

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY NATURAL GAS)
 CO., INC. FOR APPROVAL OF CHANGES IN) CAUSE NO. 37488 GCA 107
 ITS GAS RATES THROUGH A GAS COST)
 ADJUSTMENT IN ACCORDANCE WITH IND.) APPROVED:
 CODE 8-1-2-42(g)) JAN 26 2011

BY THE COMMISSION:
Aaron A. Schmoll, Senior Administrative Law Judge

On November 16, 2010, 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 February through April 2011. On November 19, 2010, Petitioner prefiled the Testimony of Mandy Leach in support of its Petition. The Indiana Office of Utility Consumer Counselor (“OUCC”), in conformance with the above statute, prefiled the Direct Testimony and Exhibits of Sherry L. Beaumont on January 5, 2011. On January 7, 2011, the Commission entered a Docket Entry seeking additional information. On January 7, 2011, the Petitioner responded to the Commission’s Docket Entry. On January 10, 2011, the Petitioner filed supplemental testimony in further response to the Commission’s inquiry.

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 January 12, 2011, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Petitioner and the OUCC presented their respective evidence, which was 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, 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 hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility and is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. 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 office at 116 North Main Street, Owensville, Indiana. Petitioner 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 gas supplies to provide to its customers at the lowest gas cost reasonably possible.

Petitioner's witness Leach testified that Petitioner uses both fixed contract purchases and storage as hedging tools to secure its natural gas supply, focusing primarily on the heating season. Mrs. Leach also described Petitioner's use of flex filings, use of a normal temperature adjustment, monitoring the natural gas markets and discussing trends with its marketer, and monitoring its customers' usage patterns. Mrs. Leach described all of these efforts as tools the Petitioner uses to acquire long-term gas at reasonable prices and to mitigate price volatility.

This Commission has indicated in prior orders 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 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.

4. Purchased Gas Cost Rates. Indiana 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 gas costs in this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the cost 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 which results in the Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rates and charges were approved is Cause No. 43377. The Commission's August 27, 2008 Order in that Cause authorized Petitioner to earn a net operating income of \$514,110. Petitioner's evidence herein indicates that for the twelve (12) months ending September 30, 2010, Petitioner's actual net operating income was \$517,235. 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 presented indicates that the estimating techniques of Petitioner during the reconciliation period of July through September of 2010 (the "Reconciliation Period") yielded an over-estimated weighted average error of 0.09%. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an under-collection of \$7,856 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 an increase in the estimated net cost of gas is \$2,730.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$12,097. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$14,827 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner received \$1,145 in new refunds during the Reconciliation Period. These refunds should be returned, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period refund to be returned in this GCA is \$398.

Petitioner has \$27,166 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has \$27,564 in refunds to be applied in this GCA as a decrease in the net cost of gas. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period, and the gas costs recovered during that same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during this GCA is \$1,425,951. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through this GCA of \$1,413,214. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, we find that the proposed GCA factors of \$4.9355/Dth for February; \$4.7820/Dth for March; and \$4.5874/Dth for April are reasonable and should be approved.

9. **Effects on Residential Customers.** The GCA factor for February of \$4.9355/Dth represents an increase of \$0.3518 from the current GCA factor of \$4.5837/Dth. The GCA factor for March of \$4.7820/Dth represents an increase of \$0.1983 from the current GCA factor of \$4.5837/Dth. The GCA factor for April of \$4.5874 represents an increase of \$0.0037 from the

current GCA factor of \$4.5837/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

Effect on Residential Customers
New vs. Current

February 2011

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$49.79	\$48.03	\$1.76	3.7%
10	\$88.58	\$85.06	\$3.52	4.1%
15	\$122.69	\$117.41	\$5.28	4.5%
20	\$156.81	\$149.77	\$7.04	4.7%
25	\$190.92	\$182.13	\$8.79	4.8%

March 2011

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$49.02	\$48.03	\$0.99	2.1%
10	\$87.04	\$85.06	\$1.98	2.3%
15	\$120.39	\$117.41	\$2.98	2.5%
20	\$153.74	\$149.77	\$3.97	2.7%
25	\$187.08	\$182.13	\$4.95	2.7%

April 2011

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$48.05	\$48.03	\$0.02	0.0%
10	\$85.10	\$85.06	\$0.04	0.0%
15	\$117.47	\$117.41	\$0.06	0.1%
20	\$149.84	\$149.77	\$0.07	0.0%
25	\$182.22	\$182.13	\$0.09	0.0%

The GCA factor for February of \$4.9355/Dth represents an increase of \$0.2701 from the GCA factor of \$4.6654/Dth billed one year ago. The GCA factor for March of \$4.7820/Dth represents an increase of \$0.8620 from the GCA factor of \$3.9200/Dth billed one year ago. The GCA factor for April of \$4.5874/Dth represents an increase of \$2.712 from the GCA factor of \$1.8754/Dth billed one year ago. The effects of these changes for various consumption levels of residential bills are shown in the following tables:

Effect on Residential Customers
New vs. One Year Ago

February 2011

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$49.79	\$48.44	\$1.35	2.8%
10	\$88.58	\$85.88	\$2.70	3.1%
15	\$122.69	\$118.64	\$4.05	3.4%
20	\$156.81	\$151.40	\$5.41	3.6%
25	\$190.92	\$184.17	\$6.75	3.7%

March 2011

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$49.02	\$44.71	\$4.31	9.6%
10	\$87.04	\$78.42	\$8.62	11.0%
15	\$120.39	\$107.46	\$12.93	12.0%
20	\$153.74	\$136.50	\$17.24	12.6%
25	\$187.08	\$165.54	\$21.54	13.0%

April 2011

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$48.05	\$34.49	\$13.56	39.3%
10	\$85.10	\$57.98	\$27.12	46.8%
15	\$117.47	\$76.79	\$40.68	53.0%
20	\$149.84	\$95.60	\$54.24	56.7%
25	\$182.22	\$114.42	\$67.80	59.3%

10. Interim Rates. The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission has authorized that the approved rates herein should be interim rates subject to refund in the event an excess return is earned.

11. Monthly Flex Mechanism. Petitioner utilizes a flex mechanism each month to adjust the GCA 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 less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex is 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 is limited to a maximum adjustment (up or down) of \$1.00 from the initial market price.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

12. Unaccounted for Gas. In GCA 106, the Commission ordered Petitioner to provide additional information concerning Petitioner's unaccounted for gas. Ms. Leach addressed precautionary measures Petitioner has taken since GCA 106. The OUCC recommended that Petitioner provide follow up testimony in its next GCA concerning unaccounted for gas fluctuations, installation of automatic meter reading equipment to address Petitioner's belief that unaccounted for gas issues are a result of a timing disparity between billing and purchasing, and the impact automatic meter reading has on unaccounted for gas. The Commission finds this recommendation to be reasonable and orders Petitioner to include such information in upcoming GCA filings.

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

1. The Petition of Community Natural Gas Company, Inc. for approval of gas cost adjustments 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 shall file with the Commission, under this Cause, prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedules on these amendments.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JAN 26 2011

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



**Brenda A. Howe
Secretary to the Commission**