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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY NATURAL GAS CO., INC. FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g)	)	CAUSE NO. 37791 GCA 85 APPROVED: APR 24 2013

ORDER OF THE COMMISSION

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

On February 28, 2013, in accordance with Ind. Code § 8-1-2-42, Switzerland County Natural Gas Co., Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of May through July 2013. On March 22, 2013, Petitioner filed the testimony of Bonnie J. Mann and revised schedules supporting the proposed GCA factor. On April 1, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Sherry L. Beaumont.

Pursuant to notice given and published as required by law, the Commission held an Evidentiary Hearing in this Cause at 2:30 p.m. on April 11, 2013, in Hearing Room 224, 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. No members of the general public appeared or sought to testify at the hearing.

Based on 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 105 East Seminary Street, Vevay, Indiana. Petitioner renders natural gas utility service to the public in Switzerland County, 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 affirmed that Petitioner focuses its hedging strategy on the heating season of November through March, such that approximately 50% of expected usage during this period is covered through hedging. Petitioner has not purchased fixed contracts for this GCA period because the period occurs outside of the heating season. Petitioner typically begins to refill its storage during these months, so it will not have storage gas available during the GCA period. Ms. Mann testified that she believes Petitioner's hedging program is reasonable and that Petitioner has acquired gas at the lowest reasonable cost possible.

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 basic rates and charges were approved. Petitioner's current basic rates and charges were approved on January 5, 2011, in Cause No. 43897-U. The Commission authorized Petitioner to earn a net operating income of $60,715.

Petitioner's evidence indicates that for the twelve (12) months ending December 31, 2012, Petitioner's actual net operating income was $66,245. Therefore, based on the evidence, 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 on the evidence, we find that 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 October through December 2012 ("Reconciliation Period") yielded an under-estimated weighted average error of 3.31%. 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. **Variances.** 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 under-collection of $7,345. 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 $1,028.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $22,593. Combining this amount with the Reconciliation Period variance results in a total over-collection of $21,565 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 during the application period is $87,048. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $65,483. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $3.1968/Dth for May and June 2013. The July 2013 GCA factor is $3.1965/Dth, which reflects the updated Corporate Adjusted Gross Income Tax, effective July 1, 2013.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of $3.1968/Dth for May and June 2013 and $3.1965/Dth for July 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 (February 2013 - $3.3493/Dth) and a year ago (May through July 2012 - $3.3988/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 Dths)	Current		Year Ago	
		Gas Costs (10 Dths)	Difference from Current	Gas Costs (10 Dths)	Difference from Year Ago
May-July 2013	$31.97	$33.49	$-1.52	$33.99	$-2.02

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.

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

1. The Petition of Switzerland County Natural Gas Co., 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, Switzerland County Natural Gas Co., 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, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: APR 24 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