ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTH EASTERN INDIANA NATURAL GAS COMPANY, INC., FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENT IN ACCORDANCE WITH I.C. 8-1-2-42(g)	)))))	CAUSE NO. 37785 GCA 100 APPROVED: SEP 28 2016

ORDER OF THE COMMISSION

Presiding Officer:
Marya E. Jones, Administrative Law Judge

On July 29, 2016, in accordance with Ind. Code § 8-1-2-42, South Eastern Indiana Natural Gas Company, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached schedules to be applicable during the months of October 2016 through December 2016. Also on July 29, 2016, Petitioner prefiled the direct testimony of Bonnie J. Mann, Certified Public Accountant. On August 29, 2016, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Debra K. Wilcox, Utility Analyst II. On September 9, 2016, Petitioner filed rebuttal testimony of Bonnie J. Mann.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 9:30 a.m. on September 13, 2016, 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 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 organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 106 E. Main Street, Morristown, Indiana. Petitioner renders natural gas utility service to the public in Dearborn and Ripley Counties in Indiana and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such service.

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 so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

Ms. Mann testified that Petitioner's procurement practices begin with Petitioner reviewing historical sales over a three-year period, then adjusting those sales for known changes in its customers. Ms. Mann testified that Petitioner's procurement practices also include acquiring fixed contracts, acquiring and using storage gas, flexing GCA factors, keeping itself apprised of changing market conditions through review of NYMEX prices, and use of a normal temperature adjustment mechanism. Ms. Mann testified that Petitioner has both fixed contracts and storage gas in place for use in this GCA, and that Petitioner will continue to monitor fixed contract prices, spot prices, and its load for potential future purchases during this GCA period.

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. 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 the proposed gas costs include 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. Ind. 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 November 7, 2012 in Cause No. 44128. The Commission authorized Petitioner to earn a net operating income of $146,221.

Petitioner's evidence indicates that for the 12 months ending March 31, 2016, Petitioner's actual net operating income was $57,131. Therefore, based on the evidence of record, we find that Petitioner is not earning a return in excess of that authorized in its last rate case.

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 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 3.71% for the period ending March 31, 2016. 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. **Reconciliation.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimates 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 October 2015 through March 2016 ("Reconciliation Period") is an under-collection of $12,010 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 $3,274.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $30,050. Combining this amount with the Reconciliation Period variance results in a total over-collection of $26,776 to be applied in this GCA as a decrease in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for October 2016 is $24,278, for November 2016 is $62,824, and for December 2016 is $112,596. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA factor of $15,353 for October 2016, $53,899 for November 2016, and $103,671 for December 2016. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $2.3867/Dth for October 2016, $3.3197/Dth for November 2016, and $3.5850/Dth for December 2016.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of $2.3867/Dth for October 2016, $3.3197/Dth for November 2016, and $3.5850/Dth for December 2016. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dths of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (July 2016 - $2.7055/Dth) and one year ago (October 2015 - $5.0993/Dth, November 2015 - $4.0220/Dth, and December 2015 - $3.9945/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	Gas Costs (10 Dth)	Difference
October 2016	$23.87	$27.06	($3.19)	$50.99	($27.12)
November 2016	$33.20	$27.06	$6.14	$40.22	($ 7.02)
December 2016	$35.85	$27.06	$8.79	$39.95	($ 4.10)

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. Applicants' approved monthly flex mechanism is designed to address the Commission's concerns. Therefore,

Applicants 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 purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period. 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, Applicants shall file all material that supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

12. Other Matters. On August 27, 2014, the Commission issued an Order in Cause No. 44374 ("44374 Order"), the Commission's Investigation into GCA Schedules and Procedures, that allowed small utilities to request semi-annual or quarterly GCA filings. In that Cause, the Commission found that the use of a semi-annual GCA filing would lessen the burden on both the smaller gas utilities and the OUCC, and provide for efficient review of GCA petitions. Therefore, in its Petition for Gas Cost Adjustment filed in Cause No. 37785 GCA 96 ("GCA 96") on October 31, 2014, Petitioner requested permission to switch from quarterly GCA filings to semi-annual GCA proceedings pursuant to the Commission's 44374 Order. By Order dated December 30, 2014, the Commission approved Petitioner's request to begin its semi-annual GCA proceeding with its Petition for Gas Cost Adjustment to be filed in Cause No. 37785 GCA 97 ("GCA 97").

