ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA UTILITIES CORPORATION FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE 8-1-2-42 (g)	**CAUSE NO. 37357 GCA 97** **APPROVED:** JAN 28 2015

ORDER OF THE COMMISSION

Presiding Officer:
Marya E. Jones, Administrative Law Judge

On November 25, 2014, in accordance with Ind. Code § 8-1-2-42, Indiana Utilities Corporation ("Petitioner" or "Indiana Utilities") filed its Petition for Gas Cost Adjustment ("GCA") with attached schedules to be applicable during the months of February 2015 through April 2015. On December 2, 2014, Petitioner prefiled the testimony of its President, Frank Czeschin, supporting the proposed GCA factors. On December 22, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Heather Poole, Senior Utility Analyst.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 9:30 a.m. on January 13, 2015, 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. He explained that Petitioner reviews trends in the market as described by marketers and also reviews the general economy described by the Dow Jones Industrial Averages. Mr. Czeschin noted that Petitioner anticipates using fixed contracts and storage gas for this upcoming GCA period and that Petitioner used hedging during the Reconciliation Period.

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 12 months ending September 30, 2014, Petitioner's actual net operating income was $674,557. 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. 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; 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 May 2014 through July 2014 ("Reconciliation Period") yielded an over-estimated weighted average error of 0.73%. 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 under-collection of $14,974. 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 $5,019.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $10,873. Combining this amount with the Reconciliation Period variance results in a total over-collection of $5,854 to be applied in this GCA as a decrease in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for February 2015 is $271,414, for March 2015 is $198,702, and for April 2015 is $99,504. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $269,463 for February 2015, $196,751 for March 2015, and $97,553 for April 2015. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $4.9926/Dth for February 2015, $5.0832/Dth for March 2015, and $5.0278/Dth for April 2015.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of $4.9926/Dth for February 2015, $5.0832/Dth for March 2015, and $5.0278/Dth for April 2015. 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 (November 2014 - $4.9770/Dth) and a year ago (February 2014 - $5.4034/Dth, March 2014 - $5.3506/Dth, and April 2014 - $5.4266/Dth). The table reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	Proposed Gas Costs (10 Dths)	Gas Costs (10 Dths)	Difference from Current	Gas Costs (10 Dths)	Difference From Year Ago
February 2015	$49.93	$49.77	$0.16	$54.03	($4.10)
March 2015	$50.83	$49.77	$1.06	$53.51	($2.68)
April 2015	$50.28	$49.77	$0.51	$54.27	($3.99)

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 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 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.

12. **Semi-Annual GCA Proceedings**. In Cause No. 44374, the Commission determined that natural gas utilities with less than 35,000 customers could move from quarterly GCA filings to semi-annual GCA filings. Petitioner requested authority to move to a semi-annual filing beginning with GCA 98. The Petitioner and OUCC agreed to a proposed semi-annual filing schedule. Ms. Poole testified that GCA 98 will be a transition period with only three months included in the reconciliation period. Ms. Poole explained the schedule provided in Public's Exhibit No. 3 ensures the estimation and reconciliation months in future GCAs are the same so that any variances and refunds are allocated to the same type of customers, eliminating any subsidization of seasonal customers. Based on the evidence of record and the Order in Cause No. 44374, we find Petitioner's request should be granted. Petitioner's future semi-annual GCAs should follow the proposed filing schedule and use the estimation and reconciliation periods shown in Public's Exhibit No. 3.

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. Prior to implementing the GCA factors approved above or any future flexed factor, Indiana Utilities Corporation shall file with the Commission under this Cause the applicable rate schedules for the factor.

3. Petitioner is authorized to make semi-annual GCA filings commencing with GCA 98, and the future semi-annual GCAs shall follow the proposed filing schedule and use the estimation and reconciliation periods shown in Public's Exhibit No. 3.

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

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: JAN 28 2015

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