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INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY NATURAL GAS CO.,) CAUSE NO. 37488 GCA 116
INC. FOR APPROVAL OF CHANGES IN ITS GAS)
RATES THROUGH A GAS COST ADJUSTMENT IN) APPROVED: APR 10 2013
ACCORDANCE WITH IND. CODE § 8-1-2-42(g))

BY THE COMMISSION:
David E. Ziegner, Commissioner
David E. Veleta, Administrative Law Judge

On February 6, 2013, 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 through July 2013. On March 6, 2013, Petitioner filed the Testimony of Mandy Leach in support of its proposed GCA. The Indiana Office of the Utility Consumer Counselor ("OUCC"), in conformance with the above statute, prefiled the Direct Testimony and Exhibits of Sherry L. Beaumont on March 7, 2013.

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 March 25, 2013, in Suite 220, 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 and the evidence presented herein, 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. Indiana Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term gas supplies so as to provide gas to its retail 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. She 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. Witness Leach also 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 update its GCA factor closer to the anticipated actual costs that it will incur.

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 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.** 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 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 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 December 31, 2012, Petitioner's actual net operating income was \$495,442. Therefore, based on the evidence of record, the Commission finds that Petitioner has not earned 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 October through December 2012 (the "Reconciliation Period") yielded an under-estimated weighted average error of 5.1%. In light of the 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 under-collection of \$56,171. 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 an increase in the estimated net cost of gas is \$4,959.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$675. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$5,634 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner received no new refunds, and has \$770 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has \$770 in refunds to be returned in this Application. Based on the evidence of record, 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 cost of gas to be recovered during this GCA is \$289,703. Adjusting this total for appropriate variance and refund amounts yields gas costs to be recovered through this GCA of \$294,567. After dividing this amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's proposed GCA factors are \$4.0333/Dth for May; \$4.2303/Dth for June; and \$4.2816/Dth for July.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of \$4.0333/Dth for May 2013, \$4.2303/Dth for June 2013 and \$4.2816/Dth for July 2013. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (February 2013 - \$4.3442/Dth) and a year ago (May 2012 - \$2.5978/Dth, June 2012 - \$3.4920/Dth and July 2012 - \$3.5648/Dth). The table solely reflects costs that are approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanism.

<u>Month</u>	<u>Gas Costs at New GCA Factor @ 10 Dths</u>	<u>Current</u>		<u>Year Ago</u>	
		<u>Gas Costs at Current GCA Factor @ 10 Dths</u>	<u>Dollar Change New vs. Current</u>	<u>Gas Cost at Year Ago GCA Factor @ 10 Dths</u>	<u>Dollar Change New vs. Year Ago</u>
May 2013	\$40.33	\$43.44	(\$3.11)	\$25.98	\$14.35
June 2013	\$42.30	\$43.44	(\$1.14)	\$34.92	\$7.38
July 2013	\$42.82	\$43.44	(\$0.62)	\$35.65	\$7.17

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 pending reconciliation in the event an excess return is earned.

11. **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.

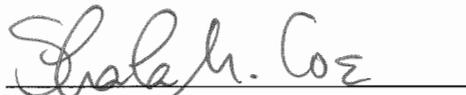
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

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. 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 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: APR 10 2013

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



**Shala M. Coe
Acting Secretary to the Commission**