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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF COMMUNITY NATURAL GAS CO., INC. 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. 37488 GCA 100 APPROVED: APR 22 2009

BY THE COMMISSION:
Gregory D. Server, Commissioner
Angela Rapp Weber, Administrative Law Judge

On February 17, 2009, in accordance with Indiana Code § 8-1-2-42, Community Natural Gas Company, Inc. ("Petitioner") filed its Petition with attached Schedules in this Cause for approval for a Gas Cost Adjustment ("GCA") to be applicable during the months of May 2009 through July 2009. Petitioner also seeks authority to initiate a monthly flexing mechanism for these and future GCA factors. On March 31, 2009, Petitioner prefiled the Testimony and Exhibits of Mandy Goldman in support of its Petition, revised GCA factors, and the requested flexing mechanism. The Indiana Office of the Utility Consumer Counselor ("OUCC"), in conformance with the above statute, and following its review of Petitioner's prefiled material, filed the Testimony and Exhibits of its witness Sherry L. Beaumont on April 1, 2009.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, an evidentiary hearing was held in this Cause on April 16, 2009 at 1:30 p.m. at the National City Center, 101 Washington Street, Room 222, Indianapolis, Indiana. At the hearing, Petitioner and the OUCC presented their respective evidence. No member of the rate paying public was present at the hearing.

Based upon the applicable law, the evidence presented herein, and being duly advised, the Commission now finds:

1. **Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the commencement of the public hearing in this Cause was given and published by the Commission as required by law. The Petitioner operates a public gas utility and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. Therefore, the Commission has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana, and has its principal service office at 116 North Main Street, Owensville, Indiana. It is engaged in rendering natural gas utility service to the public in Gibson, Posey, Dubois, Spencer, Greene, Monroe, Pike, Warrick, Owen and Sullivan Counties

within the State of Indiana. Petitioner owns, operates, manages, and controls plant and equipment used and useful for the distribution and furnishing of such service.

3. **Source of Natural Gas.** Indiana Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible. Petitioner's witness Goldman testified that Petitioner uses both fixed contract purchases and storage as hedging tools to secure its natural gas supply. Ms. Goldman noted that the Petitioner began to purchase fixed contracts for the upcoming heating season. However, Ms. Goldman testified that consistent with its past practices, it has not purchased fixed contracts for the months of this GCA because of the anticipated small load. Ms. Goldman also stated that Petitioner is served by four distinct pipelines. Acquiring fixed contracts for the non-heating months for loads spread among these different pipelines is very difficult and would, if acquired, provide very limited benefits to its customers during this summer period.

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 upon Petitioner's historical hedging activities, the Commission finds that the Petitioner has made reasonable efforts to acquire long-term natural gas supply in order to serve its customers at the lowest gas cost reasonably possible. Therefore, the statutory requirement has been fulfilled

4. **Purchased Gas Cost Rates.** Indiana Code § 8-1-2-42(g)(3)(B) requires Petitioner's pipeline supplier(s) of gas to have requested or filed for a change of cost of gas pursuant to the jurisdiction and procedures of a duly constituted regulatory agency. The evidence of record indicates that gas costs in this application include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission ("FERC") jurisdiction and procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment that results in the Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's base rates and charges were approved. The most recent proceeding, in which Petitioner's base rates and charges were approved, was the Commission's Order in Cause No. 43377. The Commission's Final Order dated August 27, 2008 authorized Petitioner to earn a net operating income of $514,110. Petitioner's evidence herein indicates that for the twelve (12) months ending December 31, 2008, Petitioner's actual net operating income was $515,754. Therefore, based on the evidence of record, the Commission finds that Petitioner is earning in excess of that authorized in its last rate case.

Because Petitioner has earned a return in excess of the amount authorized, Indiana 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 Indiana Code § 8-1-2-42.3 (a), is greater than zero. Based upon the evidence of record, the Commission finds the sum of the differentials during the relevant period is less than zero, and, therefore, it is not appropriate to require a refund of any of the amount over earned in this Cause.

