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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF FOUNTAINTOWN GAS )  
COMPANY, INC. FOR APPROVAL OF ) CAUSE NO. 37913 GCA 114  
CHANGES IN ITS GAS COST )  
ADJUSTMENT IN ACCORDANCE ) APPROVED: SEP 28 2016  
WITH I.C. 8-1-2-42(g) )

ORDER OF THE COMMISSION

**Presiding Officer:**  
**Marya E. Jones, Administrative Law Judge**

On July 29, 2016, in accordance with Ind. Code § 8-1-2-42, Fountaintown Gas Company, Inc. (“Petitioner”) filed its Petition for Gas Cost Adjustment (“GCA”) with attached schedules to be applicable during the months of October 2016 through December 2016. Also on July 29, 2016, Petitioner filed the direct testimony of Bonnie J. Mann, Certified Public Accountant. On August 29, 2016, in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the direct testimony and exhibits of Farheen Ahmed, Utility Analyst II. On September 9, 2016, Petitioner filed the rebuttal testimony of Bonnie J. Mann.

The Indiana Utility Regulatory Commission (“Commission”) held an Evidentiary Hearing in this Cause at 10:00 a.m. on September 13, 2016, in Room 224, PNC Center, 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 by 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 106 E. Main Street, Morristown, Indiana. Petitioner renders natural gas utility service to the public in Decatur, Hancock, Henry, Rush and Shelby counties in 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 testified that Petitioner's procurement practices begin with Petitioner looking at historical sales over a three-year period, then adjusting those sales for known changes in its customers. Ms. Mann testified that Petitioner's procurement practices also include acquiring fixed contracts; acquiring and using storage gas; flexing GCA factors; keeping itself apprised of changing market conditions through review of NYMEX prices; and use of a normal temperature adjustment mechanism. Ms. Mann testified that Petitioner has both fixed contracts and storage gas in place for use in this GCA and that Petitioner will continue to monitor fixed contract prices, spot prices, and its load for potential future purchases during this GCA period.

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 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 GCA factors 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 base rates and charges were approved. Petitioner's current base rates and charges were approved on May 15, 2013 in Cause No. 44292. The Commission authorized Petitioner to earn a net operating income of \$477,934.

Petitioner's evidence indicates that for the 12 months ending March 31, 2016, Petitioner's actual net operating income was \$501,534. 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's return exceeds the amount authorized, 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 of record, 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 in this Cause of any of the amount over-earned.

**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 a comparison of the variance to the incremental

cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner's 12-month rolling average comparison was a negative 45.86% for the period ending March 31, 2016.

Ms. Mann testified the variance for the reconciliation period of October 2015 through March 2016 ("Reconciliation Period") is driven by what Petitioner believes are incorrect billings from ANR Pipeline Company ("ANR"), its interstate pipeline, which creates negative unaccounted for gas. Ms. Mann testified that Petitioner and its marketer have had additional conversations with ANR focused on the need to resolve this issue. She stated that Petitioner believes the problem lies in either the meter reading that is occurring or the billing software that ANR is using. Ms. Mann noted, however, that both Petitioner and ANR have checked their respective meters and each believe their meters are operating properly. Ms. Mann testified that as a result of their discussions, ANR is now sending Petitioner monthly reports regarding Petitioner's daily take from ANR at its city gate meters, and that ANR is investigating this matter further. Ms. Mann stated that Petitioner is also monitoring this issue and believes that its monitoring will lead to final resolution of this problem.

Based on Petitioner's historical accuracy in estimating the cost of gas and the explanation of the cause of the variance for the 12-month rolling average during the Reconciliation Period, the Commission finds that Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

## **7. Reconciliation.**

**A. 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 of October 2015 through March 2016 ("Reconciliation Period") is an over-collection of \$432,989 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 a decrease in the amount of estimated net cost of gas is \$133,184. The variance from prior recovery periods is zero. Combining this amount with the with the Reconciliation Period variance results in an over-collection of \$133,184 to be applied in this GCA as a decrease in the estimated net cost of gas.

**B. Refunds.** Petitioner received no refunds during the Reconciliation Period and \$141,867 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is \$141,867 as reflected on Schedule 12a.

**8. Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for October 2016 is \$115,892, for November 2016 is \$174,147, and for December 2016 is \$251,526. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of \$24,208 for October 2016, \$82,463 for November 2016, and \$159,842 for December 2016. After dividing that amount by estimated sales and adjusting for

Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are \$0.8276/Dth for October 2016, \$1.9234/Dth for November 2016, and \$2.6056/Dth for December 2016.

**9. Effects on Residential Customers.** Petitioner requests authority to approve the GCA factors of \$0.8276/Dth for October 2016, \$1.9234/Dth for November 2016, and \$2.6056/Dth for December 2016. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (July 2016 - \$0.9005/Dth) and a year ago (October 2015 - \$0.0264/Dth, November 2015 - \$2.0315/Dth, and December 2015 - \$1.8979/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
October 2016	\$8.28	\$9.01	(\$ 0.73)	\$0.26	\$ 8.02
November 2016	\$19.23	\$9.01	\$ 10.22	\$20.32	(\$ 1.09)
December 2016	\$26.06	\$9.01	\$ 17.05	\$18.98	\$ 7.08

