

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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PETITION OF THE BOARD OF DIRECTORS FOR)
UTILITIES OF THE DEPARTMENT OF PUBLIC)
UTILITIES OF THE CITY OF INDIANAPOLIS, AS)
SUCCESSOR TRUSTEE OF A PUBLIC CHARITABLE)
TRUST, D/B/A CITIZENS GAS FOR (1) AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR GAS)
UTILITY SERVICE AND APPROVAL OF A NEW)
SCHEDULE OF RATES AND CHARGES APPLICABLE)
THERETO, (2) AUTHORITY, TO THE EXTENT)
NECESSARY AS AN ALTERNATIVE REGULATORY)
PLAN, TO CONTINUE ITS LOW-INCOME CUSTOMER)
BILL ASSISTANCE PROGRAM KNOWN AS THE)
UNIVERSAL SERVICE PROGRAM, (3) APPROVAL, TO)
THE EXTENT NECESSARY AS AN ALTERNATIVE)
REGULATORY PLAN, OF CERTAIN MODIFICATIONS TO)
THE CITIZENS ENERGY SELECT PROGRAM AS SET)
FORTH IN ITS TARIFFS AND GENERAL TERMS AND)
CONDITIONS FOR GAS SERVICE, (4) APPROVAL OF)
CERTAIN OTHER CHANGES TO ITS GENERAL TERMS)
AND CONDITIONS FOR GAS SERVICE, AND (5))
APPROVAL OF NEW DEPRECIATION ACCRUAL RATES)

CAUSE NO. 43975

APPROVED: AUG 31 2011

BY THE COMMISSION:

Carolene Mays, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On December 16, 2010, the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as successor trustee of a public charitable trust, d/b/a Citizens Gas ("Petitioner," "Citizens," or "Citizens Gas") filed its Verified Petition ("Petition") with the Indiana Utility Regulatory Commission ("Commission") seeking: (i) authority to increase its rates and charges for gas utility service rendered by it and approval of a new schedule of rates and charges applicable thereto; (ii) authority, to the extent necessary as an alternative regulatory plan ("ARP"), to continue its low-income customer bill assistance program, known as the Universal Service Program ("USP"); (iii) approval, to the extent necessary as an ARP, of certain modifications to the terms of the Citizens Energy Select ("CES") program, as set forth in Petitioner's schedules of rates and charges and general terms and conditions for gas service; (iv) approval of certain other changes to Petitioner's general terms and conditions for gas service; and (v) approval of new depreciation accrual rates.

On January 18, 2011, the Citizens-Industrial Group ("CIG") filed a Petition to Intervene in this proceeding. On June 24, 2011, CIG filed an Amendment to its Petition to Intervene.

In accordance with 170 IAC 1-1.1-15 and pursuant to proper notice given as provided by law, a Prehearing Conference and Preliminary Hearing commenced on January 19, 2011, at 3:00 P.M., E.D.T., in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Proof of publication of notice of the Prehearing Conference was incorporated into the record and placed in the official files of the Commission. Counsel for Petitioner, the Indiana Office of Utility Consumer Counselor (“OUCC”) and CIG appeared and participated in the Prehearing Conference. During the Prehearing Conference, the Commission granted CIG’s Petition to Intervene on the record. On February 2, 2011, the Commission issued a Prehearing Conference Order setting forth certain determinations with respect to the conduct of this Cause based upon the stipulations of the parties at the Prehearing Conference.

On January 21, 2011, Realgy, LLC, d/b/a Realgy Energy Services (“Realgy”) filed a Petition to Intervene. The Presiding Officers granted Realgy’s Petition to Intervene by docket entry dated February 10, 2011.

On May 5, 2011 at 6:00 P.M. E.D.T., the Commission held a public field hearing in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana for the purpose of receiving testimony from the general public. No members of the general public appeared to offer testimony at the field hearing.

On June 17, 2011, Citizens notified the Commission that a partial settlement had been reached, and requested a continuance of the evidentiary hearings scheduled to commence June 20, 2011. Citizens indicated that Citizens, the OUCC and CIG had reached an agreement in principle with respect to the amount of the annual increase to Citizens’ pro forma operating revenues.

Pursuant to proper notice given as required by law, an evidentiary hearing was held on June 20, 2011, at 9:30 A.M., E.D.T., in Room No. 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana 46204. Counsel for Petitioner, the OUCC, CIG and Realgy (collectively, the “Parties”) appeared at the hearing. The Parties represented that settlement negotiations were ongoing and agreed to file a settlement agreement on some or all of the issues, along with supporting testimony on or before June 30, 2011. At the hearing, a “Joint Agreement for Remittal of Disqualification of Commissioner Mays” was admitted into the record without objection. The evidentiary hearing was continued until July 11, 2011.

On June 30, 2011, the Parties filed a “Stipulation and Settlement Agreement” (the “Settlement Agreement”) with the Commission. A copy of the Settlement Agreement is attached hereto. Also on June 30, 2011, Citizens filed the supplemental testimony and exhibits of LaTona S. Prentice in support of the Settlement Agreement. On the same day, the OUCC filed the testimony of Mark H. Grosskopf, in support of the Settlement Agreement.

On July 7, 2011, the Presiding Officers issued a docket entry directing Petitioner to respond to two questions relating to proposed changes to the Terms and Conditions for Gas Service. Petitioner filed “Responses to Presiding Officers’ Requests for Additional Information” on July 11, 2011.

On July 11, 2011, the Commission resumed the evidentiary hearing. Citizens' direct and rebuttal testimony and exhibits were offered and admitted into evidence without objection. The OUCC's, CIG's and Realgy's direct testimony and exhibits, as well as CIG's cross-answering testimony, were admitted into evidence without objection. The Parties offered into evidence Joint Exhibits 1 through 5, consisting of the Settlement Agreement, and supporting exhibits attached thereto. The testimony and exhibits of Citizens and the OUCC in support of the Settlement Agreement also were offered and admitted into evidence. No members of the general public appeared.

Based upon the applicable law, the evidence presented herein, and being duly advised, the Commission now finds:

1. Legal Notice and Commission Jurisdiction. Due, legal and timely notice of the filing of the Petition in this Cause was published by Petitioner, as required by law. Petitioner also gave proper and timely notice to its customers, which summarized the nature and extent of the proposed changes in Petitioner's rates and charges for gas service. Moreover, legal notice of the filing for approval of an ARP was published by Petitioner in accordance with Ind. Code § 8-1-2.5-2. Due, legal and timely notice of the public hearings conducted in this Cause was given and published as required by law.

Petitioner operates a gas utility and, pursuant to Ind. Code § 8-1-11.1-3(c)(9) and Ind. Code § 8-1.5-3-8, is required to obtain Commission approval of changes in its schedule of rates and charges and terms and conditions for gas service. Petitioner is a "municipally owned utility" within the meaning of the Public Service Commission Act, as amended, and an "energy utility" under Ind. Code § 8-1-2.5-2, and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Organization and Business. Petitioner is engaged in the business of providing gas service to the public as the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust d/b/a Citizens Gas. Its principal office is located at 2020 North Meridian Street, Indianapolis. Petitioner distributes natural gas to the public, and provides gas delivery services to its eligible customers. As of June 30, 2010, Petitioner provided gas service to 261,159 residential, commercial, and industrial customers in and around Marion County, Indiana.

Petitioner provides gas service to its customers by means of gas utility plant, properties, equipment and facilities owned, operated, managed and controlled by it, which are used and useful for the convenience of the public. Petitioner's gas plant includes, without limitation, transmission, distribution and liquefied natural gas storage facilities. Petitioner also owns underground natural gas storage facilities in Greene County, Indiana.

3. Test Year. In accordance with the Prehearing Conference Order, the twelve (12) month period ended June 30, 2010 was the test year used in this Cause to determine Petitioner's actual and pro forma operating revenues, expenses and operating income under its present rates and charges and the effect of its proposed rates.

4. Relief Requested.

A. Base Rate Relief. On September 19, 2008, Petitioner placed into effect its existing schedule of rates and charges, which are designed to recover the revenue requirements the Commission approved in its September 17, 2008 Order in Cause No. 43463, based on a test year ending September 30, 2007. In the Petition in this proceeding, Citizens indicated that its rates and charges for gas service, as approved by the Commission in Cause No. 43463, result in the collection of revenues that do not meet the requirements of reasonable and just rates and charges set forth in Ind. Code § 8-1.5-3-8. (Petition ¶ 9.) In its case-in-chief, Petitioner sought approval from the Commission to increase its rates and charges to generate additional annual operating revenues of \$14,041,535, representing a 4.38% overall increase in its pro forma operating revenues. In rebuttal, Petitioner revised its proposed increase in pro forma operating revenues to \$13,285,055, representing a 4.14% overall increase in operating revenues. Petitioner further proposed that its requested increase in operating revenues be recovered from customer classes based upon the results of its cost-of-service study.

B. Continuation of the Universal Service Program. In the November 19, 2009 Order in Cause No. 43669 approving reinstatement of Citizens' USP, the Commission found the program "is hereby approved until the Commission's order in the . . . utility's next rate case. . . ." The Commission further held: "[i]nasmuch as [Petitioner] wish[es] to continue [the program, it] shall be included as part of the requested relief in [Petitioner's] base rate [case], which must be filed by October 31, 2012 in order for the [program] not to lapse. If a rate case is not filed by . . . October 31, 2012, the [program] authorized in this Cause will terminate and will not be considered by this Commission outside the context of a base rate case." Accordingly, Petitioner sought authority, to the extent necessary as an ARP under Ind. Code § 8-1-2.5-6, to continue the USP beyond the final Order in this proceeding. (Petition ¶ 20.)

C. Changes to the Citizens Energy Select Program. By Order dated December 11, 2002 in Cause No. 41605, the Commission authorized Petitioner to implement a modified ARP under which it "unbundled" its costs and restructured its service offerings. Petitioner's commercial and industrial customers participating in the CES program have the option of purchasing gas commodity from competing 3rd Party Suppliers of natural gas. Based on the experience of operating the CES program through the past seven years, Petitioner proposed, to the extent necessary as an ARP under Ind. Code § 8-1-2.5-6, a number of revisions to its schedules of rates and charges and terms and conditions for gas service relating to that program. The proposed changes generally can be categorized as follows: (i) eliminating the requirement that Citizens bill on behalf of 3rd Party Suppliers; (ii) eliminating the distinction between "Supplier Groups" and "Supplier Pools;" (iii) modifying the "50/50" delivery requirement; (iv) eliminating "Banking Service" and "Incremental Banking Service" and making corresponding modifications to imbalance cash-out provisions; (v) eliminating the "free" annual 3rd Party Supplier switch; and (vi) requiring new enrollees to submit a Delivery Service Agreement. (Petition ¶ 26.)

D. Miscellaneous Tariff Revisions. Citizens proposed several miscellaneous revisions to its tariffs and terms and conditions for gas service. Among other

changes, Citizens requested that the Commission approve a modification to its rules relating to billing and payment of bills to specify that moving from one premises to another does not absolve the end-use customer from any unpaid charges incurred at a previous location. Petitioner also proposed to relocate all miscellaneous non-recurring charges from the terms and conditions for gas service to “Gas Rate No. A5 – Non-Recurring Charges.” (Petition ¶ 28.)

E. New Depreciation Accrual Rates. Petitioner presented a depreciation study as part of its case-in-chief. (Petitioner’s Exhibit JJS-1.) Petitioner requested that the Commission approve revisions to its depreciation accrual rates for its gas utility plant in accordance with the results of that study. (Petition ¶ 29.)

5. Summary of the Evidence.

A. Citizens Gas Testimony.

1. Mr. Carey B. Lykins. Mr. Lykins, President and Chief Executive Officer of Citizens Energy Group, testified that the Order issued in Cause No. 43463 on September 17, 2008 reflects the most recent Commission approval to set base rates. Citizens Gas designed the approved rates and charges to recover revenue requirements based on a test year ending September 30, 2007. Mr. Lykins noted that Citizens Gas is filing for rate relief just two years after its last rate case because of insufficient revenues as well as the need to maintain its financial integrity. According to Mr. Lykins, by seeking more frequent upgrades to its base rates, Citizens Gas may demonstrate its financial viability to the credit rating agencies.

Despite efforts taken to control operational costs such as the base wage freeze for all non-collective bargaining employees, Mr. Lykins explained that the current rates are not adequate to pay all the operating expenses and maintain the utility property in a sound physical and financial condition in order to provide adequate and efficient service. He further noted that this shortfall is due not only to the rising overall operating costs but also to the reduction of about 3.5 Bcf in throughput, which equates to a \$7.3 million loss, from the September 30, 2007 test year to the June 30, 2010 test year in this current Cause. Another factor in filing this rate case is the increased obligation of \$6.6 million to the pension plan fund.

In addition, Cause No. 43669 ordered that Citizens Gas’ USP be extended through October 31, 2012 or until the next base rate case. Therefore, Citizens Gas seeks to continue its USP beyond October 31, 2012.

