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 77 APPROVED: MAR 17 2010

BY THE COMMISSION:
Lorraine Hitz-Bradley, Administrative Law Judge

On January 29, 2010, in accordance with Indiana 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 billing cycles of April through June 2010 with the Indiana Utility Regulatory Commission ("Commission"). On February 19, 2010, Petitioner filed Revised Schedules updating its estimated price of gas. On February 24, 2010, Petitioner prefiled the verified testimony of Jason L. Wortman, Petitioner's Vice President, supporting the proposed GCA factor. On February 24, 2010, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Lianne N. Lockhart, 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 on March 2, 2010, in Room 224, National City Center, 101 West Washington Street, Indianapolis, Indiana at 1:30 p.m. EST. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both 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 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 operates a public gas utility, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission therefore has jurisdiction over the parties and the subject matter herein.

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 106 E. Main Street, Morristown, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in Dearborn and Ripley Counties in Indiana, and owns, operates, manages and controls

plant and equipment used for the distribution and furnishing of gas utility service to the public in those counties.

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 natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible. Petitioner obtains natural gas through the Texas Gas Transmission Company.

Mr. Wortman testified about Petitioner's procurement practices, including acquiring fixed contracts; acquiring and use of storage; flexing GCA factors; keeping itself apprised of changing market conditions; and use of a normal temperature adjustment ("NTA") mechanism. Mr. Wortman indicated Petitioner had acquired fixed contracts for both April and May, and will be filling storage on a pro rata basis during this GCA period. However, he noted that Petitioner serves a small customer base, which limits the benefits that can be obtained from such hedging activities during non-heating months.

The testimony of OUCC witness Ms. Lockhart indicates that the OUCC has reviewed Petitioner's GCA Petition and Schedules in this Cause, and has no objection to the proposed GCA factors.

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 (FERC) 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 Petitioner's earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's base rates were approved. The most recent proceeding in which Petitioner's base rates were approved is Cause No. 43318-U. The Commission's January 16, 2008, Order in that Cause authorized Petitioner to earn a net operating income of $121,709. Petitioner's evidence indicates that for the twelve (12) months ending November 30, 2009, actual net operating income was $156,763. Therefore, based on the

evidence of record, the Commission finds that Petitioner has earned in excess of that authorized in its last rate case.

Because Petitioner had 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 less than zero, and therefore, it is not appropriate to require a refund of the amount over earned in this Cause.

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 actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of September through November of 2009 (the "Reconciliation Period") yielded an over-estimated weighted average error of 5.82%. Based upon the evidence of record and 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 costs 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 cost for that period. The evidence presented in this current proceeding established that the variance for the reconciliation period is an over-collection of $84,277. This amount should be included, based on estimated sales percentages, in this GCA and in Petitioner's next three GCAs. The amount of the reconciliation period variance to be included in this GCA as a decrease in the estimated net cost of gas is $10,440.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $38,749. Combining this amount with the reconciliation period variance results in a total over-collection of $49,189 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has no new refunds during the Reconciliation Period, and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Application. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA factors 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 commodity cost of gas to be recovered during the application period is $142,316. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $93,128. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's

recommended GCA factor is $5.2902/Dth for April, $3.0912/Dth for May, and $0.5180/Dth for June.

9. **Effects on Residential Customers (April 2010).** The GCA factor of $5.2902/Dth represents an increase of $0.3235 /Dth from the current GCA factor of $4.9667/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Proposed GCA Factor
Vs.
Currently Approved GCA Factor

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$56.97	$55.35	$1.62	2.92%
10	$99.00	$95.77	$3.23	3.38%
15	$140.91	$136.06	$4.85	3.57%
20	$182.82	$176.35	$6.47	3.67%
25	$224.73	$216.65	$8.08	3.73%

The GCA factor of $5.2902/Dth represents a decrease of $1.3511 /Dth from the GCA factor of $6.6413/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2
Proposed GCA Factor
Vs.
GCA Factor One Year Ago

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$56.97	$63.72	$(6.75)	(10.60)%
10	$99.00	$112.51	$(13.51)	(12.01)%
15	$140.91	$161.18	$(20.27)	(12.57)%
20	$182.82	$209.85	$(27.03)	(12.88)%
25	$224.73	$258.51	$(33.78)	(13.07)%

10. **Effects on Residential Customers (May 2010).** The GCA factor of $3.0912/Dth represents a decrease of $1.8755 /Dth from the current GCA factor of $4.9667/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Proposed GCA Factor
Vs.
Currently Approved GCA Factor

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$45.97	$55.35	$(9.38)	(16.94)%
10	$77.01	$95.77	$(18.76)	(19.58)%
15	$107.93	$136.06	$(28.13)	(20.68)%
20	$138.84	$176.35	$(37.51)	(21.27)%
25	$169.76	$216.65	$(46.89)	(21.64)%

The GCA factor of $3.0912/Dth represents a decrease of $4.9098/Dth from the GCA factor of $8.0010/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2
Proposed GCA Factor
Vs.
GCA Factor One Year Ago

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$45.97	$70.52	$(24.55)	(34.81)%
10	$77.01	$126.11	$(49.10)	(38.93)%
15	$107.93	$181.57	$(73.64)	(40.56)%
20	$138.84	$237.04	$(98.20)	(41.43)%
25	$169.76	$292.50	$(122.74)	(41.96)%

11. **Effects on Residential Customers (June 2010).** The GCA factor of $0.5180/Dth represents a decrease of $4.4487/Dth from the current GCA factor of $4.9667/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Proposed GCA Factor
Vs.
Currently Approved GCA Factor

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$33.11	$55.35	$(22.24)	(40.19)%
10	$51.28	$95.77	$(44.49)	(46.45)%
15	$69.33	$136.06	$(66.73)	(49.05)%
20	$87.38	$176.35	$(88.97)	(50.45)%
25	$105.43	$216.65	$(111.22)	(51.34)%

The GCA factor of $0.5180/Dth represents a decrease of $10.1467/Dth from the GCA factor of $10.6647/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2
Proposed GCA Factor
Vs.
GCA Factor One Year Ago

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$33.11	$83.84	$(50.73)	(60.51)%
10	$51.28	$152.75	$(101.47)	(66.43)%
15	$69.33	$221.53	$(152.20)	(68.70)%
20	$87.38	$290.31	$(202.93)	(69.90)%
25	$105.43	$359.10	$(253.67)	(70.64)%

12. **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.

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 Finding Paragraph No. 8, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 12.

2. South Eastern shall file with the Natural Gas Division of this Commission, 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 schedules on these amendments.

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

ATTERHOLT, LANDIS AND MAYS CONCUR; HARDY AND ZIEGNER ABSENT:

APPROVED: MAR 17 2010

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

Brenda A. Howe

Brenda A. Howe,
Secretary to the Commission