ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF OHIO VALLEY GAS CORPORATION 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 2010 THROUGH MARCH 2010 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT DECEMBER 15, 2009 FOR ITS TEXAS GAS SERVICE AREA.	)	CAUSE NO. 37354 GCA 105 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 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 and 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 Dearborn, Fayette, Franklin, Perry, Ripley, Spencer and Union 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.** 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 long-term contracts with Texas Gas Transmission, LLC ("TGT") for transportation and that the arrangement includes pipeline capacity and storage. Mr. Kerney stated Petitioner has renewed and restructured certain contracts with TGT effective November 1, 2008, to expire October 31, 2013, and the total maximum daily contracted amount is 21,281 Dth.

Pursuant to these contracts, 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 that 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 the Federal Energy Regulatory Commission ("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 that 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, Ms. Haase 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. This calculation is based on a weighted calculation of injection month fixed gas purchase contracts and future injection months' NYMEX index prices.

Ms. Haase testified that she does not believe it is reasonable for Petitioner to include an adder in this calculation. Ms. Haase stated that 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 that the effect of removing the adder results in additional credits to Petitioner's calculated factors amounting to $0.082, $0.071, and $0.053 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 $1.23, $1.07, and $0.79, 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, the 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 cost adder was not the primary reason for the over-collection of gas costs.

Ms. Haase filed supplemental testimony 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 98 through 101 indicated Petitioner experienced under collections from its customers and GCAs 102 through 104 indicated Petitioner over-collected from its customers. In GCA 105, Petitioner under collected by $60,004, as indicated on Public's Supplemental Exhibit No. 2, page 2 of 4. Ms. Haase took issue with Mr. Kerney's validation for an adder based upon the spike in index costs in GCA 101, where Petitioner's estimate for July 2008 was $8/Dth, when the actual market index cost resulted in a price of $13/Dth. Ms. Haase stated that the overall under collection for the period amounts to slightly more under collections than GCAs 98 through 100, and neither of those GCAs contained the effects of a similar run up in index gas costs. Furthermore, Ms. Haase stated the trend in gas costs since the July 2008 run up in cost has been an overall decrease with some daily upward variations, but none of which reached the level experienced in July 2008.

Ms. Haase testified that it is important that Petitioner's estimated gas costs in each GCA be as accurate as possible, and expressed concern Petitioner over collected gas costs for GCA 102 to GCA 104 in the amount of $1,456,367. She recommended removal of the $0.50 adder. Ms. Haase stated that removal of this adder would not solve a problem of this magnitude, but would be a small 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 that 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 encompass the estimated storage gas costs, or the index price or market priced gas component of the estimated storage gas costs.

During cross examination, Mr. Kerney agreed that the Commission must make a finding in each GCA that Petitioner's estimate of gas costs is reasonable. Tr. at 51. In addition, Mr. Kerney agreed that the fixed purchase contracts for January, February, and March total 327,000 dekatherms and the estimated index purchases equal 102,100 dekatherms. Tr. at 52. Mr. Kerney also stated that Petitioner purchases gas under fixed contracts and out of the market under a first of the month monthly index pricing mechanism via supplier contracts and derives its month gas costs from the weighted average of those purchases. Tr. at 55.

Ms. Haase testified during her direct testimony that Petitioner has used a $0.50 adder for half of its estimated gas purchases as a cushion due to perceived risk. Tr. at 64. She testified removal of the adder would result in a $97,759 reduction of gas costs. Tr. at 64.

Indiana 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 GCAs 102 through 104 in the amount of $1,456,367. Petitioner experienced a small under collection of $60,004 for the reconciliation months in this GCA. 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 Corporation's Response to the Commission's January 4, 2010 docket entry.

