

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY)
NATURAL GAS CO., INC. FOR AUTHORITY TO)
CHANGE ITS RATES, CHARGES, TARIFFS,)
RULES, AND REGULATIONS; AND APPROVAL)
OF AN ALTERNATIVE REGULATORY PLAN)
PURSUANT TO INDIANA CODE § 8-1-2.5-6 FOR)
PURPOSES OF IMPLEMENTING AN ENERGY)
EFFICIENCY PROGRAM, ASSOCIATED)
FUNDING AND DECOUPLING MECHANISMS,)
AND CHANGES TO PETITIONER'S)
CALCULATION OF COSTS FOR EXTENSION OF)
DISTRIBUTION MAINS)

CAUSE NO. 44293

APPROVED:

MAY 15 2013

ORDER OF THE COMMISSION

Presiding Officers:

Kari A.E. Bennett, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

On January 9, 2013, Switzerland County Natural Gas Co., Inc., ("Petitioner") filed its Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to change its rates, charges, tariffs, rules, and regulations; and approval of alternative regulatory plans to implement the Energy Efficiency Program and accompanying funding and decoupling mechanisms consistent with the Commission's Order in Cause No. 43995 ("Energy Efficiency Proceeding" or "EEP"). Petitioner also requested to change its current calculation used to determine costs to be recovered for the extension of distribution mains from its customers. On January 24, 2013, Petitioner filed its case-in-chief. On February 13, 2013, in lieu of a pre-hearing conference, the Commission convened an attorneys' conference to establish an appropriate procedural schedule in this Cause and determine the status of the parties' discussions in this proceeding. The Office of Utility Consumer Counselor ("OUCC") and Petitioner (collectively, the "Parties") appeared and participated in the attorneys' conference. On February 25, 2013, Petitioner filed certain minor corrections to its pre-filed testimony and exhibits. On February 27, 2013, the Commission issued a docket entry establishing the procedural schedule for this Cause. On February 28, 2013, the Parties filed their Stipulation and Settlement Agreement ("Settlement") and supporting testimony. On March 15, 2013, the Commission issued a Docket Entry regarding the Settlement, to which Petitioner responded on March 19, 2013.

Pursuant to public notice, proofs of publication of which were incorporated by reference into the record and placed in the official files of the Commission, the Commission conducted a public hearing in this Cause on March 20, 2013, at 10:00 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and

offered into evidence their respective pre-filed testimony and exhibits, which was admitted into the record. No members of the public appeared or sought to testify.

Having considered the evidence of record and the applicable law, the Commission now finds:

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

2. **Petitioner's Characteristics.** Petitioner is a public utility, organized and existing under the laws of the State of Indiana. Petitioner's office is located at 105 East Seminary St., Vevay, Indiana. Petitioner provides natural gas service to customers in both rural and municipal areas in Switzerland and Jefferson Counties, Indiana.

3. **Existing Rates, Test Year, and Relief Requested.** Petitioner's current base rates and charges were established by this Commission on January 5, 2011, under Cause No. 43897-U. Based on the same test year as that prior cause and as authorized by our Order in the EEP, Petitioner proposes to adjust its base rates and charges in order to: (1) recover its costs of participation in the EEP; (2) provide initial funding for the annual decoupling filings; (3) recover the costs of this filing; (4) change its rates to recover the current state and federal income taxes and IURC fees; and (5) further change its rates to flow through these changes in its revenue requirement that impact various taxes, the IURC fee, bad debt, and working capital. The result of Petitioner's proposed adjustments would be an increase in its current base rates and charges of approximately 3.30%, excluding the cost of gas, and would increase its authorized revenue by \$17,969, excluding the cost of gas. Petitioner proposes to allocate such increased revenue across the board to all customer classes and their respective current rates and charges. Petitioner also proposes to change its customer classes to accommodate the implementation of the Energy Efficiency Program. Petitioner proposes to implement a different distribution main extension calculation and make certain other changes in its existing tariffs including increases to its reconnection charges. Finally, Petitioner proposes to implement the Energy Efficiency Program following the Commission's order in this Cause.

