ORIGINAL

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

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY NATURAL GAS CO., INC. FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-l-2-42(g)	)))))	**CAUSE NO. 37791 GCA 113** **APPROVED: APR 30 2024**

ORDER OF THE COMMISSION

Presiding Officer:
Greg S. Loyd, Administrative Law Judge

On February 28, 2024, in accordance with Ind. Code § 8-1-2-42, Switzerland County Natural Gas Co., Inc. ("Petitioner") filed its Petition with attached schedules for a gas cost adjustment ("GCA") to be applicable during the months of May 2024 through July 2024. Petitioner also filed on February 28, 2024, the direct testimony of Bonnie J. Mann, a certified public accountant. On March 20, 2024, Petitioner filed Ms. Mann's supplemental testimony with revised schedules, after which Petitioner filed its second set of revised schedules on March 25, 2024. On March 28, 2024, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of LaCresha N. Vaulx, Utility Analyst in the OUCC's Natural Gas Division. On April 3, 2024, Petitioner filed a notice of intent not to file rebuttal testimony.

On April 5, 2024, the Indiana Utility Regulatory Commission ("Commission") issued two docket entries, requesting additional information from Petitioner and the OUCC. Petitioner responded on April 5, 2024, which was followed by the OUCC's April 8, 2024 response.

The Commission held an evidentiary hearing in this Cause at 9:30 a.m. on April 17, 2024, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated in the hearing, during which Petitioner's and the OUCC's testimony and exhibits 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 as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-l-2-42(g), the Commission has jurisdiction over changes to Petitioner's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. Petitioner's Characteristics. Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 105 E. Seminary Street, Vevay, Indiana. Petitioner renders natural gas utility service to the public in Switzerland

County, Indiana and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such services.

3. **<u>Source of Natural Gas</u>.** Ind. Code § 8-l-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible. Ms. Mann explained how Petitioner obtains its gas supply. She stated that Petitioner is served by one interstate pipeline and while Petitioner is very small, it has, with the assistance of its marketer Utility Gas Management, been able to obtain sufficient supply at reasonable rates. She noted May, June, and July typically represent the non-heating season in Petitioner's service area. She said most of the time there is little benefit the Petitioner can obtain for its customers through fixed contracts and storage is typically being refilled during this time period for use next winter during the typical heating season. Ms. Mann stated Petitioner has not changed its estimating techniques on purchasing strategies from what it has previously described to the Commission. She also explained Petitioner has some forward gas purchases through March 2025. She testified that the current market price of gas is low and Petitioner still has access to storage gas. She said Petitioner will continue to monitor the market price of gas going forward.

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

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

5. **<u>Earnings Test</u>.**

A. **<u>Net Operating Income</u>.** Ind. Code § 8-l-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's basic rates and charges were approved. Petitioner's current basic rates and charges were approved on April 17, 2019, in Cause No. 45117. In that Order, the Commission authorized Petitioner to earn a net operating income of $65,356.

Ms. Mann initially testified that Petitioner had a negative operating income for the 12 months ending December 31, 2023. Ms. Vaulx noted, and Petitioner admitted in its response to OUCC Data Request 1.2, that Ms. Mann's testimony was incorrect. Ms. Vaulx explained that the

Operating Revenue and Operations Expense in Petitioner's Schedule 17 did not match the Operating Revenue and Operations Expense on the Income Statement workpaper provided to the OUCC.

Ms. Mann stated in her supplemental testimony that at the time Petitioner was preparing its case-in-chief, Petitioner had preliminary financial statements showing the utility incurred a net loss. She said Petitioner's Revised Schedule 17 was updated based upon final audited financial statements to reflect an operating margin net income. Revised Schedule 17 of Petitioner Exhibit 2 and Schedule 2 of Public Exhibit 2 show Petitioner had an operating net income of $4,536. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last rate case.

B. <u>Book Income Tax Credits Resulting from Negative Income</u>. The Commission's January 31, 2024 Order in Cause No. 37791 GCA 112 directed Petitioner and the OUCC to address in the current Cause whether book income tax credits resulting from negative income should be included in Schedule 17 for earnings test purposes. Ms. Mann testified it is appropriate to align the earnings test in Schedule 17 with the reality of the income tax implications when a utility has negative net income. She stated eliminating negative income taxes more accurately reflects the income tax expense of a company that had no profit on which to pay taxes. She explained that income taxes calculated on a negative operating or net income represent a refund due to the utility. Ms. Mann said if Petitioner has paid no income taxes during the period, then it would not be issued a refund, making the negative income taxes an overstatement of operating income for the period.

