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 90 APPROVED: JUN 26 2013

ORDER OF THE COMMISSION:

Presiding Officers:
Kari A.E. Bennett, Commissioner
Marya E. Jones, Administrative Law Judge

On May 1, 2013, 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 July 2013 through September 2013 with the Indiana Utility Regulatory Commission ("Commission"). On May 23, 2013, Petitioner prefiled the direct testimony and revised schedules of Bonnie J. Mann, Certified Public Accountant and Principal with London Witte Group, LLC, supporting the proposed GCA factors. On June 4, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Laura J. Anderson, Utility Analyst.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, an Evidentiary Hearing was held in this Cause on June 13, 2013 at 10:30 a.m. in Room 222, PNC Center, 101 West Washington Street, Indianapolis, Indiana. The 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 has its principal office at 106 East 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 used 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 typically purchases fixed contracts for the heating season. Petitioner's hedging strategy includes refilling storage during the non-heating months and withdrawing gas from storage as needed. Ms. Mann further testified that Petitioner keeps itself apprised of market conditions by regularly checking NYMEX prices and has instituted a normal temperature adjustment mechanism for the heating season. Ms. Mann indicated Petitioner has not purchased fixed contracts for the upcoming GCA period because of its small load during non-heating months. Ms. Mann stated that Petitioner will continue to monitor fixed contract prices, spot prices and its load for potential future purchase of fixed contracts during this GCA period. Petitioner will use spot gas exclusively in the months of July, August, and September and will inject 11,250 Dths into storage at $4.27/Dth, $4.29/Dth, and $4.28/Dth respectively during each month in the quarter.

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 South Eastern Indiana Natural Gas Company, Inc.'s pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed GCA 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 basic rates and charges were approved. Petitioner's current basic 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 twelve (12) months ending February 28, 2013, Petitioner's actual net operating income was $146,449. Therefore, based on the evidence of record, we find that Petitioner is earning a return in excess of that authorized in its last rate case.

Because Petitioner has earned an excessive return, Ind. 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 Ind. Code § 8-1-2-42.3(a), is greater than zero. Based upon the evidence of record, we find the sum of the differentials during the relevant period is less than zero, and therefore; it is not appropriate to require a refund of any of the amount over-earned in this Cause.

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 this requires, in part, a comparison of prior estimations with the corresponding actual costs. The evidence presented indicates that the Petitioner's estimating techniques during December 2012 through February 2013 (the "Reconciliation Period") yielded an under-estimated weighted average error of 6.11%. 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 the 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 is an under-collection of $20,459. 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 $950.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $8,778. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $7,828 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 July 2013 is $12,753, for August 2013 is $14,027, and for September 2013 is $16,347. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA factor of $10,144 for July 2013, $11,418 for August 2013, and $13,738 for September 2013. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $4.5390/Dth for July 2013, $4.6408/Dth for August 2013, and $4.7491/Dth for September 2013.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factor of $4.5390/Dth for July 2013, $4.6408/Dth for August 2013, and $4.7491/Dth for September 2013. 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 (May 2013 - $4.3180) and a year ago (July 2012 - $4.1344/Dth, August 2012 - $4.2902/Dth and September 2012 - $4.0451/Dth). The table reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	**Proposed Gas Costs (10 Dths)**	**Gas Costs (10 Dths)**	**Difference from Current**	**Gas Costs (10 Dths)**	**Difference from Year Ago**
July 2013	$45.39	$43.18	$2.21	$41.34	$4.05
August 2013	$46.41	$43.18	$3.23	$42.90	$3.51
September 2013	$47.49	$43.18	$4.31	$40.45	$7.04

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

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

APPROVED: JUN 26 2013

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