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 Corporation'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 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. 43209. The Commission's October 10, 2007 order in that Cause authorized Petitioner to earn a net operating income of $2,675,843. Petitioner's evidence herein indicates that for the twelve (12) months ending August 31, 2009, Petitioner's actual net

operating income was $2,432,776. Therefore, based on the evidence of record, the Commission finds Petitioner is not earning in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires 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 the estimating techniques of the 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	(24.46%)
102	September 2008 – November 2008	14.46%
103	December 2008 – February 2009	13.70%
104	March 2009 – May 2009	9.45%
105	June 2009 – August 2009	(6.70%)

Based upon the evidence presented, 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.** Indiana 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 the variance for the Reconciliation Period is an under collection of $60,004 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 $28,832.

The variance from prior recovery periods applicable to the current recovery period is an over collection of $711,817. Combining this amount with the Reconciliation Period variance results in a total over collection of $682,985 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, and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Application. 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 cost of gas to be recovered during the application period is $4,648,487. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of $3,965,502. 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:

January, 2010	($5.149)/Dth
February, 2010	($4.973)/Dth
March, 2010	($4.760)/Dth

9. **Effects on Residential Customers.** The January GCA factor of ($5.149)/Dth represents a decrease of $1.131/Dth from the current GCA factor of ($4.018)/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	($5.149)/Dth	($4.018)/Dth		
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Currently Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$ 63.63	$69.28	($ 5.65)	-8.16%
10	112.76	124.07	($ 11.31)	-9.12%
15	161.89	178.85	($ 16.96)	-9.48%
20	211.02	233.63	($ 22.61)	-9.68%
25	260.15	288.41	($ 28.26)	-9.80%

The GCA factor of ($5.149)/Dth represents a decrease of $4.900/Dth from the GCA factor of ($0.249)/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	($5.149)/Dth	($0.249)/Dth		
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$ 63.63	$88.13	($ 24.50)	-27.80%
10	112.76	161.76	($ 49.00)	-30.29%
15	161.89	235.39	($ 73.50)	-31.22%
20	211.02	309.02	($ 98.00)	-31.71%
25	260.15	382.65	($122.50)	-32.01%

The February GCA factor of ($4.973)/Dth represents a decrease of $0.955/Dth from the current GCA factor of ($4.018)/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	($4.973)/Dth	($4.018)/Dth		
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Currently Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$64.51	$69.28	($ 4.77)	-6.89%
10	114.52	124.07	($ 9.55)	-7.70%
15	164.53	178.85	($14.32)	-8.01%
20	214.54	233.63	($19.09)	-8.17%
25	264.55	288.41	($23.86)	-8.27%

The GCA factor of ($4.973)/Dth represents a decrease of $4.703/Dth from the GCA factor of ($0.270)/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	($4.703)/Dth	($0.270)/Dth		
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$64.51	$88.02	($ 23.51)	-26.71%
10	114.52	161.55	($ 47.03)	-29.11%
15	164.53	235.07	($ 70.54)	-30.01%
20	214.54	308.60	($ 94.06)	-30.48%
25	264.55	382.12	($117.57)	-30.77%

The March GCA factor of ($4.760)/Dth represents a decrease of $0.742/Dth from the current GCA factor of ($4.018)/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	($4.760)/Dth	($4.018)/Dth		
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Currently Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$65.58	$69.28	($ 3.70)	-5.34
10	116.65	124.07	($ 7.42)	-5.98
15	167.73	178.85	($11.12)	-6.22
20	218.80	233.63	($14.83)	-6.35
25	269.88	288.41	($18.53)	-6.42

The GCA factor of ($4.760)/Dth represents a decrease of $4.443/Dth from the GCA factor of ($0.317)/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	($4.760)/Dth	($0.317)/Dth		
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$65.58	$87.79	($22.21)	-25.30%
10	116.65	161.08	($44.43)	-27.58%
15	167.73	234.37	($66.64)	-28.43%
20	218.80	307.66	($88.86)	-28.88%
25	269.88	380.95	($111.07)	-29.16%

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 finds 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 Corporation 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 hereby is approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Ohio Valley Gas Corporation 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
Secretary to the Commission`