

**ORIGINAL**



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 125  APPROVED: <b>JUL 29 2015</b>
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ORDER OF THE COMMISSION

**Presiding Officer:**  
**David E. Veleta, Administrative Law Judge**

On May 18, 2015, in accordance with Indiana Code § 8-1-2-42, Community Natural Gas Co., Inc. (“Petitioner”) filed its Petition for Gas Cost Adjustment (“GCA”) with attached schedules to be applicable during the months of August through October 2015. On May 19, 2015, Petitioner prefiled the testimony of Mandy Leach. On June 2, 2015, Petitioner filed supplemental testimony of Mandy Leach, along with certain updates to Petitioner’s schedules as described in such supplemental testimony. On June 17, 2015, in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the statistical report and direct testimony of Laura J. Anderson, Utility Analyst.

The Indiana Utility Regulatory Commission (“Commission”) held an Evidentiary Hearing in the Cause at 9:30 a.m. on July 16, 2015, in Room 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 service 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 the 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, monitoring trends in the natural gas market, monitoring usage of its customers, and use of flexing to update 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 12 months ending March 31, 2015, Petitioner's actual net operating income was \$567,324. Therefore, based on the evidence of record, we find that Petitioner is earning in excess of that authorized in its last rate case.

Because Petitioner's return exceeds 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 to customers 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 on the evidence of record, we find that the sum of the differentials during the relevant period is greater than zero. Therefore, a refund in the amount of \$840 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 a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner's 12-month rolling average comparison was 2.50% for the period ending March

31, 2015. 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 of January through March 2015 (“Reconciliation Period”) is an under-collection of \$33,651 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 net cost of gas is \$4,002.

The variance from the prior periods applicable to the current recovery period totals an under-collection of \$8,403. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$12,405 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 2015 is \$72,083, for September 2015 is \$94,366, and for October 2015 is \$150,184. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of \$75,938 for August 2015, \$98,221 for September 2015, and \$154,039 for October 2015. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are \$3.5692/Dth for August 2015, \$3.4988/Dth for September 2015, and \$3.5143/Dth for October 2015.

**9. Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of \$3.5692/Dth for August 2015, \$3.4988/Dth for September 2015, and \$3.5143/Dth for October 2015. 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 2015 - \$3.4304/Dth) and a year ago (August 2014 - \$5.2635/Dth, September 2014 - \$5.1426/Dth, and October 2014 - \$5.0292/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 Dths)	Current		Year Ago	
		Gas Costs (10 Dths)	Difference	Gas Costs (10 Dths)	Difference
August 2015	\$35.69	\$34.30	\$1.39	\$52.64	(\$16.95)
September 2015	\$34.99	\$34.30	\$0.69	\$51.43	(\$16.44)
October 2015	\$35.14	\$34.30	\$0.84	\$50.29	(\$15.15)

**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 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 monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed or storage gas. The flex mechanism is to be filed no less than three business days before the beginning of each calendar month during the GCA. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of \$1.00 from the initial market price in this GCA proceeding. Finally, Petitioner shall file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

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

1. The Petition of Community Natural Gas Co., Inc. 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., Inc. 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-MEDLEY, AND ZIEGNER CONCUR; HUSTON AND WEBER ABSENT:**

**APPROVED: JUL 29 2015**

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

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