

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS)
CORPORATION FOR APPROVAL OF) CAUSE NO. 37440 GCA 131
CHANGES IN ITS GAS RATES THROUGH A)
GAS COST ADJUSTMENT IN ACCORDANCE) APPROVED: OCT 26 2016
WITH IND. CODE § 8-1-2-42(g))

ORDER OF THE COMMISSION

Presiding Officer:

Marya E. Jones, Administrative Law Judge

On August 23, 2016 in accordance with Ind. Code § 8-1-2-42, Midwest Natural Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA"). Also on August 23, 2016, Petitioner prefiled the Testimony of David A. Osmon, Executive Vice President of Midwest Natural Gas Corporation and Schedules to be applicable during the months of November 2016 through January 2017. On September 12, 2016, Petitioner prefiled the Supplemental Testimony of David A. Osmon and updated schedules. On September 26, 2016, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of Debra K. Wilcox, Utility Analyst II.

Pursuant to notice given, the Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 10:30 a.m. on October 17, 2016, in Room 222, 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 101 S. E. Third Street, Washington, Indiana. Petitioner renders natural gas utility service to the public in Clark, Daviess, Greene, Knox, Jackson, Jennings, Monroe, Orange, Scott, and Washington 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 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. For the months of November 2016 through January 2017, Petitioner has hedging in place through fixed contracts and storage gas.

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 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 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 and 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 current basic rates and charges were approved on November 7, 2012 in Cause No. 44063. The Commission authorized Petitioner to earn a net operating income of \$934,787.

Petitioner's evidence indicates that for the 12 months ended June 30, 2016, Petitioner's actual net operating income was \$686,144. Therefore, based on the evidence of record, we find that Petitioner is not earning a return in excess of that authorized.

6. **Estimation of Purchase 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 prior estimates are reasonable when compared to the corresponding actual cost. A 12-month rolling average comparison helps to eliminate the inherent variances related to cycle billing and seasonal fluctuations. The evidence presented indicates that Petitioner's 12-month rolling average comparison was 0.87% for the period ending June 30, 2016. 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 of April through June 2016 (“Reconciliation Period”) is an over-collection of \$134,652 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 \$57,779.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$82,319. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$24,540, 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 November 2016 is \$499,534, for December 2016 is \$727,018, and for January 2017 is \$1,150,667. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of \$507,714 for November 2016, \$735,198 for December 2016, and \$1,158,847 for January 2017. After dividing that amount by estimated sales, adding in fixed costs, and adjusting for Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are \$4.6185/Dth for November 2016, \$4.7111/Dth for December 2016, and \$4.7939/Dth for January 2017.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factor of \$4.6185/Dth for November 2016, \$4.7111/Dth for December 2016, and \$4.7939/Dth for January 2017. 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 2016 - \$5.0128) and a year ago (November 2015 - \$3.0174/Dth, December 2015 - \$3.1853/Dth and January 2016 - \$3.1600/Dth. The table reflects costs approved through the GCA process. It does not include Petitioner’s base rates or any applicable rate adjustment mechanisms.

<u>Month</u>	<u>Proposed Gas Costs (10 Dth)</u>	<u>Current</u>		<u>Year Ago</u>	
		<u>Gas Costs (10 Dth)</u>	<u>Difference From Current</u>	<u>Gas Cost (10 Dth)</u>	<u>Difference from Year Ago</u>
November 2016	\$46.19	\$50.13	\$(3.94)	\$30.17	\$16.02
December 2016	\$47.11	\$50.13	\$(3.02)	\$31.85	\$15.26
January 2017	\$47.94	\$50.13	\$(2.19)	\$31.60	\$16.34

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 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 also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex is to be filed no less than three business 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 10 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 in this GCA proceeding. Finally, Petitioner shall file all material that 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 Petition of Midwest 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, Midwest Natural Gas Corporation shall file with the Energy Division of the Commission under this Cause the applicable rate schedules for these factors.
3. This Order shall be effective on and after the date of its approval.

STEPHAN, FREEMAN, HUSTON, WEBER, AND ZIEGER CONCUR:

APPROVED: **OCT 26 2016**

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



Mary M. Becerra
Secretary of the Commission