The OUCC stated in its Docket Entry Response that the OUCC agrees that book income tax credits resulting from negative income should be excluded in Schedule 17 for earnings test purposes. Accounting principles generally accept the inclusion or exclusion of book income tax credits resulting from negative income. For purposes of Schedule 17, it is important that the credit be included or excluded consistently. Based on the evidence presented, if Petitioner reports negative income in the future, book income tax credits shall be excluded.

6. <u>Estimation of Purchased Gas Costs</u>. Ind. Code § 8-l-2-42(g)(3)(D) requires that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner's 12-month rolling average comparison was negative 23.78% for the period ending December 31, 2023. In response to the Commission's docket entry question, Petitioner explained that as shown on the revised Schedule 6 Workpaper, the most significant variances took place during the first few months of the twelve-month period (i.e., January through April of 2023). Petitioner explained those months were estimated when Petitioner was still filing six-month GCA periods. Petitioner stated that due to the longer six-month timeline, gas costs were necessarily forecast for a longer period of time. In this instance, gas costs were estimated during the summer of 2022 when gas prices were approximately $9/Dth. Petitioner's response further explained that gas prices lowered substantially in January through April of 2023, to less than $5/Dth. As a result of these large variances, Petitioner agreed to move to a quarterly GCA filing schedule. Petitioner noted the more recent months do not exhibit the same degree of variance and expects that the rolling 12-month variance will improve once it contains only months that were estimated for a three-month basis.

Based on Petitioner's historical accuracy in estimating the cost of gas, we find that Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. <u>Reconciliation</u>. Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the variance for the reconciliation period of October 2023 through December 2023 ("Reconciliation Period") is an under-collection of $10,291 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is $1,513.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $37,868. Combining this amount with the Reconciliation Period variance results in a total over-collection of $36,355 to be applied in this GCA as a decrease in the estimated net cost of gas.

8. <u>Resulting Gas Cost Adjustment Factor</u>. The estimated net cost of gas to be recovered is $25,214 for May 2024, $21,021 for June 2024, and $22,251 for July 2024. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $13,096 for May 2024, $8,903 for June 2024, and $10,133 for July 2024. After dividing those amounts by estimated sales, Petitioner's recommended GCA factors are $1.4551/Dth for May 2024, $1.2719/Dth for June 2024, and $1.4476/Dth for July 2024. Ms. Vaulx testified that the OUCC found nothing to indicate Petitioner has not correctly calculated the proposed GCA 113 factors in accordance with all applicable requirements.

9. <u>Effects on Residential Customers – (GCA Cost Comparison)</u>. Petitioner requests authority to approve the GCA factor of $1.4551/Dth for May 2024, $1.2719/Dth for June 2024, and $1.4476/Dth for July 2024. The table below illustrates the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently ($4.0781/Dth for February 2024) and a year ago ($5.1183/Dth for May 2023, $8.5315/Dth for June 2023, and $8.0397/Dth for July 2023). The table 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
May 2024	$14.55	$40.78	($26.23)	$51.18	($36.63)
June 2024	$12.72	$40.78	($28.06)	$85.32	($72.60)
July 2024	$14.48	$40.78	($26.30)	$80.40	($65.92)

10. **Interim Rates.** We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Other Matters.** OUCC witness Vaulx identified errors in Ms. Mann's initial direct testimony and Petitioner's original schedules that were not corrected until after the OUCC raised these errors through Data Requests. Ms. Vaulx found additional errors in Petitioner's March 20, 2024 revised schedules, which were not corrected until after Ms. Vaulx emailed Petitioner. We expect Petitioner and its witnesses to submit accurate testimony and schedules and to proactively update prefiled testimony and schedules in a more accurate and timely manner.

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

1. The Petition of Switzerland County Natural Gas Co., Inc. for the gas cost adjustment 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 rate(s) approved in this Order, Petitioner shall file the tariff and applicable rate schedules under this Cause 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. If Petitioner reports negative income in the future, book income tax credits shall be excluded.

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

<u>BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR; HUSTON ABSENT</u>:

APPROVED: APR 30 2024

**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: 2024.04.30 10:21:18 -04'00'

Dana Kosco
Secretary of the Commission