

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY NATURAL GAS )  
CO., INC. FOR APPROVAL OF CHANGES IN ) CAUSE NO. 37488 GCA 115  
ITS GAS RATES THROUGH A GAS COST )  
ADJUSTMENT IN ACCORDANCE WITH IND. ) APPROVED:  
CODE § 8-1-2-42(g) )

JAN 30 2013

ORDER OF THE COMMISSION

**Presiding Officers:**

**James D. Atterholt, Chairman**

**Gregory R. Ellis, Administrative Law Judge**

On November 26, 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 months of February through April 2013 with the Indiana Utility Regulatory Commission ("Commission"). On December 7, 2012, Petitioner filed the Testimony and Exhibits of Mandy Leach, including Revised Schedules, in support of its proposed GCA. On December 21, 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.

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 10:30 a.m., on January 9, 2013, 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 is a public utility as that term is 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 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 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 Petitioner's use of a flexing mechanism, allowing Petitioner to change its estimated prices, both ten days before any GCA hearing, and three days before the month of consumption in order to change its GCA factor to more closely match the anticipated actual costs that it will incur.

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 September 30, 2012, Petitioner's actual net operating income was \$550,119. 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 Ind. 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 indicates that the estimating techniques during the reconciliation period of July through September 2012 (the "Reconciliation Period") yielded an under-estimated weighted average error of 5.2%. 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.** 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 \$13,718 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 recovered in this GCA as an increase in the estimated net cost of gas is \$4,702.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$14,611. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$19,313 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner received no new refunds, and has \$3,886 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has \$3,886 in refunds to be returned in this Application. 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. MCFC Charge.** The evidence of record indicates that Petitioner receives delivery of gas from Texas Gas Transmission ("TGT") pursuant to Firm Transportation contracts and a Small Gas Transport ("SGT") contract. In the testimony of Petitioner's witness Leach, she described the Minimum Contribution to Fixed Cost charge ("MCFC") recorded in Schedule 3 representing a demand/reservation charge from Texas Gas. She indicated the MCFC is a charge imposed on Petitioner because the utility could not meet the required withdrawal amount under

the SGT contract due to the warmer than normal weather last year. Historically, when the zone in which Petitioner is located on Texas Gas system meets the overall zone withdrawal the charge was waived. However, last year most small utilities were unable to make the required withdrawals and thus the zone did not meet its required withdrawal. Petitioner will be charged a total of \$30,007.58 through invoices to be billed equally in January, February, and March 2013. Ms. Leach noted the similarities with other gas costs to be incurred and included the amount of \$10,003 on Schedule 3 for each of the months of February and March 2013.

Concerning Petitioner's proposed treatment of the MCFC charge, the OUCC's witness Sherry L. Beaumont indicated the OUCC disagrees with Petitioner's inclusion of the MCFC charge on Schedule 3 and its resulting proposed factors. She acknowledged that the MCFC will be billed to Petitioner in three equal invoices in January through March 2013, but expressed concern that Petitioner is proposing to collect money from ratepayers prior to actually incurring the MCFC charge. Instead, Ms. Beaumont proposed that Petitioner should reflect the MCFC charge when the January through March 2013 costs are reconciled as part of GCA 117. Under Ms. Beaumont's proposal, the MCFC charge would be collected from customers over the twelve months from August 2013 through July 2014.

Based on the evidence, the Commission finds that the MCFC charge is the result of reduced gas usage due to the warmer than normal weather last year. There is no evidence that the SGT contract or the MCFC charge is unreasonable. Similar to other demand/reservation charges, Petitioner has included this charge as a cost of acquiring gas for its customers. The MCFC charge is a fixed, known, and measurable cost that Petitioner will incur in January, February, and March 2013. If Petitioner were to defer the charge, it would increase the variance in future GCAs. The MCFC charge will impact the GCA factor regardless of how it is recovered by Petitioner. In light of these facts, we conclude that the MCFC charge presents a unique situation that must be addressed on a case-by-case basis.

Ind. Code § 8-1-2-42(g) allows a GCA to include the utility's costs for gas purchased from pipeline suppliers, including costs incurred for related transportation. The MCFC charge stems directly from Petitioner's transportation contract and, therefore, is properly included in its GCA factor. We find the impact of the MCFC charge on both ratepayers and Petitioner will be mitigated through Petitioner's proposed treatment of the MCFC charge. Therefore, we conclude that the inclusion of the \$20,006 total MCFC charge for the months of February and March 2013 on its Schedule 3 and in the GCA factors provided below is reasonable.