2. Mr. William A. Tracey. Mr. Tracey, Senior Vice President of Operations for Citizens Gas and Citizens Thermal, described improvements in Citizens Gas’ gas distribution system through replacement of mains, services, and related equipment. Wrapped and cathodically-protected steel or medium density polyethylene pipe is used to replace cast iron, wrought iron, and bare steel mains and services that have served their useful lives. Approximately three miles of cast iron, wrought iron, and steel pipe that are four inches in diameter and under make up the distribution mains.

Mr. Tracey described the CES program, which allows commercial and industrial

customers to use local distribution services provided by the utility and to purchase the gas commodity and interstate transportation services from approved 3rd Party Suppliers. The number of transportation accounts has grown steadily since the inception of CES in 2003.

Mr. Tracy also discussed the criteria and self-assessment process of the Baldrige National Quality Program. Citizens Gas participates in the annual Baldrige assessment administered by the U.S. Department of Commerce. The Baldrige assessment, conducted by an independent examiner, provides a framework for organizations to improve their overall performance by measuring several categories such as customer and market focus. This particular category examined Citizens Gas' relationship with its customers in a number of respects and how it determines its customers' requirements and expectations. He stated that the Baldrige assessment ensures improvements in one area do not compromise performance in another area.

Mr. Tracey noted the annual customer satisfaction surveys used to identify customer needs and improve customer service and satisfaction. Market Strategies International ("MSI") conducts separate surveys for residential, commercial, and industrial customers. MSI uses the data to compare Citizens Gas to a peer group consisting of 17 natural gas and combination utilities within the Midwest. In both the residential and industrial MSI studies, Citizens Gas ranked number one in several categories. The residential study compares 29 categories and the commercial and industrial study compares 26 different categories. In addition, Citizens Gas uses the J.D. Power and Associates Gas Utility Residential Customer Satisfaction Study ("J.D. Power") to compare it with 22 Midwest gas utilities. Citizens Gas ranked within the top five during the past five years. Most recently, J.D. Power rated Citizens Gas as "among the best" in four of six key categories which included customer satisfaction, and "better than most" in the other two categories.

Per the terms of the settlement agreement in Cause No. 43463, Citizens Gas and the OUCC jointly participated in a pilot statistical benchmarking study conducted by Huron Consulting Group to evaluate the value of statistical benchmarking as a tool to be used by the OUCC, Citizens Gas, and other Indiana utilities. When compared against the peer group, he stated that Citizens Gas had one of the lowest distribution costs per customer. Mr. Tracy stated that the study benefited Petitioner's customers by validating the results of the Utility's other benchmarking efforts used for performance improvement initiatives, and identified areas of potential improvement and provided order of magnitude targets for the Utility. Citizens Gas seeks to recover one-half of the cost of the benchmarking study through its rates and charges. Mr. Tracy explained that Citizens Gas does not believe it is in the best interest of ratepayers to conduct another benchmarking study in the near future.

3. Mr. John R. Brehm. Mr. Brehm, Senior Vice President and Chief Financial Officer, provided testimony to support the proposed revenue requirement for debt service and interest income. Petitioner had \$377,875,000 in outstanding debt as of June 30, 2010. This amount consisted of \$316,705,000 in long-term debt, \$11,170,000 in current maturities of long-term debt, and \$50,000,000 in tax-exempt commercial paper.

Exhibit JRB-1 details the test year debt service from Gas Utility System bonds ("GUS"), Gas Utility Distribution System bonds ("GUDS"), commercial paper, and interest on customer

deposits that totals \$27,226,768. Petitioner proposed a pro forma debt service of \$27,626,805.

During the test year, Petitioner refunded the Series 1998 A GUDS with Series 2010 A GUDS. This transaction occurred due to the decline in interest rates. The refunds lowered the pro forma annual debt service by \$217,722 for the combined Series 1998 A and 2010 A GUDS bonds.

Petitioner typically has cash reserves invested in money market securities, fixed-income securities, and it earns interest income on the cash it is required to deposit in advance of required payments for debt principal and interest. Exhibit JRB-2 indicated test year interest income is \$36,576. This amount also represents the amount of pro forma interest income.

Citizens Gas' ability to maintain a credit rating of A+ from Standard and Poor's and A2 from Moody's is dependent on its debt service coverage ratio. The pro forma debt service coverage ratio at present rates is 1.42 and places a risk on Citizens Gas to maintain its current rating. If Citizens Gas had a lower BBB+ rating, the interest rate Citizens Gas would pay on new debt would be 50 basis points higher. The pro forma debt service coverage ratio at proposed rates would be 1.91 and would result in a net cash flow of zero after paying for extensions and replacements.

Mr. Brehm noted how the current low interest rate environment affects the pension funding requirements for Petitioner. While low interest rates benefit in assisting the recovery of the economy, they have an adverse impact on pension funding requirements because they increase the funding requirements. The present value of the pension benefit obligation is affected by the lower discount rate used to value the benefit obligation.

4. Mr. Christopher H. Braun. Mr. Braun, General Manager of Gas Operations, testified concerning Citizen Gas' proposed Extensions and Replacements ("E&R") revenue requirement, changes to Citizens' Energy Select program, and efforts made by Citizens Gas to reduce costs and improve safety.

With respect to E&R, Citizens Gas used the three year average of E&R expenditures, \$25.2 million, as the amount reasonably required for making extensions and replacements going forward. Citizens Gas opines using a three year average is the appropriate methodology as this was used in the previous two Citizens Gas rate cases, Cause Nos. 43463 and 42767. Additionally, while Citizens Gas projects to spend \$26.9 million on E&R for fiscal year 2011, using the smaller three year average would comply with Citizens Gas' desire for smaller and more frequent rate increase requests.

Mr. Braun noted that Energy Select was established in 2003, and allows commercial and industrial customers the opportunity to purchase gas from an authorized 3rd party supplier, essentially unbundling Citizens Gas' service into delivery and commodity components. Citizens Gas proposed several changes to its Energy Select program including to:

1. Elimination of the requirement for billing on behalf of 3rd party suppliers

2. Elimination of the distinction between supplier group and supplier pool customer classifications
3. Modification of the 50/50 delivery requirement
4. Elimination of the banking and incremental banking service
5. Modification of the balancing cash out provisions
6. Elimination of one free annual 3rd party switch
7. Requiring new Energy Select enrollees to submit a Delivery Service Agreement

Currently, Citizens Gas provides billing for two of the 3rd party suppliers participating in the program. Mr. Braun testified that the discontinuation of billing for these suppliers will streamline the billing process, and eliminate the possibility of a customer being disconnected in error for not paying their 3rd party supplier. Under the current scenario, Citizens Gas has experienced delays in receiving data from 3rd party suppliers, which in turn creates delays for Citizens Gas' accounting department. All the 3rd party suppliers were receptive to this change, and the one supplier which commented on this change indicated it understood the reasoning behind the proposed change.

The current 50/50 rule, instituted under the settlement in Cause No. 41605, required all 3rd party suppliers to deliver at least 50% of their supply through the Panhandle city gate, and the other half through other pipelines in any combination. According to Mr. Braun, the purpose of the rule was to protect the integrity of Citizens Gas' closed loop distribution system, which could potentially fail if too much supply enters one side, especially in high demand months. In addition, the use of one pipeline for supply could harm Citizens Gas' retail customers by forcing their supply to enter through a more expensive pipeline. Below is the proposed modified 50/50 rule:

Season	Panhandle Eastern Pipeline	Other Connected Pipelines
Winter (November-March)	50%	50%
Shoulder (April and October)	Up to 75%	Up to 75%
Summer (May-September)	Up to 100%	Up to 100%

Mr. Braun testified that this modification will allow flexibility for the 3rd party suppliers in developing their supply plans, but also ensures the integrity of Citizens Gas' distribution system.

Citizens Gas presently defines "supplier pools" as customers with annual usage at a single meter less than 50,000 therms, and "supplier groups" as customers with annual usage greater than 50,000 therms. Citizens Gas forecasts the daily gas needs of the "supplier pools" one day in advance, and 3rd party suppliers forecast the gas needs of the "supplier groups". Mr. Braun proposed to eliminate the distinction between "pools" and "groups" and allow 3rd party suppliers to forecast supply requirements for all Energy Select participants. Over the duration of the Energy Select program, Citizens Gas determined that continuing to forecast supply for smaller customers is an administrative burden and does not provide a benefit to customers. Now that 3rd party suppliers can group all Select customers for forecasting, administrative time and costs should also be reduced.

Mr. Braun noted that Citizens Gas currently offers banking service to 3rd party suppliers, which allows them to store gas on leased pipelines, underground storage, and liquefied natural gas facilities. This allows suppliers to meet supply needs regardless of swings in demand. In this proceeding, Citizens Gas proposed to eliminate the banking service due to the small allocation of volume available for banking, which is not enough for 3rd party suppliers to rely on for balancing customer needs. Also, to protect storage integrity, Citizens Gas has several rules and limitations on the banking service, which may be burdensome for 3rd party suppliers.

Elimination of the banking service requires a modification to the current manner in which Citizens Gas calculates usage imbalances. A usage imbalance is the difference between the amount of gas delivered to Citizens Gas by a supplier, and the monthly amount of gas consumed by the supplier's customers. If the banking service is eliminated, 3rd party suppliers will be cashed out on a monthly basis, with no imbalances carried forward month-to-month. The loss of the banking service calls for more leniency with regard to the credits or charges assessed to suppliers for their over or under delivery. The parameters of the proposed usage imbalance charges/credits are widened so as not to overly penalize a supplier for over or under supply, especially without the aid of a banking service to carry forward the imbalances.

Currently, according to Gas Rate A8, customers can switch 3rd party suppliers once per year free of charge. Petitioner requests to eliminate this provision and charge customers for any switch in suppliers, including returning to Citizens Gas' retail service or the customer's initial switch from retail to transport service. Citizens Gas finds it difficult to monitor switching that occurs within a 12 month period, and the manual nature of monitoring the switching can produce under recoveries. Moreover, Petitioner incurs the same cost for switching a customer regardless of how many times it switches in a year.

Mr. Braun also discussed the propose requirement for all Energy Select participants to complete and submit a Delivery Service Agreement. Currently, only customers in supplier groups are required to execute a Delivery Service Agreement. The agreement describes the terms and conditions of the Energy Select program, along with the rights and responsibilities of the customer and 3rd party supplier. He stated that this modification will help assure Citizens Gas that the customer is aware of and approves the 3rd party supplier providing their gas supply.

Mr. Braun testified concerning cost reductions and safety improvements. With nearly 60% of customer's bills comprised of natural gas commodity costs, Citizens Gas uses a combination of hedging instruments and storage capacity to mitigate any spikes in the market price of natural gas. Also, in conjunction with Batesville Water and Gas Utility and Lapel Gas, Citizens Gas formed the Indiana Municipal Gas Purchasing Authority ("IMGPA"). IMGPA worked with the Indiana Treasurer's Office and the Indiana Bond Bank to create Indiana's first pre-paid gas program. Beginning September 1, 2007 Citizens Gas began purchasing approximately 3.5 Bcf of gas annually at a 44 cents per Dth discount from market prices, which expects to produce about \$24 million in savings over a 15 year period.

Mr. Braun described numerous operational and technical adjustments Citizens Gas made to their operations to improve efficiency and lower costs since its last rate case. He also provided several examples of safety improvements, which include reducing average leak

response times by 20% since 2008; increasing public awareness of underground facilities in conjunction with Indiana 811; and various improvements to the underground storage including upgrades to the purification system and replacement of remote transmitting units and valves. He noted that the Indiana Energy Association (“IEA”) and the American Gas Association (“AGA”) recognized Citizens Gas for its safety record.

5. Ms. LaTona S. Prentice. Ms. Prentice, Executive Director of Regulatory Affairs, described the overall revenue requirements of Citizens Gas and sponsored the Terms & Conditions of the tariff, including proposed changes. Citizens Gas’ pro forma revenue requirement is over \$334 million. Citizens Gas proposed to increase base rate revenues by \$14 million in order to provide the company with the opportunity to earn a net operating income of \$30.5 million. Petitioner’s pro forma margin of \$7.3 million was less than the margin approved in its last rate case primarily due to 3,000 fewer billing instances and more than 3.5 million less dekatherms sold/transported.

Ms. Prentice also noted the following proposed changes to the Terms and Conditions:

- Modifications to the Citizens Energy Select program
- Elimination of definitions as they relate to the Citizens Energy Select program that will no longer be necessary due to the modifications to the program
- Adding language to specify that moving from one premises to another does not absolve that customer from the balance owed at the prior premises
- Adding language that the landlord is responsible for payment of the bill if the bill remains unpaid by the tenant
- Moving miscellaneous non-recurring charges to the non-recurring charges section of the tariff
- Adding demand charges to the charge to restore gas service when the request for restoration occurs within a year of the disconnection
- Other miscellaneous clean-up items

Finally, she noted that the following proposed changes to rate schedules D3, D4, D5, and D9:

- The meters included in the Meter Class have been updated to reflect the types in service or inventory
- The definition of “3rd Party Suppliers” was modified to include an End-Use Customer acting as its own Supply Agent
- References and rules applicable to “Supplier Pools” have been eliminated
- Clarification of the responsible party for gas consumed during the first three days of a 3rd party supplier default; and the responsible party beginning with the fourth day
- The section of the tariff pertaining to banking service has been deleted

- Changes to the tariff language has been made to loosen the requirements of 3rd party supplier deliveries

She also noted several proposed changes to Petitioner's supply service tariffs.

