ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SYCAMORE GAS COMPANY FOR APPROVAL OF CHANGES IN ITS GAS RATES THROUGH A GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-l-2-42(g) FOR THE PERIOD AUGUST, SEPTEMBER, AND OCTOBER, 2016	))))))	CAUSE NO. 37368 GCA 131 APPROVED: JUL 20 2016

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ORDER OF THE COMMISSION

Presiding Officer:
Loraine L. Seyfried, Chief Administrative Law Judge

On June 1, 2016, in accordance with Indiana Code § 8-1-2-42, Sycamore Gas Company, Inc. ("Petitioner") filed its Verified Petition for a Gas Cost Adjustment ("GCA") with attached schedules to be applicable during the months of August 2016 through October 2016. On that same day, Petitioner prefiled the direct testimony of John T. Stenger, Consultant, and Cynthia S. Hughes, Chief Financial Officer, supporting the proposed GCA factors. Petitioner also filed supplemental testimony, with certain revised exhibits, on June 20 and June 29, 2016. On July 1, 2016, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Farheen Ahmed, Utility Analyst II.

The Indiana Utility Regulatory Commission ("Commission") held a public hearing in this Cause at 9:30 a.m. on July 19, 2016, 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 1155 East Eads Parkway, Greendale, Indiana. Petitioner renders natural gas utility service to the public in Dearborn, Franklin, and Ohio counties in Indiana and owns, operates, manages and controls plant and equipment used 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.

Petitioner's testimony and exhibits show that Petitioner continues to have a contract in place with Atmos Energy Marketing for firm gas supply on a non-interruptible basis. Petitioner has the option to purchase a portion of its portfolio on "first of the month" and/or "daily" prices. Mr. Stenger testified that Petitioner can also purchase a portion of its gas through fixed price contracts. Petitioner has hedged approximately 57% of its total supply requirements for the upcoming GCA quarter, and continues to review different strategies for future hedging of its gas supply requirements.

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 charges 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 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 June 20, 2007, in Cause No. 43090. The Commission authorized Petitioner to earn a net operating income of $1,345,858.

Petitioner's evidence indicates that for the 12 months ending March 2016, Petitioner's actual net operating income was $785,316. Therefore, based on the evidence of record, we find 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 that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner's 12-month rolling average comparison was 10.09% for the period ending March 31, 2016.

Mr. Stenger testified that the higher than usual comparison was attributable to the warmer weather in the months of December 2015, January 2016, and February 2016, which were all warmer than normal by 38.6%, 4.8%, and 8.9%, respectively. Therefore, gas sales were much lower, which resulted in a larger than normal variance. Based upon 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 months of January 2016 through March 2016 ("Reconciliation Period") is an under-collection of $220,463 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 $20,474.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $12,830. Petitioner also included an increase to the net cost of gas of $560 due to a corrected variance from Cause No. 37368 GCA 130 related to a storage gas correction.[1] Combining these amounts with the Reconciliation Period variance, results in a total under-collection of $33,864 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 is $89,723 for August 2016, $91,327 for September 2016, and $211,368 for October 2016. Adjusting this total for the variance, refund and unaccounted for gas amounts yields gas costs to be recovered through the GCA factor of $100,488 for August 2016, $102,076 for September 2016, and $221,583 for October 2016. After dividing these amounts by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $4.7421/Dth for August 2016, $4.6929/Dth for September 2016, and $5.1361/Dth for October 2016.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of $4.7421/Dth for August 2016, $4.6929/Dth for September 2016, and $5.1361/Dth for October 2016. The table below shows the gas costs a residential customer will incur under the proposed GCA factors based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (June 2016 - $3.7491/Dth) and a year ago (August 2015 – $4.4029/Dth, September 2015 - $4.3286/Dth, and October 2015 - $4.9341/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	Gas Costs @ 10 Dths	Difference
August 2016	$ 47.42	$ 37.49	$ 9.93	$ 44.03	$ 3.39
September 2016	$ 46.93	$ 37.49	$ 9.44	$ 43.29	$ 3.64
October 2016	$ 51.36	$ 37.49	$ 13.87	$ 49.34	$ 2.02

[1] The $560 increase in the net cost of a gas is a result of Petitioner correcting an error how storage volume was reflected in Cause No. 37368 GCA 130. The storage volume for December 2015 was reported as a net withdrawal when it should have been a net injection.

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 mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no less than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, Petitioner shall file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

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

1. The Verified Petition of Sycamore Gas Company, Inc. 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, Sycamore Gas Company, Inc. shall file with the Commission under this Cause the applicable rate schedules for the factor.

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

STEPHAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: JUL 20 2016

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission