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 81** **APPROVED:** APR 25 2012

ORDER OF THE COMMISSION

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

On February 29, 2012, in accordance with Indiana Code § 8-1-2-42, Switzerland County Natural Gas Co., Inc. ("Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition and Schedules for a Gas Cost Adjustment ("GCA") to be applicable during the months of May through July, 2012. On March 29, 2012, Petitioner filed the testimony of Marsha Chase, manager and chief administrative officer of Petitioner, supporting the proposed GCA factor. On March 30, 2012, the Indiana Office of the Utility Consumer Counselor ("OUCC"), in conformance with the above statute, filed the testimony and exhibits of Sherry L. Beaumont, Utility Analyst in the Natural Gas Division. On April 5, 2012, Petitioner filed the rebuttal testimony of Bonnie L. Mann.

Pursuant to notice 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 conducted at 10:00 a.m. on April 10, 2012, 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 OUCC were admitted into the record. No member of the public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented, the Commission now finds:

1. <u>**Statutory Notice and Commission Jurisdiction.**</u> 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. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter herein.

2. <u>**Petitioner's Characteristics.**</u> Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 105 East Seminary Street, Vevay, Indiana. Petitioner is engaged in rendering natural gas utility service

to the public in Switzerland and Jefferson Counties in Indiana and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such 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 natural gas supplies in order to provide gas to its customers at the lowest gas cost reasonably possible.

Petitioner has historically obtained its natural gas supply with the assistance of a marketer. Ms. Chase testified that Petitioner's hedging approach focuses primarily on the heating season. Specifically, Petitioner seeks to hedge at least 50% of November through March usage through fixed contracts and storage. For the months of May through July, Petitioner has not hedged any of its estimated usage through fixed contracts or storage. Ms. Chase explained that because of the small anticipated load during the upcoming non-heating season, there is little benefit to be obtained for customers through hedging.

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 by considering current market conditions, including current and future prices. The evidence demonstrates that Petitioner has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet the Petitioner's current and anticipated customer requirements. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Indiana Code § 8-1-2-42(g)(3)(B) requires Petitioner's pipeline supplier(s) of gas to have requested or filed for a change of cost of gas pursuant to the jurisdiction and procedures of a duly constituted regulatory agency. The evidence of record indicates that gas costs in this application include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission ("FERC") jurisdiction and 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 in the last Commission proceeding in which Petitioner's base rates and charges were approved. Petitioner's current base rates are those approved in Cause No. 43897-U issued on January 5, 2011, authorizing Petitioner the opportunity to earn $60,716 in net operating income. Petitioner's evidence indicates that for the twelve (12) months ending December 31, 2011, Petitioner's actual net operating income was $82,288. Therefore, based on the evidence of record, the Commission finds that Petitioner is earning $21,573 in excess of the return authorized in the last applicable rate case.

Because Petitioner has earned a return in excess of the amount authorized, Indiana Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded 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 Indiana Code § 8-1-2-42.3(a), is greater than zero. Based upon the evidence of record, the Commission finds 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.** Indiana Code § 8-1-2-42(g)(3)(D) requires Petitioner's estimates of its prospective average gas costs for each future recovery period to be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimations with the eventual actual costs.

The evidence indicates that the estimating techniques during the reconciliation period of October through December, 2011, (the "Reconciliation Period") yielded an over-estimated weighted average error of 12.75%. Ms. Chase explained that in October, Petitioner had an opportunity to acquire fixed contracts at a reasonable price, which changed the estimated mix of supply. In December, Petitioner experienced lower than anticipated demand because of the warmer temperatures. In addition, the price of spot gas dropped to a level lower than what anticipated based upon NYMEX prices at the time of Petitioner's estimates.