6. Ms. Sabine E. Karner. Ms. Karner, Executive Manager for Financial Planning and Analysis, testified concerning the test year financial statements and pro forma adjustments. She also discussed the allocation of Corporate Support Services ("CSS") costs to Citizens Gas. CSS is a centralized unit within the Citizens Energy Group framework that is tasked with performing executive management and administrative functions. CSS includes Executive, Finance, Treasury, Human Resources, Legal, Corporate Affairs, Risk Management, Internal Audit, Regulatory Affairs, Marketing, Security, Billing, Customer Relations, Information Services, Environmental Affairs, Occupational Health and Safety, Procurement, and Engineering and Facilities Management. The centralization of functions allows combined executive management and administrative capabilities across all of Citizens Energy Group's business units.

Overall, entity costs that cannot be directly allocated based on a cost driver are classified as "Trust Administration" costs. These costs are allocated to the business units based on its percentage of prior year revenues to total Trust prior year revenues. During the test year, Trust Administration costs accounted for \$7.9 million of the \$47.3 million of CSS costs for the entire trust. Approximately 78.6% of CSS costs were allocated to Citizens Gas.

Ms. Karner also provided details for the adjustments to payroll, payroll taxes, employee benefits, insurance, CSS depreciation, CSS property tax, and disallowed costs from the performance benchmarking study.

7. Mr. Gregory A. Sawyers. Mr. Sawyers, Director of Customer Services, testified in support of Citizens Gas' USP. Citizens USP was originally approved under Cause No. 42590 on August 18, 2004, with Citizens Gas customers receiving USP benefits January 1, 2005. The USP program was extended through May 31, 2009 under Cause Nos. 43077/43078 on November 7, 2007. Most recently, the Commission extended Citizens Gas' USP through October 31, 2012 under Cause No. 43669. He stated that during the 2009-2010 winter heating season, approximately 23,800 of Citizens' residential customers received assistance through the USP, which represents a doubling of participants over six years. In this Cause, the Commission indicated a continuation of the USP must be requested in the context of a base rate case, filed no later than October 31, 2012.

Citizens Gas proposes to administer the USP in the same manner as approved in Cause No. 43669, with one change in funding. Currently, the difference between a customer's full bill and the discounted bill assessed to low income customers is funded by a contribution from Citizens Gas and a per unit charge assessed to all customers, also known as the Universal Service Fund Rider. Through previous negotiations and settlements, industrial and commercial customers' USP contributions are capped at \$200 per month. High load industrial customers served under Rate D9 contribute approximately \$12,000 annually to the USP fund, which is less than one half of one percent of total funding. With the cost of monitoring and adjusting Rate D9

customers' bills further depleting the contributions value, Citizens Gas believes the funding from high load customers to be immaterial and unnecessary. Therefore, Citizens Gas proposes to no longer require Rate D9 customers to contribute to USP funding. No other changes are proposed to the program.

He stated that Citizens Gas will continue to fund 25% of the program's costs, as directed in Cause No. 43669. As funding for the program changes, Citizens Gas' contribution varies. Based on the past 3 years, a 25% contribution equates to roughly \$700,000. Customers with gross household incomes at or below the poverty line established by LIHEAP, and who have enrolled in and qualified for assistance from LIHEAP, will be eligible for assistance from the USP. The Community Action of Greater Indianapolis ("CAGI") will continue to enroll customers in the USP on behalf of Citizens Gas. In keeping with the Order from Cause No. 43669, CAGI will also ensure applicants apply for federal weatherization assistance as well.

Citizens Gas will also continue to fund the hardship program, which assists customers who otherwise are not eligible for the USP because of their income level. Assistance from the hardship program is administered by the Customer Services department, and is normally applied during the spring or fall to help with reconnections or to keep service on. Normally, a payment arrangement is established along with the hardship contribution. Further, Mr. Sawyers stated that the tiered discounts of 10%, 18%, and 25%, depending on income levels, will remain unchanged. However, he noted Citizens could possibly adjust these discounts in the future depending on the number of customers receiving assistance from the USP. Citizens Gas also proposes to continue analyzing the USP and collecting data to determine the effectiveness of the program. This information will be provided as an annual report along with the compliance filing to establish the annual USP rider amount.

8. Mr. John J. Spanos. Mr. Spanos, Vice President of the Valuation and Rate Division at Gannett Fleming, Inc., testified in support of the proposed depreciation rates for Petitioner's gas plant as of December 31, 2009. Mr. Spanos used the straight line remaining life method of depreciation with the equal life group procedure, which distributes the unrecovered cost of fixed capital assets over the estimated remaining life.

9. Mr. Russell A. Feingold. Mr. Feingold, Vice President – Ratemaking & Financial Planning Service Group of Black & Veatch, presented the results of his cost of service study along with the underlying methodology used to conduct the cost study. His testimony also presented the proposed allocation of revenues to the classes of service and the design of rates and charges for its retail sales, transportation service, and administrative service rate schedules.

Citizens Gas' physical plant configuration is a dispersed/multiple city-gate, integrated transmission/distribution system, with liquefied natural gas ("LNG") and underground storage facilities, and a multi-pressure based system. Mr. Feingold states that the Commission has expressed a preference for gas utilities to conduct cost of service studies using a demand allocation method. This preferred method relies partially upon annual gas volumes rather than peak day volumes. Citizens Gas' cost of service study uses a coincident peak demand allocation factor, derived on a design day basis, for allocating its demand-related costs to the various

customer classes.

Mr. Feingold used Black & Veatch's Cost of Service Model to propose the following rate design and tariff changes to its current rate schedules:

- For customers served under Gas Rate Nos. D1 through D5, and D9, Citizens Gas proposes to adjust its monthly Facilities Charges, with an adjustment to its Delivery Charges
- For customers served under Gas Rate Nos. D5 through D9, Citizens Gas proposes to adjust its monthly Demand Charges,
- The level of Delivery Charges between Standard and Basic Delivery Service under Gas Rate Nos. D3, D4, D5, and D9 are proposed to be adjusted to recognize the variation in the on-system, unit costs of balancing service for Citizens Gas between these two service categories
- The level of rates for compressed natural gas service under Gas Rate No. D7 are proposed to be set at the level proposed in Gas Rate No. D3 for each rate component that is comparable to the nature of the gas loads expected to be served under this rate schedule
- The rate levels reflected in Gas Rate Nos. A1, A7, and A8 are proposed to be changed to reflect the underlying costs of providing the administrative and metering services in these rate schedules.

The proposal includes increasing the monthly Facilities Charge for residential domestic service customers (Gas Rate No. D1) from \$7/month to \$14/month. The monthly Facilities Charge for the residential heating class (Gas Rate No. D2) is proposed to increase from \$11/month to \$18/month. Any remaining amounts of the revenue increased assigned to each of these rate classes is proposed to be recovered through Citizens Gas' Delivery Charges. The proposed increase in Facilities Charge closes the gap between the current charges and the monthly customer-related costs by approximately 50% - allowing more of the fixed component of service to be recovered. Mr. Feingold's cost of service study also indicates increases in the Facility Charge for large volume high load customers and a higher Demand Charge.

B. OUCC Testimony.

1. Mr. Mark Grosskopf. Mr. Grosskopf, OUCC Analyst, addressed certain elements of Petitioner's request for a rate increase, which include adjustments to Petitioner's pro forma operating expenses, taxes, and other elements of the revenue requirement. He also addresses the overall need for a rate increase. Mr. Grosskopf sponsors schedules 1 through 8 in the OUCC's Exhibit MHG-2.

The OUCC's review of Petitioner's revenue requirement indicates a revenue shortfall of 1.31%, and a \$1,652,778 increase in revenues. Mr. Grosskopf's schedules reflect adjustments to operating expenses and other components of the revenue requirement. Specifically, the schedules address adjustments to the proposed revenue increase, the utility

receipts tax, and net write-offs of non-gas revenue. OUCC witnesses Ms. Stull, Mr. Patrick, and Ms. Poole address the remaining expense adjustments and capital expenditures.

Mr. Grosskopf recommended the following:

1. A revenue percentage increase of 1.31% or \$1,652,778, exclusive of gas costs
2. A revised Cost of Service Study and rate design
3. In future cases, Petitioner receive Commission approval of new depreciation rates before their implementation
4. Citizens Energy Group should undergo an independent internal controls audit within six months of the Final Order in this Cause, and share the results with the Commission and OUCC
5. Petitioner should be required to set up a separate bank account for CSS rather than Citizens Gas continuing to fund the CSS transactions on behalf of Citizens Energy Group units through the utility's operating account
6. The elimination of discriminatory treatment of nonresidential customers regarding the nonresidential deposit rules in Petitioner's terms and conditions for gas service

2. Ms. Heather R. Poole. Ms. Poole, OUCC Analyst, addressed the adjustments the OUCC made to Petitioner's pro forma payroll expense, payroll tax expense, insurance expense, employee benefit expense, and rate case amortization expense request. Ms. Poole is sponsoring Exhibit Nos. HRP-2 through HRP-6.

With respect to pension expense, Petitioner is requesting an \$844,254 increase to pension expense for the gas company and a \$900,690 increase allocated from CSS. Ms. Poole did not believe Petitioner provided enough evidence to support the adjustment requests. According to Ms. Poole, Petitioner failed to provide testimony from an actuary to support the increase or explain why the pension expense increased over the test year amount. Petitioner did not provide sufficient schedules or work papers supporting the amounts on a going-forward basis. Petitioner also did not provide testimony or analysis to support a seven or ten year amortization period to replenish its unfunded liability. Ms. Poole believes due to the unique nature of pension expense, that it is important for Petitioner to provide sufficient evidence to support the proposed adjustment to pension expense. Petitioner did provide workpapers, which provided some information on pension expense. However, these work papers were inconsistent and did not tie back to figures in Petitioner's testimony. Ms. Poole had the same issues with CSS' portion of the pension expense proposed by Petitioner.

In her opinion, a majority of the proposed pension expense is to replenish the unfunded accrued liability ("UAL"). Petitioner did not provide testimony discussing why it has an unfunded accrued liability for its pension. Ms. Poole's review of materials in preparation for her testimony determined that a portion of the unfunded liability is due to the recent stock market declines that took place in 2008 and 2009. Since the market has continued to recover through 2010 and 2011, the unfunded balance of Petitioner's pension liability should have decreased. Ms. Poole noted that it is unreasonable to authorize rates that allow full recovery of Petitioner's

unfunded pension, especially with the lack of testimony to support such a proposal.

Ms. Poole stated that over 62% of Petitioner's total proposed pension expense to be recovered in rates is from prior period losses. In Cause No. 43680, Indiana American Water Company proposed to create a balancing account to mitigate fluctuations and instability in the Pension/OPEB accounts. The Commission found that creating a balancing account shifts the risk away from the utility to ratepayers. According to Ms. Poole, Petitioner is proposing to recover the amortization amount of unrecognized prior period losses totaling \$5,073,450 in this rate case. The ability of Petitioner to recover these losses through rates improperly shifts the risks of Petitioner's investment decisions onto ratepayers.

Ms. Poole recommends a gas company pension expense adjustment decrease of \$3,853,969 compared to Petitioner's increase request of \$844,254. Ms. Poole also recommends a CSS pension expense adjustment decrease of \$2,555,322 compared to Petitioner's increase request of \$900,690. If Petitioner requests to recover pension expense in future rate cases, Petitioner should be required to provide a thorough analysis that supports its test year pension expense. If Petitioner seeks revenues to replenish an unfunded accrued liability, testimony should explain if it is seeking to fully fund its pension, why it is appropriate to have a fully funded pension, and why the selected amortization period to fund its pension is appropriate and reasonable. Petitioner's figures from its actuarial report should tie to their work papers and testimony.

3. Ms. Margaret Stull. Ms. Stull, OUCC Analyst, testified concerning her review of Petitioner's books and records. Ms. Stull asserts that Citizens Gas lacks policies and procedures necessary to appropriately classify expenses recorded to its general ledger. She was also critical of Petitioner's transaction recording methods and the lack of ability to review documentation for all transactions. Further, Ms. Stull could not confirm that Petitioner reconciles its accounts on a regular basis. Ms. Stull also found transactions in Citizens Gas' books that pertained to the acquisition of Indianapolis Water, which she opined were inappropriate.

4. Mr. Charles Patrick. Mr. Patrick, OUCC Analyst, provides testimony discussing the proposed E&R request and depreciation study conducted by Petitioner. He discusses the expensing of fixed assets on both Citizens Gas and CSS general ledgers. Mr. Patrick also discusses the Sarbanes-Oxley internal control procedures, specifically the internal control that relates to costs being accurately reflected in the general ledger. Mr. Patrick sponsors OUCC Exhibits CEP-2 through CEP-10.