4. **Evidence of the Parties.**

A. **Petitioner's Case-in-Chief.** Petitioner offered the testimony and exhibits of its witnesses Duane C. Mercer and Kerry A. Heid. Mr. Mercer, a certified public accountant, explained that while Cause No. 43995 had been settled and anticipated using the base rates for Petitioner that flowed from its prior base rate case,¹ certain additional adjustments to that prior rate case were required because of issues that were not and could not have been previously considered. Mr. Mercer noted that the prior base rate case did not include the costs of Petitioner's participation in the EEP. The prior base rate case also did not include a provision for

¹ Cause No. 43897-U.

the initial funding that is required of Petitioner for its future annual decoupling filing. The prior base rate case did not consider the costs of filing this proceeding, nor changes in taxes and IURC fee since that prior base rate proceeding. Further, Mr. Mercer pointed out that once Petitioner's revenue requirement changed, there would be certain flow through impacts on bad debt, taxes, the IURC fee, and Petitioner's working capital. Mr. Mercer stated that since none of these matters were considered in the prior base rate proceeding, or in the EEP, it is necessary to consider them now as part of Petitioner's implementation of the Energy Efficiency Program. Mr. Mercer stated that since Petitioner has filed this proceeding and is proposing changes in its tariff, it is also suggesting changes in the costs of calculating the free extension of distribution mains and the non-recurring charges in Petitioner's current tariffs involving returned checks, and reconnection of its customers' service.

Mr. Mercer described numerically in his Exhibit DCM-1 and specifically, in his testimony, the impact to Petitioner's base rates that would occur due to the adjustments proposed herein, associated with recovering its costs, recognizing changes in tax rates and the IURC fee, and allowing for the flow through impacts of these changes in its revenue requirement.

In addition to explaining the specifics of the adjustments, Mr. Mercer referenced the Commission's prior Orders in Cause Nos. 44062, 44063, 44128, and 44129 (collectively "the EEP rate cases") as supporting the proposed recovery and the amortization period proposed for such recovery. Mr. Mercer noted that Petitioner proposed to establish an alternative approach to calculating free main extensions following the same approach previously approved in the EEP rate cases. Finally, Mr. Mercer explained the changes to returned check charges and reconnect charges. He noted similar language used by other natural gas utilities and also his Exhibit DCM-2 which indicates that Petitioner is not recovering the costs it is incurring for returned checks or reconnection.

Petitioner's witness Heid, a licensed professional engineer and rate design witness, offered testimony and exhibits explaining how Petitioner would implement the funding and decoupling mechanisms of the Energy Efficiency Program through an Energy Efficiency Rider ("EER") consistent with the mechanism recently approved by this Commission in the EEP rate cases. Mr. Heid explained that the EER contains two components, an Energy Efficiency Funding Component ("EEFC") and a Sales Reconciliation Component ("SRC"). Mr. Heid indicated that the EEFC will recover \$0.83 per month from each residential customer. The SRC provides Petitioner a mechanism to decouple or break the linkage between volumes sold and cost recovered. He described how the SRC will be annually reviewed and concludes that the SRC meshes well with the energy efficiency initiatives that Petitioner will be promoting.

Mr. Heid explained that the tariff changes are necessary in order to separate Petitioner's residential service from its general service, though he noted that the proposed tariff treats the rates for these two classes identically because the EER is only applicable to residential customers. He suggests that the slightly changed revenue requirement be recovered through an across the board application for each customer class. Mr. Heid provided as his Exhibit KAH-2 the derivation of the proposed rates and charges.

With respect to the main extension policy and changes to Petitioner's tariff, Mr. Heid

noted that Petitioner proposed changes that are consistent with those previously authorized by the Commission for main extensions for the EEP rate cases. Mr. Heid also provided as Exhibit KAH-3 the proposed tariff for which Petitioner is requesting approval.

B. Petitioner's Settlement Testimony. Petitioner also offered the settlement testimony of Mr. Mercer, describing the Settlement between the Parties in this Cause. Mr. Mercer explained that Petitioner and the OUCC had reached an agreement on all issues and reduced that agreement to the Settlement filed with the Commission.

