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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 84 APPROVED: DEC 28 2011

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On October 31, 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 January through March, 2012. On November 14, 2011, Petitioner prefiled the testimony of Jason Wortman, Petitioner's Vice-President, supporting the proposed GCA factor. On November 29, 2011, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled 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 December 15, 2011, at 9:45 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, acquiring and using storage, flexing GCA factors, keeping itself apprised of changing market conditions, and using a normal temperature adjustment ("NTA") mechanism. Mr. Wortman indicated Petitioner has acquired fixed contracts for the upcoming GCA period. He also indicated that storage gas would be available.

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 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 and charges 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 August 31, 2011, actual net operating income was $28,539. 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 June through August, 2011, (the "Reconciliation Period") yielded an over-estimated weighted average error of 14.84%.

Mr. Wortman explained that the variances in June and July occurred due to changes in the source of supply – Petitioner obtained additional fixed contracts for those months following the GCA proceeding – coupled with the small load served during the non-heating months of the Reconciliation Period. The variance in August occurred because Petitioner estimated refilling storage at a greater rate than actually occurred. 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 $50,615. 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 $27,705.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $44,043. Combining this amount with the Reconciliation Period variance results in a total over-collection of $71,748 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. Petitioner has a positive annual unaccounted for gas of 2.11% as reflected in Schedule 11A. Due to the positive unaccounted for gas percentage, Petitioner is not required to provide a refund to customers.

Petitioner has no new refunds and no refunds from prior GCA periods. Therefore Petitioner has no refunds to be applied in this GCA as a decrease in the net cost of gas. Based upon the evidence presented, the Commission finds Petitioner's proposed GCA factors properly reconcile 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 cost of gas to be recovered during the application period is $561,165. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $489,417. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.1167/Dth for January, $5.0422/Dth for February, and $4.6768/Dth for March.

9. **Effects on Residential Customers.** The GCA factor for January, 2012, of $5.1167/Dth represents an increase of $2.3170/Dth from the current factor of $2.7997/Dth. The GCA factor for February, 2012, of $5.0422/Dth represents an increase of $2.2425/Dth from the current GCA factor of $2.7997/Dth. The GCA factor for March, 2012, of $4.6768/Dth represents an increase of $1.8771/Dth from the current GCA factor of $2.7997/Dth. The effects

of these changes for various consumption levels of residential customer bills are shown in the following table:

Table 1
New vs. Currently Approved GCA Factor

January 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 56.10	$ 44.51	$ 11.59	26.03%
10	97.27	74.10	23.17	31.27%
15	138.31	103.55	34.76	33.56%
20	179.35	133.01	46.34	34.84%
25	220.40	162.47	57.93	35.65%

February 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.73	$ 44.51	$ 11.22	25.21%
10	96.52	74.10	22.42	30.25%
15	137.19	103.55	33.64	32.48%
20	177.86	133.01	44.85	33.72%
25	218.53	162.47	56.06	34.51%

March 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 53.90	$ 44.51	$ 9.39	21.08%
10	92.87	74.10	18.77	25.33%
15	131.71	103.55	28.16	27.19%
20	170.56	133.01	37.55	28.23%
25	209.40	162.47	46.93	28.88%

The GCA factor for January, 2012, of $5.1167/Dth represents an increase of $0.0139/Dth from the GCA factor of $5.1028/Dth billed one year prior. The GCA factor for February, 2012, of $5.0422/Dth represents a decrease of $0.0084/Dth from the GCA factor of $5.0506/Dth billed one year prior. The GCA factor for March, 2012, of $4.6768/Dth represents an increase of $0.3198/Dth from the GCA factor of $4.3570/Dth billed one year prior. The effects of this increase for various consumption levels of residential customer bills are shown in the following table:

Table 2
New vs. Prior Year Approved GCA Factor

January 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 56.10	$ 56.03	$ 0.07	0.12%
10	97.27	97.13	0.14	0.14%
15	138.31	138.10	0.21	0.15%
20	179.35	179.08	0.27	0.15%
25	220.40	220.05	0.35	0.16%

February 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.73	$ 55.77	($ 0.04)	(0.08%)
10	96.52	96.60	(0.08)	(0.09%)
15	137.19	137.32	(0.13)	(0.09%)
20	177.86	178.03	(0.17)	(0.09%)
25	218.53	218.74	(0.21)	(0.10%)

March 2012

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 53.90	$ 52.30	$ 1.60	3.06%
10	92.87	89.67	3.20	3.57%
15	131.71	126.91	4.80	3.78%
20	170.56	164.16	6.40	3.90%
25	209.40	201.40	8.00	3.97%

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.

The 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. Prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factor, South Eastern Indiana Natural Gas Company, Inc. shall file with the Commission under this Cause 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, BENNETT AND MAYS CONCUR; LANDIS AND ZIEGNER ABSENT:

APPROVED: DEC 2 8 2011

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

Sandra K. Gearlds

Sandra K. Gearlds
Acting Secretary to the Commission