Ultimately, Mr. Patrick recommended that Citizens Gas and CSS be required to restate its books and records to include only the authorized depreciation expense that would be generated from the depreciation rates approved in the Commission's Order in Cause No. 43463 until the Commission approves new rates. The OUCC also recommends Citizens Gas and CSS be required to conduct a management review of their internal auditing, using an outside third party, to review the general ledger coding policies and report the findings to the Commission and OUCC within six months of the order in this Cause.

5. **Mr. Jon C. Dahlstrom.** Mr. Dahlstrom, OUCC Senior Analyst, provided testimony discussing various aspects of the cost of service and rate design presented by Petitioner's witness, Russell A. Feingold. Mr. Dahlstrom also discussed issues with data availability and completeness, cost allocations by CSS to Citizens Gas, depreciation, extensions and replacements, and other expense and plant-related charges.

Regarding Citizens' cost of service study, Mr. Dahlstrom disagreed with the allocations used in Mr. Feingold's cost of service study because they create a mismatch between revenue and expenses. The allocation creates artificial subsidies for the residential classes. As a result, the OUCC recommends:

1. Citizens Gas eliminate depreciation expense from the cost of service instead of using all of its depreciation expense plus a portion of E&R. While the amount used (~\$25 million) is the same regardless of using all of depreciation expense or extensions and replacements, the allocation to rate classes is different and thus, yields different results in the cost of service study.
2. Citizens' proposed cost of service includes an excessive allocation of transmission and distribution mains due to the use of the peak day allocation and the number of customers versus using both peak and annual throughput known as the demand allocation method. The OUCC believes that related plant and expense item allocations should vary based on the class that incurred or caused the cost.

Mr. Dahlstrom also disagreed with the proposed monthly facility charges because his analysis indicated that no increase was warranted.

C. Industrial Group Testimony.

1. **Mr. Michael Gorman.** Mr. Gorman, Energy Advisor, Consultant, and Managing Principal – Brubaker & Associates, Inc., disputed Citizens Gas' \$14 million claimed revenue deficiency. He stated that approximately \$5 million is offset by a decrease in other revenues collected via the Energy Efficiency Adjustment factor (Rider E). He claimed revenue deficiency is overstated by approximately \$3.4 million as illustrated by the table below:

Citizens Revenue Deficiency (Millions)	
<u>Description</u>	<u>Amount</u>
Proposed Increase in Base Revenue	\$ 9.0
<u>Issues:</u>	
Pension Expense	1.7
Extensions and Replacements Adjustment	1.2
Interest Income	0.5
Total Adjustments	\$ 3.4
Adjusted Deficiency	\$ 5.6

According to Mr. Gorman, the proposed adjustments to pension expense should be denied because they are not known and measurable. The adjustments were not properly documented and the data does not reflect current capital markets and interest rates. The adjustments were based on amortization and actuarial studies that are of different time lengths.

He also noted that the pension expense adjustment is based on stale market data as the discount rate decreased from 2010 to 2011. However, Citizens Gas' corporate interest rates have reverted back to the October 2009 level; therefore, a reduction to the discount rate is no longer reasonable. Higher discount rates reduce the pension plan benefit obligation, which reduces the underfunding status. This can negate the need to increase pension expense.

He stated that the 10-year amortization period used by Ms. Karner is too short because the actuarial study shows the remaining tenure of Citizens Gas' employees is 12.3 years. Extending the amortization will lower the annual expense and negate the need to increase pension expense.

With respect to extensions and replacements, Citizens Gas proposes an annual E&R component of \$25.2 million, which is a \$1.4 million increase over what was approved in their prior rate case. Petitioner's E&R budget expenditures over the last eight years and their planned replacement programs for FY11 support a lower E&R budget for this proceeding. Mr. Gorman proposed an E&R budget of \$24 million. He testified that any E&R projects costing more in a given year can be funded from working capital. When E&R is less than \$24 million, Petitioner could provide that money back to working capital.

With respect to interest income, he noted that Citizens Gas proposed to include \$36,576 of interest rate income for rate setting purposes in this proceeding. In Citizens Energy Group's 2010 Management Discussion and Financial Report, Citizens Gas earned \$516,000 of interest income for the period ending September 30, 2010. Mr. Gorman testified that Mr. Brehm did not disclose why Citizens Gas's proposed interest income is so much lower than its actual income. Mr. Gorman recommended including \$516,000 of interest income when setting rates thereby reducing Citizens Gas' revenue deficiency by approximately \$480,000.

Finally, Mr. Gorman noted that if Citizens Energy Group's pending purchase of Indianapolis Water is approved, Citizens Gas' CSS costs allocation percentage would drop from 82% to 43.9%. This is a reduction of \$15.9 million to the Gas utility's operating cost of service. If the purchase of Indianapolis Water is approved subsequent to this rate case, then Citizens Gas should be required to earmark the additional monies received for Gas Utility E&R budgets with detailed accounting records, or Citizens Gas should be ordered to immediately seek a rate reduction.

2. Mr. Nicholas Phillips, Jr. Mr. Phillips, Consultant, Brubaker & Associates, Inc., provided analysis, through his examination of Citizens Gas' testimony and exhibits, of the cost to serve those Large Volume (Rate D5) and High Load (Rate D9) customers that CIG represents as well as his recommendations on the distribution of any rate increase for these customers based on the service costs and rate design.

Mr. Phillips stated that even without a rate increase Citizens Gas' current Large Volume and High Load rates are already much higher than other Indiana investor-owned gas utilities ("IOUs"). He also stated that the transportation rates are out of line as a result of the Cost of Service Study ("COSS") in the last two rate cases. CIG explained that the difference between the rates of Citizens Gas and the other Indiana IOUs is a major concern because Citizens Gas has a cost advantage since it is exempt from federal income taxes and can obtain lower cost financing without a high cost equity component. Mr. Phillips asserted that with all other things equal, Citizens Gas should be able to provide its customers lower rates than IOUs in Indiana.

Mr. Phillips provided the following comparison of Citizens Gas' Large Volume transportation rate to the largest Indiana IOUs:

Comparison of Transportation Customers with Monthly Demand 5,000 Dths Monthly Throughput 100,000 Dths with 6 meters		
<u>Utility</u>	<u>Monthly Charge</u>	<u>Cost/Dth</u>
Citizens Gas' Current Rate D5	\$ 60,300	\$ 0.60
Citizens Gas' Current Rate D9	52,800	0.53
NIPSCO Rate 428	15,335	0.15
SIGECO Rate 170	20,400	0.20
Indiana Gas Rate 260	35,410	0.35

Despite extreme differences in rates between Citizens Gas and the largest Indiana IOUs, Mr. Phillips concluded that the Citizens Gas' cost of service study is reasonable for ratemaking in this proceeding and is in favor of leaving D5 and D9 unchanged. Mr. Phillips stated that by not decreasing Large Volume and High Load customers' rates by 10.2% and 27.6%, respectively, the rate impact on residential customers would be minimized.

In future cases, Mr. Phillips recommended that Citizens Gas explore the following assumptions: the balancing characteristics of classes; the utilization and allocation of LNG facilities to transportation customers; the allocation of distribution mains to customers served from transmission mains; and a customer component based on the minimum size main technique. Citizens Gas' analysis of these items may show a larger overpayment by these customers and result in less cost being allocated to large transportation customers.

Mr. Phillips did not support Citizens Gas' proposal to:

- Tighten the daily imbalance tolerance in Gas Rate A3, and A2,
- Change the balancing provisions in Gas Rate A2,
- Change the calculation of Gas Supply Charge under Rider B, and
- Eliminate the one free switch under Gas Rate A8.

He explained that tightening the daily imbalance tolerances in Gas Rate A3 will cause the cash-out charge for under-deliveries to exceed the charge for an equal over-delivery thus making the carry-over provisions a more equitable way of dealing with imbalances. A carry-over allows

small over-deliveries and under-deliveries to equally be off-set against each other. Mr. Phillips also noted that Citizens Gas has not completed an analysis demonstrating a need for such changes.

Mr. Phillips supported Citizens Gas' proposal to eliminate banking service from transportation rates or modification of the 50/50 rule. In his opinion, Mr. Phillips has never found the banking service valuable, as is the case of the 50/50 rule, since this is consistent with the unbundling principle by eliminating on-system storage resources from transportation rates.

In conclusion, Mr. Phillips opined that since no increase is proposed to the Large Volume and High Load rates, all other charges, including the balancing provisions, switch of 3rd party suppliers and rate design, should remain unchanged in this rate case.

D. Realgy Testimony.

1. Mr. Douglas Gugino. Mr. Gugino, Vice President of Natural Gas Operations-Realgy Energy Services, testified concerning Realgy's role as a marketer of natural gas. Realgy has participated in NIPSCO's Choice program since 2003 and in Citizens Gas' Energy Select since 2009; and, also offers services in Illinois, Michigan, and Ohio. Realgy is responsible for nearly 15% of growth in Energy Select participants between 2009 and 2010.

Mr. Gugino explained the evolution of an unbundled program normally occurs in several stages. As each stage progresses, the eligibility of the program widens to include more customer classes, along with outreach efforts and convenience features. However, he stated that Citizens Gas is moving in the opposite direction with regard to the evolution of its Energy Select program, as evidenced by the proposed changes in this Cause.

Mr. Gugino asserted the removal of billing service will only increase costs for and inconvenience 3rd party suppliers, and cause confusion amongst customers who now will receive two bills for gas service. In addition, the elimination of combined billing will generate inefficiency and possible environmental impacts due to separately creating, shipping, and returning a payment. This could also cause stagnation or a reduction in Energy Select participation. Mr. Gugino suggested that Citizens should be required to continue combined billing for Energy Select participants.

Furthermore, Mr. Gugino noted that eliminating planned allocations of on-system storage and banking service will reduce the benefits provided by 3rd party suppliers. Further, as Energy Select begins its 2nd phase, banking services should be reevaluated, but not removed. Access to banking services and on-system storage should be the same for customers participating in the Energy Select Program as it is for those receiving bundled services from Citizens Gas. Citizens Gas proposed to relax the "50/50" rule for supply deliveries. However, the suppliers who bring gas for non-Energy Select customers are not held to the same requirements, and according to Mr. Gugino, all suppliers should be subject to the same delivery requirements, regardless if it is for bundled or unbundled service. Mr. Gugino was also troubled by the restrictions to balancing requirements considering Citizens Gas' lack of providing customer usage records to 3rd party suppliers. To avoid balancing penalties, suppliers must make

nomination decisions which can be greatly enhanced when coupled with consumption history.

Finally, he stated that the requirement of a contract for each enrolled customer is not warranted, as no customer has ever enrolled with a 3rd party marketer and not stayed with that marketer. While Citizens Gas appears to believe such a contract will ensure customers are aware of what programs they are involved in, Mr. Gugino opined that this proposal will add a burden to the enrollment process and reduce the benefits received by customers of 3rd party suppliers.

E. Industrial Group Cross Answering Testimony.

1. Mr. Phillips. Mr. Phillips testified regarding the need for rate adjustments among various customer classes within the context of a given total dollar increase. His conclusions and recommendations are summarized as follows:

1. The allocation of any portion of transmission or distribution main costs on the basis of annual throughput is not reflective of sound cost of service principles. Mr. Phillips opined that in determining the proper size and cost of the main expansion, the key consideration is the expected usage of the mains on the peak day.
2. Mr. Dahlstrom provided no support for his proposal to allocate a portion of distribution plant “service” cost on the basis of 25% customer throughput. The National Association of Regulatory Utility Commissioners (“NARUC”) recognizes that distribution mains should be allocated to customer classes based on design peak day for the demand component and the number of customers for the customer component. The allocation of any portion of distribution plant “service” costs based on annual customer throughput costs does not reflect sound cost of service principles since the customer’s annual throughput has no bearing on the determination of distribution “service”. Per Mr. Feingold, Citizens Gas’ distribution services were allocated using a combination of direct assignment and weighting factors.
3. Mr. Dahlstrom provided no support for his proposal to allocate E&R capital investment costs on the basis of total expense. Citizens Gas’ E&R program is made up of capital investment projects required to provide service to customers. Capital-related E&R plant costs should be allocated on a total plant basis just as proposed in Citizens Gas’ COSS.
4. Mr. Phillips opined that Mr. Dahlstrom’s COSS and proposed revenue allocation should be disregarded, because Rates D5 and D9 require a rate reduction to reach the cost of service and not an increase as indicated by Mr. Dahlstrom’s COSS.

F. Citizens Gas Rebuttal Testimony.

1. Ms. Prentice. Ms. Prentice responded to certain OUCC recommendations in its direct testimony. Specifically she rebutted portions of the testimony of

Mr. Grosskopf, Ms. Stull, Mr. Patrick, Ms. Poole, and Mr. Dahlstrom. In addition, she offered rebuttal testimony to CIG's witness Mr. Gorman.

