

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**APPLICATION OF OHIO VALLEY GAS)
CORPORATION AND OHIO VALLEY GAS, INC.)
FOR APPROVAL OF A GAS COST ADJUSTMENT)
PURSUANT TO INDIANA CODE 8-1-2-42 TO BE)
APPLICABLE DURING THE MONTHS OF JULY,)
AUGUST, AND SEPTEMBER 2015 WITH THE)
CONSUMPTION PERIOD STARTING ON OR)
ABOUT JUNE 15, 2015.)**

CAUSE NO. 44147 GCA 10

APPROVED:

JUN 30 2015

ORDER OF THE COMMISSION

Presiding Officer:

Gregory R. Ellis, Administrative Law Judge

On April 29, 2015, in accordance with Ind. Code § 8-1-2-42, Ohio Valley Gas Corporation (“OVGC”) and its wholly-owned subsidiary Ohio Valley Gas, Inc. (“OVGI”) (collectively, “Ohio Valley” or “Applicants”) filed their Application for Gas Cost Adjustment (“GCA”) to be applicable during the months of July 2015 through September 2015. Along with their Application, Applicants filed Exhibits, including all GCA Schedules and the prefiled direct testimony of Ronald P. Salkie, Chief Financial and Information Officer, supporting the proposed GCA factors. On May 22, 2015, Applicants filed Amendment No. 1 to their Application. On May 27, 2015, Applicants filed Amendment No. 2 to their Application. On May 29, 2015, in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the statistical report and direct testimony of Laura J. Anderson, Utility Analyst in its Natural Gas Division.

The Indiana Utility Regulatory Commission (“Commission”) held an Evidentiary Hearing in this Cause at 10:00 a.m. on June 10, 2015, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Ohio Valley and the OUCC were present and participated. The testimony and exhibits of Ohio Valley and OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

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. Applicants are public utilities as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Applicants’ rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Applicants and the subject matter of this Cause.

2. **Applicants' Characteristics.** Applicants are corporations organized and existing under the laws of the State of Indiana. Applicants' principal office is located at 111 Energy Park Drive, Winchester, Indiana. Applicants render natural gas utility service to the public and own, operate, manage, and control plant and equipment used for the distribution and furnishing of such service. OVG's ANR Pipeline Company ("ANR") service area is comprised of natural gas customers in Dubois, Jay, Randolph, Spencer, and Wayne Counties in Indiana. OVG's Texas Gas Transmission, LLC ("Texas Gas") service area is comprised of natural gas customers in Dearborn, Fayette, Franklin, Perry, Ripley, Spencer, and Union Counties in Indiana. OVG serves natural gas customers in Greene, Knox, Pike, Sullivan, and Vigo Counties in Indiana.

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

Ohio Valley's witness Ronald P. Salkie testified that Applicants have long-term contracts with ANR and Texas Gas for pipeline capacity and storage. Applicants replaced one transportation contract it had with ANR. The new contract with ANR became effective November 1, 2013, and will expire March 31, 2016. All other ANR contracts are not subject to renewal until March 31, 2019. The contracted maximum daily quantity for the ANR service area is 14,970 Dth. Applicants renewed and restructured four of their contracts with Texas Gas effective November 1, 2013, to expire October 31, 2018. The maximum daily quantity for the Texas Gas service area will be 18,781 Dth and 7,584 Dth for the OVG area. Applicants renewed their contract for natural gas supply requirements from the production areas with British Petroleum ("BP") November 1, 2014, for all service areas. The BP contract contains fixed and index components and provides for a fee of \$.01 per Dth purchased, whether under the index or fixed-price component. Applicants' exhibits indicate fixed gas purchased under NYMEX futures contracts and storage gas used during this GCA period are estimated to represent approximately 36% of the total required supply.

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 current and forward-looking bases. Based on the evidence offered, we find that Applicants have demonstrated that they have and continue 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. **Purchased Gas Cost Rates.** Ind. Code § 8-1-2-42(g)(3)(B) requires that Applicants' 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 Ohio Valley'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. Earnings Test. Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Applicants earning a return in excess of the return authorized by the last Commission Order in which Applicants' basic rates and charges were approved. Ohio Valley's current basic rates and charges were approved on December 5, 2012, in Cause No. 44147. The Commission authorized Applicants to earn a net operating income of \$3,667,036.

