ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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| APPLICATION OF OHIO VALLEY GAS, INC. FOR APPROVAL OF A GAS COST ADJUSTMENT PURSUANT TO INDIANA CODE 8-1-2-42 TO BE APPLICABLE TO CERTAIN GAS CONSUMPTION IN THE CALENDAR MONTHS OF JANUARY, FEBRUARY AND MARCH 2010 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT DECEMBER 15, 2009. | ) | CAUSE NO. 37352 GCA 105<br><br>APPROVED: JAN 06 2010 |

**BY THE COMMISSION:**
**James D. Atterholt, Commissioner**
**DeAnna L. Brunner, Administrative Law Judge**

On October 21, 2009, in accordance with Indiana Code § 8-1-2-42, Ohio Valley Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment to be applicable during the billing cycles of January, February, and March 2010 with the Indiana Utility Regulatory Commission ("Commission"). On October 23, 2009, Petitioner filed its Supplemental Filing, including all Schedules to its Petition and the verified testimony of S. Mark Kerney, Vice President and Chief Financial Officer, supporting the proposed GCA factors. On November 23, 2009, Petitioner filed its Supplemental Filing Amendment No. 1 to Application to revise its estimated gas costs to reflect more current market prices.

On November 20, 2009, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its Motion for Extension of Time to file GCA Report and Testimony ("Motion") and the Presiding Officers granted the Motion, extending the time to December 2, 2009. On December 2, 2009, the OUCC filed the statistical report and direct testimony of Pamela Sue Sargent Haase, CPA. On December 4, 2009, the Presiding Officers issued a Docket Entry in this Cause. On December 7, 2009, the OUCC filed Ms. Haase's Supplemental Testimony in response to the Docket Entry.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 10:00 a.m. EST on December 8, 2009, in Room 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. Petitioner and the OUCC admitted testimony and exhibits constituting their respective case-in-chief and witnesses were made available for cross-examination and questions from the bench. No members of the general public appeared or sought to testify at the hearing.

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

1. **Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The Commission therefore has jurisdiction over the parties and the subject matter in this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana with its principal office at 111 Energy Park Drive, Winchester, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in portions of Greene, Knox, Pike, Sullivan and Vigo counties in Indiana, and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

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

Petitioner's witness S. Mark Kerney testified Petitioner has a long-term contract with Texas Gas Transmission, LLC ("TGT") for transportation. Mr. Kerney stated the maximum daily contracted amount is 9,584 Dth and that arrangement includes pipeline capacity and storage. Petitioner has no storage facilities and was allocated foreign storage on the TGT system under their Federal Energy Regulatory Commission ("FERC") Order 636 compliance filing tariff. Petitioner renewed its contracts with TGT effective November 1, 2008 to expire October 31, 2013. No changes were made to the contract.

Pursuant to this contract, Petitioner will utilize TGT during the three-month period beginning January 1, 2010, for transportation services and will purchase its natural gas from natural gas broker(s) and/or producers in the spot market, under fixed price purchasing arrangements, and pipeline storage arrangements.

Mr. Kerney indicated TGT is the nearest and most economical pipeline passing through Petitioner's general service area. Transmission facilities are in place to transport the purchased gas to Petitioner's distribution facilities. Mr. Kerney further testified that utilizing another pipeline for transportation services would require a large investment in transmission facilities, offsetting any potential savings through decreased gas costs and also would require various approvals from FERC. Mr. Kerney also stated that Petitioner monitors its purchasing practices to keep purchased gas costs as low as economically feasible given weather and other variable load factor elements. Mr. Kerney testified Petitioner bought the cheapest available gas for the month regardless of the original estimated cost for that particular month.

In her direct testimony, OUCC witness Haase testified that Petitioner's inclusion of a $0.50 adder in each month's calculation was unreasonable. In performing further investigations as a result of the large estimation differences depicted in Petitioner's Schedule 13, she asked Petitioner to provide her with a calculation depicting the method used for calculating the injection unit cost used by Petitioner to value gas borrowed from the pipeline during the current estimation period. Public's Exhibit No. 4 includes a copy of Petitioner's electronic mail message

and the accompanying calculation details. In reviewing these calculations, Ms. Haase became aware of Petitioner's use of a $0.50 adder in each month's calculations.