Ms. Prentice agreed that the unamortized rate case expense from Citizens Gas' previous rate should be removed as Citizens Gas will completely recover all costs by the time the rates in this Cause are approved. She also agreed with the removal of \$200,000 of rate case expenses related to the inclusion of consultants for the OUCC. Citizens Gas estimated that the OUCC would utilize consultants in this case, but the OUCC used no outside consultants. Therefore, Ms. Prentice agreed with the OUCC charges-to-date of \$49,714 and the assumptions regarding the OUCC's remaining chargeable hours. Finally, Ms. Prentice stated that the OUCC did not take issue with Citizens Gas' attorney and consultant fees. She recommended the Commission authorize Citizens Gas to recover \$143,340 each year over the three year amortization period. In addition, she recommends the Commission include one-third of the IURC/OUCC charges in its final order as the Commission will know the exact figures before issuing the Order.

2. Mr. Brehm. Mr. Brehm provided rebuttal testimony in response to four arguments presented by the OUCC and the Industrial Group. Mr. Brehm disagreed with the OUCC's elimination of \$8.2 million in pension costs from the revenue requirement. He noted that the Commission has accepted the actuarially determined costs of the pension plan in previous rate cases by Citizens Gas and Citizens Thermal to determine the annual revenue requirements for pension cost. Mr. Brehm stated the OUCC's position to eliminate all pension costs is not justified, when it is a known fact Petitioner has and will continue to incur pension costs. The actuarially determined pension funding amount requested in the case totals \$8,154,235.

Mr. Brehm also disagreed with the OUCC's assertion that a portion of Petitioner's request for an increase in pension expense is due to recovery of prior market losses. He explained the UAL occurs by taking the difference between the plan's entry age normal accrued liability and the value of the pension's assets. Mr. Vincent's testimony indicated that the change in the pension plan's unfunded accrued liability is largely due to the change in the estimate of the plan's entry age normal accrued liability that results from expected growth in the liability plus declining interest rates since 2006. The decline in interest rates caused the rate applied in discounting such pension liabilities to a present value to decline, which caused a rise in the entry age normal accrued liability. Thus, the unfunded accrual liability increased. Mr. Brehm also stated the pension plan assets from June 30, 2006 through September 30, 2010 increased by \$22.9 million. During this same period, the unfunded accrued liability increased from \$3.3 million to \$53.9 million.

Mr. Brehm testified that Petitioner is not seeking to fully fund Citizens Gas' portion of its pension plan through the revenue requirement. Petitioner only seeks to include in its revenue requirement the actuarially determined funding amount for Petitioner's portion of the annual pension cost that is fixed, known, and measurable. The actuarially determined funding amount is computed in accordance with actuarial standards for prudent pension funding. However, the amount requested will not fully fund the pension liability.

3. Mr. Ronnie Vincent. Mr. Vincent, Senior Consulting Actuary,

McCready and Keene, Inc., provided rebuttal testimony in response to the positions taken by Ms. Poole and Mr. Gorman pertaining to pension funding and obligations. He stated that Citizens Gas' pension obligation was determined using the Frozen Initial Liability ("FIL") funding method. This method considers plan participants and assets, then calculates an annual funding contribution to provide consistent levels of contribution to fund plan liabilities over the lifetime of the pension plan. The two primary components of the FIL are the UAL and the Normal Cost. The UAL is the Entry Age Normal Cost Accrued Liability reduced to the market value of the pension trust assets. To determine the funding computation, the UAL is amortized over a fixed period of time.

Mr. Vincent described how the interest rate used in the valuation process also changes from year to year to reflect a change in future expectation of returns on the plan assets and the market. Interest rates have been declining recently and are a material component of the increased Entry Age Normal Accrued Liability. The actuarial study includes interest rates set by the Internal Revenue Service and the Pension Protection Act of 2006 ("PPA"). Mr. Vincent opposed Mr. Gorman's postulation that declining interest rates have been reversed in October 2010. The interest rates included in the IRS publication for May 2011 are substantially lower than the rates used in Petitioner's study. If interest rates decline, then the current value of an expected future event will increase, and vice versa. Updating interest rates through annual valuations allows the plan to remain current within the context of the overall economy.

Mr. Vincent used a ten-year amortization period to utilize the flexibility of the funding method and be sensitive to the current actuarial environment. Amortization periods are typically seven years under the PPA, but Citizens Energy Group is not subject to the PPA. Therefore, he testified that it is reasonable to use ten years as the amortization period because Citizens Energy Group is not like a corporation that might quickly close operations due to financial circumstances.

4. **Ms. Karner.** Ms. Karner provided rebuttal testimony to address the assertions made by the OUCC concerning health insurance, payroll and payroll taxes, business insurance, capital items, and various operating expense adjustments.

5. **Mr. Michael D. Strohl.** Mr. Strohl, Vice President of Customer Relationships provided rebuttal testimony to address the OUCC's witness Ms. Stull's proposed elimination of certain marketing costs. He also responds to Ms. Stull's testimony regarding the terms and conditions for nonresidential deposits. Finally, he addressed Realgy's witness Mr. Gugino's criticism of Citizens Energy Select and the proposed changes to the program.

6. **Mr. Braun.** Mr. Braun responded to the testimony of CIG witnesses Mr. Gorman regarding the proposed E&R revenue requirement, and Mr. Phillips regarding proposed changes to the Energy Select Program.

7. **Mr. Feingold.** Mr. Feingold provided rebuttal testimony to the OUCC's witness Mr. Dahlstrom and CIG witness, Mr. Phillips, related to the cost of service study. Mr. Feingold noted that while the OUCC questioned the difference in total revenue requirements used in the cost of service study, tax expense is categorized in Citizens Gas'

accounting system as Account No. 408—General Taxes, and was properly allocated consistent with the nature of the cost. He also testified that the OUCC’s cost of service study inappropriately favors rate classes with lower annual load factors, such as residential heating, due to an over-reliance on annual throughput as an allocator, and improperly generalized allocation factors, resulting in the misallocation services, meters, and house regulators by not using the specific plant data by the type, size, and customer class. Further, Mr. Feingold stated that the OUCC misallocated E&R expenses by utilizing an allocation factor based on total expenses rather than using an allocation factor reflecting major plant components of the E&R program. He also criticized the OUCC’s proposal for creating greater cross-subsidies in rate classes.

6. The Settlement Agreement. On June 30, 2011, the Parties filed a Settlement Agreement resolving each of the issues raised in the Petition and Petitioner’s pre-filed testimony and exhibits and certain issues raised in the evidence filed by the other Parties in this Cause. The following summarizes the terms of the Settlement Agreement:

A. Petitioner’s Operating Revenues. The Settlement Agreement provides that Petitioner’s pro forma operating revenues should be increased so as to produce additional operating revenues of \$9,350,167, and total pro forma operating revenues of \$330,140,248, representing a 2.91% increase in operating revenues. (Settlement Agreement ¶ 1.) The Parties’ agreement with respect to Citizens’ annual revenue requirements is summarized below:

Gas Costs	\$194,792,824
Operation and Maintenance Expense	\$76,204,669
Extensions and Replacements	\$25,199,484
Debt Service	\$27,590,229
Taxes	<u>\$6,231,166</u>
Revenue Requirement	\$330,018,372
Less: Other Income	(\$111,879)
Plus: Utility Receipts Tax (1.4% of increase)	\$130,902
Incremental Net-Write-Off Non-Gas Costs	\$102,852
Net Revenue Requirement	\$330,140,248
Pro Forma at Present Rates Revenues	<u>\$320,790,081</u>
Deficit	\$9,350,167
Percent Increase Required	2.91%

(*Id.* ¶ 3.)

B. Cost-of-service and Rate Design. The Settlement Agreement acknowledges that rates should be designed in order to allocate revenue requirements between

and among the classes of Citizens' customers in a fair and reasonable manner consistent with cost-causation principles. (*Id.* ¶ 5.) The Settlement Agreement indicates that a variety of methods have been utilized to determine cost allocation by rate class. (*Id.*) Absent entering into the Settlement Agreement, Citizens, the OUCC and CIG each were prepared to present to the Commission for its determination cost of service evidence utilizing different methodologies, each of which would support a range of possible outcomes with respect to cost allocation. (*Id.*)

The Settlement Agreement states that the Citizens and OUCC proposals utilize recognized cost-of-service methodologies that the Commission may properly consider, and can potentially adopt. In addition, the agreed-upon cost allocation "is consistent with the range of potential cost-of-service determinations by the Commission in the event of a contested hearing." (Settlement Agreement ¶ 6.) For purposes of settlement, Citizens, the OUCC and CIG agreed that the increase in revenues should be allocated to Citizens' customer classes as set forth below:

	<u>Proposed Revenue Change</u>	<u>Percent Revenue Change</u>
Residential non-heat	\$114,045	7.8%
Residential heat	\$7,541,622	3.5%
General non-heat	\$0	0%
General Heat	\$1,493,575	1.7%
Large volume	\$200,758	1.9%
High load	<u>\$0</u>	<u>0%</u>
Total	\$9,350,000	2.9%

(See Joint Settlement Exhibit 4.) The Parties also agree Citizens' facilities charges should be revised as set forth in Joint Settlement Exhibit 5.

C. Continuation of the Universal Service Program. The Parties agree the Commission should authorize the continuation of Citizens' USP because continuation of the USP is in the public interest and will provide significant benefits to low-income gas customers by reducing their total gas bills and making winter heating bills more manageable. (*Id.* ¶ 13.) Under the terms of the Settlement Agreement, the USP will operate in fundamentally the same manner as authorized in Cause No. 43669, except Citizens will no longer require customers served under "Gas Rate No. D9 – High Load" to contribute to USP funding. Citizens will continue to contribute 25% of the cost of the USP. (*Id.* at 14.) Citizens also will continue to collect the same data as has been collected in the past to evaluate the effectiveness in the USP and file an

annual report including an analysis of data collected as part of the annual filing to establish the year's USP rider. (*Id.* ¶ 15.)

D. Changes to the Citizens Energy Select Program. The Parties agreed that the proposed changes to the CES program described in Petitioner's case-in-chief are "nondiscriminatory, reasonable, and just," and should be approved by the Commission, subject to the following modifications: (i) Citizens will no longer offer customers one free annual 3rd Party Supplier switch; however, the original switch from system supply to a 3rd Party Supplier will continue to be free; (ii) to inform customers of their rights and responsibilities as a customer who has chosen to be provided gas supply through a 3rd Party Supplier, and to set forth the responsibilities of Citizens and 3rd Party Suppliers with respect to such customers, Citizens will develop an electronic enrollment process that requires a customer e-mail address for confirmation in lieu of requiring execution of a written contract; (iii) with each new enrollment, Citizens will provide a 24-month customer usage history report at no charge; (iv) Citizens will continue to bill on behalf of intervenor Realgy until such time as Citizens receives approval in its next base rate case or other subsequent proceeding to discontinue combined billing altogether; and (v) Citizens will provide Realgy with an overview of the process and data Citizens uses to forecast load, as well as what Citizens considers in its reasonable discretion to be an adequate information base from which Realgy should be able to assume the forecasting function, which overview will include usage history, balancing performance information and other forecasting data for Realgy's customers. (*Id.* at 12.)

E. Miscellaneous Tariff Revisions. The Parties agreed that the miscellaneous revisions to Citizens' tariffs and General Terms and Conditions for Gas Service described in Petitioner's case-in-chief are "nondiscriminatory, reasonable, and just," and should be approved by the Commission. (*Id.* at 11.) Those revisions include: (i) changes to clarify that moving from one premises to another does not absolve the customer from any unpaid charges incurred at the prior premises; (ii) the relocation of miscellaneous non-recurring charges from the General Terms and Conditions for Gas Service to a new Gas Rate No. A5; (iii) the addition of "demand charges" to the charge for restoration of service when reconnection of a gas service line is requested by a customer within one year following disconnection at the customer's request; and (iv) miscellaneous "clean up" changes. (*Id.*)

F. Accounting Matters. In settlement of disputed issues between the OUCC and Citizens under the general subject matter area of accounting, the Settlement Agreement provides: (i) Citizens will continue to record capital expenditures to construction work in progress ("CWIP") in accordance with GAAP; (ii) in its next general rate case, at the same time Citizens files its work papers, Citizens will provide to the OUCC detailed general ledger transactions for Citizens Gas, and any business unit from which costs are allocated, for the test year and each month following the test year through the filing date of the OUCC's case-in-chief, in an electronic format that is searchable and sortable; (iii) Citizens has collaborated with, and will commence within sixty (60) days following the filing of this Settlement Agreement, continue to collaborate with the OUCC to demonstrate that certain examples of recent changes to its accounting procedures and guidelines will assist in ensuring consistency and transparency regarding coding of expenditures to the appropriate business unit and FERC account; (iv) to the extent reasonably necessary and appropriate from a regulatory accounting standpoint, Petitioner

will reduce to writing and provide the OUCC with a copy of any of its supplemental pay policies and procedures that are not currently in writing; (v) Citizens will obtain Commission approval prior to implementing new depreciation accrual rates; and (vi) Citizens and the OUCC will collaborate to establish a mutually agreeable process pursuant to which OUCC field audits and related informal discovery will be conducted during future rate cases, which will reasonably meet the timing and due diligence needs of each party. (*Id.* ¶ 10.)