Mr. Mercer stated the Parties agreed that main extension calculations will be based on six-year margin revenues. He indicated the Parties agreed to Petitioner implementing the EER. The table below illustrates the capital structure, which the Commission approved in Petitioner's previous rate case:

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	\$194,408	41.97%	9.90%	4.16%
Customer Deposits	\$9,905	2.14%	6.00%	0.13%
Long Term Debt	\$257,423	55.57%	6.97%	3.87%
Deferred Tax (Net)	\$1,448	0.31%	0.00%	0.00%
Total	\$463,184	99.99%		8.16%

Mr. Mercer requested that the Commission accept and approve the Settlement and base its final order in this Cause on the terms of such Settlement.

C. OUCC'S Settlement Testimony. The OUCC offered the settlement testimony of Heather R. Poole, who noted the review the OUCC had made of Petitioner's proposal and supported the requested changes in its rates, charges, and tariffs. Ms. Poole testified about the compromises made by the Parties to resolve the outstanding issues. Specifically, the Parties reached agreement on the rate increase, rate base, rate case expense and amortization period, EEP expenses, decoupling expenses, Normal Temperature Adjustment expense, tax expense, IURC fee, bad debt expense, rate structure, main extension policy, and tariff changes including the customer service/distribution charges by rate class. The Parties settled on a 3.30% increase to rates and charges to produce an additional \$17,969 in annual revenue. Ms. Poole testified that the OUCC considers the settlement terms reasonable and in the public interest.

5. Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401 (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, Inc.*, 735 N.E.2d at 795. The Commission's own procedural rules require that settlements be supported by probative evidence. 170 I.A.C. 1-1.1-17(D). Therefore, before the Commission can approve the Settlement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2, and that such Settlement serves the public interest.

Petitioner requested Commission relief pursuant to Ind. Code ch. 8-1-2.5, the Alternative Utility Regulatory ("AUR") Act. Petitioner is an "energy utility" under the AUR Act. Under Section 6(a)(1) of the AUR Act, the Commission may adopt alternative regulatory practices, procedures and mechanisms and establish just and reasonable rates and charges that: (a) are in the public interest as determined by consideration of the factors listed in Ind. Code § 8-1-2.5-5; and (b) enhance or maintain the value of the energy utility's retail energy services or property, including practices and procedures focusing on price, quality, reliability and efficiency of the service provided by the energy utility. Pursuant to Ind. Code § 8-1-2.5-5(b), the Commission, in determining whether the public interest will be served must consider:

- (1) Whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render the exercise, in whole or in part, of jurisdiction by the commission unnecessary or wasteful.
- (2) Whether the commission's declining to exercise, in whole or in part, its jurisdiction will be beneficial for the energy utility, the energy utility's customers or the state.
- (3) Whether the commission's declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency.
- (4) Whether the exercise of commission jurisdiction inhibits an energy utility from competing with other providers of functionally similar energy services or equipment.

The Parties, through their respective pre-filed testimony and exhibits, have provided the Commission with evidence supporting relief under Ind. Code § 8-1-2.5-6 and their compromise offered through the Settlement in this Cause. The evidence recognizes the appropriateness of continuing to use Petitioner's operating expenses recognized in Cause No. 43897-U adjusted only for those costs connected to the Energy Efficiency Program; future decoupling filings with the Commission; the costs of this particular proceeding; changes in taxes and the IURC fee; and the impact that flows through to various taxes, the IURC fee, bad debt, and working capital from these adjustments to Petitioner's revenue requirement.

