



LDCs in the Middle

Presentation to the
Council of Industrial Boiler Owners
Annual Meeting
October 2012





About Citizens Gas

- Serves ~260,000 customers in Indianapolis/Marion County, Indiana
- Serves ~3,600 customers in Westfield, Indiana
- Approximately 4,000 miles of distribution system pipeline
- Approximately 240 miles of transmission system pipeline





About Citizens Gas

- 50% owner of intrastate Heartland Pipeline with Proliance Energy
- Underground natural gas storage in Greene County, Indiana
 - Approximately 7 BCF in 5 fields
- Liquefied natural gas storage in Marion County
 - Approximately 2 BCF in 2 plants
 - Exploring transportation use of LNG



What is the Role of the LDC?

- Delivery of natural gas to customers
- Installation, maintenance, and repair of distribution system infrastructure
 - Buried infrastructure
 - Meters
 - Responsibility for maintenance and repair transitions to the customer at the meter





Who are the Customers of the LDC?

- Residential
 - Single and multi-family
- Commercial
 - Shopping malls, office buildings
- Industrial
 - Manufacturing energy production, process use
- Electric Generation





How are the Rates Determined?

- For Citizens Gas, as a municipal entity:
 - Regulated by the IURC under a municipal ratemaking statute based on cash revenue requirements
 - Rates be sufficient to cover operating costs plus total cash debt service costs, including principal payments, plus an amount equal to depreciation or capital expenditures, whichever is greater





How are the Rates Determined

- For Citizens Gas, as a municipal entity:
 - Intent of the rates and charges is to produce income sufficient to maintain utility property in a sound physical and financial condition to render adequate and efficient service and rates
 - Charges too low to meet these requirements are unlawful





What is in the Rate?

- O&M Cost
 - Fixed costs like labor
 - Variable costs associated with operations
- Extension & Replacement (“E&R”) Cost
 - Capital expenditures in plant and distribution system
 - New supply / transmission lines
 - Growth
- Commodity Cost of natural gas





What Drives LDC Costs?

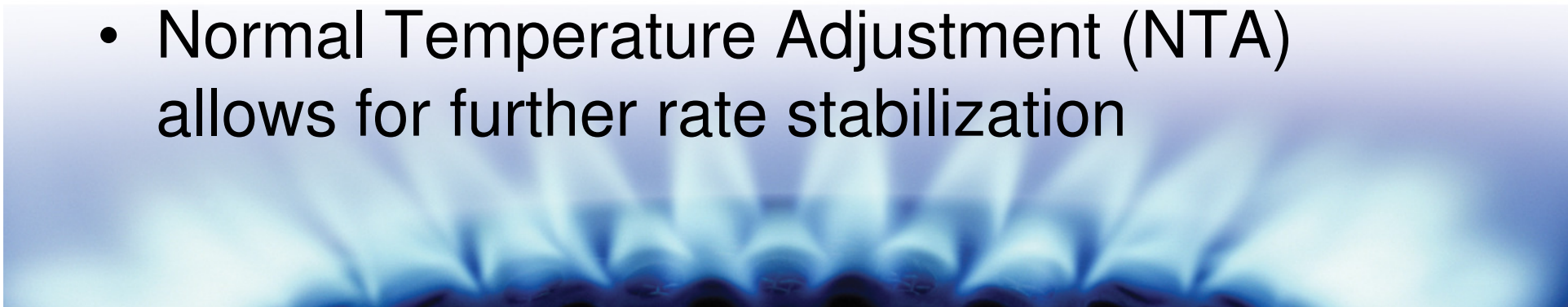
- Labor (salary and health care)
- Energy costs
- Weather
- Regulation
- Variability of commodity cost of natural gas

- MYTH: Natural gas utilities make money off the gas they sell
- FACT: Commodity cost is a pass-thru to customers



Advantage of Decoupled Rates

- Energy efficiency and conservation have reduced the volume of natural gas sold
- Decoupled rates allow utility to recover costs independent of volume
 - Preserves infrastructure maintenance programs
 - Lessens the need for general rate cases that may be driven by declining sales
- Normal Temperature Adjustment (NTA) allows for further rate stabilization





Regulation of the LDCs

- State Utility Regulatory Commission
 - Reviews petition for rate making
 - Challenges need for rate recovery of costs
 - Process allows for intervention by stakeholders
- U.S. Department of Transportation
 - Pipeline safety programs
 - Operational control through work instructions, standard procedures, etc., associated with maintenance of infrastructure



Regulation of the LDCs

- U.S. Environmental Protection Agency
 - Permitting (air, water, stormwater)
 - IC Engine NESHAP
 - GHG Reporting
 - Combustion processes
 - Subpart NN for LDC data (EIA 176)
 - Subpart W for infrastructure





What Do We See in the Future?

- Increasing domestic supply as shale gas production matures
- Generally stable commodity prices as confirmed domestic supply continues to increase
- Environmental regulatory policy that will continue to drive energy producers to natural gas
- Energy efficiency and conservation will continue to play a role in consumption
- Greenhouse gas reporting will bring enhanced focus to natural gas industry from production through LDC delivery



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QUESTIONS?