G. Depreciation Accrual Rates. The Settlement Agreement provides that the Commission should approve the proposed revisions to Citizens' depreciation accrual rates related to its gas utility plant for the Gas Operations Division and CSS in accordance with the results of the depreciation study sponsored by Mr. Spanos. (*Id.* ¶ 9.) The Settlement Agreement further provides that Citizens and CSS should be authorized to adopt and use the revised depreciation rates set forth in the depreciation study. (*Id.*) Finally, the Settlement Agreement provides that Citizens must obtain approval from the Commission prior to implementing new depreciation accrual rates. (*Id.* ¶ 10.)

H. Other Provisions. The Settlement Agreement provides that it shall have a non-precedential effect and does not constitute an admission by any Party in any other proceeding except as necessary to enforce its terms. (*Id.* ¶ 16.) The Settlement Agreement is without prejudice to and will not constitute a waiver of any position that a Party may take in future proceedings. (*Id.* ¶ 17.)

7. Evidence in Support of the Settlement Agreement.

A. Citizens' Evidence in Support of the Settlement Agreement. Ms. Prentice testified that the Settlement Agreement is the product of negotiations that began after Citizens filed its rebuttal testimony and exhibits and CIG filed its cross-answering testimony. (Petitioner's Ex. LSP-S at 2.) The Parties spoke in person and by telephone on numerous occasions regarding the possibility of settling some or all of the issues in this proceeding both before and following the originally scheduled dates of the evidentiary hearings. (*Id.* at 2-3.) As a result of this series of meetings, the Parties reached an agreement to settle all outstanding issues, including the manner in which the agreed-upon increase in total revenue requirements should be allocated among Citizens' customer classes and rate design. (*Id.* at 3.)

Ms. Prentice stated that under the terms of the Settlement Agreement, Citizens' pro forma operating revenues would be increased by \$9,350,167 in arriving at pro forma total operating revenues at proposed rates of \$330,140,248, representing a 2.91% increase in pro forma operating revenues. (*Id.* at 4.) In Ms. Prentice's opinion, "implementation of the rates and charges resulting from the Settlement Agreement will produce an income sufficient to satisfy the requirements of Ind. Code § 8-1.5-3-8." (*Id.* at 7.)

The most significant adjustments were made to Citizens' proposed revenue requirement for operating expenses. (*Id.* at 4) Citizens proposed that its pro forma operating expenses include \$8,154,235 to enable it to fund its pension plan on an annual basis. (*Id.* at 5-6.) During the test year, Petitioner incurred pension expense in the total amount of \$6,409,291. (*Id.* at 6.) Citizens' proposed revenue requirement for pension funding during the pro forma period was

based on an annual review and pension plan funding study conducted by McCready and Keene, Inc. as of October 1, 2010. (*Id.*) The funding study used a ten-year amortization period of the unfunded accrued liability. (*Id.*) Petitioner has funded its pension plan during fiscal years 2009 through 2011-to-date based on a ten-year amortization of the unfunded accrued liability. As a result of compromise, the Parties were able to reach a non-precedential agreement that Citizens' annual pension expense funding obligation will be \$6,831,138, resulting in a \$1,323,097 decrease to operating expenses. (*Id.* at 7.) McCready and Keene, Inc. prepared an exhibit reflecting an actuarially-determined basis for the \$6,831,138 amount of the annual revenue requirement for pension funding. (*Id.*)

Ms. Prentice also testified that she believes the revenue allocation reflected in the Settlement Agreement is consistent with and may be supported under a variety of cost-of-service methodologies. (*Id.* at 8.) Ms. Prentice further stated that the Parties' agreement with respect to the level of Citizens' facilities charges is reasonable. (*Id.* at 9.)

Ms. Prentice also testified that she believes continuation of the USP as described in the Settlement Agreement is in the public interest. (*Id.* at 10.) Ms. Prentice stated "[t]here is no question in my mind that continuation of the [USP] will be beneficial to those low-income customers that are eligible for and participate in the program. Moreover, Citizens continues to believe the USP benefits non-participating customers by improving payment behaviors of participating customers in a more cost effective way than traditional collection practices." (*Id.* at 11.)

Ms. Prentice further recommended that the Commission approve the agreed-upon changes to the CES program and miscellaneous revisions to Citizens' Terms and Conditions for Gas Service and tariffs. (*Id.* at 11-13.) Ms. Prentice stated that the 3rd Party Suppliers operating on Citizens' system are supportive of the proposed changes to the CES program and the Settlement Agreement resolves Realgy's concerns about the proposed changes. (*Id.* at 12.)

Ms. Prentice stated that the provisions of the Settlement Agreement relating to accounting matters will further the collaborative relationship between Citizens and the OUCC in future rate cases. (*Id.* at 13.) Among other things, Citizens and the OUCC have agreed to collaborate to establish a mutually agreeable process pursuant to which OUCC field audits and related informal discovery will be conducted during future rate cases. (*Id.*)

B. OUCC Evidence in Support of the Settlement Agreement. OUCC witness Mark H. Grosskopf also recommended that the Commission approve the Settlement Agreement. (Public's Ex. MHG-S at 5.) Mr. Grosskopf testified that the Parties have agreed to an increase in operating revenues of \$9,350,167, representing a 2.91% increase in total pro forma present rate revenue, or a 7.42% increase in non-gas costs present rate revenue. (*Id.* at 3.)

Mr. Grosskopf stated that the Parties also agree the Commission should approve the revisions to Citizens' depreciation accrual rates for its gas utility plant in accordance with the results of the "Depreciation Study" presented in Citizens' case-in-chief in this Cause. (*Id.*) "However, the Settlement additionally stipulates that Citizens shall obtain Commission approval prior to implementing new depreciation accrual rates." (*Id.*)

Mr. Grosskopf noted that the Settlement Agreement addresses disputed areas between the OUCC and Citizens regarding accounting matters and the on-site audit process. (*Id.* at 4.) Mr. Grosskopf stated that Citizens already has provided the OUCC with a list of accounting matters for collaboration, including evaluating or implementing controls over capitalization policies and procedures, invoice coding, the transaction coding review process, transaction support, and regulatory treatment of community support and promotional marketing expenses. (*Id.*) According to Mr. Grosskopf “[o]ur prior discussions with Citizens on these matters and the list of issues prepared by Citizens with suggested improvements provide the collaborating Parties with a solid foundation to continue our discussions.” (*Id.*)

Mr. Grosskopf concluded that the Settlement Agreement “resolves controversial issues including O&M expenses, pension expense, rate design and cost of service.” (*Id.* at 5.) Citizens, the OUCC and the other parties in this Cause had significant differences of opinion on these, and other issues. Mr. Grosskopf testified that litigation of these issues would have been foreseeably quite contentious. (*Id.*) “The compromises reached in the Settlement Agreement on a myriad of issues were reasonable in light of the respective positions of the Parties, forging stipulated, reasonable results that ensure Citizens’ ability to provide safe and reliable gas services for all of its customers, both now as well as into the future.” (*Id.*)

8. Commission Analysis and Findings Regarding the Settlement Agreement.

A. Commission Review of Settlement Agreements. We have previously discussed our policy with respect to settlements:

Indiana law strongly favors settlement as a means of resolving contested proceedings. *See, e.g., Manns v. State Department of Highways*, (1989), Ind., 541 N.E.2d 929, 932; *Klebes v. Forest Lake Corp.*, (1993), Ind. App. 607 N.E.2d 978, 982; *Harding v. State*, (1992), Ind. App., 603 N.E.2d 176, 179. A settlement agreement “may be adopted as a resolution on the merits if [the Commission] makes an independent finding, supported by substantial evidence on the record as a whole, that the proposal will establish ‘just and reasonable’ rates.” *Mobil Oil Corp. v. FPC*, (1974), 417 U.S. 283, 314.

Indianapolis Power & Light Co., Cause No. 39936, at 7 (IURC Sept. 24, 1995); *see also Commission Investigation of Northern Ind. Pub. Serv. Co.*, Cause No. 41746, at 23 (IURC Sept. 23, 2002). This policy is consistent with expressions to the same effect by the Supreme Court of Indiana. *See, e.g., Mendenhall v. Skinner & Broadbent Co.*, 728 N.E.2d 140, 145 (Ind. 2000) (“The policy of the law generally is to discourage litigation and encourage negotiation and settlement of disputes”); *In re Assignment of Courtrooms, Judge's Offices and Other Facilities of St. Joseph Superior Court*, 715 N.E.2d 372, 376 (Ind. 1999) (“Without question, state judicial policy strongly favors settlement of disputes over litigation”).

Nevertheless, pursuant to the Commission’s procedural rules, and prior determinations by this Commission, a settlement agreement will not be approved by the Commission unless it is supported by probative evidence. 170 IAC 1-1.1-17. 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). Any settlement agreement approved by the Commission “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* (quoting *Citizens Action Coalition v. PSI Energy, Inc.*, 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 790 at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code § 8-1.5-3-8, and that such agreement serves the public interest.

B. Base Rate Relief. In this case, the Parties have provided evidence with which to judge the reasonableness of the terms of the Settlement Agreement, including the Parties’ agreement as to the level of annual operating revenues necessary to satisfy the “reasonable and just rates and charges for services” standard of Ind. Code § 8-1.5-3-8. Citizens offered evidence supporting a \$13,285,055 increase in pro forma operating revenues, while the OUCC and CIG presented evidence in support of their recommendations that Petitioner’s annual operating revenues be increased by \$1,652,781 and \$5,547,485, respectively.

Based upon our review of that evidence and consideration of the provisions in the Settlement Agreement and its exhibits, we find the Settlement Agreement is within the range of the possible outcomes based on our consideration of the evidence and represents a just and reasonable resolution of the issues in this Cause.

With respect to Petitioner’s annual revenue requirements, the Settlement Agreement provides for rate relief, which is less than that originally proposed by Petitioner, but which both Citizens’ and the OUCC’s witnesses have deemed “reasonable.” Each of the revenue requirement elements constituting the agreed-to annual operating revenue amount were addressed in the Parties’ prefiled testimony and exhibits, or in the Settlement Agreement and its exhibits. Therefore, the Commission has been able to examine the basis for all of the components of the total revenue requirements.

We note that one of the significant factors contributing to Citizens’ need for rate relief was the increase to Petitioner’s pension plan funding obligation “by approximately \$6.6 million since [its] last rate case.” (Petitioner’s Ex. CBL at 7.) In its case-in-chief and rebuttal, Citizens proposed that its revenues be sufficient to support an annual pension fund contribution of \$8,154,235 based on an actuarial study prepared by McCready and Keene, Inc. (Petitioner’s Ex. SEK at 14.) During the test year Petitioner incurred pension expense in the total amount of \$6,409,291. (Petitioner’s Ex. SEK-3, page 3.)

In the Settlement Agreement, the Parties agreed that Citizens’ revenues should be sufficient to support an annual pension fund contribution of \$6,831,138 – representing a

\$1,323,097 decrease to Petitioner's proposed pro forma operating expenses. The decrease to Petitioner's annual pension funding contribution is supported by an exhibit prepared by Petitioner's actuary McCready and Keene, Inc. (Petitioner's Ex. LSP-S3.)

Based on the evidence presented, we find the provisions of the Settlement Agreement regarding the proposed increase in Petitioner's operating revenues are reasonable for purposes of settlement and are amply supported by the evidence of record. Approval of the Settlement Agreement also eliminates the risks, uncertainty and consumption of time and resources of the Commission and the Parties that otherwise would be required in a fully litigated proceeding.

We further find the Parties' agreement with respect to the rates for each customer class is in the public interest. Each of the Parties has divergent views with respect to the proper methodology to be used to allocate the revenue requirement increase among Citizens' customer classes. However, the Parties agreed upon increases to each class that fall within the range of increases that may be supported by Citizens' and the OUCC's respective cost-of-service studies. We find the agreed allocation of the revenue requirements among customer classes and the ratemaking methodology used in this Cause to be consistent with prior Commission Orders.

We also find the Parties' agreement with respect to the increases to Petitioner's facilities charges to be reasonable. In its case-in-chief, Citizens proposed to increase facilities charges in accordance with the results of its cost of service study. Specifically, Citizens proposed facilities charges were designed to "more closely reflect the underlying fixed costs of gas delivery service." (Petitioner's Ex. RAF at 38.) In its case-in-chief, the OUCC proposed holding facilities charges close to current levels in accordance with the OUCC's cost of service study. (Public's Exhibit No. 6 at 16.) In settlement, Citizens agreed to more modest increases to its monthly facilities charges. The agreed-upon facilities charges are set forth in Joint Settlement Exhibit 5. Based on the Parties' agreement and evidence presented, we find that facilities charges set forth in Joint Settlement Exhibit 5 are reasonable and should be approved.