The Commission, in its March 15, 2013 Docket Entry, questioned certain adjustments regarding Petitioner's IURC Fee calculation and existing rate case amortization. Petitioner's response indicated that while it could correct its adjustments, the effect was de minimis. While we agree with Petitioner that the effect of correcting the adjustments has a minimal impact on Petitioner's rates, Petitioner's response fails to convince us that making the correct calculation was not appropriate from the start. Given that the Commission has properly calculated the

adjustments, we modify the Settlement as follows:

- A. **Income Taxes.** To update state and federal income taxes for tax changes from its previously approved order in Cause No. 43897-U, Petitioner did not account for the adjustment made to the IURC Fee. Thus, after accounting for the IURC fee adjustment, the adjustments for state and federal income taxes are a decrease of \$309 and an increase of \$14, respectively.
- B. **Rate Case Expense.** Petitioner's adjustment for rate case expense included only the costs applicable to Cause No. 44293 and amortized over four years. However, Petitioner did not include the thirty-five months of remaining unamortized rate case expense from Cause No. 43897-U nor did it deduct the test year amount of rate case expense granted in Cause No. 43897-U from the proposed rate case adjustment. Therefore, Petitioner's adjustment for rate case expense after accounting for these exclusions results in an adjustment increase of \$13,334.
- C. **Petitioner's Revenue Requirement.** The effects of the Settlement, as modified, are reflected in the following table:

Total original cost rate base	\$746,135
Rate of return	<u>8.16%</u>
Approved net operating income	60,885
Pro forma present rate net operating income	<u>48,485</u>
Increase in net operating income	12,400
Tax conversion rate	<u>1.3095</u>
Approved operating revenue increase	<u>\$16,239</u>
Pro forma present rate revenues	\$555,889
Approved operating revenue increase	<u>16,239</u>
Proposed operating revenues	572,128
Proposed operating expenses	<u>511,243</u>
Approved net operating income	<u>\$60,885</u>

Based upon the evidence of record and the Settlement of the Parties, we find that Petitioner should be authorized to increase its rates and charges by approximately 2.98% in order to produce an additional operating revenue net of the cost of gas of \$16,239. This will allow Petitioner to continue to earn 8.16% on its total original cost rate base of \$746,135, which authorizes Petitioner the opportunity to recover total net operating income of \$60,885.

We find that the proposed allocation of this increased revenue requirement across the board to all customer classes is reasonable inasmuch as the revenue requirement is primarily based on our findings in Cause No. 43897-U. We agree the separation of Petitioner's existing general service rate class into a residential and a non-residential rate class is a reasonable change and is supported by our findings in Cause No. 43995. However, as we noted in the EEP rate cases:

Petitioner must move towards straight-fixed variable rate pricing in order to continue implementing a decoupled rate design. This will require Petitioner to file a cost of service study in its next rate proceeding in order to increase the amount of fixed costs recovered through Petitioner's customer charges. With the addition of the SRC to Petitioner's rates, which reduces Petitioner's risk in earning its authorized margins, we believe it is imperative for Petitioner to demonstrate that its rates are cost-based.

See, e.g., Cause No. 44062 at 25. Further, as we noted in our investigation in Cause No. 43180, we encourage utilities to continue to move toward straight-fixed variable rate design, and the implementation of the SRC is a step in that direction. In order to confirm that Petitioner's costs are appropriately allocated across its customer base, we further direct Petitioner to file a cost of service study in its next base rate case.

Finally, we believe that Petitioner's other proposed tariff changes are reasonable and supported by the evidence of record and will authorize Petitioner to file a new tariff in accordance with its testimony and Exhibit KAH-3.

Pursuant to the terms of the Settlement, the Parties agree that the Settlement should not be used as precedent in any other proceeding or for any other purpose except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citations of the Settlement, we find that our approval of the Settlement herein should be recognized in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC March 19, 1997).

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

1. The Stipulation and Settlement Agreement attached is hereby approved as modified.
2. Petitioner is authorized to increase its rates and charges in accordance with our findings in Paragraph 5 of this Order to produce an additional \$16,239 in annual operating revenues.
3. Petitioner is authorized to implement the Energy Efficiency Program previously approved in Cause No. 43995, including the recovery of Petitioner's share of joint Energy Efficiency Program costs and SRC recovery, subject to the terms of our Final Order in Cause No. 43995 and in accordance with our findings in Paragraph 5 of this Order.
4. Petitioner is authorized to implement its proposed alternative regulatory plan for main extension cost recovery in accordance with our findings in Paragraph 5 above.
5. Petitioner shall file with the Commission under this Cause, prior to placing into effect, its rates, charges, and its terms and conditions for gas service authorized herein through appropriate tariff schedules set out in accordance with the Commission's rules for filing utility

tariffs. Said tariffs, when filed by Petitioner and upon approval by the Commission's Natural Gas Division shall cancel all present and prior rates and charges concurrently when said rates and charges herein are approved and placed into effect by Petitioner.

