ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA 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	**CAUSE NO. 37418 GCA 131** **APPROVED:** OCT 26 2016

ORDER OF THE COMMISSION

Presiding Officer:
David E. Veleta, Senior Administrative Law Judge

On August 15, 2016, 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 2016 through January 2017. Petitioner also pre-filed the direct testimony of Mr. David A. Osmon, Executive Vice President, supporting the proposed GCA factor on the same date. On September 6, 2016, Petitioner pre-filed the supplemental testimony of Mr. Osmon along with revised schedules. On September 14, 2016, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") pre-filed the statistical report and direct testimony of Ms. Debra K. Wilcox, Utility Analyst II. On October 10, 2016, Petitioner responded to a Docket Entry filed by the Commission on September 29, 2016. On October 10, 2016, Petitioner pre-filed the additional testimony of Mr. Osmon along with revised schedules. On October 12, 2016, the OUCC pre-filed the supplemental testimony of Ms. Wilcox.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 10:15 a.m. on October 17, 2016, in Room 224 of the 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 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, 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 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 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 current basic rates and charges were approved on July 30, 2014, in Cause No. 44453. The Commission authorized Petitioner to earn a net operating income of $410,038.

Petitioner's evidence indicates that for the 12 months ending June 30, 2016, Petitioner's actual net operating income was $422,997. Therefore, based on the evidence of record, we find that Petitioner is earning a return in excess of that 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 to customers 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. Based on the evidence of record, we find that the sum of the differentials during the relevant period is greater than zero. Therefore, a refund in the amount of $5,184 should be credited to the customers as reflected on Petitioner's schedules.

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 a 2.48% 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. **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 April through June 2016 ("Reconciliation Period") is an over-collection of $47,743 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 a decrease in the estimated net cost of gas is $18,171.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $48,329. Combining this amount with the Reconciliation Period variance results in a total under-collection of $30,158 to be applied in this GCA as an increase in the estimated net cost of gas.

B. **Refunds.** Petitioner has $9,841 in new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for November 2016 is $232,187, for December 2016 is $418,711, and for January 2017 is $552,763. Adjusting this total for the variance, refund, excess earnings, and demand amounts yields gas costs to be recovered through the GCA factor of $262,946 for November 2016, $448,706 for December 2016, and $580,608 for January 2017.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factors of $4.0584/Dth for November 2016, $4.1464/Dth for December 2016, and $4.1901/Dth for January 2017. The table below shows the commodity costs a residential customer would 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 (August 2016 - $3.9933/Dth) and a year ago (November 2015 - $3.1686/Dth, December 2015 - $3.5098/Dth, and January 2016 - $3.4140/Dth.). The table reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dths)	Current		Year Ago	
		Gas Costs (10 Dths)	Difference	Gas Costs (10 Dths)	Difference
November 2016	$40.58	$39.93	$0.65	$31.69	$8.89
December 2016	$41.46	$39.93	$1.53	$35.10	$6.36
January 2017	$41.90	$39.93	$1.97	$34.14	$7.76

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 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, FREEMAN, HUSTON, WEBER, AND ZIEGNER 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

Mary M. Becerra
Secretary of the Commission