C. Continuation of the Universal Service Program. The Commission originally approved Citizens' USP in Cause No. 42590 on August 18, 2004 and Citizens began providing assistance to eligible low-income households through its USP on January 1, 2005. (Petitioner's Ex. GAS at 4.) Accordingly, low-income customers have received assistance through the USP continuously since January, 2005. (*Id.* at 5.)

In the original Order authorizing Citizens to implement the USP, we found approval of the USP "as envisioned by Ind. Code § 8-1-2.5, et seq., is appropriate." *See, Re Citizens and Vectren Universal Service Programs*, Cause No. 42590 at 7 (approved August 18, 2004). We noted that the evidence reflected that the USP would "promote energy efficiency by requiring participants to be responsible for a manageable portion of their natural gas bill, thereby giving them an incentive to monitor and reduce usage, and if possible, to lower their monthly gas bills." *Id.* In Orders in Consolidated Cause Nos. 43077/43078 authorizing the continuation of the USP, we found:

- The USP "reduces low income customer arrears in a less costly way than could be accomplished through the increased use of existing collections mechanisms;"

(Cause No. 43077/43078 Nov. 7, 2007 Order at 20.)

- “Without the assistance provided by [the USP], participating customers otherwise might be unable to pay their natural gas bills and ultimately would be disconnected;” (Id. at 20.)
- “Petitioners experience benefits from keeping customers active and collecting rates that cover their fixed costs, and also reducing accounts receivables going to write-off as a result of the programs,” (Cause No. 43077/43078 Dec. 6, 2006 Interim Order at 13.)
- The USP has “resulted in a reduction in collection activity directed toward customers participating in the programs – which in turn, allows [Citizens Gas] to focus those efforts on customers with the ability to pay.” (Cause No. 43077/43078 Nov. 7, 2007 Order at 20.)

The evidence presented in this proceeding further demonstrates that continuation of the USP will promote efficiency in the rendering of retail energy services.

Based on the Parties’ agreement, the evidence presented and Ind. Code § 8-1-2.5-1, *et seq.*, we find that the Petitioner’s USP should be continued as described in the Settlement Agreement and the testimony of Petitioner’s witness Mr. Sawyers. We note that the low-income energy assistance programs similar or identical to the USP are now uniformly offered among the large gas utilities in the State of Indiana.

D. Changes to the CES Program and Other Miscellaneous Tariff Revisions. We further find the terms of the Settlement Agreement relating to proposed modifications to the CES program are in the public interest. Petitioner’s witness Michael D. Strohl testified that Citizens communicated with all of its 3rd Party Suppliers regarding the changes to the CES program being proposed in this proceeding. Mr. Strohl stated that “[i]n general, the 3rd Party Suppliers were supportive of the proposed changes.” A summary of the feedback received from each of the 3rd Party Suppliers relating to the changes was attached to Mr. Strohl’s testimony as Petitioner’s Exhibit MDS-R7.

The Settlement Agreement resolves Realgy’s concerns about the proposed changes to the CES program. Among other things, under the terms of the Settlement Agreement, Citizens will continue to bill on behalf of Realgy until such time as Citizens receives approval in its next base rate case or other subsequent proceeding to discontinue combined billing. In addition, under the Settlement Agreement, Citizens has agreed to provide all 3rd Party Suppliers a 24-month customer usage history report at no charge with each new enrollment. This modification to the CES program was not part of Citizens’ original proposal, but had been requested by several 3rd Party Suppliers. (See, Petitioner’s Exhibit MDS-R7, page 2.)

Based on the Settlement Agreement and the evidence presented in this proceeding, we find the proposed changes to the CES program should be approved, subject to the modifications set forth in the Settlement Agreement.

We also find the other miscellaneous revisions to Citizens' tariffs and general Terms and Conditions for Gas Service that the Parties agreed to in the Settlement Agreement are reasonable and should be approved, subject to two changes for clarification purposes. First, we find the term "Landlord End-Use Customer" should be defined as follows: "the owner of a Premises that is receiving gas service, but which is rented or leased to a tenant other than the owner." The addition of this definition is intended to further clarify that the changes to Section 4.5.1 of the Terms and Conditions for Gas Service relating to circumstances under which a landlord will be responsible for paying a tenant's gas bill apply when gas service is issued in the name of the landlord and the landlord has obligated the tenant through a lease or other rental agreement to pay the gas bill.

Second, we find the phrase "at the same Premises" should be added to the following sentence in Section 9.2 of the Terms and Conditions for Gas Service: "Except as provided in Section 9.3, below, when reconnection of Gas Service Line is requested by an End-Use Customer within one year following disconnection of Gas Service Line at the request of that End-Use Customer, a charge for the restoration of Gas Service Line *at the same Premises* may be made."

E. New Depreciation Accrual Rates. In accordance with the terms of the Settlement Agreement, we also approve and authorize Petitioner to use the revised depreciation accrual rates described in Petitioner's depreciation study (Petitioner's Exhibit JJS-1). The depreciation accrual rates were determined using the same methodology used to determine Citizens' depreciation accrual rates approved in Cause No. 43463 and Citizens Thermal's depreciation accrual rates approved in Cause No. 43201. (Petitioner's Exhibit LSP-S at 11).

F. Accounting Matters. We also approve the terms of the Settlement Agreement relating to accounting matters. The section of the Settlement Agreement relating to accounting matters promotes a collaborative relationship between Citizens and the OUCC with respect to future rate cases. Specifically, Citizens and the OUCC also have agreed to collaborate to establish a mutually agreeable process pursuant to which OUCC field audits will be conducted during future rate cases. Citizens also has agreed to provide to the OUCC in its next general rate case, at the same time Citizens files its work papers, detailed general ledger transactions for Citizens Gas, as well as any business unit from which costs are allocated, for the test year and each month following the test year through the filing date of the OUCC's case-in-chief, in an electronic format that is searchable and sortable. Citizens also agreed to reduce to writing and provide the OUCC with a copy of any of its supplemental pay policies and procedures that are not currently in writing, to the extent necessary and appropriate from a regulatory accounting standpoint.

G. Conclusion Regarding the Settlement Agreement. For all of the foregoing reasons, we find that the Settlement Agreement is reasonable, supported by the evidence of record and in the public interest and should be approved. We further find that the revised Terms and Conditions for Gas Service and tariff sheets attached to the supplemental testimony of LaTona S. Prentice as Petitioner's Exhibits LSP-S1 and LSP-S2 set forth terms and

conditions and rates and charges for service that are “nondiscriminatory, reasonable, and just” and therefore should be approved.

With regard to future citation of the Settlement Agreement, we find the Settlement Agreement and our approval of it should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC, March 19, 1997) and the terms of the Settlement Agreement regarding its non-precedential effect. The Settlement Agreement shall not constitute an admission or a waiver of any position that any of the Parties may take with respect to any or all of the items and issues resolved therein in any future regulatory or other proceedings, except to the extent necessary to enforce its terms.

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

1. The Settlement Agreement, a copy of which is attached to this Order, shall be and hereby is approved in its entirety. The terms and conditions thereof shall be and hereby are incorporated herein as part of this Order.

2. Petitioner is hereby authorized to increase its rates and charges for gas service so as to produce total annual operating revenues of \$330,140,248, representing a 2.91% increase in operating revenues, as shown in Joint Settlement Exhibit 2.

3. Petitioner’s proposed changes to its Terms and Conditions for Gas Service, as set forth in Petitioner’s Exhibit LSP-S1, shall be and hereby are approved, subject to the revisions described in Finding Paragraph 9(D), and Petitioner is authorized to implement its revised Terms and Conditions for Gas Service after filing the same with the Commission as set forth in Ordering Paragraph 4 below.

4. Petitioner shall file with the Commission under this Cause, prior to placing into effect the rates and charges and Terms and Conditions for Gas Service authorized herein, tariff schedules set out in accordance with the Commission’s rules for filing utility tariffs. Said tariffs, when filed by Petitioner and upon approval by the Commission’s Natural Gas Division, shall cancel all present and prior rates and charges concurrently when said rates and charges herein approved are placed into effect by Petitioner.

5. Petitioner is hereby authorized to continue its Universal Service Program, as described in the Settlement Agreement and the direct testimony and exhibits of Gregory A. Sawyers. Petitioner shall file its USP annual report under this Cause.

6. Petitioner is hereby authorized to adopt and use the revised depreciation accrual rates set forth in Petitioner’s Exhibit JJS-1.

7. Petitioner shall pay the following itemized charges within twenty (20) days of the date of this Order to the Secretary of this Commission:

Commission charges:	\$ 5,542.38
OUCG charges:	\$ 98,771.95
Legal Notice:	\$ 163.06
Total:	\$104,477.39

Petitioner shall pay all charges prior to placing into effect the rates and charges approved herein.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT NOT PARTICIPATING:

APPROVED: AUG 31 2011

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


Brenda A. Howe
Secretary to the Commission

AS

BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE BOARD OF DIRECTORS FOR)
UTILITIES OF THE DEPARTMENT OF PUBLIC)
UTILITIES OF THE CITY OF INDIANAPOLIS, AS)
SUCCESSOR TRUSTEE OF A PUBLIC)
CHARITABLE TRUST, D/B/A CITIZENS GAS FOR)
(1) AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR GAS UTILITY SERVICE AND)
APPROVAL OF A NEW SCHEDULE OF RATES AND)
CHARGES APPLICABLE THERETO, (2))
AUTHORITY, TO THE EXTENT NECESSARY AS)
AN ALTERNATIVE REGULATORY PLAN, TO)
CONTINUE ITS LOW-INCOME CUSTOMER BILL)
ASSISTANCE PROGRAM KNOWN AS THE)
UNIVERSAL SERVICE PROGRAM, (3) APPROVAL,)
TO THE EXTENT NECESSARY AS AN)
ALTERNATIVE REGULATORY PLAN, OF)
CERTAIN MODIFICATIONS TO THE CITIZENS)
ENERGY SELECT PROGRAM AS SET FORTH IN)
ITS TARIFFS AND GENERAL TERMS AND)
CONDITIONS FOR GAS SERVICE, (4) APPROVAL)
OF CERTAIN OTHER CHANGES TO ITS GENERAL)
TERMS AND CONDITIONS FOR GAS SERVICE,)
AND (5) APPROVAL OF NEW DEPRECIATION)
ACCRUAL RATES)

FILED

JUN 30 2011

INDIANA UTILITY
REGULATORY COMMISSION

CAUSE NO. 43975

STIPULATION AND SETTLEMENT AGREEMENT

On December 16, 2010, the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust, d/b/a Citizens Gas ("Citizens") filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition requesting the relief set forth in the above caption. Citizens filed testimony and exhibits in support of its Verified Petition on December 16 and 29, 2010. On January 18, 2011, the Citizens-Industrial Group ("CIG") filed a Petition to Intervene in this proceeding, which was granted on the record during the Prehearing Conference held in this Cause. Realgy, LLC ("Realgy") filed a Petition to

Intervene in this proceeding on January 21, 2011, which the Presiding Officers granted by docket entry dated February 10, 2011.

Pursuant to the terms of the Prehearing Conference Order, the Indiana Office of the Utility Consumer Counselor ("OUCC"), CIG and Realgy filed their direct testimony in this Cause on May 10, 2011. Citizens filed rebuttal testimony and exhibits and CIG filed cross-answering testimony on June 2, 2011. Following submission of Citizens' rebuttal testimony and exhibits and CIG's cross-answering testimony, Citizens, the OUCC, CIG and Realgy (collectively the "Parties") conducted face-to-face meetings and otherwise communicated with each other regarding the possibility of resolving the issues in this proceeding through a settlement, subject to the Commission's approval.

On June 17, 2011, Citizens notified the presiding Administrative Law Judge by a conference call with attorneys for all Parties that a partial settlement had been reached, which would affect the hearings to commence on June 20, 2011. At the suggestion of the presiding Administrative Law Judge, Citizens then filed a motion requesting that the Commission continue the evidentiary hearings, which were scheduled for June 20 through 27, 2011 on the grounds that an agreement in principle had been reached to settle certain issues before the Commission in this Cause. Citizens' motion indicated that Citizens, the OUCC and CIG had reached an agreement in principle with respect to the amount of the annual increase to Citizens' pro forma operating revenues. Citizens proposed that the Commission convene an attorneys' conference on June 20, 2011 for purposes of establishing a procedural schedule for the filing of a written settlement agreement and supporting testimony.

On June 20, 2011, the Parties appeared before the Commission for an attorneys' conference to discuss the status of settlement negotiations, as well as certain procedural

matters. During the attorneys' conference, the Presiding Officers established June 30, 2011 as the deadline for filing a settlement agreement and July 11, 2011 as the date of a settlement hearing. The Presiding Officers also scheduled an evidentiary hearing for July 27, 2011 in the event that certain issues were not resolved in the settlement agreement.