**9. Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is \$1,241,050. Adjusting this total for appropriate variance and refund amounts yields gas costs to be recovered through this GCA of \$1,256,477. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are \$4.5866/Dth for February, \$4.5160/Dth for March, and \$4.6714/Dth for April.

**10. Effects on Residential Customers.** The GCA factor for February of \$4.5866/Dth represents an increase of \$0.1014 from the current GCA factor (November 2012) of \$4.4852/Dth. The GCA factor for March of \$4.5160/Dth represents an increase of \$0.0308 from the current GCA factor (November 2012) of \$4.4852/Dth. The GCA factor for April of \$4.6174/Dth represents an increase of \$0.1862 from the current GCA factor (November 2012) of \$4.4852/Dth. The effects of these changes, in addition to changes from Petitioner's base rates and any applicable rate adjustment mechanisms,<sup>1</sup> are shown in the following table for various consumption levels of residential bills:

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

**February 2013**

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$ 48.04	\$ 47.54	\$0.50	1.1%
10	\$ 85.09	\$ 84.07	\$1.02	1.2%
15	\$117.46	\$115.94	\$1.52	1.3%
20	\$149.83	\$147.80	\$2.03	1.4%
25	\$182.20	\$179.66	\$2.54	1.4%

**March 2013**

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$ 47.69	\$ 47.54	\$0.15	0.3%
10	\$ 84.38	\$ 84.07	\$0.31	0.4%
15	\$116.40	\$115.94	\$0.46	0.4%
20	\$148.42	\$147.80	\$0.62	0.4%
25	\$180.43	\$179.66	\$0.77	0.4%

<sup>1</sup> Because changes in other bill rate adjustment mechanisms may exceed the change in the GCA factor, any increase or decrease in the GCA factor may not necessarily result in an increase or decrease in the total bill.

**April 2013**

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$ 48.47	\$ 47.54	\$0.93	2.0%
10	\$ 85.94	\$ 84.07	\$1.87	2.2%
15	\$118.73	\$115.94	\$2.79	2.4%
20	\$151.52	\$147.80	\$3.72	2.5%
25	\$184.32	\$179.66	\$4.66	2.6%

The GCA factor for February of \$4.5866/Dth represents an increase of \$0.4144 from the GCA factor of \$4.1722/Dth billed one year ago. The GCA factor for March of \$4.5160/Dth represents an increase of \$0.2923 from the GCA factor of \$4.2237/Dth billed one year ago. The GCA factor for April of \$4.6714/Dth represents an increase of \$1.0018 from the GCA factor of \$3.6696/Dth billed one year ago. The effects of these changes, in addition to changes from Petitioner's base rates and any applicable rate adjustment mechanisms,<sup>2</sup> are shown in the following table for various consumption levels of residential bills:

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

**February 2013**

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$ 48.04	\$ 45.97	\$ 2.07	4.5%
10	\$ 85.09	\$ 80.94	\$ 4.15	5.1%
15	\$117.46	\$111.24	\$ 6.22	5.6%
20	\$149.83	\$141.54	\$ 8.29	5.9%
25	\$182.20	\$171.84	\$10.36	6.0%

<sup>2</sup> Because changes in other bill rate adjustment mechanisms may exceed the change in the GCA factor, any increase or decrease in the GCA factor may not necessarily result in an increase or decrease in the total bill.

**March 2013**

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$ 47.69	\$ 46.23	\$1.46	3.2%
10	\$ 84.38	\$ 81.46	\$2.92	3.6%
15	\$116.40	\$112.01	\$4.39	3.9%
20	\$148.42	\$142.57	\$5.85	4.1%
25	\$180.43	\$173.13	\$7.30	4.2%

**April 2013**

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$ 48.47	\$ 43.46	\$ 5.01	11.5%
10	\$ 85.94	\$ 75.92	\$10.02	13.2%
15	\$118.73	\$103.70	\$15.03	14.5%
20	\$151.52	\$131.49	\$20.03	15.2%
25	\$184.32	\$159.27	\$25.05	15.7%

11. **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 pending reconciliation in the event an excess return is earned.

12. **Monthly Flex Mechanism.** The Commission has 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 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.

**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. 9, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 11.

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:      JAN 30 2013**

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

A handwritten signature in cursive script, reading "Brenda A. Howe", is written over a horizontal line.

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