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 97** **APPROVED:** MAR 2 5 2015

ORDER OF THE COMMISSION

Presiding Officer:
Marya E. Jones, Administrative Law Judge

On January 30, 2015, 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 April 2015 through September 2015. Also on January 30, 2015, Petitioner prefiled the direct testimony of Bonnie J. Mann, Certified Public Accountant and Principal with London Witte Group, LLC, in support of its proposed GCA factors. On February 18, 2015, Petitioner filed certain revised schedules in support of its proposed GCA factors. On March 2, 2015, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Farheen Ahmed, Utility Analyst.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 2:00 p.m. on March 5, 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 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 purchases fixed contracts primarily for the heating months, refills storage on a regular basis during the non-heating months, and withdraws gas from storage as needed. She explained that while storage is technically available, Petitioner does not anticipate using such storage and, therefore, has not included such gas in its estimated usage for this GCA period. Ms. Mann testified that Petitioner keeps apprised of changing market conditions through review of NYMEX prices, and that Petitioner uses a normal temperature adjustment mechanism. Ms. Mann also indicated that Petitioner will continue to monitor fixed contract prices, spot prices and its load for potential future purchases during this GCA period. She testified that Petitioner expects to use the authorized flexing mechanism as appropriate.

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 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 September 30, 2014, Petitioner's actual net operating income was $154,012. 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 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 7.00% for the ending September 30, 2014. 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 September 1, 2014, to September 30, 2104 ("Reconciliation Period"), is an under-collection of $5,752 from its customers. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is $5,752.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $15,298. Combining this amount with the Reconciliation Period variance results in a total under-collection of $21,050 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 April 2015 is $45,408, for May 2015 is $19,207, for June 2015 is $8,828, for July 2015 is $9,257, for August 2015 is $10,036, and for September 2015 is $11,502. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA factor of $48,916 for April 2015, $22,715 for May 2015, $12,336 for June 2015, $12,765 for July 2015, $13,544 for August 2015, and $15,010 for September 2015. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $3.6684/Dth for April 2015, $4.1214/Dth for May 2015, $5.0917/Dth for June 2015, $5.0983/Dth for July 2015, $4.9839/Dth for August 2015, and $4.7696/Dth for September 2015.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of $3.6684/Dth for April 2015, $4.1214/Dth for May 2015, $5.0917/Dth for June 2015, $5.0983/Dth for July 2015, $4.9839/Dth for August 2015, and $4.7696/Dth for September 2015. 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 (January 2015 - $4.2828/Dth) and one year ago (April 2014 - $4.8660/Dth, May 2014 - $5.1984/Dth, June 2014 - $4.7764/Dth, July 2014 - $4.9307/Dth, August 2014 - $2.3046/Dth, and September 2014 - $3.0880/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 Gas Costs (10 Dth)	Current Difference	Year Ago Gas Costs (10 Dth)	Year Ago Difference
April 2015	$36.68	$42.83	($6.15)	$48.66	($11.98)
May 2015	$41.21	$42.83	($1.62)	$51.98	($10.77)
June 2015	$50.92	$42.83	$8.09	$47.76	$ 3.16
July 2015	$50.98	$42.83	$8.15	$49.31	$ 1.67
August 2015	$49.84	$42.83	$7.01	$23.05	$26.79
September 2015	$47.70	$42.83	$4.87	$30.88	$16.82

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 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, Petitioner shall file all material which supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

12. Other Matters. The OUCC raised the following issue which does not affect the current GCA period. The OUCC expressed its disagreement with Petitioner's proposal to recover or refund all variances from Schedule 12B in a six-month period, but refund monies from Schedule 12A over a 12-month period. Petitioner indicated in its response to OUCC discovery that the most likely source of refunds will be Schedule 11A, and because Schedule 11A refunds accumulate over a 12-month period, Petitioner believes the monies should be refunded over a 12-month period. Petitioner agreed to allocate cash supplier refunds over a six-month period. In support of providing Schedule 12a refunds to customers over a six-month period, the OUCC cites to the Commission's August 27, 2014 Order in Cause No. 44374 at 20: "We find that when switching to a semi-annual filing the estimation and reconciliation months on the GCA must be the same so that variances and/or refunds are allocated properly."

We have considered this issue and agree with Petitioner. The unaccounted for gas refund was created over 12 months and thus should be returned over 12 months for the proper allocation of the refund. Although Petitioner and the OUCC have agreed to allocate cash supplier refunds over a six-month period, we maintain that, for utilities filing GCAs semi-annually, all refunds shown on Schedule 12A shall be returned in the current GCA and the GCA immediately following the current GCA.

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.

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: MAR 25 2015

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