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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA UTILITIES)
CORPORATION FOR APPROVAL OF) CAUSE NO. 37357 GCA 93
CHANGES IN ITS GAS COST)
ADJUSTMENT IN ACCORDANCE) APPROVED: JAN 29 2014
WITH IND. CODE § 8-1-2-42 (g))

ORDER OF THE COMMISSION

Presiding Officer:
Marya E. Jones, Administrative Law Judge

On November 26, 2013, in accordance with Ind. Code § 8-1-2-42, Indiana Utilities Corporation (“Petitioner”) filed its Petition for a Gas Cost Adjustment (“GCA”) with attached schedules to be applicable during the months of February 2014 through April 2014. On December 16, 2013, Petitioner prefiled the direct testimony of its President, Frank Czeschin, supporting the proposed GCA factors. On December 20, 2013, 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. On January 8, 2014, Petitioner filed the rebuttal testimony of Benjamin E. Duke of London Witte Group.

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 Indiana Utility Regulatory Commission (“Commission”), an Evidentiary Hearing was held in this Cause at 10:30 A.M. on January 7, 2014, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana, and said Evidentiary Hearing was continued on Petitioner’s unopposed request to 1:30 P.M. on January 14, 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 herein, the Commission now 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 cost reasonably possible.

Mr. Czeschin testified Petitioner anticipates using both fixed contracts and storage gas as well as purchasing spot gas for the upcoming GCA period. He explained Petitioner continues to monitor gas pricing through NYMEX futures and current NYMEX spot gas pricing. Mr. Czeschin stated Petitioner also reviews pricing trends described by gas marketers and the general economy described by the Dow Jones Industrial Average.

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, 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 Petitioner's pipeline suppliers to 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 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 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 that results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's basic rates and charges were approved. Petitioner's current basic 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 September 30, 2013, Petitioner's actual net operating income was \$322,415. Therefore, based on the evidence of record, we find that Petitioner is not earning in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires Petitioner's estimate of its prospective average gas costs for each future recovery period to 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 yielded an under-estimated weighted average error of -11.55%. Mr. Czeschin testified that the variances for June and July were primarily caused by additional gas purchased to refill storage that had not been originally estimated. He stated Petitioner purchased 30,000/Dth in June and July through spot gas purchases. June and July are non-heating months and these purchases represented approximately 60% of the gas purchased for

this period. Mr. Czeschin indicated that during non-heating months with low consumption, any deviation from the estimate is magnified in the percentage difference.

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. **Reconciliation.** 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 in the amount of \$44,076 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 a decrease in the net cost of gas is \$14,836.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$30,941. Combining this amount with the Reconciliation Period variance, results in a total under-collection of \$16,105 which results in 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 February 2014 is \$283,243, for March 2014 is \$200,155, and for April 2014 is \$103,396. Adjusting this total for the variance yields gas costs to be recovered through the GCA factor of \$288,611 for February 2014, \$205,523 for March 2014, and \$108,764 for April 2014. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are \$5.1365/Dth for February 2014, \$5.3506/Dth for March 2014, and \$5.4266/Dth for April 2014.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of \$5.1365/Dth for February 2014, \$5.3506/Dth for March 2014, and \$5.4266/Dth for April 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 (November 2013 - \$5.1983/Dth) and a year ago (February 2013 - \$5.5080/Dth, March 2013 - \$5.7213/Dth, and April 2013 - \$4.7441/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	Gas Costs at New GCA Factor @ 10 Dths	Current		Year Ago	
		Gas Costs at Current GCA Factor @ 10 Dths	Dollar Change New vs. Current	Gas Costs at Year Ago GCA Factors @ 10 Dths	Dollar Change New vs. Year Ago
February 2014	\$ 51.37	\$ 51.98	\$ (0.61)	\$ 55.08	\$ (3.71)
March 2014	\$ 53.51	\$ 51.98	\$ 1.53	\$ 57.21	\$ (3.70)
April 2014	\$ 54.27	\$ 51.98	\$ 2.29	\$ 47.44	\$ 6.83

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 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.

12. **Other Matters.** In June 2013, Petitioner charged a GCA rate to its customers that had not been approved by the Commission. Ms. Beaumont testified that Petitioner billed a factor of \$4.9818 for the month of June when the correct factor should have been the Commission approved factor of \$4.6808. Ms. Beaumont testified that based on her research and Petitioner's discovery responses, it appears no flex filing was filed with the Commission. She stated the OUCC believes the rate approved in the Petitioner's previous filing is the rate that should have been billed to Petitioner's customers.

Ms. Beaumont testified the OUCC calculated the difference between the Commission approved factor and what Petitioner actually billed and determined there was an over-collection of revenue of \$2,833 for the month of June. Citing the Commission's July 31, 2013 Order in Cause No. 37357 GCA 91, Ms. Beaumont noted that Petitioner has been instructed to stop submitting its GCA flex factors to Commission staff through email transmission and to file its flex factors through the Commission's electronic filing system. Ms. Beaumont testified that due to the continued lack of electronic flex filings and Petitioner charging a GCA rate that was not approved by the Commission, a one-time refund should be made to Petitioner's customers for the entire amount of \$2,833 in this GCA.

On rebuttal, Mr. Duke testified Petitioner believed it had filed a flex factor. He stated that even if it had not filed a flex factor, Petitioner's actual costs were greater than the recovered costs and no refund should be given to ratepayers. He noted that Petitioner's actual cost for June 2013 was \$52,384 and Petitioner's estimated cost of gas for June 2013 was \$46,601. Mr. Duke testified the GCA statute requires the Commission give effect to the actual cost of gas experienced by a utility, and as reflected by the exhibits provided by both the Petitioner and the OUCC, it is clear that the Petitioner under-collected the actual gas costs, which must now be reconciled.

Pursuant to Ind. Code § 8-1-2-42(g), Petitioner is statutorily required to bill customers the Commission approved GCA factor. We also note that since at least our July 31, 2013 Order in Cause No. 37357 GCA 91, Petitioner has been specifically instructed to file its flex factors through the Commission's electronic filing system. Petitioner admits it did not receive Commission approval for the actual GCA factor charged to customers in June 2013. However, the evidence confirms the actual cost for June 2013 was \$52,384 and that Petitioner actually billed only \$47,596.

We find that even though Petitioner failed to use the Commission approved GCA factor required by Ind. Code § 8-1-2-42(g), Petitioner could not have over-collected because customers were billed less than the actual cost incurred. Therefore, there was no harm to the ratepayers. However, this course of action by the Petitioner shall not be accepted in the future regardless of the variance created. Petitioner is ordered to use only the Commission approved GCA factor in all future GCA filings and to continue using the Commission's electronic filing system for its flex factor filings.

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

1. The Petition of Indiana Utilities Corporation for a 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. 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 that 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, AND ZIEGNER CONCUR:

APPROVED: JAN 29 2014

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



**Brenda A. Howe
Secretary to the Commission**