Subsequent to the attorneys' conference, the Parties had further discussions regarding the possibility of settling the remaining outstanding issues. Based on those meetings, the Parties reached an agreement with respect to the manner in which the total amount of the annual revenue requirement should be allocated among the customer classes, as well as issues related to rate design and the Citizens Energy Select program. The Parties' agreement is set forth in this Stipulation and Settlement Agreement ("Settlement Agreement"). The Parties agree to the following matters and respectfully request that the Commission enter as its Final Order the agreed-upon proposed Order attached as Joint Settlement Exhibit 2.

I. Operating Revenue and Revenue Requirements

The Parties' agreement with respect to Citizens' pro forma operating revenue and its revenue requirements under Ind. Code § 8-1.5-3-8 are reflected by line item in Joint Settlement Exhibit 3, which is attached hereto, and is summarized below:

1. *Petitioner's Operating Revenue.* The Parties agree that Citizens' total pro forma operating revenues at present rates are \$320,790,081. Upon the Commission's adoption of a Final Order approving the terms and conditions of this Settlement Agreement, the Parties agree that Citizens' pro forma operating revenues should be increased by \$9,350,167 in arriving at the pro forma total operating revenues at proposed rates of \$330,140,248, representing a 2.91% increase in pro forma operating revenues.

2. *Citizens' Annual Cash Revenue Requirements.* The Parties agree Citizens' annual cash revenue requirements are as summarized below:

a. *Gas Costs.* Citizens' annual revenue requirement for gas costs is \$194,792,824.

b. *Other Operating Expenses.* Citizens' annual revenue requirement for other operating and maintenance expenses, including general and administrative expenses, is \$76,204,669. Included within this category of expense is the actuarially-determined amount of \$6,831,138 for pension funding based upon Petitioner's Exhibit LSP-S3.

c. *Extensions and Replacements.* Citizens' annual revenue requirement for extensions and replacement is \$25,199,484.

d. *Debt Service.* Citizens' annual revenue requirement for debt service is \$27,590,229.

e. *Taxes.* Citizens' annual revenue requirement for taxes is \$6,231,166.

f. *Other Income.* The Parties agree that Petitioner's total cash revenue requirement should be offset by the amount of Petitioner's pro forma other income in the amount of \$111,879.

g. *Utility Receipts Tax.* The Parties agree that Citizens' total cash revenue requirement should be increased by \$130,902 to account for the increase in Indiana Utility Receipts Tax resulting from the proposed rate increase.

h. *Incremental Write-Off Non-Gas Costs.* The Parties agree that Citizens' total cash revenue requirement should be increased by \$102,852 to account for

the increase in the non-gas component of net write-offs resulting from the proposed rate increase.

3. *Citizens' Aggregate Annual Revenue Requirement.* The Parties agree that Citizens' annual net revenue requirement is \$330,140,248, as detailed below:

Gas Costs	\$194,792,824
Operation and Maintenance Expense	\$76,204,669
Extensions and Replacements	\$25,199,484
Debt Service	\$27,590,229
Taxes	\$6,231,166
Revenue Requirement	\$330,018,372
Less: Other Income	(\$111,879)
Plus: Utility Receipts Tax (1.4% of increase)	\$130,902
Incremental Net-Write-Off Non-Gas Costs	\$102,852
Net Revenue Requirement	\$330,140,248
Pro Forma at Present Rates Revenues	<u>\$320,790,081</u>
Deficit	\$9,350,167
Percent Increase Required	2.91%

4. *Amount of Stipulated Rate Increase and Approval of Changes to Rate Schedules.* The Parties agree that Citizens' current rates and charges for service should be increased upon the Commission's adoption of a Final Order approving the terms and conditions of this Settlement Agreement so as to produce additional operating revenues of \$9,350,167, and total pro forma operating revenues of \$330,140,248, representing a 2.91% increase in operating revenues, as shown in Joint Settlement Exhibit 3.

II. Cost of Service and Rate Design

5. The Parties acknowledge and agree that rates should be designed in order to allocate revenue requirements between and among the classes of Citizens' customers

in a fair and reasonable manner consistent with cost-causation principles. The Parties further acknowledge and agree that a variety of methods have been utilized to determine cost allocation by rate class, and that, absent this Settlement Agreement, the respective Parties are prepared to present cost-of-service evidence in this proceeding utilizing different methodologies, and that such evidence would support a range of possible outcomes.

6. The Parties stipulate that the Citizens and OUCC proposals utilize recognized cost-of-service methodologies that the Commission may properly consider, and can potentially adopt. The Parties agree that the cost allocation agreed to in this Settlement Agreement is consistent with the range of potential cost-of-service determinations that could be made by the Commission in the event of a contested hearing.

7. The Parties agree that the revenue requirements should be allocated to Citizens' customer classes as set forth in Joint Settlement Exhibit 4, attached hereto, and that certain charges should be revised as set forth in the revenue proof on Joint Settlement Exhibit 5, attached hereto.

8. No Party, by entering into this Settlement Agreement, has acquiesced in or waived any position with respect to the appropriate methodology for determining cost-of-service or rate design. The Parties reserve all rights to present evidence and advocate positions with respect to cost-of-service and rate design issues in all other proceedings, including future Citizens rate proceedings.

III. Depreciation Accrual Rates

9. The Parties agree the Commission should approve the revisions to Citizens' depreciation accrual rates for its gas utility plant in accordance with the results

of the "Depreciation Study" prepared by Gannett Fleming, described in and attached to the testimony of Citizens' witness John J. Spanos as Petitioner's Exhibit JJS-1. The Parties further agree that Citizens should be authorized to adopt and use the revised depreciation rates set forth in Petitioner's Exhibit JJS-1, which relates to gas utility plant within the Gas Operations Division and Corporate Support Services ("CSS") Division.

IV. Accounting Matters

10. In settlement of disputed issues between the OUCC and Citizens under the general subject matter area of accounting, the OUCC and Citizens have reached the following agreement: Citizens will continue to record capital expenditures to construction work in progress ("CWIP") in accordance with GAAP. In its next general rate case, at the same time Citizens files its work papers, Citizens will provide to the OUCC detailed general ledger transactions for Citizens Gas, as well as any business unit from which costs are allocated, for the test year and each month following the test year through the filing date of the OUCC's case-in-chief, in an electronic format that is searchable and sortable. Citizens has collaborated with the OUCC in an effort to demonstrate that certain examples of recent changes to its accounting procedures and guidelines will assist in ensuring consistency and transparency regarding coding of expenditures to the appropriate business unit and FERC account. Within 60 days following the filing of this Settlement Agreement, Citizens will recommence its collaboration with the OUCC to evaluate certain examples of recent changes to its accounting procedures and guidelines, which are designed to assist in ensuring consistency and transparency regarding coding of expenditures to the appropriate business unit and FERC account. To the extent reasonably necessary and appropriate from a regulatory accounting standpoint, Petitioner will reduce to writing and provide the

OUCC with a copy of any of its supplemental pay policies and procedures that are not currently in writing. Subject to the provisions of paragraph 9 of this Settlement Agreement, Citizens shall obtain Commission approval prior to implementing new depreciation accrual rates. Citizens and the OUCC will collaborate to establish a mutually agreeable process pursuant to which OUCC field audits and related informal discovery will be conducted during future rate cases, which will reasonably meet the timing and due diligence needs of each party.

V. Modifications to Citizens' General Terms and Conditions for Gas Service

11. The Parties agree that the miscellaneous revisions to Citizens' tariffs and General Terms and Conditions for Gas Service set forth in Petitioner's Exhibit LSP-3 and described in the direct testimony of LaTona S. Prentice are "nondiscriminatory, reasonable, and just," and should be approved by the Commission. Among other items, those revisions include: (i) changes to clarify that moving from one premises to another does not absolve the customer from any unpaid charges incurred at the prior premises; (ii) the relocation of miscellaneous non-recurring charges from the General Terms and Conditions for Gas Service to a new Gas Rate No. A5; (iii) the addition of "demand charges" to the charge for restoration of service when reconnection of a gas service line is requested by a customer within one year following disconnection at the customer's request; and (iv) miscellaneous "clean up" changes.

12. The Parties further agree that the proposed changes to the Citizens Energy Select ("CES") program set forth in Petitioner's Exhibit LSP-3 and described in the direct testimony of Christopher H. Braun are "nondiscriminatory, reasonable, and just," and should be approved by the Commission, subject to the following modifications: (i)

Citizens will no longer offer customers one free annual 3rd Party Supplier switch; however, the original switch from system supply to a 3rd Party Supplier will continue to be free; (ii) to inform customers of their rights and responsibilities as a customer who has chosen to be provided gas supply through a 3rd Party Supplier, and to set forth the responsibilities of Citizens and 3rd Party Suppliers with respect to such customers, Citizens will develop an electronic enrollment process that requires a customer e-mail address for confirmation in lieu of requiring execution of a written contract; (iii) with each new enrollment, Citizens will provide a 24-month customer usage history report at no charge; (iv) Citizens will continue to bill on behalf of intervenor Realgy until such time as Citizens receives approval in its next base rate case or other subsequent proceeding to discontinue combined billing altogether; and (v) Citizens will provide Realgy with an overview of the process and data Citizens uses to forecast load, as well as what Citizens considers in its reasonable discretion to be an adequate information base from which Realgy should be able to assume the forecasting function, which overview will include usage history, balancing performance information and other forecasting data for Realgy's customers.

VI. Continuation of the Universal Service Program

13. The Parties agree that the Commission should authorize the continuation of Citizens' Universal Service Program. The Parties agree continuation of the Universal Service Program is in the public interest and will provide significant benefits to its low-income gas customers by reducing their total gas bills and making winter heating bills more manageable.

14. Citizens will continue the Universal Service Program as described in the direct testimony of Gregory A. Sawyers, until such time as Citizens proposes that it be

eliminated or modified. In general, the Universal Service Program will operate in fundamentally the same manner as authorized in Cause No. 43669, except that Citizens will no longer require the High Load Industrial Customers served under Citizens' "Gas Rate No. D9 – High Load" tariff to contribute to Universal Service Program funding. Citizens will contribute 25% of the cost of the Universal Service Program. As part of the Universal Service Program, Citizens will continue to fund a special needs/hardship program as authorized in Cause No. 43669.

15. Citizens will continue to collect the same data as has been collected in the past to evaluate the effectiveness in the Universal Service Program. Citizens will include as part of the annual filing to establish the year's Universal Service Program rider, an annual report including an analysis of data collected during the prior heating season. The report also will be provided to the OUCC.

VII. Settlement Agreement -- Scope and Approval

16. Neither the making of this Settlement Agreement nor any of its provisions shall constitute in any respect an admission by any Party in this or any other litigation or proceeding. Neither the making of this Settlement Agreement, nor the provisions thereof, nor the entry by the Commission of a Final Order approving this Settlement Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those resolved herein.

17. This Settlement Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any tribunal of competent jurisdiction. This Settlement Agreement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not

constitute a waiver of any position that any of the Parties may take with respect to any or all of the issues resolved herein in any future regulatory or other proceedings.

18. The undersigned have represented and agreed that they are fully authorized to execute this Settlement Agreement on behalf of their designated clients, and their successors and assigns, who will be bound thereby, subject to the agreement of the Parties on the provisions contained herein and in the attached exhibits.

19. The communications and discussions during the negotiations and conferences attended only by any or all of the Parties, their attorneys, and their consultants have been conducted based on the explicit understanding that said communications and discussions are or relate to offers of settlement and therefore are privileged. All prior drafts of this Settlement Agreement and any settlement proposals and counterproposals also are or relate to offers of settlement and are privileged.

20. This Settlement Agreement is conditioned upon and subject to Commission acceptance and approval of its terms in their entirety, without any change or condition that is unacceptable to any Party.

21. The Parties will request Commission acceptance and approval of this Settlement Agreement in its entirety, without any change or condition that is unacceptable to any party to this Settlement Agreement.

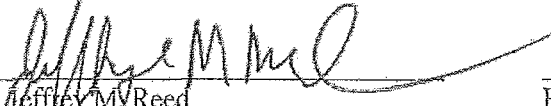
22. The Parties will offer supporting testimony for the approval of this Settlement Agreement in this proceeding and will request that the Commission issue a Final Order promptly accepting and approving the same in accordance with its terms. The Parties also will work cooperatively on news releases or other announcements to the public about this Settlement Agreement.

23. The Parties shall not appeal or seek rehearing, reconsideration or a stay of any Final Order entered by the Commission approving the Settlement Agreement in its entirety without changes or condition(s) unacceptable to any Party (or related orders to the extent such orders are specifically implementing the provisions hereof) and shall support this Settlement Agreement in the event of any appeal or a request for rehearing, reconsideration or a stay by any person not a party hereto.

Accepted and Agreed on this 20th day of June, 2011.

INDIANA OFFICE OF UTILITY CONSUMER
COUNSELOR

CITIZENS-INDUSTRIAL GROUP

By: 
Jeffrey M. Reed

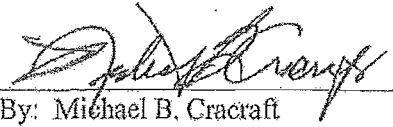
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Accepted and Agreed on this ^{30th} day of June, 2011.

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