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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA NATURAL GAS CORPORATION FOR APPROVAL OF GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF MAY, JUNE AND JULY 2013 PURSUANT TO IC 8-1-2-42 PL 43-1983	)	**CAUSE NO. 37418 GCA 117** **APPROVED:** APR 24 2013

BY THE COMMISSION:
Kari A. E. Bennett, Commissioner
Gregory R. Ellis, Administrative Law Judge

On February 8, 2013, in accordance with Ind. Code § 8-1-2-42, Indiana Natural Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment with attached Schedules ("GCA") to be applicable during the billing cycles of May 2013 through July 2013 with the Indiana Utility Regulatory Commission ("Commission"). On March 6, 2013, Petitioner prefiled the direct testimony and revised schedules of David A. Osmon, Executive Vice President of Indiana Natural Gas Corporation, supporting the proposed GCA factor. On March 18, 2013, in conformance with the above statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") prefiled the statistical report and direct testimony of Sherry L. Beaumont, Utility Analyst.

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 Commission, a public hearing was held in this Cause at 9:30 a.m., on March 26, 2013, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both 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.** Due, legal, and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as that term is 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 has its principal office at 1080 West

Hospital Road in Paoli, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in Bartholomew, Brown, Crawford, Dubois, Harrison, Johnson, Lawrence and Orange 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 supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible. Mr. Osmon testified that Petitioner is active in purchasing fixed contracts, purchasing contracts relating to periods well into the future, purchasing appropriately sized contracts, and planning for efficient use of storage. In addition, Mr. Osmon testified that Petitioner monitors market conditions, flexes its GCA factors both up and down as appropriate, and uses a normal temperature adjustment mechanism during the hearing season.

For the months of May, June, and July 2013, Petitioner has fixed-price contracts in place for approximately 40% of its anticipated demand. Petitioner does not plan to use storage gas as part of its supply portfolio for the proposed GCA months because these months are typically storage injection months.

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, the Commission finds 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 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. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the cost to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned**. Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment which results in the Petitioner earning a return in excess of that authorized in the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rates and charges were approved is Cause No. 43434. The Commission's October 8, 2008 Order in that Cause authorized Petitioner to earn a net operating income of $454,591. Petitioner's evidence indicates that for the twelve (12) months ended December 31, 2012, Petitioner's actual net

operating income was $346,078. Therefore, based on the evidence of record, the Commission finds 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 that the 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 estimations with the eventual actual costs. The evidence indicates that the estimating techniques during the reconciliation period of October 1, 2012, through December 31, 2012 (the "Reconciliation Period") yielded an under-estimated weighted average error of 22.76%.

Mr. Osmon explained that the high under-estimation was due to the timing difference between sales cycles and purchase cycles, which causes the cycles to be out of sync. He indicated that when entering into the heating season, purchased volumes are larger than sales volumes since the purchase cycle is generally colder than the sales cycle for the same month. This results in the purchased gas costs for each month being divided by a sales volume that is less than the purchased volumes, which causes the cost per unit to be artificially higher than it actually is. Mr. Osmon indicated that when the timing difference issue is removed, the comparison of the estimated versus the actual net cost of gas for October, November, and December yields estimating variances of 3.8%, 1.9% and 1.8%. He also noted there was a 12.5% decrease in usage from two commercial grain dryers and a decrease in heating days as compared to the average that contributed to the issue.

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. **Reconciliation**. Ind. Code § 8-1-2-42(g)(3)(D) also requires that the Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an under-collection of $275,361 from its customers. This amount shall be recovered, 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 $21,120.

The variance from prior recovery periods applicable to this recovery period is an over-collection of $9,707. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $11,413 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 commodity cost of gas to be recovered for May 2012 is $149,058, for June 2013 is $96,871, and July 2013 is $71,195. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA for May 2013 is $139,153, for June 2013 is $87,038, and July 2013 is $60,665. After dividing that amount by estimated sales, adding demand costs, and

adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are \$4.9817/Dth for May 2013, \$5.0490/Dth for June 2013, and \$4.7513/Dth for July 2013.

9. **<u>Effects on Residential Customers</u>.** Petitioner requests authority to approve the GCA factor of \$4.9817/Dth for May 2013, \$5.0490/Dth for June 2013, and \$4.7513/Dth for July 2013. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (March 2013 - \$5.0205/Dth) and a year ago (May 2012 - \$3.8563/Dth, June 2012 - \$4.6450/Dth, and July 2012 - \$4.4266/Dth). The table only reflects costs that are approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	**Gas Costs at New GCA Factor @ 10 Dths**	**Gas Costs at Current GCA Factor @ 10 Dths**	**Dollar Change New vs. Current**	**Gas Costs at Year Ago GCA Factor @ 10 Dths**	**Dollar Change New vs. Year Ago**
May	\$ 49.82	\$ 50.21	\$ (1.01)	\$ 38.56	\$ 11.26
June	\$ 50.49	\$ 50.21	\$ 0.28	\$ 46.45	\$ 4.04
July	\$ 47.51	\$ 50.21	\$ (2.70)	\$ 44.27	\$ 3.24

10. **<u>Interim Rates</u>.** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **<u>Monthly Flex Mechanism</u>.** 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.

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

1. The Petition of Indiana Natural Gas Corporation for approval of a gas cost adjustment factor for natural gas service, as set forth in Finding Paragraph No. 8, shall be and is hereby approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Petitioner shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factor, 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, BENNETT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: APR 24 2013

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