ORIGINAL

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 83 APPROVED: OCT 24 2012

ORDER OF THE COMMISSION

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

On August 29, 2012, in accordance with Ind. Code § 8-1-2-42, Switzerland County Natural Gas Co., Inc. ("Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition with attached Schedules for a Gas Cost Adjustment ("GCA") to be applicable during the months of November 2012 through January 2013. On September 21, 2012, Petitioner filed the testimony of Marsha Chase, Manager and Chief Administrative Officer of Petitioner, supporting the proposed GCA factor. On September 26, 2012, in conformance with the above statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of Sherry L. Beaumont, Utility Analyst in the Natural Gas Division.

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 held at 9:30 a.m. on October 2, 2012, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and the 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. **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. Therefore, the Commission has jurisdiction over Petitioner and the subject matter herein.

2. **Petitioner's Characteristics.** 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.** Ind. 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 retail 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 November through January, Petitioner has plans to withdraw storage gas, but has not yet purchased fixed contracts for the GCA period. Ms. Chase testified that it is likely Petitioner will add fixed contracts later this fall.

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.** 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 gas costs in this application 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.** Ind. 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 were approved in Cause No. 43897-U. The Commission's January 5, 2011 Order in that Cause authorized Petitioner to earn a net operating income of $60,716. Petitioner's evidence indicates that for the twelve (12) months ending June 30, 2012, Petitioner's actual net operating income was $59,486. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of the return authorized in the last applicable rate case.

6. **Estimation of Purchased Gas Costs.** Ind. 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 April through June 2012, (the "Reconciliation Period") yielded an over-estimated weighted average error of 37.56%. Ms. Chase explained that the variance was caused by a significant drop in spot gas prices after the estimates were made. Because of the drop in price, Petitioner injected more gas into storage than it estimated.

The Commission notes that Petitioner's past two GCA filings showed an overestimation of gas costs in excess of 10%, and this GCA shows a significant overestimation of 37.56%. Although

Petitioner provided testimony explaining the variances, we are concerned by the trend of overestimation. Therefore, we urge Petitioner to strive for greater accuracy in its cost estimates and to reduce the variance between projected and actual costs. 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.** Ind. 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 $77,664. 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 $28,813.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $31,937. Combining that amount with the Reconciliation Period variance results in an over-collection of $60,750 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 $226,264. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $165,514. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner proposes a GCA factor of $3.1009/Dth.

9. **Effects on Residential Customers.** The GCA factor of $3.1009/Dth represents a decrease of $0.1886/Dth from the current GCA factor of $3.2895/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	$ 43.42	$ 44.36	$ (0.94)	-2.12%
10	76.28	78.17	(1.89)	-2.41%
15	106.59	109.41	(2.82)	-2.59%
20	136.75	140.52	(3.77)	-2.68%
25	166.92	171.63	(4.71)	-2.74%

The GCA factor of $3.1009/Dth represents a decrease of $1.7167/Dth from the GCA factor of $4.8176/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	$ 43.42	$ 52.00	$ (8.58)	-16.51%
10	76.28	93.45	(17.17)	-18.36%
15	106.59	132.33	(25.74)	-19.46%
20	136.75	171.08	(34.33)	-20.07%
25	166.92	209.83	(42.91)	-20.45%

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: OCT 24 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