ORIGINAL

# STATE OF INDIANA

# INDIANA UTILITY REGULATORY COMMISSION

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| PETITION 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 110<br><br>APPROVED: OCT 25 2011 |

## ORDER OF THE COMMISSION

**Presiding Officers:**
**David E. Ziegner, Commissioner**
**Gregory R. Ellis, Administrative Law Judge**

On August 8, 2011, 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 November 2011 through January 2012. On September 9, 2011, Petitioner filed the Testimony of Mandy Leach, along with updated schedules, in support of its Petition. On September 13, 2011, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") prefiled the Direct Testimony and Exhibits of Sherry L. Beaumont.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause on September 20, 2011, at 9:30 a.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record. 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 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 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 services.

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 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. Witness Leach stated Petitioner monitors the pricing available for additional fixed contract purchases versus current trends of spot gas prices. Upon reviewing customers' needs, if the need supports purchasing additional fixed contracts, Petitioner will do so.

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 upon Petitioner's historical hedging activities, and the evidence offered in this proceeding, 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.

4. **Purchased Gas Cost Rates.** Indiana Code § 8-1-2-42(g)(3)(B) requires Petitioner's pipeline suppliers of gas to have requested or filed for a change in the 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 jurisdiction and procedures. The Commission has reviewed the costs 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 which results in the Petitioner earning a return in excess of the return authorized in 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 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 June 30, 2011, Petitioner's actual net operating income was $495,770. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last rate case.

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 April through June 2011 (the "Reconciliation Period") yielded an over-estimated weighted average error of 1.9%. 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 cost 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 costs for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an over-collection of $12,640 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and in the Petitioner's 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 $5,646.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $47,266. Combining this amount with the Reconciliation Period variance results in a total under-collection of $41,620 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner received $2,392 in new refunds during the Reconciliation Period ending June 2011. Allocating this refund to this and the next three GCAs reflects a refund of $1,068 in this cause. Additionally, Petitioner has refunds from prior GCAs totaling $2,723. Therefore, Petitioner has $3,791 in refunds to be applied in this GCA as a decrease. Based upon the evidence of record, the Commission finds that the Petitioner's proposed GCA properly reconciles the difference between the actual costs of the Reconciliation Period and the gas costs recovered during that same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during this GCA is $1,822,924. Adjusting this total for appropriate variance and refund amounts yields gas costs to be recovered through this GCA of $1,860,753. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, and recognizing Petitioner's continued use of a monthly flexing mechanism, we find that the proposed GCA factors of $4.9554/Dth for November; $5.0572/Dth for December; and $5.1010/Dth for January are reasonable and should be approved.

9. **Effects on Residential Customers.** The GCA factor for November of $4.9554/Dth represents a decrease of $0.3857/Dth from the current GCA factor of $5.3411/Dth. The GCA factor for December of $5.0572/Dth represents a decrease of $0.2839/Dth from the current GCA factor of $5.3411/Dth. The GCA factor for January of $5.1010/Dth represents a decrease of $0.2401/Dth from the current GCA factor of $5.3411/Dth. The approximate effect of these changes for various consumption levels of residential customer bills is shown in the following table:

**Table 1**
**Effect on Residential Customers**
**New vs. Current**

**November 2011**

| Monthly Consumption Dth | Bill at New GCA Factor | Bill at Current GCA Factor | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $49.89 | $51.82 | $(1.93) | (3.7)% |
| 10 | $88.78 | $92.63 | $(3.85) | (4.2)% |
| 15 | $122.99 | $128.78 | $(5.79) | (4.5)% |
| 20 | $157.20 | $164.92 | $(7.72) | (4.7)% |
| 25 | $191.42 | $201.06 | $(9.64) | (4.8)% |

**December 2011**

| Monthly Consumption Dth | Bill at New GCA Factor | Bill at Current GCA Factor | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $50.40 | $51.82 | $(1.42) | (2.7)% |
| 10 | $89.79 | $92.63 | $(2.84) | (3.1)% |
| 15 | $124.52 | $128.78 | $(4.26) | (3.3)% |
| 20 | $159.24 | $164.92 | $(5.68) | (3.4)% |
| 25 | $193.96 | $201.06 | $(7.10) | (3.5)% |

**January 2012**

| Monthly Consumption Dth | Bill at New GCA Factor | Bill at Current GCA Factor | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $50.62 | $51.82 | $(1.20) | (2.3)% |
| 10 | $90.23 | $92.63 | $(2.40) | (2.6)% |
| 15 | $125.17 | $128.78 | $(3.60) | (2.8)% |
| 20 | $160.12 | $164.92 | $(4.80) | (2.9)% |
| 25 | $195.06 | $201.06 | $(6.00) | (3.0)% |

The GCA factor for November of $4.9554/Dth represents an increase of $0.3717/Dth from the GCA factor of $4.5837/Dth billed one year ago following our order in Cause No. 37448-GCA 106. The GCA factor for December of $5.0572/Dth represents a decrease of $0.1923/Dth from the GCA factor of $5.2495/Dth billed one year ago. The GCA factor for January of $5.1010/Dth represents a decrease of $0.0306/Dth from the GCA factor of

$5.1316/Dth billed one year ago. The approximate effect of these changes for various consumption levels of residential bills is shown in the following table:

**Table 2**
**Effect on Residential Customers**
**New vs. One Year Ago**

**November 2011**

| Monthly Consumption Dth | Bill at New GCA Factor | Bill at GCA Factor One Year Ago | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $49.89 | $48.03 | $1.86 | 3.9% |
| 10 | $88.78 | $85.06 | $3.72 | 4.4% |
| 15 | $122.99 | $117.41 | $5.58 | 4.8% |
| 20 | $157.20 | $149.77 | $7.43 | 5.0% |
| 25 | $191.42 | $182.13 | $9.29 | 5.1% |

**December 2011**

| Monthly Consumption Dth | Bill at New GCA Factor | Bill at GCA Factor One Year Ago | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $50.40 | $51.36 | $(0.96) | (1.9)% |
| 10 | $89.79 | $91.72 | $(1.93) | (2.1)% |
| 15 | $124.52 | $127.40 | $(2.88) | (2.3)% |
| 20 | $159.24 | $163.09 | $(3.85) | (2.4)% |
| 25 | $193.96 | $198.77 | $(4.81) | (2.4)% |

**January 2012**

| Monthly Consumption Dth | Bill at New GCA Factor | Bill at GCA Factor One Year Ago | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $50.62 | $50.77 | $(0.15) | (0.3)% |
| 10 | $90.23 | $90.54 | $(0.31) | (0.3)% |
| 15 | $125.17 | $125.63 | $(0.46) | (0.4)% |
| 20 | $160.12 | $160.73 | $(0.61) | (0.4)% |
| 25 | $195.06 | $195.82 | $(0.76) | (0.4)% |

**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. **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 are 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 are 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.

**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 Natural Gas Division of this Commission, 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, BENNETT, LANDIS AND ZIEGNER CONCUR; MAYS ABSENT:**

**APPROVED:** OCT 25 2011

**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**