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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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 114 APPROVED: OCT 24 2012

ORDER OF THE COMMISSION

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

On August 9, 2012, in accordance with Ind. Code § 8-1-2-42, Community Natural Gas Company, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of November 2012 through January 2013 with the Indiana Utility Regulatory Commission ("Commission"). On August 21, 2012, Petitioner filed the Testimony of Mandy Leach in support of its Petition. On September 28, 2012, Petitioner's witness Leach filed supplemental testimony. On September 26, 2012, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") prefiled the Direct Testimony and Exhibits of Sherry L. Beaumont, Utility Analyst. Petitioner filed additional testimony on October 5, 2012 in response to questions from the Commission. On October 9, 2012, Petitioner filed an amended Schedule 1 to incorporate a change to Indiana's gross income tax rate.

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 at 9:30 a.m., on October 9, 2012, in Room 224 of the 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 the OUCC were admitted into 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 as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. Therefore, the Commission has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner 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; and 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 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. Ms. 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, monitoring its customers' usage patterns, and participating with other gas utilities in an alternative regulatory plan related to energy efficiency programs. Ms. 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 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. Therefore, the Commission finds 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 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.** Ind. 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 basic 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 indicates that for the twelve (12) months ending June 30, 2012, Petitioner's actual net operating income was $516,487. 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, Ind. 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. 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 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 April through June 2012 (the "Reconciliation Period") yielded an under-estimated weighted average error of 0.1%. 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. Ind. 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 under-collection of $3,505 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 included in this GCA as an increase in the estimated net cost of gas is $1,565.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $21,513. Combining this amount with the Reconciliation Period variance results in a total under-collection of $23,078 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has a negative annual unaccounted for gas amount of $6,432 as reflected on Schedule 11A. This amount will be refunded to customers in this GCA and the next three GCAs as a decrease in the cost of gas. The amount of the refund to be included in this GCA is $2,873.

Petitioner has $3,204 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $6,077 in refunds to be applied in this GCA as a decrease in the net cost of gas. 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 $1,516,295. Adjusting this total for appropriate variance and refund amounts yields gas costs to be recovered through this GCA of $1,533,296. 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 $3.8515/Dth for November 2012; $4.2002/Dth for December 2012; and $4.2903/Dth for January 2013 are reasonable and should be approved.

9. **Effects on Residential Customers.** The November GCA factor of $3.8515/Dth represents an increase of $0.2356 from the current GCA factor of $3.6159/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following tables:

Table 1
Effect on Residential Customers
New vs. Current

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 44.37	$ 43.19	$1.18	2.7%
10	$ 77.74	$ 75.38	$2.36	3.1%
15	$106.43	$102.90	$3.53	3.4%
20	$135.13	$130.41	$4.72	3.6%
25	$163.82	$157.93	$5.89	3.7%

The November GCA factor of $3.8515/Dth represents a decrease of $0.8830 from the prior year factor of $4.7345/Dth. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2
Effect on Residential Customers
New vs. Prior Year

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 44.37	$ 48.78	($ 4.41)	-9.0%
10	$ 77.74	$ 86.57	($ 8.83)	-10.2%
15	$106.43	$119.68	($13.25)	-11.1%
20	$135.13	$152.79	($17.66)	-11.6%
25	$163.82	$185.90	($22.08)	-11.9%

The December GCA factor of $4.2002/Dth represents an increase of $0.5843 from the current GCA factor of $3.6159/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 3
Effect on Residential Customers
New vs. Current

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 46.11	$ 43.19	$ 2.92	6.8%
10	$ 81.22	$ 75.38	$ 5.84	7.8%
15	$111.66	$102.90	$ 8.76	8.5%
20	$142.10	$130.41	$11.69	9.0%
25	$172.54	$157.93	$14.61	9.3%

The December GCA factor of $4.2002/Dth represents a decrease of $0.3646 from the prior year factor of $4.5648/Dth. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 4
Effect on Residential Customers
New vs. Prior Year

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 46.11	$ 47.94	($1.83)	-3.8%
10	$ 81.22	$ 84.87	($3.65)	-4.3%
15	$111.66	$117.13	($5.47)	-4.7%
20	$142.10	$149.39	($7.29)	-4.9%
25	$172.54	$181.65	($9.11)	-5.0%

The January GCA factor of $4.2903 represents an increase of $0.6744 from the current GCA factor of $3.6159/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following tables:

Table 5
Effect on Residential Customers
<u>New vs. Current</u>

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 46.56	$ 43.19	$ 3.37	7.8%
10	$ 82.13	$ 75.38	$ 6.75	9.0%
15	$113.01	$102.90	$10.11	9.8%
20	$143.90	$130.41	$13.49	10.4%
25	$174.79	$157.93	$16.86	10.7%

The January GCA factor of $4.2903/Dth represents a decrease of $0.1502 from the prior year factor of $4.4405/Dth. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 6
Effect on Residential Customers
<u>New vs. Prior Year</u>

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 46.56	$ 47.31	($0.75)	-1.6%
10	$ 82.13	$ 83.63	($1.50)	-1.8%
15	$113.01	$115.27	($2.26)	-2.0%
20	$143.90	$146.91	($3.01)	-2.0%
25	$174.79	$178.55	($3.76)	-2.1%

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 has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **<u>Monthly Flex Mechanism</u>.** 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 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. Community Natural Gas Company 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 schedule on these amendments.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: OCT 24 2012

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