6. Petitioner shall file a cost of service study in its next base rate case.

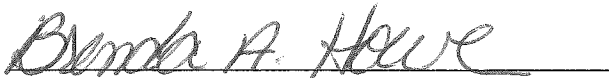
7. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED:

MAY 15 2013

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



Brenda A. Howe

Secretary to the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY)	
NATURAL GAS CO., INC. FOR AUTHORITY TO)	
CHANGE ITS RATES, CHARGES, TARIFFS,)	
RULES, AND REGULATIONS; AND APPROVAL)	CAUSE NO.: 44293
OF AN ALTERNATIVE REGULATORY PLAN)	
PURSUANT TO INDIANA CODE § 8-1-2.5-6 FOR)	
PURPOSES OF IMPLEMENTING AN ENERGY)	
EFFICIENCY PROGRAM, ASSOCIATED)	
FUNDING AND DECOUPLING MECHANISMS,)	
AND CHANGES TO PETITIONER'S)	
CALCULATION OF COSTS FOR EXTENSION OF)	
DISTRIBUTION MAINS)	

STIPULATION AND SETTLEMENT AGREEMENT

Switzerland County Natural Gas Co., Inc., (hereafter "Petitioner") and the Indiana Office of Utility Consumer Counselor (hereinafter "OUCC") have, through their respective representatives, discussed the evidence of record in this matter and in Cause No. 43995, and the potential for compromise of all issues in this Cause. The result of such discussions between the Petitioner and the OUCC (hereinafter collectively the "Parties") is a settlement on all issues as described by this Stipulation and Settlement Agreement (hereinafter the "Settlement").

The Parties believe that the evidence of record supports the terms of this Settlement. The Parties acknowledge that the terms and conditions of this Settlement are a result of negotiations and compromise between the Parties relative to the position each has taken or would take in further proceedings in this Cause. In the interest of efficiency, saving the limited resources of the regulatory bodies involved, and recognizing the reasonableness of the results produced by this Settlement, and the Parties prior settlement in Cause No. 43995, the Parties herein stipulate and agree as follows:

1. **Rate Increase.** Based on the test year ending December 31, 2009, as described in the Commission's Order in Cause No. 43897-U, adjusted solely for the costs associated with this proceeding, Petitioner's share of costs associated with Cause No. 43995, an appropriate initial funding for future decoupling expense, the appropriate flow through IURC fee and taxes, and the appropriate flow through effect of these changes on the working capital component of Petitioner's rate base; the Parties now agree that Petitioner should be authorized to increase its base rates for purposes of natural gas service to its residential customers to produce additional annual operating revenue, exclusive of the cost of gas, by \$17,969. This represents an increase of approximately 3.30% over adjusted test year operating revenue, excluding the cost of gas.

2. **Proforma Adjustments.** Petitioner proposes and the OUCC agrees that the only adjustments to its test year results are those set forth numerically in Petitioner's Exhibit DCM-1 on its pages 1 through 9 as further described below:

ARP Expenses Associated with EEP. The Petitioner proposed recovery of its cost in participating with other small gas utilities in the ARP initiated to establish the EEP, along with funding and decoupling mechanisms. Such ARP was filed under Cause No. 43995 and resulted in an order from the Commission on November 30, 2011. Following discussion, the Parties agree the appropriate amount to be recovered is \$5,100, and that an amortization period utilizing three years, in keeping with the amortization period ordered by the Commission in Cause No. 44062 is reasonable. The resulting adjustment agreed to by the Parties is an upward adjustment to test year of \$1,700 reflected on page 3 of 9.

