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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 § 8-1-2-42(g) FOR THE PERIOD NOVEMBER AND DECEMBER 2014, AND JANUARY 2015	))))))	CAUSE NO. 37368 GCA 124 APPROVED: OCT 29 2014

ORDER OF THE COMMISSION

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

On September 3, 2014, in accordance with Indiana Code § 8-1-2-42, Sycamore Gas Company, Inc. ("Petitioner") filed a Verified Petition for a Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of November and December 2014 and January 2015. On that same day, Petitioner prefiled the direct testimony of John T. Stenger, Consultant, and Alex W. Pardo, Chief Financial Officer, supporting the proposed GCA factors. Petitioner also filed supplemental testimony, with certain revised exhibits, on October 7, 2014. On October 8, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Laura J. Anderson, Utility Analyst.

The Indiana Utility Regulatory Commission ("Commission") held a public hearing in this Cause at 1:30 p.m. on October 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.

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 duly 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 services.

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 a marketer for firm gas supply, which provides supply on a non-interruptible basis to Petitioner's customers. 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 and will utilize its interstate pipeline storage in this quarter. Petitioner has hedged approximately 62% 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 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, the Commission finds that the requirement of this statutory provision has been fulfilled.

4. <u>Purchased Gas Cost Rates</u>. 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. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charges and finds the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. <u>Return Earned</u>. Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in 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. 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 June 30, 2014, Petitioner's actual net operating income was $1,267,581. Therefore, based on the evidence of record, the Commission finds Petitioner is not earning in excess of that authorized in its last rate case.

6. <u>Estimation of Purchased Gas Costs</u>. 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 April through June, 2014 (the "Reconciliation Period") yielded an over-estimated weighted average error of 16.79%.

Mr. Stenger testified that actual quarterly costs were 17% lower than estimated and actual sales were 24% higher than estimated. This allowed fixed costs to be spread over greater volumes and contributed to the high percentage difference. 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. **Reconciliations.**

A. **Variances.** 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 $6,743 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 $3,186.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $47,757. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $50,943 to be applied in this GCA as an increase in the estimated net cost of gas.

B. **Refunds.** Petitioner reported a negative unaccounted for gas amount of $50,107 on Schedule 11A for the period July 2013 through June 2014, which must be refunded to customers through this and the next three GCA periods. Petitioner has no refunds from prior periods applicable to the current recovery period. We find the amount to be refunded to customers in this GCA is $23,672 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated commodity cost of gas to be recovered is $311,336 for November 2014, $712,636 for December 2014, and $814,573 for January 2015. Adjusting this total for the variance, refund and unaccounted for gas amounts yields a net commodity cost of gas to be recovered through the GCA factor of $317,967 for November 2014, $716,097 for December 2014, and $817,228 for January 2015. After dividing that amount by estimated sales, adding the demand factor of $0.8892/Dth and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.2225/Dth for November 2014, $5.1522/Dth for December 2014 and $5.1737/Dth for January 2015.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of $5.2225/Dth for November 2014, $5.1522/Dth for December 2014 and $5.1737/Dth for January 2015. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (September 2014 - $5.0644/Dth) and a year ago (November 2013 - $5.0006/Dth, December 2013 - $4.9600/Dth, and January 2014 - $5.1683/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**
November	$ 52.23	$ 50.64	$ 1.59	$ 50.01	$ 2.22
December	$ 51.52	$ 50.64	$ 0.88	$ 49.60	$ 1.92
January	$ 51.74	$ 50.64	$ 1.10	$ 51.68	$ 0.06

10. **Interim Rates.** The Commission is 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.** This 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 monthly flex mechanism 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. In accordance with the Commission's July 30, 2009 Order in Cause No. 37368 GCA 103, the flex is to be filed no less than five 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 (up or down) of $1.00 from the initial market price.

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

APPROVED: OCT 29 2014

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