

ORIGINAL

Handwritten initials and signature, including "CM".

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTH EASTERN INDIANA )  
 NATURAL GAS COMPANY, INC., FOR ) CAUSE NO. 37785 GCA 91  
 APPROVAL OF CHANGES IN ITS GAS )  
 COST ADJUSTMENT IN ACCORDANCE ) APPROVED:  
 WITH I.C. 8-1-2-42(g) ) SEP 25 2013

ORDER OF THE COMMISSION

**Presiding Officers:**

**Kari A.E. Bennett, Commissioner**  
**Marya E. Jones, Administrative Law Judge**

On July 31, 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 months of October 2013 through December 2013 with the Indiana Utility Regulatory Commission ("Commission"). On August 28, 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 August 30, 2013, Petitioner prefiled the supplemental testimony and updated schedules of Bonnie J. Mann in support of its proposed GCA factors. On September 3, 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 September 17, 2013 at 10:30 a.m. in Room 224, 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's principal office is located 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 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 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, focusing primarily on 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 flexes its GCA factors, both up and down as appropriate. Ms. Mann testified Petitioner has acquired storage gas for use in this GCA period and that Petitioner has learned from recent experience the importance of using storage gas early in the heating season to avoid being subject to penalty for not using a sufficient amount of gas. Petitioner's Revised Schedule 3 attached to Ms. Mann's direct testimony shows that Petitioner plans to inject 11,250 Dths into storage at \$3.49/Dth in the month of October.

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 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 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 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 May 31, 2013, Petitioner's actual net operating income was \$176,390. 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's return exceeds the amount authorized, 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 on 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 estimates with the corresponding actual costs. The evidence presented indicates that Petitioner’s estimating techniques during the reconciliation period of March 2013 through May 2013 (“Reconciliation Period”) yielded an over-estimated weighted average error of 2.15%. 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.** Ind. 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 over-collection of \$1,592 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 a decrease in the estimated net cost of gas is \$472.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$27,320. Combining this amount with the Reconciliation Period variance, results in a total over-collection of \$27,792 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 2013 is \$26,755, for November 2013 is \$73,196, and for December 2013 is \$137,070. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA factor of \$17,491 for October 2013, \$63,932 for November 2013, and \$127,806 for December 2013. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are \$2.9752/Dth for October 2013, \$4.1076/Dth for November 2013, and \$4.4335/Dth for December 2013.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of \$2.9752/Dth for October 2013, \$4.1076/Dth for November 2013, and \$4.4335/Dth for December 2013. 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 (July 2013 - \$1.1454/Dth) and a year ago (October 2012 - \$2.1203/Dth, November 2012 - \$4.3330/Dth, and December 2012 - \$5.0059/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
October	\$29.75	\$11.45	\$18.30	\$21.20	\$8.55
November	\$41.08	\$11.45	\$29.63	\$43.33	(\$2.25)
December	\$44.34	\$11.45	\$32.89	\$50.06	(\$5.72)

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.

12. **Other Matters.** The Commission notes there were an unusually high number of errors in the submitted schedules in this Cause. The errors required Petitioner to submit revised schedules two times in addition to the initial application. The Commission is concerned about Petitioner's ability to submit accurate schedules and complete information at the outset of the GCA process. GCAs are expedited proceedings that rely on petitioners submitting accurate information at the outset of the cause. The Commission expects future filings to reflect a better effort and urges Petitioner to review evidence for accuracy prior to submission as well as explain any adjustments or changes to schedules in testimony when they are submitted.

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

APPROVED: **SEP 25 2013**

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



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