Decoupling Expenses. The Petitioner has described future filings that this Petitioner will be required to make as part of the EEP as required under Cause No. 43995. Following discussion among the Parties, the OUCC agrees that some costs will be incurred and relate solely to work that will be required of this Petitioner. The Parties have agreed that Petitioner's test year should be adjusted upward by \$714 as reflected on page 3 of 9.

Rate Case Expense and Amortization. The Parties agree, in light of the settlement of this particular case, that recovery of \$60,000 in rate case expense amortized over four years in keeping with the amortization period ordered by the Commission in Cause No. 44062 is a reasonable amount to recover for this Cause as reflected on page 3 of 9. Petitioner has also agreed to change its rates in the future for purposes of eliminating this amortization following four full years of recovery if a new rate case has not been filed.

Taxes. The Petitioner has indicated that both state and federal income taxes will change due to the adjustments proposed in this proceeding. The OUCC agreed with Petitioner's description of the flow through nature of such taxes and also agreed with Petitioner's method of calculating such taxes. The various income taxes required of Petitioner are those reflected on the adjustments shown on page 2 of 9; followed by the adjustments on pages 3 and 4; followed by adjustment E on pages 6 and 7.

Utility Receipts Tax. The Parties acknowledge that the change in Petitioner's revenue will also flow through and impact its utility receipts tax as reflected on page 6.

IURC Fee. The Parties acknowledge that as part of the adjustments to test year, the current IURC fee should be used and included in the revenue requirement as reflected on pages 2 and 5.

Bad Debt. The Parties acknowledge that the change in Petitioner's revenue requirement will also flow through and impact its bad debt as reflected on page 5.

Working Capital. The Parties acknowledge that changes in the recovery of operating expenses described above will have an effect and should flow through to the working capital component of Petitioner's rate base as previously determined by the Commission in its Order in Cause No. 43897-U. The Parties agree that the change for working capital described on page 8 is the only change that should be made in Petitioner's rate base.

3. Pro Forma Net Operating Income. Based upon the agreement of the Parties to use Petitioner's rate base and cost of capital as reflected in the Commission's Order in Cause No. 43897-U as adjusted for working capital noted above; and recognizing the Parties' agreement on all other elements of Petitioner's revenue requirements set forth above; the Parties agree the Petitioner should be authorized to earn 8.16% on its invested original cost rate base of \$746,343, thus authorizing Petitioner the opportunity to earn a net operating income of \$60,902.

4. Cost of Service/Tariffs. Following extensive discussions among the Parties about Petitioner's current rate classes; a desire by the Parties to promote the EEP and encourage energy efficiency; the Parties have agreed that Petitioner should separate the current Rate 1 general service class into a separate residential class (Rate 1-RS) and a non-residential general service class (Rate 1-GS) which would include all other Rate 1 customers. The Parties further agree that the current monthly customer charge for all customers should be changed in accordance with applying the revenue requirement determined by this proceeding on an across the board basis. The distribution charge for all customers should also be changed across the board in keeping with the changed revenue requirement provided by this Settlement Agreement.

As part of its direct case, the Petitioner also proposed an Energy Efficiency Rider to initially implement an Energy Efficiency Funding Component (EEFC) of 83¢ per month per residential customer for purposes of funding its EEP and to implement a Sales Reconciliation Component (SRC) for all residential customers as its decoupling mechanism. Both the EEFC and the SRC flow from this Commission's order in Cause No. 43995. Following discussions with the Petitioner, the OUCC now agrees that the EEFC and the SRC should be implemented as proposed. The tariff the Parties propose be used to implement the EEFC and the SRC is as set forth in the language of Petitioner's tariff KAH-3.

