ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS CORPORATION FOR APPROVAL OF CHANGES IN ITS GAS RATES THROUGH A GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g)	)))))	**CAUSE NO. 37440 GCA 126** **APPROVED:** JUL 29 2015

ORDER OF THE COMMISSION

Presiding Officers:
Angela Rapp Weber, Commissioner
Gregory R. Ellis, Administrative Law Judge

On May 21, 2015, in accordance with Ind. Code § 8-1-2-42, Midwest Natural Gas Corporation ("Petitioner" or "Midwest") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing months of August through October 2015. On May 21, 2015, Petitioner also prefiled the direct testimony of David A. Osmon, Midwest's Executive Vice President and Chief Operating Officer, supporting the proposed GCA factors. On June 9, 2015, Petitioner filed supplemental testimony and revised schedules. On June 19, 2015, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the statistical calculations and direct testimony of Laura J. Anderson, Utility Analyst. The Presiding Officers issued a docket entry requesting additional information on June 25, 2015, which Midwest responded to on June 30, 2015.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 10:30 a.m. on July 7, 2015, 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 101 Southeast 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. Petitioner 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.

Mr. Osmon testified regarding Petitioner's procurement practices in acquiring fixed contracts, including purchasing appropriately sized contracts; acquiring and using storage; flexing GCA factors; keeping apprised of changing market conditions; and use of a normal temperature adjustment mechanism. Petitioner has hedged approximately 33% of its estimated sales through fixed contracts for this upcoming GCA period. Mr. Osmon testified that Petitioner reviews its customers' needs as hedging decisions are made and will continue to do so as this GCA period approaches.

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 rates that have either been requested or billed 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 ending March 31, 2015, Petitioner's actual net operating income was $921,044. Therefore, based on the evidence of record, we find that Petitioner is not earning a return 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 negative 10.10% for the period ending March 31, 2015. Mr. Osmon explained that this slight variance was due to actual sales being greater than estimated sales because of the cold winter weather which was included in and

impacted the rolling 12-month averages. 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. **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 of January through March 2015 ("Reconciliation Period") is an over-collection of $612,011 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 $57,651.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $20,191. Combining this amount with the Reconciliation Period variance results in a total over-collection of $77,842 to be applied in this GCA as a decrease in the estimated net cost of gas.

B. **Refunds.** Petitioner received no new refunds during the Reconciliation Period and has $1,235 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $1,235 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered is $111,587 for August 2015; $163,347 for September 2015; and $237,239 for October 2015. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA factor of $85,228 for August 2015; $136,988 for September 2015; and $210,880 for October 2015. After dividing that amount by estimated sales, adding in fixed costs, and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $4.2251/Dth for August 2015, $4.3691/Dth for September 2015, and $4.4968/Dth for October 2015.

Consistent with the Order in Cause No. 37440 GCA 125, Midwest's GCA factor calculations include an averaging of quarterly estimates of demand/reservation charges for the three months of August, September, and October. In addition, Midwest provided alternative GCA factors based on the annualization of demand/reservation charges. This alternative of annualizing demand/reservation charges is the prior method that was eliminated in Cause No. 44374. Mr. Osmon explained that annualizing these costs historically has allowed Midwest to reduce the volatility of its customers' bills. Mr. Osmon opined that unintended consequences flowing from the elimination of annualization could impact two types of its seasonal customers, such as asphalt plants and grain dryers. He recommended that the Commission consider allowing it to use annualization of demand/reservation charges in this GCA and future GCAs. In the current GCA, annualizing these demand charges would cause customers to pay $0.8634/Dth. In this GCA, using a quarterly averaging option, the fixed cost per dekatherm would be $1.6176/Dth. He noted that the Commission's Order in 37440 GCA 125 ordered Midwest to continue to provide information to the Commission on annualization versus quarterly averaging techniques in upcoming GCAs so that the Commission could monitor the impact and evaluate the best approach for Midwest going forward. In Midwest's response to the Presiding Officers' docket entry questions, Petitioner indicated that since the seasonal customers were not adding capacity costs to the contracts with gas suppliers, they were helping reduce costs and therefore, the annualization approach is a more reasonable approach in establishing demand/reservation charges for Midwest.

The OUCC's witness Anderson testified that Midwest filed two sets of schedules for this GCA. The schedules show the proposed GCA factors based on a quarterly estimate of fixed charges and the proposed GCA factors based on an annual estimate of fixed charges. She testified that the Petitioner's GCA factors were accurately calculated. However, the factors containing the annualized demand factor is not in accordance with the applicable requirements of the Order in Cause No. 44374. She recommends the Commission approve the proposed GCA factors contained in Petitioner's quarterly estimate of fixed charges.

The Commission's Order in Cause No. 44374 eliminated the annualizing of demand/reservation charges and allowed Petitioner to elect to utilize either a monthly or quarterly estimate of demand/reservation costs. The goal of that Cause was to improve the quality of the content and efficiency of the process. Petitioner presented an averaged quarterly demand/reservation charges cost estimate as part of its case-in-chief, which complies with the Commission's Order in Cause No. 44374. Accordingly, we find that Petitioner's GCA factors shall be $4.2251/Dth for August 2015, $4.3691/Dth for September 2015, and $4.4968/Dth for October 2015

We note that the Commission does not intend to prohibit or ignore issues that may become evident in future GCA proceedings. We further note that Petitioner was a responding party in Cause No. 44374 and did not challenge the proposal to eliminate annualized demand. The Commission will continue to monitor and evaluate the best approach for allocating demand/reservation costs. Therefore, Petitioner should continue to present the annualized demand along with the quarterly averaging for the next two GCA proceedings so that we can determine whether the issue needs further consideration.

9. Effects on Residential Customers – (GCA Cost Comparison). Petitioner requests authority to approve the GCA factors of $4.2251/Dth for August 2015, $4.3691/Dth for September 2015, and $4.4968/Dth for October 2015. The table below shows the commodity costs a residential customer will incur under the proposed GCA factors based on 10 Dths of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (May 2015 - $4.9413/Dth) and a year ago (August 2014 - $5.3504/Dth, September 2014 - $5.5177/Dth, and October 2014 - $5.3724/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**
August 2015	$ 42.25	$ 49.41	$ (7.16)	$ 53.50	$ (11.25)
September 2015	$ 43.69	$ 49.41	$ (5.72)	$ 55.18	$ (11.49)
October 2015	$ 44.97	$ 49.41	$ (4.44)	$ 53.72	$ (8.75)

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 later 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 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 approval of the gas cost adjustment for natural gas service, as set forth in Finding Paragraph No. 8, shall be and hereby is approved, subject to refund in accordance with Finding 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 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, AND ZIEGNER CONCUR; HUSTON AND WEBER ABSENT:

APPROVED: JUL 29 2015

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