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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTH EASTERN INDIANA)
NATURAL GAS COMPANY, INC., FOR) CAUSE NO. 37785 GCA 82
APPROVAL OF CHANGES IN ITS GAS)
COST ADJUSTMENT IN ACCORDANCE) APPROVED: JUN 29 2011
WITH I.C. 8-1-2-42(g))

BY THE COMMISSION:

Carolene Mays, Commissioner
Jeffery A. Earl, Administrative Law Judge

On May 5, 2011, in accordance with Indiana Code § 8-1-2-42, South Eastern Indiana Natural Gas Company, Inc. ("Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of July through September, 2011. On May 25, 2011, Petitioner prefiled the verified testimony of Jason Wortman, Petitioner's Vice-President. On June 6, 2011, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Sherry Beaumont, 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 June 13, 2011, at 9:30 a.m., in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and the OUCC were admitted into the record. 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.

3. **Source of Natural Gas.** Indiana Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long term gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible. Mr. Wortman testified about Petitioner's procurement practices, including acquiring fixed contracts, withdrawing and refilling gas in storage, flexing GCA factors, keeping itself apprised of changing market conditions, and use of a normal temperature adjustment ("NTA") mechanism. Mr. Wortman indicated Petitioner has acquired fixed contracts for the upcoming GCA period. Mr. Wortman also indicated that while storage gas would be available during the upcoming GCA period, Petitioner typically refills its storage at this time of year.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program 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 Petitioner has met the statutory requirements of this provision.

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 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 the Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which the 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 authorized the company to earn a net operating income of \$121,709. Petitioner's evidence indicates that for the twelve (12) months ending February 28, 2011, actual net operating income was \$52,824. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last rate case.

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 the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the period of December, 2010, through February, 2011, (the "Reconciliation Period") yielded an over-estimated weighted average error of 2.15%. Based on 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 \$7,859. 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 \$338.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$6,836. Combining this amount with the Reconciliation Period variance results in a total over-collection of \$7,174 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has no new refunds applicable to the current recovery period. Petitioner has a refund from the negative annual unaccounted for gas in the amount of \$669 from the previous GCA period. This amount will be refunded to customers in this GCA as a decrease in the cost of gas. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA factor properly reconciles the difference between the actual gas costs for the Reconciliation Period and the gas costs recovered during the same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is \$45,037. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of \$37,193. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are \$4.7164/Dth for July, \$4.6320/Dth for August, and \$4.9180/Dth for September.

9. **Effects on Residential Customers.** The GCA factor for July, 2011, of \$4.7164/Dth represents an increase of \$0.3953 from the May GCA factor of \$4.3211/Dth. The GCA factor for August, 2011, of \$4.6320/Dth represents an increase of \$0.3109 from the May GCA factor of \$4.3211/Dth. The GCA factor for September, 2011, of \$4.9180/Dth represents an increase of \$0.5969 from the May GCA factor of \$4.3211/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

Table 1
Proposed GCA Factor vs. Currently Approved GCA Factor
For Residential Customers

July 2011

<i>Monthly Consumption Dth</i>	<i>Bill at New GCA Factor</i>	<i>Bill at Current GCA Factor</i>	<i>Dollar Change</i>	<i>Percent Change</i>
5	\$54.10	\$52.12	\$1.98	3.79%
10	93.26	89.31	3.95	4.43%
15	132.30	126.38	5.92	4.69%
20	171.35	163.44	7.91	4.84%
25	210.39	200.51	9.88	4.93%

August 2011

<i>Monthly Consumption Dth</i>	<i>Bill at New GCA Factor</i>	<i>Bill at Current GCA Factor</i>	<i>Dollar Change</i>	<i>Percent Change</i>
5	\$53.68	\$52.12	\$1.56	2.99%
10	92.42	89.31	3.11	3.48%
15	131.04	126.38	4.66	3.69%
20	169.66	163.44	6.22	3.80%
25	208.28	200.51	7.77	3.88%

September 2011

<i>Monthly Consumption Dth</i>	<i>Bill at New GCA Factor</i>	<i>Bill at Current GCA Factor</i>	<i>Dollar Change</i>	<i>Percent Change</i>
5	\$55.11	\$52.12	\$2.99	5.74%
10	95.28	89.31	5.97	6.68%
15	135.33	126.38	8.95	7.08%
20	175.38	163.44	11.94	7.30%
25	215.43	200.51	14.92	7.44%

The GCA factor for July, 2011, of \$4.7164/Dth represents an increase of \$0.6216 from the GCA factor of \$4.0948/Dth billed one year prior. The GCA factor for August, 2011, of \$4.6320/Dth represents an increase of \$0.5813 from the GCA factor of \$4.0507/Dth billed one year prior. The GCA factor for September, 2011, of \$4.9180/Dth represents an increase of \$1.7757 from the GCA factor of 3.1423/Dth billed one year ago. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

Table 2
Proposed vs. Prior Year Approved GCA Factor
For Residential Customers

July 2011

<i>Monthly Consumption Dth</i>	<i>Bill at New GCA Factor</i>	<i>Bill at Prior Yr GCA Factor</i>	<i>Dollar Change</i>	<i>Percent Change</i>
5	\$54.10	\$50.99	\$3.11	6.10%
10	93.26	87.05	6.21	7.13%
15	132.30	122.98	9.32	7.58%
20	171.35	158.92	12.43	7.82%
25	210.39	194.85	15.54	7.98%

August 2011

<i>Monthly Consumption Dth</i>	<i>Bill at New GCA Factor</i>	<i>Bill at Prior Yr GCA Factor</i>	<i>Dollar Change</i>	<i>Percent Change</i>
5	\$53.68	\$50.77	\$2.91	5.73%
10	92.42	86.61	5.81	6.71%
15	131.04	122.32	8.72	7.13%
20	169.66	158.03	11.63	7.36%
25	208.28	193.75	14.53	7.50%

September 2011

<i>Monthly Consumption Dth</i>	<i>Bill at New GCA Factor</i>	<i>Bill at Prior Yr GCA Factor</i>	<i>Dollar Change</i>	<i>Percent Change</i>
5	\$55.11	\$46.23	\$8.88	19.21%
10	95.28	77.52	17.76	22.91%
15	135.33	108.69	26.64	24.50%
20	175.38	139.87	35.51	25.39%
25	215.43	171.04	44.39	25.95%

10. 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.

11. Monthly Flex Mechanism. Petitioner utilizes a flex mechanism each month 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 (up or down) of \$1.00 from the initial market price.

In his testimony, Mr. Wortman stated that Petitioner incorrectly billed its customers the originally approved GCA factor of \$4.9709/Dth for the month of February, 2011, rather than the flexed factor of \$5.0506/Dth. Mr. Wortman explained that the error resulted from an oversight in entering the GCA factor when Petitioner implemented an upgrade to its billing software. OUCC witness Beaumont confirmed the mistake and recommended Petitioner take additional care or create new procedures to ensure that the approved flex factors be used when billing customers. The result of the error is that Petitioner charged its customers \$0.0797/Dth less than the approved flexed factor; however Petitioner is not seeking to recover the difference from its customers. Therefore, the Commission finds that no action is necessary to correct the error.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

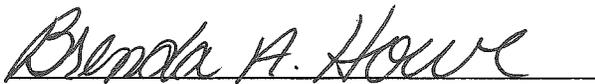
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

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. 10.
2. South Eastern shall file with the Commission under this Cause, 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, BENNET, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: JUN 29 2011

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



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