ORIGINAL

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 NOVEMBER, DECEMBER 2014 AND JANUARY 2015 PURSUANT TO IC 8-1-2-42 PL 43-1983	))))))	**CAUSE NO. 37418 GCA 123** **APPROVED:** OCT 29 2014

ORDER OF THE COMMISSION

Presiding Officer:
Gregory R. Ellis, Administrative Law Judge

On August 13, 2014, in accordance with Ind. Code § 8-1-2-42, Indiana Natural Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of November 2014 through January 2015. On August 18, 2014, Petitioner prefiled the direct testimony of David A. Osmon, Executive Vice President of Indiana Natural Gas Corporation, supporting the proposed GCA factor. Petitioner prefiled the supplemental testimony and revised schedules of Mr. Osmon on September 19, 2014. On September 24, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the statistical report and direct testimony of Laura J. Anderson, Utility Analyst. After reviewing the Petition and the prefiled testimony and exhibits submitted in this Cause, the Commission issued a docket entry on September 26, 2014 with questions for Petitioner. Petitioner submitted responses to the docket entry questions on September 29, 2014. On September 30, 2014, Petitioner prefiled the rebuttal testimony of Bonnie J. Mann, Certified Public Accountant employed by London Witte Group, LLC, supporting the proposed GCA factor.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing was in this Cause at 10:00 a.m., on October 1, 2014, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony of Ms. Anderson was adopted by OUCC witness Heather R. Poole at the evidentiary hearing. 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 has its principal office at 1080 West Hospital Road in Paoli, Indiana. Petitioner renders 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 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. Osmon testified that Petitioner is active in purchasing fixed-price 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 heating season. Petitioner has also participated in an Alternative Regulatory Plan in Cause No. 43995, seeking ways to improve energy efficiency programs for its customers which should help conserve energy and reduce the impact of volatility. For the months of November, December 2014 and January 2015, Petitioner has fixed-price contracts and storage gas in place for approximately 73% of its anticipated demand.

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 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 basic rates and charges applicable to the Earnings Test in this Cause were approved on October 8, 2008 in Cause No. 43434. The Commission authorized Petitioner to earn a net operating income of $454,591. Petitioner's evidence indicates that for the twelve months ending June 30, 2014, Petitioner's actual net operating income was $506,233. Based on the evidence of record, the Commission finds that Petitioner is earning more than the return 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 through the variance in this Cause. 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.

The Commission notes that OUCC witness, Ms. Poole, testified that the Order in 37418 GCA 122 directed Petitioner to refund the excess earnings by a credit to the customers in that GCA and the next three GCAs. She indicated that Petitioner did not include a reduction of excess earnings from 37418 GCA 122 in the total variable costs to be recovered through this Cause on Schedule 1. Ms. Poole also indicated in cross-examination testimony that each GCA has its own separate twelve month earnings test period.

In addressing earning a return in excess of that authorized by the Commission's last rate Order, Mr. Osmon opined that Ind. Code § 8-1-2-42.3 does not indicate there is any carryover affect to any subsequent GCA. He indicated that since each quarterly GCA filing has the potential of returning excess earnings to customers, returning one-fourth of the excess, after conversion, for each quarter concludes the excess earnings matter. Further, Petitioner's witness Ms. Mann noted in her rebuttal testimony that each GCA must be reviewed on a stand-alone basis and the return of over earnings is based on the lower of the sum of the differentials or the current over earnings.

While it appears that the language of the Order in 37418 GCA 122 may have created some confusion, we find that Petitioner has complied with that Order. Ind. Code § 8-1-2-42.3(d) states the amount of the reduction shall be determined by dividing the appropriate over-earnings amount "by the total number of applications filed during the twelve month test period considered in the current application before the commission." The Commission finds that the Earnings Test for each GCA shall be reviewed on a stand-alone basis. Based on the evidence of record, we find Petitioner's calculations are correct and consistent with Ind. Code §§ 8-1-2-42 and 42.3.

We further find that the sum of the differentials during the relevant period is greater than zero; the relevant period is the twelve month test period applicable to this GCA, which shows the adjusted excess earnings to be $82,627, and the appropriate divider is four. Therefore a refund in the amount of $20,657 should be credited to the customers as shown on Schedule 1.

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 1, 2014, through June 30, 2014 ("Reconciliation Period") yielded an over-estimated weighted average error of 46.71%. Mr. Osmon testified that the cause of such variance was primarily the staggered billing used by Petitioner and the calculations performed for Schedule 13. He explained that had the comparison been of estimated costs to actual costs, Petitioner's variance for the three months of this reconciliation period would have been 1.05%, 0.25% and 1.33% respectively. When the cost of fuel and pipeline transportation is considered, the percentages are 0.80%, 2.52%, and 0.50% respectively. 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. <u>Reconciliations</u>. 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 of $226,647 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 estimated net cost of gas is $92,200.

The variance from prior recovery periods applicable to this recovery period is an under-collection of $119,676. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $27,476 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 for November 2014 is $280,468 for December 2014 is $517,314, and for January 2015 is $777,666. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $282,741 for November 2014, $519,587 for December 2014, and $779,939 for January 2015. After dividing that amount by estimated sales, adding demand costs, and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $4.8559/Dth for November 2014, $5.0369/Dth for December 2014, and $5.2589/Dth for January 2015.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factors of $4.8559/Dth for November 2014, $5.0369/Dth for December 2014, and $5.2589/Dth for January 2015. The table below shows the commodity costs a residential customer would incur under the proposed GCA factor based on 10 Dths of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (August 2014 - $4.7221/Dth) and a year ago (November 2013 - $4.8377/Dth, December 2013 - $5.1290/Dth and January 2014 - $5.3106/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	$ 48.56	$ 42.75	$ 5.81	$ 48.38	$ 0.18
December	$ 50.37	$ 42.75	$ 7.62	$ 51.29	$ (0.92)
January	$ 52.59	$ 42.75	$ 9.84	$ 53.11	$ (0.52)

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 (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 (higher or lower) 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 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 Natural Gas Corporation 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