The evidence of record indicates that for the 12 months ending February 28, 2015, Applicants' actual net operating income was \$4,105,257. Therefore, based on the evidence of record, we find that Applicants are earning a return in excess of that authorized in their last rate case.

Because Applicants have earned a return in excess of that authorized, Ind. Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded to customers through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Ind. Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence of record, we find the sum of the differentials during the relevant period is less than zero, and therefore, it is not appropriate to require a refund of any of the amount over-earned in this Cause.

6. Estimation of Purchased Gas Costs. Ind. Code § 8-1-2-42(g)(3)(D) requires that Applicants' estimate of their prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, 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 Applicants' 12-month rolling average comparison for the reconciliation period ending February 2015 was 2.39%. Based upon Ohio Valley's historical accuracy in estimating the cost of gas, we find that Applicants' estimating techniques are sound, and Applicants' prospective average estimate of gas costs is reasonable.

7. Reconciliations.

A. Variations. Ind. Code § 8-1-2-42(g)(3)(D) also requires that Applicants reconcile their estimates 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 December 2014 through February 2015 ("Reconciliation Period") is an over-collection of \$581,354 from their 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 a decrease in the estimated net cost of gas is \$25,812.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$42,986. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$17,174 to be applied in this GCA as an increase in the estimated net cost of gas.

B. Refunds. Applicants received no new refunds during the Reconciliation Period and have \$13,906 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is \$13,906 as reflected on Schedule 12A.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered for July 2015 is \$293,973, for August 2015 is \$285,985, and for September 2015 is \$340,593. Adjusting these totals for the variances to be recovered by the Applicants in this GCA and refund amounts to be returned to customers in this GCA yields gas costs to be recovered through the GCA factor of \$294,975 for July 2015, \$286,926 for August 2015, and \$341,918 for September 2015. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Applicants’ recommended GCA factors are \$7.351/Dth for July 2015, \$7.618/Dth for August 2015, and \$6.442/Dth for September 2015.

9. Effects on Residential Customers – (GCA Cost Comparison). Applicants request authority to approve the GCA factors of \$7.351/Dth for July 2015, \$7.618/Dth for August 2015, and \$6.442/Dth for September 2015 for all of their pipeline service areas. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dths of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (\$4.384/Dth for April 2015) and a year ago (\$5.440/Dth for July 2014, \$4.924/Dth for August 2014, and \$5.051/Dth for September 2014). The table reflects costs approved through the GCA process. It does not include Applicants’ base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
July 2015	\$73.51	\$43.84	\$29.67	\$54.40	\$19.11
August 2015	\$76.18	\$43.84	\$32.34	\$49.24	\$26.94
September 2015	\$64.42	\$43.84	\$20.58	\$50.51	\$13.91

10. Interim Rates. The Commission is unable to determine whether Applicants 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. Monthly Flex Mechanism. The Commission indicated in prior Orders that Indiana’s gas utilities should make reasonable efforts to mitigate gas price volatility. Applicants’ approved monthly flex mechanism is designed to address the Commission’s concerns. Therefore, Applicants 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 period. 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, Applicants shall file all material which supports their decision to flex or not to flex as outlined in our Order in Cause No. 44374.

12. Filing Deadlines. The Order in Cause No. 44374 requires utilities to file all updates or revisions to a GCA filing within 20 days of the GCA petition being filed. However, Ohio Valley filed updated schedules for this GCA three days after this deadline. We find that Ohio Valley should adhere to the requirement to file its revised schedules within 20 days after filing its application in future proceedings.

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

1. The Application of Ohio Valley Gas Corporation and Ohio Valley Gas, 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 GCA factors approved above or any future flexed factor, Ohio Valley Gas Corporation and Ohio Valley Gas, Inc. shall file with the Commission under this Cause the applicable rate schedules for the factor.

3. In all future GCA proceedings, Ohio Valley Gas Corporation and Ohio Valley Gas, Inc. shall file any updates and/or revisions to its schedules within 20 days of the application filing date.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR; MAYS-MEDLEY ABSENT:

APPROVED: JUN 30 2015

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



**Brenda A. Howe
Secretary to the Commission**