Commissioner	Yes	No	Not Participating
Huston	√		
Freeman			√
Veleta	√		
Ziegner	√		

ORIGINAL

STATE OF INDIANA

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, FOR APPROVAL OF (1) GAS COST ADJUSTMENTS TO BE APPLICABLE IN THE MONTHS OF JUNE, JULY AND AUGUST 2023; AND (2) ACCOUNTING AUTHORITY TO DEFER CERTAIN AMOUNTS RELATED TO WHOLESALE SALES OF GAS MADE IN ACCORDANCE WITH THE COMMISSION'S FINAL ORDER IN CAUSE NO. 45577	)	**CAUSE NO. 37399 GCA 158** **APPROVED: MAY 30 2023**

ORDER OF THE COMMISSION

Presiding Officer:
Ann Pagonis, Administrative Law Judge

On March 31, 2023, in accordance with Indiana Code § 8-1-2-42, 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" or "Citizens Gas") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of June, July and August 2023. Also, on March 31, 2023, Petitioner filed the direct testimony of John F. Lamb, Manager of Rates and Business Applications. On April 20, 2023, Petitioner filed the supplemental direct testimony and revised attachments of Mr. Lamb. On May 1, 2023, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of LaCresha N. Vaulx, Utility Analyst.

The Indiana Utility Regulatory Commission ("Commission") conducted an evidentiary hearing at 11:15 a.m. on May 15, 2023, in Room 224, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner and the OUCC participated in the evidentiary hearing. The testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection.

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

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

2. **Petitioner's Characteristics.** Petitioner's principal office is located at 2020 North Meridian Street, Indianapolis, Indiana. Petitioner renders natural gas utility service to the public in and around Marion County, Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such service.

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

Petitioner's witness John F. Lamb provided evidence that Petitioner's rates and charges reflect recovery of transportation and storage costs based upon filings made with the Federal Energy Regulatory Commission ("FERC"). The majority of the commodity will be priced using New York Mercantile Exchange ("NYMEX") futures prices at Henry Hub for the three-month period, adjusted for basis, fuel, and transportation for delivery to Petitioner's city gate. The remaining commodity will be priced according to hedged transactions. None of the projected commodity volumes was purchased pursuant to fixed hedge transactions.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on a current and forward-looking basis. Based on the evidence offered, we find that Petitioner has demonstrated it has and continues to follow a policy of securing natural gas at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, we find that the requirement of this statutory provision was fulfilled.

4. **Purchased Gas Cost Rates.** Indiana Code § 8-1-2-42(g)(3)(B) requires that Petitioner's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority for a change in the cost of gas proposed to be included in the GCA factor. The evidence of record indicates that proposed gas costs include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with FERC procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in a public utility earning a return in excess of the return authorized by the last Commission Order in which the gas utility's basic rates and charges were approved. The Commission, in its May 14, 1986 Order in Cause No. 37091, found that the earnings test in Indiana Code § 8-1-2-42(g)(3)(C) does not apply to municipally owned gas utilities. Petitioner is a municipally owned gas utility; therefore, the earnings test does not apply to Petitioner.

6. **Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates that Petitioner's 12-month rolling average comparison was 4.81% for the period ending February 28, 2023. Based on Petitioner's historical accuracy in estimating the cost of gas, we find Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The total gas supply variance for the reconciliation period of December 2022, January and February 2023 ("Reconciliation Period") is an over-collection of $1,611,093. The amount to be included in this GCA as a decrease in the net cost of gas is $97,596. The gas supply variance from the prior periods totals an under-collection of $414,185. Combining this amount with the gas supply variance amount to be included in this GCA results in an under-collection of $316,589, which results in an increase in the estimated net cost of gas.

The total balancing demand cost variance for the Reconciliation Period is an over-collection of $3,732. The amount to be included in this GCA is an increase in the net cost of gas of $2,381.[1] The balancing demand cost variance from the prior periods totals an under-collection of $5,280. Combining this amount with the balancing demand cost variance amount to be included in this GCA results in an under-collection of $7,661, which results in an increase in the estimated net cost of gas.

Combining the gas supply and balancing demand variances results in a total under-collection of $324,250 to be applied in this GCA as an increase in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factors.** The estimated net cost of gas to be recovered for June 2023 is $2,211,672, for July 2023 is $2,289,709 and for August 2023 is $2,320,481. Adjusting the foregoing gas cost amounts for variances, refunds, and net write-off amounts yields net gas costs to be recovered through the GCA factor of $2,351,350 for June 2023, $2,421,416 for July 2023, and $2,451,953 for August 2023. After dividing the foregoing monthly amounts by estimated sales, Petitioner recommended approval of the GCA factors set forth in table below:

[1] Although the total balancing demand cost variance for the Reconciliation Period resulted in an over-collection, the amount included in this GCA is an increase in the net cost of gas in the first quarter due to Petitioner's distribution methodology. *See* Petitioner's Exhibit No. 3, Attachment JLF-6, Schedule 12B, Page 2 of 2, Row 5, Column G.