As shown in the OUCC's statistical calculations, Petitioner experienced overestimated sales volumes for December by 60.56%. The OUCC witness Ms. Beaumont argues that the use of a three-year historic average to estimate sales volumes ("three-year method"), instead of merely the actual sales volumes from the previous year ("one-year method"), would help to mitigate large variances such as the one Petitioner experienced in December. For example, using the OUCC's calculation of a three-year historic average, Petitioner's estimated sales volumes for December would have been 23,515, which would have resulted in an overestimation of 36.30%. Ms. Beaumont testified that some other small gas utilities in Indiana use multi-year historic averages – generally three or four years – to estimate sales volumes. Ms. Beaumont stated that the use of a multi-year historic average to forecast future sales helps balance the swings caused by abnormal weather and customer fluctuations.

In rebuttal, Petitioner's witness Ms. Mann, testified that although using the three-year historic method would improve the sales volumes estimate for December, on a quarterly basis, it would result in a slightly larger variance. Ms. Mann indicated that Petitioner has used the one-year method for several years, and the Commission has found its estimates to be reasonable. Ms. Mann also pointed out that even those utilities that utilize a three-year method have experienced significant variances.

A review of Petitioner's prior GCAs reveals that although Petitioner has from time to time experienced significant variances, it is clear that the month of December in this GCA filing represents an anomaly. In response to this, the OUCC recommends a wholesale change in Petitioner's estimation techniques. We have consistently determined that Petitioner's estimation techniques are sound and produce a reasonable gas cost estimate. In addition, although the OUCC demonstrated that use of the three-year method would have improved the sales volume estimate for December 2011, the OUCC did not present evidence to demonstrate that the three-year method would have been superior to the one-year method over a long period of time. Without such evidence, we do not see the need to alter Petitioner's current estimation techniques on the basis of a clearly anomalous, single-month variance.

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 estimated prospective average gas cost is reasonable.

7. Reconciliation. Indiana Code § 8-1-2-42(g)(3)(D) also requires Petitioner to reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence established that the variance for the Reconciliation Period is an over-collection of $36,744. 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 $5,842.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $7,816. Combining that amount with the Reconciliation Period variance results in an over-collection of $13,658 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period, and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this GCA. Based upon the evidence presented, the Commission finds that the Parties' proposed GCA factor properly reconciles 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 $100,339. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $86,681. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner proposes a GCA factor of $3.3988/Dth.

9. Effects on Residential Customers. The GCA factor of $3.3988/Dth represents a decrease of $0.9385/Dth from the current GCA factor of $4.3373/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Effect on Residential Customers
New vs. Current

Monthly Consumption Dth	***Bill at New GCA Factor***	***Bill at Current GCA Factor***	***Dollar Change***	***Percent Change***
5	**$ 44.90**	**$ 49.60**	**$ (4.69)**	**-9.46%**
10	**79.26**	**88.64**	**(9.37)**	**-10.59%**
15	**111.05**	**125.13**	**(14.09)**	**-11.26%**
20	**142.71**	**161.48**	**(18.77)**	**-11.62%**
25	**174.36**	**197.82**	**(23.46)**	**-11.86%**

The GCA factor of $3.3988/Dth represents a decrease of $1.2472/Dth from the GCA factor of $4.6460/Dth, billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption Dth	***Bill at New GCA Factor***	***Bill at Prior Yr GCA Factor***	***Dollar Change***	***Percent Change***
5	$ 44.90	$ 51.14	$ (6.25)	-12.20%
10	79.26	91.73	(12.47)	-13.59%
15	111.05	129.76	(18.71)	-14.42%
20	142.71	167.65	(24.94)	-14.88%
25	174.36	205.54	(31.18)	-15.17%

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 finds that the approved rates herein should be 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 Company, Inc. for a 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. Switzerland County Natural Gas Company, Inc. shall file with the Commission under this Cause, prior to placing into effect the gas cost adjustment factors approved above,

separate amendments to its rate schedules with reasonable references reflecting that such charges are applicable to the rate schedule on these amendments.

3. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: APR 25 2012

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