

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA UTILITIES)
 CORPORATION FOR APPROVAL OF) CAUSE NO. 37357 GCA 94
 CHANGES IN ITS GAS COST)
 ADJUSTMENT IN ACCORDANCE) APPROVED:
 WITH IND. CODE § 8-1-2-42 (g))

APR 30 2014

ORDER OF THE COMMISSION

Presiding Officers:

Carol A. Stephan, Commissioner
Marya E. Jones, Administrative Law Judge

On February 25, 2014, in accordance with Ind. Code § 8-1-2-42, Indiana Utilities Corporation (“Petitioner”) filed its Petition for Gas Cost Adjustment (“GCA”) with attached Schedules to be applicable during the months of May 2014 through July 2014. On March 7, 2014, Petitioner prefiled the testimony of its President, Frank Czeschin, in support of its Petition. On March 31, 2014, Petitioner prefiled the Supplemental Testimony of Benjamin E. Duke of London Witte Group, along with schedules proposing a revised factor. On April 8, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the statistical report, direct testimony of Sherry L. Beaumont, Utility Analyst in the Natural Gas Division, and Petitioner’s responses to an OUCC Data Request.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Indiana Utility Regulatory Commission (“Commission”), an Evidentiary Hearing was held in this Cause at 2:00 p.m. on April 15, 2014, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of Petitioner and the 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. Petitioner is a public utility 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 Petitioner’s rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.
2. **Petitioner’s Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner’s principal office is located at 123 West Chestnut Street, Corydon, Indiana. Petitioner renders natural gas utility service to the public in Harrison and Floyd Counties in Indiana and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such service.

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 gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

Mr. Czeschin testified that Petitioner continues to monitor gas pricing through NYMEX futures and current NYMEX spot gas pricing; reviews trends in the market as described by marketers; and reviews the general economy described by the Dow Jones Industrial Averages. Mr. Czeschin noted that Petitioner anticipates using fixed contracts, storage gas, and spot gas for the upcoming GCA period. He also stated that Petitioner used hedging along with spot gas during the Reconciliation Period described below.

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 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, 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 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 the proposed gas costs include transport rates that have been filed by Petitioner'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 which results in the Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's base rates and charges were approved. Petitioner's current base rates and charges were approved on September 5, 2012 in Cause No. 44062. The Commission authorized Petitioner to earn a net operating income of \$492,244. Petitioner's evidence indicates that for the twelve (12) months ending December 31, 2013, Petitioner's actual net operating income was \$518,547. Therefore, based on the evidence of record, we find that Petitioner is earning a return in excess of that authorized in its last rate case.

Because Petitioner's return exceeds the amount 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, 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 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 estimates with the corresponding actual costs. The evidence presented indicates that Petitioner's

estimating techniques during the reconciliation period of August 2013 through October 2013 (“Reconciliation Period”) yielded an under-estimated weighted average error of 7.84%.

Based on Petitioner’s historical accuracy in estimating the cost of gas, we find that Petitioner’s estimating techniques are sound, and Petitioner’s prospective average estimate of gas costs is reasonable.

7. **Reconciliations.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate 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 is an over-collection of \$49,538. 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 \$4,698.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$5,145. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$447 to be applied in this GCA as an increase in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for May 2014 is \$64,397, for June 2014 is \$52,523, and for July 2014 is \$50,619. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of \$64,546 for May 2014, \$52,672 for June 2014, and \$50,768 for July 2014. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are \$5.2851/Dth for May 2014, \$5.2950/Dth for June 2014, and \$5.3140/Dth for July 2014.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of \$5.2851/Dth for May 2014, \$5.2950/Dth for June 2014, and \$5.3140/Dth for July 2014. The table below shows the commodity costs a residential customer will incur under the proposed GCA factors based on 10 Dths of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (February 2014 - \$5.4034/Dth) and a year ago (May 2013 - \$4.9931/Dth, June 2013 - \$4.6808/Dth, and July 2013 - \$4.7218/Dth). The table reflects costs approved through the GCA process. It does not include Petitioner’s base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dths)	Current		Year Ago	
		Gas Costs (10 Dths)	Difference from Current	Gas Costs (10 Dths)	Difference From Year Ago
May 2014	\$52.85	\$54.03	\$(1.18)	\$49.93	\$2.92
June 2014	\$52.95	\$54.03	\$(1.08)	\$46.81	\$6.14
July 2014	\$53.14	\$54.03	\$(0.89)	\$47.22	\$5.92

10. **Interim Rates.** We are unable to determine whether Petitioner 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. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism to adjust the GCA factor 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 later 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 (higher or lower) of \$1.00 from the initial market price.

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

1. The Petition of Indiana Utilities Corporation 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. Indiana Utilities Corporation shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustment factors approved herein, separate amendments to its rate schedules with reasonable references thereon reflecting such charges are applicable to the rate schedule on these amendments.
3. This Order shall be effective on and after the date of its approval.

ATTERHOLT, MAYS, STEPHAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: **APR 30 2014**

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


Brenda Howe
Secretary to the Commission