6. **Estimation of Purchased Gas Costs.** Indiana 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 estimations with the eventual actual costs.

The evidence indicates that the estimating techniques during the reconciliation period of October 2008 through December 2008 (the "Reconciliation Period") yielded an over-estimated weighted average error of 27.28%. Petitioner's witness Goldman described in detail the cause of the variance, which was related to the run up in the price of natural gas that began in February and did not begin to turn downward until the middle of July. She also described the timing of the estimates for the months of this reconciliation period. Ms. Goldman noted that the estimates for these reconciliation months were made first in May and then in August—well before the downward trend stopped. In essence, the timing of estimates caused these variances to occur. In light of the Petitioner's historical accuracy in estimating the cost of gas and its explanation on the cause of variances reconciled in this proceeding, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas cost is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the petitioning utility reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. Petitioner's evidence established that during the Reconciliation Period Petitioner over-collected $644,606 from ratepayers. 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 recovered in this GCA as a decrease in the estimated net cost of gas is $50,232. The variance from prior recovery periods applicable to the current recovery period is an under-collection of $48,050. When this amount is combined with the Reconciliation Period variance, the results is a total over collection of $2,182 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period, and has no refunds from prior periods applicable to the current GCA. Therefore, Petitioner has no refunds to be returned in this application. Based upon the evidence of record, the Commission finds that the Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period and the gas costs recovered during the same period.

8. **Resulting Gas Cost Adjustment Factor.** In the Commission's Interim Order in 43377, Petitioner was authorized to eliminate the commodity cost of gas from base rates. The estimated commodity cost of gas to be recovered during this GCA is $312,168. When this amount is adjusted to account for the variance and refund amounts, the results is that $309,986 in gas costs are to be recovered in this GCA. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, and implementing a monthly flexing mechanism, the Commission finds that the proposed GCA factors of $4.4562/Dth for May; $4.7994/Dth for June; and $5.0134/Dth for July are reasonable and should be approved.

9. **Effects on Residential Customers.** The GCA factor for May of $4.4562/Dth represents a decrease of $4.3151 from the current GCA factor of $8.7713/Dth. The GCA factor for June of $4.7994/Dth represents a decrease of $3.9719 from the current average GCA factor of $8.7713/Dth. The GCA factor for July of $5.0134 represents a decrease of $3.7579 from the current average GCA factor of $8.7713/Dth. The approximate effect of this change for various consumption levels of residential customer bills is shown in the following table:

Table 1
Effect on Residential Customers
May 2009
New vs. Current

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$47.39	$68.97	$(21.58)	(31.30)%
10	83.78	126.94	(43.16)	(34.00)%
15	115.50	180.23	(64.73)	(35.90)%
20	147.22	233.52	(86.30)	(37.00)%
25	178.94	286.81	(107.87)	(37.60)%

Table 2
Effect on Residential Customers
June 2009
New vs. Current

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$49.11	$68.97	$(19.86)	(28.80)%
10	87.22	126.94	(39.72)	(31.30)%
15	120.65	180.23	(59.58)	(33.10)%
20	154.08	233.52	(79.44)	(34.00)%
25	187.52	286.81	(99.29)	(34.60)%

Table 3
Effect on Residential Customers
July 2009
New vs. Current

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$50.18	$68.97	$(18.79)	(27.20)%
10	89.36	126.94	(37.58)	(29.60)%
15	123.86	180.23	(56.37)	(31.30)%
20	158.36	233.52	(75.16)	(32.20)%
25	192.87	286.81	(93.94)	(32.80)%

