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, FEBRUARY AND MARCH 2011 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT DECEMBER 15, 2010 FOR ITS TEXAS GAS SERVICE AREA.	)	**CAUSE NO. 37354 GCA 109** **APPROVED:**

BY THE COMMISSION:
DeAnna L. Poon, Administrative Law Judge

On November 5, 2010, in accordance with Indiana Code § 8-1-2-42, Ohio Valley Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") to be applicable during the billing cycles of January 2011 through March 2011 with the Indiana Utility Regulatory Commission ("Commission"). On November 5, 2010, 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, 2010, Petitioner filed its Supplemental Filing Amendment No. 1 to Application. On December 6, 2010, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, CPA.

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 1:00 p.m. EST, on December 15, 2010, in Suite 220, 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. 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 the parties 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 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.** 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 long-term contracts with Texas Gas Transmission, LLC ("TGT") for transportation and that the arrangement includes pipeline capacity and storage. Mr. Kerney stated Applicant has renewed and restructured certain contracts with TGT effective November 1, 2008, to expire October 31, 2013, and total maximum daily quantity was decreased from 26,781 Dth to 21,281 Dth. Pursuant to these contracts, Petitioner will utilize TGT during the three-month period beginning January 1, 2011, 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 the Federal Energy Regulatory Commission ("FERC"). Witness Kerney also stated 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.

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 Petitioner's pipeline suppliers in accordance with FERC 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 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, 2010, Petitioner's actual net operating income was $2,465,007.

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.** 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 evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of June 2010 through August 2010 ("the Reconciliation Period") yielded an over-estimated weighted average error of 0.67%. Based 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 costs 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 $45,184 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 $22,574.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $132,627. Combining this amount with the Reconciliation Period variance results in a total over-collection of $110,053 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner received $114,567 of new refunds during the Reconciliation Period, and has no refunds from prior periods applicable to the current recovery period. Petitioner will return $57,238 of refunds applicable to this Application. 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. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is $4,077,092. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of $3,909,801. After dividing that amount by estimated sales, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are as follows:

January 2011	($5.164)/Dth
February 2011	($5.102)/Dth
March 2011	($5.114)/Dth

9. **Effects on Residential Customers.** The January GCA factor of ($5.164)/Dth represents a decrease of $0.029/Dth from the current GCA factor of ($5.135) /Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

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

January 2011	($5.164)/Dth	($5.135)/Dth		
Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$ 63.56	$ 63.70	($ 0.14)	(0.22%)
10	112.61	112.90	(0.29)	(0.26%)
15	161.67	162.10	(0.43)	(0.27%)
20	210.72	211.30	(0.58)	(0.27%)
25	259.78	260.50	(0.72)	(0.28%)

The GCA factor of ($5.164)/Dth represents a decrease of $0.284/Dth from the GCA factor of ($4.880)/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 2011	($5.164)/Dth	($4.880)/Dth		
Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$ 63.56	$ 64.98	($ 1.42)	(2.19%)
10	112.61	115.45	(2.84)	(2.46%)
15	161.67	165.93	(4.26)	(2.57%)
20	210.72	216.40	(5.68)	(2.62%)
25	259.78	266.88	(7.10)	(2.66%)

The February GCA factor of ($5.102)/Dth represents an increase of $0.033/Dth from the current GCA factor of ($5.135)/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 2011	($5.102)/Dth	($5.135)/Dth		
Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$ 63.87	$ 63.70	$ 0.17	0.27%
10	113.23	112.90	0.33	0.29%
15	162.60	162.10	0.50	0.31%
20	211.96	211.30	0.66	0.31%
25	261.33	260.50	0.83	0.32%

The GCA factor of ($5.102)/Dth represents a decrease of $0.305/Dth from the GCA factor of ($4.797)/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 2011	($5.102)/Dth	($4.797)/Dth		
Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$ 63.87	$ 65.39	($ 1.52)	(2.32%)
10	113.23	116.28	(3.05)	(2.62%)
15	162.60	167.17	(4.57)	(2.73%)
20	211.96	218.06	(6.10)	(2.80%)
25	261.33	268.95	(7.62)	(2.83%)

The March GCA factor of ($5.114)/Dth represents an increase of $0.021/Dth from the current GCA factor of ($5.135) /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 2011	($5.114)/Dth	($5.135)/Dth		
Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$ 63.81	$ 63.70	$ 0.11	0.17%
10	113.11	112.90	0.21	0.19%
15	162.42	162.10	0.32	0.20%
20	211.72	211.30	0.42	0.20%
25	261.03	260.50	0.53	0.20%

The GCA factor of ($5.114)/Dth represents a decrease of $0.291/Dth from the GCA factor of ($4.823)/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 2011	($5.114)/Dth	($4.823)/Dth		
Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$ 63.81	$ 65.26	($ 1.45)	(2.22%)
10	113.11	116.02	(2.91)	(2.51%)
15	162.42	166.78	(4.36)	(2.61%)
20	211.72	217.54	(5.82)	(2.68%)
25	261.03	268.30	(7.27)	(2.71%)

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.

11. **Monthly Flex Mechanism.** Petitioner utilizes 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 is 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 is limited to a maximum adjustment (up or down) of $1.00 from the initial market price.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

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 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.

ATTERHOLT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: DEC 29 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