Petitioner's witness, Ms. Bonnie Mann, testified that, in the current filing, Petitioner has requested to switch back to a quarterly GCA because of the unexpected and adverse financial consequence of negative GCA factors that have occurred since Petitioner switched to semi-annual filing. Ms. Mann stated that delaying Petitioner's movement to a quarterly GCA would reduce a natural gas company's flexibility to deal with significant changes in gas costs. She stated that just as Petitioner created a bridge to move from quarterly GCAs to semi-annual GCAs, a bridge is also required for Petitioner to move back to quarterly GCA filings. Ms. Mann's testimony explained how the variances, refunds, and schedules have been adjusted to account for the move.

OUCC Utility Analyst Debra Wilcox testified that the OUCC found nothing to indicate that the Petitioner had not correctly calculated the proposed factors in this Cause in accordance with all applicable requirements. She stated that, in accordance with Ind. Code § 8-1-2-42(g)(2), the OUCC conducted an examination of Petitioner's books and records during this GCA for the period of April 2015-March 2016 and found no discrepancies.

Ms. Wilcox testified that Petitioner requested and was granted the authorization to change its GCA filing period from quarterly to semi-annual with the Commission's Final Order in GCA 96, prior to implementing the change in its schedules. However, she stated Petitioner did not request prior authorization to change its GCA filing frequency back to quarterly in this Cause. She testified that the frequent switching of GCA filing periods not only creates more burden for the OUCC and the Commission's staff due to required changes to the reports and schedules, it also increases the administrative and consultant costs for Petitioner. Ms. Wilcox stated both the OUCC and Petitioner went through a transitional period in GCA 97 in order to synchronize the

reconciliation months with the estimation months. She further testified with the switch back to quarterly GCA filings, the reports and schedules need to be changed accordingly until Petitioner is able to synchronize the reconciliation period to that which was historically used. She stated that the efficiency of the GCA process is hampered by more work and time required of the OUCC and the Commission to process the GCA filing change.

Ms. Wilcox testified that the OUCC does not object to Petitioner switching back to quarterly GCA filings in this Cause, but does not want Petitioner to start switching back and forth on frequency of filings. The OUCC believes such switching decreases the efficiency of the GCA process. Therefore, Ms. Wilcox recommended the Commission set a minimum two-year period before Petitioner changes its filing period back to semi-annual frequency, and that Petitioner meet with the OUCC's staff before making a switch in the future to explain and provide evidence of the prudent need to change its GCA filing frequency. Ms. Wilcox also recommended Petitioner seek Commission approval before changing its filing frequency.

Ms. Mann testified in rebuttal that she had discussed Petitioner's desire to move from a semi-annual filing to a quarterly filing with the OUCC prior to filing the petition in this Cause. Ms. Mann stated Petitioner and the OUCC had numerous communications on how to synchronize the schedules. Additionally, she disagreed with the OUCC's recommendation that utilities maintain a GCA filing period for at least two years before changing it.

The 44374 Order does not require a small utility to file semi-annually, rather it simply allows a small utility the ability to do so. However, we note that Petitioner requested to switch back to a quarterly GCA filing in this GCA filing, approximately 16 months after the Commission approved semi-annual GCA factors in GCA 97. Thus, we find that Petitioner shall request and receive approval from the Commission to change filing frequencies prior to filing schedules implementing the change in future GCA proceedings. We agree with the OUCC that without having this requirement, the efficiency that was sought to be gained by allowing utilities to file semi-annually is reduced. We find that Petitioner is authorized to utilize a quarterly GCA in this proceeding because of its significant financial swings resulting from semi-annual GCA filings and its cooperation with the OUCC prior to filing its schedules. Further, we find that Petitioner shall maintain a two-year minimum period of quarterly GCA filings through September 30, 2018, before requesting implementation of semi-annual GCA filings.

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

1. The Petition of South Eastern Indiana Natural Gas Company, 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, South Eastern Indiana Natural Gas Company, Inc. shall file with the Commission under this Cause the applicable rate schedules for the factor.

3. Petitioner shall seek Commission approval to change its filing frequency prior to implementation in future GCA filings and shall maintain a two-year minimum period of quarterly GCA filings through September 30, 2018, before requesting implementation of semi-annual GCA filings.

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

FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR; STEPHAN ABSENT:

APPROVED: SEP 28 2016

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission