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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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 2013 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT DECEMBER 15, 2012.	)	CAUSE NO. 37352 GCA 117 APPROVED: DEC 27 2012

ORDER OF THE COMMISSION

Presiding Officers:
Carolene Mays, Commissioner
Gregory R. Ellis, Administrative Law Judge

On October 22, 2012, in accordance with Indiana Code § 8-1-2-42, Ohio Valley Gas, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") to be applicable during the billing cycles of January 2013 through March 2013 with the Indiana Utility Regulatory Commission ("Commission"). On October 30, 2012, 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 27, 2012, Petitioner filed its Supplemental Filing Amendment No. 1 to Application. On November 30, 2012, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its statistical report, factor calculations, and the testimony of Laura J. Anderson, Utility Analyst.

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 9:30 A.M., local time, on December 11, 2012, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record without objection. During the hearing, the presiding officers requested Petitioner file an exhibit presenting certain GCA 117 schedules revised for the new base rates and GCA factors approved in Cause No. 44147 which became effective on December 10, 2012. Petitioner submitted its Late-File Exhibit 2 on December 12, 2012. 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 provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over Petitioner and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner has 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.** Indiana 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 and storage. Mr. Kerney stated the daily contracted amount is 9,584 Dth which includes transportation and storage. Applicant renewed its contracts with TGT effective November 1, 2008 and they are set to expire October 31, 2013. No changes were made to the contract. Petitioner renewed its natural gas supply requirements from the production area contract with British Petroleum ("BP") November 1, 2011. The BP contract contains two components (fixed and index). The contract with BP provides for a fee of $.01 per Dth purchased, whether under the index component or the fixed-price component.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that works to mitigate gas price volatility and considers market conditions and the price of natural gas on a current and 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, the Commission finds that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Indiana 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 Ohio Valley Gas, Inc.'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.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in the 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 proceeding in which Petitioner's basic rates were approved is Cause No. 44147. However, for purposes of the initiation of this GCA, the evidence offered, and the Reconciliation Period involved, we consider Petitioner's prior basic rate case, Cause No. 43208, to be appropriate. 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, 2012, Petitioner's actual net operating income was ($212,107). 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 applicable to the reconciliation period of the filing.

6. **Estimation of Purchased Gas Costs.** Indiana 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 record evidence indicates that the estimating techniques of the Petitioner during the reconciliation period of June 2012 through August 2012 ("the Reconciliation Period") yielded an under-estimated weighted average error of 14.10% per Dth sold. The under-estimation was caused by a large unaccounted for gas value for August 2012 which resulted from an increase in GCA sales due to a standard annual accounting adjustment to unbilled sales. Additionally, June 2012 demonstrated an elevated variance because of a change in the actual supply mix from the estimated values. Based upon the record evidence and the Petitioner's historical accuracy in estimating the cost of gas, upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas cost is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the 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 under-collection of $25,261 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 $12,540.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $12,346. Combining this amount with the Reconciliation Period variance results in a total under-collection of $194 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has no refunds from prior periods applicable to the current recovery period. Petitioner has a negative annual unaccounted-for gas amount of $34,053 as reflected on Schedule 11A. This amount will be refunded to customers in this GCA and the next three GCAs as a decrease in the cost of gas. The amount of the refund to be included in this GCA is $16,904. Based on the evidence presented, the Commission finds that Petitioner'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. <u>Resulting Gas Cost Adjustment Factor</u>. The estimated net cost of gas to be recovered during the application period is $905,969. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $889,259. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are:

January 2013	$4.673/Dth
February 2013	$4.692/Dth
March 2013	$4.782/Dth

9. <u>Effects on Residential Customers</u>. Due to excluding gas costs from its new base rates and including all gas costs in its new GCA factors, Petitioner's proposed new GCA factors are much greater than current or prior year factors. Comparative total gas costs reflected in customer bills changed only slightly. In the following tables, amounts in column "Bill at New GCA Factor" reflect Petitioner's new base rates. The January GCA factor of $4.673/Dth represents an increase of $11.082/Dth from the current GCA factor of ($6.409)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

<u>Table No. 1</u>
<u>Effect on Residential Customers</u>
<u>New vs. Current</u>

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 58.09	$ 50.77	$ 7.32	14.42%
10	$101.68	$ 87.04	$14.64	16.82%
15	$145.27	$123.31	$21.96	17.81%
20	$188.86	$159.58	$29.28	18.35%
25	$232.45	$195.85	$36.60	18.69%

The January GCA factor of $4.673/Dth represents an increase of $10.687/Dth from the prior year GCA factor of ($6.014)/Dth. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table No. 2
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 58.09	$ 52.75	$ 5.34	10.12%
10	$101.68	$ 90.99	$10.69	11.75%
15	$145.27	$129.24	$16.03	12.40%
20	$188.86	$167.48	$21.38	12.77%
25	$232.45	$205.73	$26.72	12.99%

The February GCA factor of $4.692/Dth represents an increase of $11.101/Dth from the current GCA factor of ($6.409)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table No. 3
Effect on Residential Customers
New vs. Current

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 58.19	$ 50.77	$ 7.42	14.61%
10	$101.87	$ 87.04	$14.83	17.04%
15	$145.56	$123.31	$22.25	18.04%
20	$189.24	$159.58	$29.66	18.59%
25	$232.93	$195.85	$37.08	18.93%

The February GCA factor of $4.692/Dth represents an increase of $10.981/Dth from the prior year GCA factor of ($6.289)/Dth. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table No. 4
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 58.19	$ 51.37	$ 6.82	13.28%
10	$101.87	$ 88.24	$13.63	15.45%
15	$145.56	$125.11	$20.45	16.35%
20	$189.24	$161.98	$27.26	16.83%
25	$232.93	$198.85	$34.08	17.14%

The March GCA factor of $4.782/Dth represents an increase of $11.191/Dth from the current GCA factor of ($6.409)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table No. 5
Effect on Residential Customers
New vs. Current

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 58.64	$ 50.77	$ 7.87	15.50%
10	$102.77	$ 87.04	$15.73	18.07%
15	$146.91	$123.31	$23.60	19.14%
20	$191.04	$159.58	$31.46	19.71%
25	$235.18	$195.85	$39.33	20.08%

The March GCA factor of $4.782/Dth represents an increase of $11.113/Dth from the prior year GCA factor of ($6.331)/Dth. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table No.6
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	$ 58.64	$ 51.16	$ 7.48	14.62%
10	$102.77	$ 87.82	$14.95	17.02%
15	$146.91	$124.48	$22.43	18.02%
20	$191.04	$161.14	$29.90	18.56%
25	$235.18	$197.80	$37.38	18.90%

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.

11. **Monthly Flex Mechanism.** The Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a flex mechanism each month to adjust the GCA for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex are to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. Changes in the market price included in the flex are limited to a maximum adjustment (up or down) of $1.00 from the initial market price.

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 set forth in Finding Paragraph No. 8, shall be and hereby is 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.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR;

APPROVED: DEC 27 2012

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