,445,983. This unusually high under-collection results from the extraordinary extreme weather event that occurred in February. In February 2021 alone, CEI South under-collected $18,384,604 in commodity and bad debt gas cost due to the high cost of gas as compared to the estimates for that period.[1] The amount to be included in this GCA as an increase in the estimated net cost of gas is $3,029,061. The commodity and bad debt variance from prior periods totals an under-collection of $13,897. The total commodity and bad debt variance to be recovered in this GCA is an under-collection of $3,042,958, which results in an increase in the estimated net cost of gas.

As a result of this high variance, CEI South presented a proposal to mitigate the impact on customers from reconciliation of the February 2021 variance. This proposal includes a combined fixed and volumetric approach. Petitioner's witness Tieken stated that CEI South is proposing an alternative approach to recover the February 2021 variance over 12 months, which is similar to the alternative approach the Commission recently approved for Northern Indiana Public Service Company ("NIPSCO") in Cause No. 43629 GCA 58. Ms. Tieken testified that fifty percent of the February 2021 variances (commodity, bad debt gas costs, and demand) will be recovered evenly over the 12-month period August 2021 through July 2022. Ms. Tieken further testified that the remaining fifty percent of the variance will be recovered using a volumetric allocation over the same 12-month period. Ms. Tieken stated this approach will result in slightly higher collections in the summer months, when natural gas usage is lower, but will lessen the impact of the increase during the winter heating season, when natural gas usage is highest. Ms. Tieken advised that CEI South considered an extended recovery period but was concerned about the potential negative impacts to customers (namely, extending across two winter heating seasons, customers new to the system will still be paying the increased rates, and increases to rates as a result of carrying costs). Ms. Tieken testified that an extended recovery period beyond the typical 12-month period is inconsistent with Ind. Code § 8-1-2-42(g)(3)(D) and Commission findings related to that statute.

OUCC Witness Gao confirmed the accuracy of calculations used to establish the proposed GCA factors presented by Petitioner in this proceeding. Ms. Gao testified that she agrees with Petitioner's proposal of recovering the February 2021 variance using the alternative approach. Ms. Gao further testified that the proposed alternative recovery method can help mitigate the financial burden on CEI South's customers in the high gas usage winter months by spreading fifty percent of the February 2021 variance evenly over the 12-month period August 2021 through July 2022. Ms. Gao stated that she agrees with Petitioner's calculations of the GCA 151 factors (as revised on June 22, 2021).

[1] The commodity cost of gas for February 2021 was $18,268,450.

Based on the evidence, the Commission finds that reconciling the variance created during February 2021 over a 12-month period, split evenly between a fixed and variable calculation as CEI South proposed (and consistent with the approach approved by the Commission in Cause No. 43629 GCA 58), is reasonable, in the public interest, and appropriate under the circumstances presented. The Commission finds, based upon the evidence, that recovery of the variance over a 12-month period under CEI South's proposed alternative methodology better balances the needs of CEI South's GCA customers and CEI South while remaining consistent with the intent of Ind. Code § 8-1-2-42(g) and prior Commission orders; therefore, we find the over-collection in demand variance in the amount of $550,557 and the under-collection in commodity and bad debt variance of $19,445,983 should be included in this GCA and the next three GCAs.

8. Resulting Gas Cost Adjustment Factor. The estimated net commodity cost of gas to be recovered is $2,307,853. Adjusting this total for the demand costs, variances, bad debt costs and refund amounts yields gas costs to be recovered through the GCA of $6,604,397. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are as follows:

GCA CHARGES – Dollars per Therm

		Applicable GCAs		
Rate Schedule	**Service**	**Estimated ($ per Therm) August 2021**	**Estimated ($ per Therm) September 2021**	**Estimated ($ per Therm) October 2021**
110	Sales	$1.0930	$0.8781	$0.8126
120	Sales	$1.0930	$0.8781	$0.8126
125	Transportation	$0.0000	$0.0000	$0.0000
129	Sales	$1.0930	$0.8781	$0.8126
145	Transportation	$0.0000	$0.0000	$0.0000
160	Transportation	$0.0000	$0.0000	$0.0000
170	Transportation	$0.0000	$0.0000	$0.0000

9. Effects on Residential Customers – (GCA Cost Comparison). Petitioner requests authority to approve the GCA factors of $10.930/Dth for August 2021, $8.781/Dth for September 2021, and $8.126/Dth for October 2021. As illustrated in the table below a residential customer would incur the following commodity costs based on 10 Dth of usage. Moreover, the table also compares the proposed gas costs to what a residential customer paid most recently (June 2021 - $4.808/Dth) and a year ago (August 2020 - $3.899/Dth, September 2020 - $4.211/Dth, and October 2020 - $3.912/Dth). The table solely reflects costs that are

approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

Month		Current		Year Ago	
	Proposed Gas Costs (10 Dth)	Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
August 2021	$109.30	$48.08	$61.22	$38.99	$70.31
September 2021	$87.81	$48.08	$39.73	$42.11	$45.70
October 2021	$81.26	$48.08	$33.18	$39.12	$42.14

10. **Interim Rates.** We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** The Commission indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, Petitioner shall file all material that supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

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

1. The Petition of Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South for the gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. The 12-month alternative reconciliation process CEI South proposed under which the variance created during February 2021 will be split evenly between a fixed and a variable calculation is approved.

3. Prior to implementing the GCA factors approved above or any future flexed factor, Petitioner shall file the applicable rate schedules for approval by the Commission's Energy Division.

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

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:

APPROVED: JUL 28 2021

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

Dana Kosco Digitally signed by Dana Kosco Date: 2021.07.28 10:31:30 -04'00'

Dana Kosco
Secretary of the Commission