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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY )  
NATURAL GAS CO., INC. FOR ) CAUSE NO. 37791 GCA 87  
APPROVAL OF CHANGES IN ITS GAS )  
COST ADJUSTMENT IN ACCORDANCE ) APPROVED:  
WITH IND. CODE 8-1-2-42 (g) )

OCT 30 2013

ORDER OF THE COMMISSION

**Presiding Officers:**

**Kari A.E. Bennett, Commissioner**  
**Jeffery A. Earl, Administrative Law Judge**

On August 30, 2013, in accordance with Ind. Code § 8-1-2-42, Switzerland County Natural Gas Company Inc. (“Petitioner” or “Switzerland”) filed its Petition for Gas Cost Adjustment (“GCA”) with attached Schedules to be applicable during the months of November 2013 through January 2014. On September 27, 2013, Petitioner prefiled the direct Testimony of Bonnie J. Mann, a certified public accountant with London Witte Group, supporting the proposed GCA factor. On October 3, 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, Utility Analyst.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, the Commission held an Evidentiary Hearing in this Cause at 9:00 a.m. on October 10, 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 without objection. No members of the general public appeared or sought to testify at the hearing.

Based upon 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 continues to focus its hedging strategy on the heating season of November through March. Petitioner has not as yet purchased any fixed contracts, but has storage gas available and anticipates using the same for this GCA period. Ms. Mann testified that she believes Petitioner's hedging program is reasonable. She also opined that Petitioner has acquired gas at the lowest reasonable cost possible particularly in light of its small size.

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 May 15, 2013, in Cause No. 44293. The Commission authorized Petitioner to earn a net operating income of \$60,885.

Petitioner's evidence indicates that for the twelve (12) months ending June 30, 2013, Petitioner's actual net operating income was \$79,775. Therefore, based on the evidence of record, 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 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 Purchase 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 April through June 2013 ("Reconciliation Period") yielded an under-estimated weighted average error of 11.16%. Petitioner's witness Mann explained this variance was due to Petitioner estimating the price of gas in the months of May and

June lower than the actual spot price. In addition, Petitioner sold more gas than estimated in June. Based on the evidence presented, and 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. **Reconciliations.** 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 \$30,099 from its customers. 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 \$11,558.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$2,165. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$9,393 to be applied in this GCA as an increase in the estimated net cost of gas.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for November 2013 through January 2014 is \$294,852. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA factor of \$304,245 for November 2013 through January 2014. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is \$4.9505/Dth for November 2013 thru January 2014.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factor of \$4.9505/Dth for November 2013 through January 2014. 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 (August through October 2013 - \$4.6811/Dth) and a year ago (November 2012 through January 2013 - \$3.1012/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
November 2013 – January 2014	\$49.51	\$46.81	\$2.70	\$31.01	\$18.50

10. **Interim Rates.** We are unable to determine whether Petitioner will earn an excess return while this GCA factor is in effect. Accordingly, the rate approved in this Order is an interim rate subject to refund pending reconciliation in the event an excess return is earned.

11. **Billing Error.** Petitioner's evidence shows that during the GCA 85 billing period of May through July 2013, Petitioner incorrectly charged customers the originally proposed GCA factor of \$3.2938 instead of the the GCA factor of \$3.1968 that was approved in the Commission's

April 24, 2013 Order in Cause No. 37791 GCA 85. A similar billing error was made during the GCA 83 billing period of November 2012 through January 2013. The Commission is concerned that two billing errors have occurred within a short period of time.

Therefore, in its next GCA filing, Petitioner shall provide testimony from a utility employee explaining the cause of the errors and what steps Petitioner has taken to ensure future billing will comply with the rates approved in the Commission's GCA orders.

**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 factor approved above, Switzerland County Natural Gas Company, Inc. shall file with the Commission under this Cause the applicable rate schedules for this factor.

3. In its next GCA filing, Petitioner shall provide testimony from a utility employee explaining the cause of billing errors discussed in Paragraph 11 above and what steps Petitioner has taken to ensure future billing will comply with the rates approved in the Commission's GCA orders.

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

**ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:**

APPROVED:      **OCT 30 2013**

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

  
**Brenda Howe**  
**Secretary to the Commission**