ORIGINAL

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

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED 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 154** **APPROVED: APR 27 2022**

ORDER OF THE COMMISSION

Presiding Officer:
Jennifer L. Schuster, Senior Administrative Law Judge

On March 1, 2022, 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 May, June, and July 2022. 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 Chrissy M. Behme, Manager, Regulatory Reporting, supporting the proposed GCA factors. On March 21, 2022, Petitioner filed revised schedules. On March 31, 2022, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Scott O. Viefhaus, Utility Analyst in the Natural Gas Division of the OUCC.

The Commission set this matter for an evidentiary hearing to be held on April 13, 2022 at 1:15 p.m. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner and the OUCC participated, by counsel, in the hearing. 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 Indiana law. Petitioner's principal office is located at 211 NW Riverside Drive, Evansville, Indiana. Petitioner renders natural gas utility service to the public in Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

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

According to Ms. Grizzle, a portion of Petitioner's gas purchases are made in advance of the heating season pursuant to its Advance Purchase Plan. Petitioner relies upon certain contracts for the provision of firm interstate supply services to its city gate in providing firm supply to customers. Ms. Grizzle discussed Petitioner's firm transportation services utilized on pipeline systems.

In its Order in Cause No. 44021 (Aug. 8, 2012), 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. The Commission also granted Petitioner permission to enter into long-term contracts, with terms of 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 pursuant to 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-price 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.

According to Ms. Grizzle, Petitioner has entered into a long-term fixed price purchase transaction pursuant to the Commission's Order in Cause No. 37366 GCA 135 (July 26, 2017) for the term of 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. She also stated that that Petitioner has entered into a long-term fixed price purchase transaction pursuant to the Commission's Order in Cause No. 37366 GCA 136 (October 25, 2017) for the term of April 2019 through March 2024 for a price not to exceed $3.25 per Dth. The volume is for 50,000 Dth per month. Both of these transactions will be shown as separate line items in Schedule 3 for each month for the terms of the transactions and shown as separate line items in the Schedule 8 supplement for each month of the reconciliation quarter for the terms of the transactions.

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 current and forward-looking bases. Based on the evidence offered, we find that Petitioner has demonstrated that it has followed and continues to follow a policy of securing natural gas supply at the lowest 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 factors. The evidence of record indicates that the proposed GCA factors 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. <u>Earnings Test</u>. 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 October 6, 2021, in Cause No. 45447. The Commission authorized Petitioner to earn a net operating income ("NOI") of $26,418,717.

Petitioner's evidence indicates that, for the 12 months ended December 31, 2021, Petitioner's actual net operating income was $20,459,804. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of the NOI 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 6.27%, which is below the 9.70% ROE authorized in Petitioner's last rate case. The Commission finds Petitioner complied with the requirement for submission of the ROE calculation.

6. <u>Estimation of Purchased Gas Costs</u>. 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, which included the extreme cold weather event that occurred in February 2021, was a positive 30.97% for the period ended November 30, 2021. 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. <u>Reconciliations</u>. 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 September, October, and November 2021 ("Reconciliation Period") is an over-collection in the amount of $13,453 from its customers.

This amount is to be included, based on estimated sales percentages, 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 $799. The demand variance from prior periods totals an over-collection of $62,564. The total demand variance to be recovered in this GCA is an over-collection of $63,363 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 over-collection in the amount of $736,495. The amount to be included in this GCA as a decrease in the estimated net cost of gas is $43,754. The commodity and bad debt variances from prior periods total an under-collection of $2,885,894, which includes the allocated portion of prior variances attributable to this GCA related to the extraordinary extreme weather event that occurred in February 2021. The total commodity and bad debt variance to be recovered in this GCA is an under-collection of $2,842,140, which results in an increase in the estimated net cost of gas.

8. Repeal of Indiana Utility Receipts Tax. Mr. Viefhaus discussed the recently approved House Enrolled Act ("HEA") 1002, which repeals the Indiana Utility Receipts Tax ("URT"), effective July 1, 2022. HEA 1002 requires every utility subject to both the URT and the Commission's ratemaking jurisdiction to adjust its rates and charges to reflect the URT repeal. Mr. Viefhaus testified that the Commission has stated utilities can adjust the URT in currently pending cases as a means to comply with the new law as rates are being adjusted. Petitioner did not oppose Mr. Viefhaus's proposal and included a corrected Appendix A in its revised schedules showing the July rate excluding URT. Based on the corrected Appendix A and support provided in Schedule 1, Page 2, Line 23, Petitioner's July 2022 rate as adjusted to reflect the repeal of the URT under HEA 1002 is $1.2021 per therm.

9. Resulting Gas Cost Adjustment Factors. The estimated net commodity cost of gas to be recovered is $2,720,952. Adjusting this total for the demand costs, variances, bad debt costs, and refund amounts yields gas costs to be recovered through the GCA of $6,675,381. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are as follows:

Rate Schedule	Service	May 2022 ($ per therm)	June 2022 ($ per therm)	July 2022 ($ per therm)
110	Sales	$0.9526	$1.2089	$1.2021
120	Sales	$0.9526	$1.2089	$1.2021
125	Transportation	$0	$0	$0
129	Sales	$0.9526	$1.2089	$1.2021
145	Transportation	$0	$0	$0
160	Transportation	$0	$0	$0
170	Transportation	$0	$0	$0

10. Effects on Residential Customers. Petitioner requests authority to approve the GCA factors of $9.526/Dth for May 2022, $12.089/Dth for June 2022, and $12.021/Dth for July 2022. 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 (March 2022 – $6.287/Dth) and a year ago (May 2021 – $4.716/Dth, June 2021 – $4.808/Dth, and July 2021 – $5.352/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.

		Current		Year Ago	
Month	**Proposed Gas Costs (10 Dth)**	**Gas Costs (10 Dth)**	**Difference from Current**	**Gas Costs (10 Dth)**	**Difference from Year Ago**
May 2022	$95.26	$62.87	$32.39	$47.16	$48.10
June 2022	$120.89	$62.87	$58.02	$48.08	$72.81
July 2022	$120.21	$62.87	$57.34	$53.52	$66.69

11. **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.

12. **Monthly Flex Mechanism.** The Commission has 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 factors 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 9, is approved, subject to refund in accordance with Paragraph 11. Such gas cost adjustment charges shall remain in effect until replaced by different gas cost adjustment factors that are approved in a subsequent filing.

2. Prior to implementing the GCA factors approved above or any future flexed factor, Petitioner shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Energy Division. Such rates shall be effective on or after the order date subject to Division review and agreement with the amounts reflected.

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

<u>HUSTON, FREEMAN, KREVDA, AND OBER CONCUR; ZIEGNER ABSENT</u>:

APPROVED: APR 27 2022

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

Regina K. Joyner Digitally signed by Regina K. Joyner Date: 2022.04.27 10:31:19 -04'00' on behalf of

Dana Kosco
Secretary of the Commission