Petitioner also proposes to change certain non-recurring charges in keeping with the charges in place for other small gas utilities with which it has worked in the small gas consortium and also the lack of recovery of its costs through current non-recurring charges. Specifically, Petitioner proposes to add language to its returned check charge to reflect that it will collect the current charge of \$10 plus any bank charges it incurs due to a returned check or other refusal of payment by the customer's bank. The Petitioner also proposes to increase its

current reconnection charges from \$20 to \$30 if reconnection occurs during regular business hours, and from \$40 to \$60 if such reconnection occurs after regular business hours. Following discussions with the Petitioner about these changes, the OUCC now agrees that Petitioner's changes in these non-recurring charges should occur. The tariff the Parties propose to use to implement these charges is set forth in the language of Petitioner's tariff KAH-3.

5. **Main Extension Policy.** The Petitioner proposed an alternative regulatory plan to change the calculation for main extensions from one involving gross revenue to one involving margin revenue. Petitioner also proposed that the three year average of revenue be changed to a six year average. The OUCC has indicated it has reviewed Petitioner's proposal and following further discussions with Petitioner, agrees that the main extension should be calculated on margin revenue and should use a six year period instead of a three year period. The Parties agree that the tariff, KAH-3, appropriately describes the agreed main extension policy that this Petitioner should use following a final order from the Commission in this Cause.

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

7. **Sufficiency of the Evidence.** The Parties believe that the Petitioner's direct testimony and exhibits, the OUCC's settlement testimony, and the Petitioner's settlement testimony, along with this Stipulation and Settlement Agreement, constitute substantial evidence

sufficient to support this Settlement and provide an adequate evidentiary basis upon which the Commission may make findings of fact and conclusions of law necessary to issue a final order adopting and approving this Settlement.

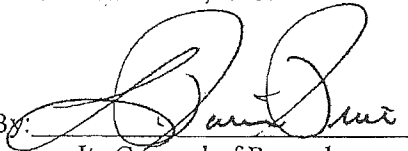
8. **Settlement Effect, Scope, and Approval.** The Parties acknowledge and agree as follows:

- (a) This Settlement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without change or condition that is unacceptable to any party. Each term of the Settlement is in consideration and support of each and every other term.
- (b) This Settlement is the result of compromise by the Parties within the settlement process. Neither the making of this Settlement nor any of the individual provisions or stipulations herein shall constitute an admission or waiver by any Party in any other proceeding; nor shall they constitute an admission or waiver in this proceeding if the Settlement is not accepted by the Commission. The Parties hereto shall not use this Stipulation or the Order provided by this Stipulation as precedent or offer the same as an admission in any other proceeding or for any other purpose except to the extent necessary to implement or enforce its terms. In the event this Stipulation or resulting Order is offered for any purpose prohibited by this Agreement, the Parties agree that objections by the non-offering party are proper.

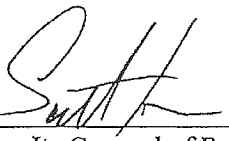
- (c) The communications and discussions among the Parties, along with the materials produced and exchanged during the negotiation of this Settlement, relate to offers of settlement and compromise, and as such, all are privileged and confidential. Such material cannot be used in this or any other proceeding without the agreement of the Parties herein.
- (d) The undersigned represent and agree that they are fully authorized to execute this Settlement on behalf of their designated clients who will thereafter be bound by this Settlement.
- (f) The Parties hereto will either support; or not oppose on rehearing, reconsideration, and/or appeal; an IURC order accepting and approving this Settlement in accordance with its terms.

Accepted and agreed this 28th day of February, 2013.

SWITZERLAND COUNTY NATURAL
GAS COMPANY, INC.

By: 
Its Counsel of Record

INDIANA OFFICE OF UTILITY
CONSUMER COUNSELOR

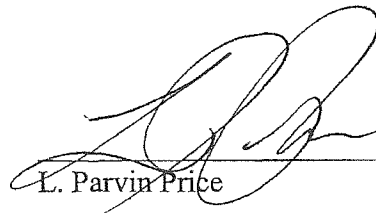
By: 
Its Counsel of Record

2301037_1.

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record by first class, United States mail, postage prepaid, this 28th day of February, 2013:

Scott Franson
Indiana Office of Utility Consumer Counselor
115 West Washington Street, Suite 1500S
Indianapolis, IN 46204



L. Parvin Price