Ms. Haase testified she does not believe it is reasonable for Petitioner to include an adder in this calculation. Ms. Haase stated Petitioner has been over-collecting gas costs as indicated on Schedule 12. Allowing the $0.50 adder to each month's calculation may allow Petitioner to continue to over-collect gas costs, which are not returned to ratepayers until subsequent GCAs. Ms. Haase testified the effect of removing the adder results in additional credits to Petitioner's calculated factors amounting to $0.24, $0.20, and $0.11 per Dth for January, February, and March 2010, respectively. The savings to a consumer using 15 Dths in January, February, and March 2010 would amount to $3.63, $3.03, and $1.58, respectively.

Mr. Kerney, in rebuttal, stated that many of the components affecting the calculation of a GCA factor are estimates, because the actual costs and volumes are not known until after the consumption period. Mr. Kerney stated that historically, Petitioner has included an "adder" in its estimated TGT storage refills costs, and the GCA 105 filing is consistent with that practice. Furthermore, Mr. Kerney stated that the adder was not the primary reason for the over-collection of gas costs.

Ms. Haase filed supplemental testimony and exhibits in response to the Commission's December 4, 2009 Docket Entry. Ms. Haase provided a graph and accompanying schedule of values depicting the gas cost variances calculated for GCA 85 through 105 reconciliation periods. GCAs 99 through 101 indicated Petitioner experienced under collections from its customers, and GCAs 102 through 105 indicated Petitioner over collected from its customers. GCAs 92 through 98 were mainly over collections; however, the magnitude of those over-collections from GCA to GCA did not result in the volatility that Petitioner had experienced.

Ms. Haase stated this observation places doubt regarding the reasonableness of Petitioner's current methodology being used for both the estimating of future gas costs and quantities. Her findings indicate that for seven (7) GCAs or 21 months (GCAs 92 through 98), the estimated costs and quantities generated over collections ranging from a high of $67,366 for six (6) GCAs and an under collection in one (1) GCA amounting to $23,427 or roughly a $90,000 swing. Ms. Haase then stated that for the period of the next seven (7) GCAs (GCAs 99 through 105) there was a maximum under collection amount of $178,282 and a maximum over-collection of $444,136, resulting in a swing of over $620,000. The current over collection of gas costs to be returned to ratepayers in this GCA is $393,934.

Ms. Haase testified that it is important that Petitioner's estimated gas costs in each GCA be as accurate as possible and expressed concern that Petitioner has over collected gas costs for the past four GCAs in the amount of $774,924. She recommended removal of the $0.50 adder. Ms. Haase stated removal of this adder would not solve a problem of this magnitude, but would be a step toward correcting the apparent problem in the gas cost estimation process and result in more stable GCA factors.

During the Evidentiary Hearing, Mr. Kerney testified in response to the Commission's December 4, 2009 Docket Entry. Mr. Kerney stated he did not agree with removal of the adder

and stated the adder was approved by the Commission in prior GCAs. Mr. Kerney also stated that the flex filings do not reduce the uncertainty in the estimate of the storage refill price included in the GCA factor, as it is a very limited filing and such things as estimated gas storage or storage gas costs, supply mix, sales volumes, and purchase volumes were not to be updated using the flex filings.

During cross examination, Mr. Kerney agreed the Commission must make a finding in each GCA that Petitioner's estimate of gas costs is reasonable. Tr. at 12. In addition, Mr. Kerney agreed that removal of the adder from the storage gas cost would result in a reduction of approximately $44,445 from estimated gas costs. Tr. at 16.

The Presiding Administrative Law Judge asked what actual calculation or specific factors were used to calculate the adder. Mr. Kerney stated, "There is no specific -- there is no specific number or determinant. Again, it's an estimate. It's an assumption. It's just – That's just really what it is. It's an estimated amount to allow us what we think needs to be a cushion, if you will, if you want to call it that, to give us some flexibility against what we perceive to be rising market prices from -- from the time that we -- that we're calculating the estimate until we're actually buying the gas in the subsequent summer." Tr. at 27 – 28.

Ind. Code 8-1-2-42(g)(3)(D) requires the Commission to find Petitioner's estimate of its prospective average gas costs for a future recovery period is reasonable and gives effect to: (i) the actual gas costs experienced by the utility during the latest recovery period for which actual gas costs are available; and (ii) the actual gas costs recovered by the adjustment of the same recovery period.