The GCA factor for May of $4.4562/Dth represents an increase of $2.2915 from the GCA factor of $2.1647/Dth billed one year ago. The GCA factor for June of $4.7994/Dth represents a decrease of $3.3071 from the GCA factor of $8.1065/Dth billed one year ago. The GCA factor for July of $5.0134/Dth represents a decrease of $3.0931 from the GCA factor of $8.1065/Dth billed one year ago. The approximate effect of these changes for various consumption levels of residential bills are shown in the following table:

Table 4
Effect on Residential Customers
May 2009
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	$47.39	$61.16	$(13.77)	(22.50)%
10	83.78	113.31	(29.53)	(26.10)%
15	115.50	161.47	(45.97)	(28.50)%
20	147.22	209.62	(62.40)	(29.80)%
25	178.94	257.78	(78.84)	(30.60)%

Table 5
Effect on Residential Customers
June 2009
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	$49.11	$64.48	$(15.37)	(23.80)%
10	87.22	117.96	(30.74)	(26.10)%
15	120.65	167.15	(46.50)	(27.80)%
20	154.08	216.35	(62.27)	(28.80)%
25	187.52	265.54	(78.02)	(29.40)%

Table 6
Effect on Residential Customers
July 2009
<u>New vs. One Year Ago</u>

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	$50.18	$64.48	$(14.30)	(22.20)%
10	89.36	117.96	(28.60)	(24.20)%
15	123.86	167.15	(43.29)	(25.90)%
20	158.36	216.35	(57.99)	(26.80)%
25	192.87	265.54	(72.67)	(27.40)%

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 finds that the approved rates herein should be interim rates subject to refund in the event an excess return is earned.

11. <u>Monthly Flex Mechanism.</u> Petitioner requested authorization to utilize a monthly flexing mechanism in order to flex the estimated price of spot gas either up or down. Ms. Goldman testified that a monthly flex mechanism is an additional tool that can be used to mitigate gas price volatility. To that end, Petitioner has in this case proposed different factors for each of the three months of this GCA. Ms. Goldman also indicated that Petitioner filed revised schedules in order to reflect a recent drop in the NYMEX price for spot gas. Ms. Goldman noted that these revised schedules have been filed more than ten days before the hearing, which is consistent with the flexing mechanism that Petitioner proposed.

With respect to Petitioner's proposed flexing process, Ms. Goldman explained that Petitioner would initiate a GCA as it has historically done. Thereafter, if appropriate, it would revise its schedules at least ten days before any GCA hearing to reflect changes in the spot price or additional fixed contract purchases. Following the GCA hearing, Petitioner would, where appropriate, flex a particular month's GCA factor up or down by filing revised schedules and notice with both this Commission and the OUCC's office. Such filing would be made no less than three business days before the beginning of each month of a GCA. This monthly flex mechanism would be limited to changes in the previously estimated price of spot gas and further limited to no more than a $1 per dekatherm change. In order to support any change, Petitioner would file revised Schedules 1 and 3, bill comparisons, information on its weighted cost of gas and revisions to its GCA tariff. Ms. Goldman also attached the form of notice Petitioner would propose to use to inform the Commission and the OUCC of its intent to change its monthly GCA factor by this flexing mechanism. Ms. Beaumont testified that the OUCC has no objection to Petitioner's proposed-monthly flex mechanism.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's proposal for a monthly flexing mechanism is designed to address this Commission's concerns. In addition, the Commission authorized this mechanism for other gas utilities. Therefore, it is reasonable to authorize Petitioner to initiate a monthly flex mechanism in the manner it has here proposed.

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

1. The Petition of Community Natural Gas Company, Inc. for 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. Petitioner is authorized to initiate a monthly flexing mechanism consistent with Paragraph 11.

3. Petitioner shall file with the Natural Gas Division of the Commission, prior to placing into effect the gas cost adjustments herein approved, separate amendments to its rate schedule with the reasonable reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

4. This Order shall be effective on and after the date of its approval.

GOLC, SERVER AND ZIEGNER CONCUR; HARDY AND LANDIS ABSENT:

APPROVED: APR 22 2009

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