

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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APW

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 121

APPROVED:

JUL 30 2014

ORDER OF THE COMMISSION

Presiding Officer:
David E. Veleta, Administrative Law Judge

On May 9, 2014, in accordance with Indiana Code § 8-1-2-42, Community Natural Gas Co., Inc. (“Petitioner” or “Community”) filed its Petition for Gas Cost Adjustment (“GCA”) with attached schedules to be applicable during the months of August through October 2014. On May 12, 2014, Petitioner filed the testimony of Ms. Leach. On June 2, 2014, Petitioner filed certain Revised Schedules and the Supplemental Testimony of Ms. Leach explaining such revisions. On July 16, 2014, Petitioner filed omitted pages of Ms. Leach’s Supplemental Testimony. On July 16, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the statistical report and direct testimony of Heather R. Poole, Senior Utility Analyst.

The Indiana Utility Regulatory Commission (“Commission”) held an Evidentiary Hearing in this Cause at 9:30 a.m. on July 21, 2014, in Suite 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of Petitioner and the OUCC were 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 and the evidence presented, the Commission finds:

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Indiana Code § 8-1-2-1(a). Under Indiana 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 organized and existing under the laws of the State of Indiana. Petitioner’s principal office is located at 116 North Main Street, Owensville, Indiana. Petitioner renders natural gas utility service to the public in Gibson, Posey, Dubois, Spencer, Greene, Monroe, Pike, Warrick, Owen, and Sullivan Counties and owns, operates, manages, and controls plant and equipment 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 so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

Petitioner's witness Leach testified about Petitioner's procurement practices, which include acquiring fixed contracts and storage as hedging tools focused generally on heating season use, use of a normal temperature adjustment mechanism, request to use an energy efficiency program, monitoring trends in the natural gas market, monitoring usage of its customers, and use of a flexing mechanism to update spot gas prices.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both current and forward-looking bases. 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, we find 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 the proposed gas costs include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. Earnings Test. Indiana Code § 8-1-2-42(g)(3)(C) in effect, prohibits approval of a GCA factor that results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's base rates and charges were approved. Petitioner's current base rates and charges were approved on July 31, 2013, in Cause No. 44298. The Commission authorized Petitioner to earn a net operating income of \$565,244.

Petitioner's evidence indicates that for the twelve (12) months ending March 31, 2014, Petitioner's actual net operating income was \$809,065. Therefore, based on the evidence of record, we find that Petitioner is earning in excess of that authorized.

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 greater than zero. Therefore, a refund in the amount of \$10,837 should be credited to the customers as shown on Schedule 1.

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 estimates with the corresponding actual costs. The evidence presented indicates that Petitioner's estimating techniques during the reconciliation period of January through March 2014 ("Reconciliation Period") yielded an under-estimated weighted average error of 17.7%. Petitioner

stated that the variance for the quarter was caused by the high prices for natural gas created by the unusually cold weather of this past winter. Based on Petitioner’s historical accuracy in estimating the cost of gas, we find that Petitioner’s estimating techniques are sound, and Petitioner’s prospective average estimate of gas costs is reasonable.

7. Reconciliations.

A. Variances. Indiana Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the variance for the Reconciliation Period is an under-collection of \$479,664 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 \$58,049.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$515. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$57,534 to be applied in this GCA as an increase in the estimated net cost of gas.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered for August 2014 is \$117,556, for September 2014 is \$154,327, and for October 2014 is \$245,022. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of \$133,122 for August 2014, \$169,893 for September 2014, and \$260,587 for October 2014. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are \$6.2287/Dth for August 2014, \$5.9895/Dth for September 2014, and \$5.8407/Dth for October 2014.

9. Effects on Residential Customers – (GCA Cost Comparison). Petitioner requests authority to approve the GCA factors of \$6.2287/Dth for August 2014, \$5.9895/Dth for September 2014, and \$5.8407/Dth for October 2014. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (May 2014 - \$5.5418/Dth) and a year ago (August 2013 - \$4.5468/Dth, September 2013 - \$4.3204/Dth, and October 2013 - \$4.3235/Dth). The table reflects costs approved through the GCA process. It does not include Petitioner’s base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
August 2014	\$62.29	\$55.42	\$6.87	\$45.47	\$16.82
September 2014	\$59.90	\$55.42	\$4.48	\$43.20	\$16.70
October 2014	\$58.41	\$55.42	\$2.99	\$43.24	\$15.17

10. **Interim Rates.** We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** The Commission 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 monthly flex mechanism to adjust the GCA factor 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 later 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 (higher or lower) 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 Co. for the gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.
2. Prior to implementing the GCA factors approved above or any future flexed factor, Community Natural Gas Co., shall file with the Commission under this Cause the applicable rate schedules for the factor.
3. This Order shall be effective on and after the date of its approval.

STEPHAN, MAYS, WEBER, AND ZIEGNER CONCUR:

APPROVED: JUL 30 2014

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