Based on the evidence presented, we find Petitioner's current methodology for estimating future gas costs is not reasonable. The OUCC's evidence indicates Petitioner over collected gas costs in four consecutive GCAs in an amount totaling $774,924. The inclusion of Petitioner's adder makes an over collection more likely to occur again during GCA 105. We agree with Ms. Haase that removing the $0.50 adder is a step toward correcting Petitioner's apparent problem in the gas cost estimation process. Therefore, the Commission finds Petitioner's GCA 105 factors shall be the factors indicated in Petitioner's Schedule 1, as attached in Applicant Ohio Valley Gas, Inc.'s Response to the Commission's January 4, 2010 docket entry.

**4.** **Purchased Gas Cost Rates.** Ind. 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 the costs proposed to be included in the GCA factor. The evidence of record indicates that gas costs in this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the cost to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

**5.** **Return Earned.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent applicable proceeding in which Petitioner's basic rates and charges were

approved is Cause No. 43208. The Commission's October 10, 2007 order in that Cause authorized Petitioner to earn a net operating income of $199,373. Petitioner's evidence herein indicates that for the twelve (12) months ending August 31, 2009, Petitioner's actual net operating income was $190,049. 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.

6. **Estimation of Purchased Gas Costs.** Ind. 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 this requires, in part, a comparison of prior estimations with the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of the last two (2) years have resulted in the following weighted average errors:

| GCA | Reconciliation Period | Average Weighted Error |
|---|---|---|
| 101 | June 2008 – August 2008 | (19.92%) |
| 102 | September 2008 – November 2008 | 15.30% |
| 103 | December 2008 – February 2009 | 18.78% |
| 104 | March 2009 – May 2009 | 21.76% |
| 105 | June 2009 – August 2009 | 111.65% |

Based upon Petitioner's historical inaccuracy in estimating the cost of gas, the Commission finds Petitioner's estimate of prospective average gas costs is not reasonable. As indicated in Finding No. 3, above, the Commission finds the $0.50 adder shall be removed from the GCA calculation.

7. **Reconciliation.** Ind. Code § 8-1-2-42(g)(3)(D) also requires Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an over-collection of $46,201 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 a decrease in the estimated net cost of gas is $23,539.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $370,395. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $393,934 to be applied in this GCA as a decrease in the estimated net cost of gas. Petitioner received no new refunds during the Reconciliation Period ending August 31, 2009.

Based on the evidence presented, the Commission finds the OUCC's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period, and the gas costs recovered during the same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is $1,587,556. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates

of $1,193,622. After dividing that amount by estimated sales, subtracting the base cost of gas, removal of the $0.50 adder, and adjusting for Indiana Utility Receipts Tax, the OUCC's recommended GCA factors are:

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|---|---|
| January, 2010 | ($5.823)/Dth |
| February, 2010 | ($5.758)/Dth |
| March, 2010 | ($5.918)/Dth |

9. **Effects on Residential Customers.** The January GCA factor of ($5.823)/Dth represents a decrease of $1.213/Dth from the current GCA factor of ($4.610)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following tables:

**Table No. 1-Proposed GCA Factor Vs. Currently Approved GCA Factor**

| **January 2010** | ($5.823)/Dth | ($4.610)/Dth | | |
|---|---|---|---|---|
| **Consumption Dth** | **Bill at Proposed GCA Factor** | **Bill at Currently Approved GCA Factor** | **Dollar Change** | **Percent Change** |
| 5 | $ 53.70 | $ 59.77 | ($ 6.07) | -10.15% |
| 10 | 92.90 | 105.03 | ($ 12.13) | -11.55% |
| 15 | 132.10 | 150.30 | ($ 18.20) | -12.11% |
| 20 | 171.30 | 195.56 | ($ 24.26) | -12.41% |
| 25 | 210.50 | 240.83 | ($ 30.33) | -12.59% |

The GCA factor of ($5.823)/Dth represents a decrease of $5.144/Dth from the GCA factor of ($0.679)/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

**Table No. 2-Proposed GCA Factor Vs. GCA Factor One Year Ago**

| **January 2010** | ($5.823)/Dth | ($0.679)/Dth | | |
|---|---|---|---|---|
| **Consumption Dth** | **Bill at Proposed GCA Factor** | **Bill at Prior Year Approved GCA Factor** | **Dollar Change** | **Percent Change** |
| 5 | $ 53.70 | $ 79.42 | ($ 25.72) | -32.38% |
| 10 | 92.90 | 144.34 | ($ 51.44) | -35.64% |
| 15 | 132.10 | 209.25 | ($ 77.15) | -36.87% |
| 20 | 171.30 | 274.17 | ($ 102.87) | -37.52% |
| 25 | 210.50 | 339.09 | ($128.59) | -37.92% |