Variable Rate Supply per Dth	June 2023	July 2023	August 2023
D1 – Residential Domestic	$3.812	$4.313	$4.418
D2 – Residential Heating	$4.987	$5.662	$5.755
D3 – General Non-Heating	$3.019	$3.303	$3.422
D4 – General Heating	$4.862	$5.238	$5.339
D7 – CNG	$3.019	$3.303	$3.422
Balancing Charges per Dth			
D3 – General Non-Heating	$0.049	$0.053	$0.052
D4 – General Heating	$0.050	$0.054	$0.053
D5 – Large Volume	$0.060	$0.064	$0.063
D7 – CNG	$0.049	$0.053	$0.052
D9 – High Load	$0.317	$0.321	$0.320
Basic Balancing Charges per Dth			
D3 – General Non Heating	$0.003	$0.003	$0.003
D4 – General Heating	$0.003	$0.003	$0.003
D5 – Large Volume	$0.003	$0.003	$0.003
D9 – High Load	$0.016	$0.016	$0.016
Back Up Supply per Dth			
Gas Supply	$4.015	$4.363	$4.469
Commodity	$2.870	$3.158	$3.262
Capacity	$1.145	$1.205	$1.207

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of $4.987/Dth for June 2023, $5.662/Dth for July 2023, and $5.755/Dth for August 2023. The table below shows the commodity costs a residential customer will incur under the proposed GCA factors based on 10 Dth of usage. The table also compares the gas costs to what a residential customer paid most recently (March 2023 - $4.461/Dth) and a year ago (June 2022 - $6.676/Dth, July 2022 - $7.346/Dth, and August 2022 - $7.250/Dth). The table solely reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference	Gas Costs (10 Dth)	Difference
June 2023	$ 49.87	$ 44.61	$ 5.26	$ 66.76	($ 16.89)
July 2023	$ 56.62	$ 44.61	$12.01	$ 73.46	($ 16.84)
August 2023	$ 57.55	$ 44.61	$12.94	$ 72.50	($ 14.95)

10. Interim Rates. The Commission finds that the rates approved herein should be interim rates, subject to refund, pending reconciliation of the gas costs in a subsequent GCA.

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

12. Regulatory Asset.

A. Petitioner's Case-in-Chief. Mr. Lamb testified about Petitioner's experience with long and short-term wholesale natural gas sales as approved in Cause No. 45577. Mr. Lamb explained that with long-term hedges, there are gains and losses associated with the margins as the natural gas market shifts and while over the life of the long-term transaction, the gains will be greater than the losses, there will be periods where, for accounting purposes losses will be recorded. Mr. Lamb explained that with a regulatory asset, Citizens will be able to manage any gains and losses associated with the hedging of long-term wholesale contracts by netting the gains and losses in a manner that ensures losses that will be offset by gains in a subsequent period do not increase retail customers' GCA costs in the accounting period in which the losses are originally recorded. Mr. Lamb proposed that Petitioner will pass the net margin to retail customers via the GCA on a basis that will be agreed upon with discussion with the OUCC but will not occur over a term longer than the original transaction.

B. <u>OUCC's Case-in-Chief</u>. Ms. Vaulx testified the OUCC does not have any objections to Citizens creating a regulatory asset to track the gains and losses associated with the hedging of long-term wholesale transactions and that the use of a regulatory asset will ensure retail customers are not paying every quarter when there is a potential loss. Ms. Vaulx recommended semi-annual meetings with Citizens to discuss the status of the regulatory asset and the related gains and losses that have been realized for each six-month period with any gains being passed back to customers at least annually.

C. <u>Commission Discussion and Finding</u>. Petitioner is requesting authority to establish a regulatory asset so that any potential losses from long-term hedging agreements can be netted against gains in the following period ensuring the losses do not increase retail customers' GCA costs in the accounting period in which the losses are originally recorded. Allowing Citizens Gas to establish a regulatory asset will allow Citizens Gas to still pass 100% of the margin on wholesale sales back to the retail customers, as envisioned in Cause No. 45577, but in a manner where retail customers do not see an increase in GCA costs in a period where losses are recorded. We find Petitioner's request to establish a regulatory asset to track the gains and losses associated with hedging of long-term wholesale transactions should be approved. The OUCC agreed with the creation of the regulatory asset but recommended that Citizens and the OUCC meet semi-annually and that the gains should be passed back to the customers at least annually. We agree with the OUCC's recommendation that the gains should be passed back at least annually as this appears to be sufficient time to allow Citizens Gas to net gains and losses associated with long-term hedging of wholesale contracts while also allowing the retail customers experience the benefit in a timely manner. Citizens and the OUCC should meet semi-annually to best determine when those gains will be passed back to customers.

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

1. The Petition of Citizens Gas for the gas cost adjustments for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

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

3. Citizens Gas' request to establish a regulatory asset to track the gains and losses associated with hedging of long-term wholesale transactions is hereby approved. Citizens should meet with the OUCC at least semi-annually and pass back any gains at least once per year.

4. In accordance with Indiana Code § 8-1-2-70, Petitioner shall pay the following

itemized charges within 20 days from the date of the Order to the Secretary of this Commission, as well as any additional costs which were incurred in connection with this Cause:

Commission Charges:	$ 1,866.20
OUCC Charges:	$ 6,878.09
Legal Advertising Charges:	$ 31.15
Total:	$ 8,775.44

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

HUSTON, VELETA, AND ZIEGNER CONCUR; FREEMAN ABSENT:

APPROVED: MAY 30 2023

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

Dana Kosco
Digitally signed by Dana Kosco
Date: 2023.05.30 14:15:07 -04'00'

Dana Kosco
Secretary of the Commission