The February GCA factor of ($5.758)/Dth represents a decrease of $1.148/Dth from the current GCA factor of ($4.610)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

**Table No. 3-Proposed GCA Factor Vs. Currently Approved GCA Factor**

| February 2010 | ($5.758)/Dth | ($4.610)/Dth | | |
|---|---|---|---|---|
| **Consumption Dth** | **Bill at Proposed GCA Factor** | **Bill at Currently Approved GCA Factor** | **Dollar Change** | **Percent Change** |
| 5 | $ 54.03 | $ 59.77 | ($ 5.74) | -9.61% |
| 10 | 93.55 | 105.03 | ($ 11.48) | -10.93% |
| 15 | 133.08 | 150.30 | ($17.22) | -11.46% |
| 20 | 172.60 | 195.56 | ($22.96) | -11.74% |
| 25 | 212.13 | 240.83 | ($28.70) | -11.92% |

The GCA factor of ($5.757)/Dth represents a decrease of $5.022/Dth from the GCA factor of ($0.736)/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

**Table No. 4-Proposed GCA Factor Vs. GCA Factor One Year Ago**

| February 2010 | ($5.758)/Dth | ($0.736)/Dth | | |
|---|---|---|---|---|
| **Consumption Dth** | **Bill at Proposed GCA Factor** | **Bill at Prior Year Approved GCA Factor** | **Dollar Change** | **Percent Change** |
| 5 | $ 54.03 | $ 79.13 | ( $ 25.10) | -31.73% |
| 10 | 93.55 | 143.77 | ( $ 50.22) | -34.93% |
| 15 | 133.08 | 208.40 | ( $ 75.32) | -36.14% |
| 20 | 172.60 | 273.03 | ($ 100.43) | -36.78% |
| 25 | 212.13 | 337.67 | ($125.54) | -37.18% |

The March GCA factor of ($5.918)/Dth represents a decrease of $1.308/Dth from the current GCA factor of ($4.610)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

**Table No.5-Proposed GCA Factor Vs. Currently Approved GCA Factor**

| March 2010 | ($5.918)/Dth | ($4.610)/Dth | | |
|---|---|---|---|---|
| **Consumption Dth** | **Bill at Proposed GCA Factor** | **Bill at Currently Approved GCA Factor** | **Dollar Change** | **Percent Change** |
| 5 | $ 53.23 | $ 59.77 | ($ 6.54) | -10.95% |
| 10 | 91.95 | 105.03 | ($13.08) | -12.45% |
| 15 | 130.68 | 150.30 | ($19.62) | -13.05% |
| 20 | 169.40 | 195.56 | ($26.16) | -13.38% |
| 25 | 208.13 | 240.83 | ($32.70) | -13.58% |

The GCA factor of ($5.918)/Dth represents a decrease of $5.149/Dth from the GCA factor of ($0.769)/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

**Table No.6-Proposed GCA Factor Vs. GCA Factor One Year Ago**

| **March 2010** | ($5.918)/Dth | ($0.769)/Dth | | |
|---|---|---|---|---|
| **Consumption Dth** | **Bill at Proposed GCA Factor** | **Bill at Prior Year Approved GCA Factor** | **Dollar Change** | **Percent Change** |
| 5 | $ 53.23 | $ 78.97 | ($ 25.74) | -32.60% |
| 10 | 91.95 | 143.44 | ($ 51.49) | -35.90% |
| 15 | 130.68 | 207.91 | ($ 77.24) | -37.15% |
| 20 | 169.40 | 272.38 | ($102.98) | -37.81% |
| 25 | 208.13 | 336.86 | ($128.73) | -38.22% |

**10.** **Interim Rates.** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

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

1. The Petition of Ohio Valley Gas, Inc. for the gas cost adjustment for natural gas service, as modified by the OUCC's evidence, and set forth in Finding Paragraph No. 8, shall be and is hereby approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Ohio Valley Gas, Inc. shall file with the Commission under this cause, prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedules on these amendments.

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

**HARDY, ATTERHOLT, GOLC, LANDIS, AND ZIEGNER CONCUR:**

**APPROVED:** JAN 0 6 2010

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

Brenda A. Howe

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