**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.

**11. Monthly Flex Mechanism.** The Commission indicated in prior Orders that Indiana’s gas utilities should make reasonable efforts to mitigate gas price volatility. Applicants’ approved monthly flex mechanism is designed to address the Commission’s concerns. Therefore, Applicants may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of \$1.00 from the initial market price in this GCA proceeding. Finally, Applicants shall file all material that supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

**12. Other Matters.**

**A. GCA Filing Frequency.** On August 27, 2014, the Commission issued an Order in Cause No. 44374 (“44374 Order”), the Commission’s Investigation into GCA Schedules and Procedures, that allowed small utilities to request semi-annual or quarterly GCA filings. In that Cause, the Commission found that the use of a semi-annual GCA filing would lessen the burden on both the smaller gas utilities and the OUCC, and provide for efficient review of GCA

petitions. The 44374 Order did not address how frequently a small utility may request to switch between the quarterly and semi-annual GCA filing procedures. Therefore, in its Petition for Gas Cost Adjustment filed in Cause No. 37913 GCA 110 (“GCA 110”) on October 21, 2014, Petitioner requested permission to switch from quarterly GCA filings to semi-annual GCA proceedings pursuant to the Commission’s 44374 Order. By Order dated December 30, 2014, the Commission approved Petitioner’s request to switch to semi-annual GCA filing with its Petition for Gas Cost Adjustment to be filed in Cause No. 37913 GCA 111 (“GCA 111”).

Petitioner’s witness, Ms. Bonnie Mann, testified that, in the current filing, Petitioner has requested to switch back to a quarterly GCA because of the unexpected and adverse financial consequence of negative GCA factors that have occurred since Petitioner switched to semi-annual filing. Ms. Mann stated that delaying Petitioner’s movement to a quarterly GCA would reduce a natural gas company’s flexibility to deal with significant changes in gas costs. She stated that just as Petitioner created a bridge to move from quarterly GCAs to semi-annual GCAs, a bridge is also required for Petitioner to move back to quarterly GCA filings. Ms. Mann’s testimony explained how the variances, refunds, and schedules have been adjusted to account for the move.

OUCU Utility Analyst Farheen Ahmed testified that the OUCU found nothing to indicate that the Petitioner had not correctly calculated the proposed GCA 114 factors in accordance with all applicable requirements. She stated that in accordance with Ind. Code § 8-1-2-42(g)(2), the OUCU conducted an examination of Petitioner’s books and records during this GCA for the period of April 2015-March 2016 and found no discrepancies. Ms. Ahmed testified that Petitioner did not experience negative GCA factors, as stated by Ms. Mann. She stated that the issue of negative GCA factors in the GCA 113 filing was remedied by returning transportation customer penalty revenue over a twelve month period as ordered by the Commission in that Cause. This issue is addressed in more detail in Paragraph B below.

Ms. Ahmed testified that Petitioner requested and was granted the authorization to change its GCA filing period from quarterly to semi-annual with the Commission’s Final Order in GCA 111. However, she stated Petitioner did not request prior authorization to change its GCA filing frequency back to quarterly in this GCA filing. She testified that the frequent switching of GCA filing periods not only creates more burden for the OUCU and the Commission’s staff due to required changes to the reports and schedules, it also increases the administrative and consultant costs for Petitioner. Ms. Ahmed stated both the OUCU and Petitioner went through a transitional period in GCA 111 in order to synchronize the reconciliation months with the estimation months. She further testified with the switch back to quarterly GCA filings, the reports and schedules need to be changed accordingly until Petitioner is able to synchronize the reconciliation period to that which was historically used. She stated that the efficiency of the GCA process is hampered by more work and time required of the OUCU and the Commission to process the GCA filing change.

Ms. Ahmed testified that the OUCU does not object to Petitioner switching back to quarterly GCA filings in this Cause, but does not want Petitioner to start switching back and forth on frequency of filings. The OUCU believes such switching decreases the efficiency of the GCA process. Therefore, Ms. Ahmed recommended the Commission set a minimum two-year period before Petitioner changes its filing period back to semi-annual frequency, and that Petitioner meet with the OUCU’s staff before making a switch in the future to explain and provide evidence of the

prudent need to change its GCA filing frequency. Ms. Ahmed also recommended Petitioner seek Commission approval before changing its filing frequency.

Ms. Mann testified in rebuttal that she had discussed Petitioner's desire to move from a semi-annual filing to a quarterly filing with the OUCC. Ms. Mann stated Petitioner and the OUCC had numerous communications on how to synchronize the schedules. However, in her direct testimony, Ms. Mann stated Petitioner included six months in the reconciliation period, and that Petitioner believed this method would allow Petitioner to eventually synchronize the reconciliation period to that which was historically used in quarterly GCA filings.

The Order in Cause No. 44374 does not require a small utility to file semi-annually, rather it simply allows a small utility the ability to do so. However, we note that Petitioner requested to change back to a quarterly GCA filing in this Cause, approximately 14 months after the Commission approved the Order in GCA 111 allowing Petitioner to change to a semi-annual GCA. Thus, we find that Petitioner shall request and receive approval from the Commission to change filing frequencies prior to filing schedules implementing the change in future GCA proceedings. We agree with the OUCC that without having this requirement, the efficiency that was sought to be gained by allowing utilities to file semi-annually is reduced. We find that Petitioner is authorized to utilize a quarterly GCA in this proceeding because of its significant financial swings resulting from semi-annual GCA filings and its cooperation with the OUCC prior to filing its schedules in this GCA. Further, we find that Petitioner shall maintain a two-year minimum period of quarterly GCA filings through September 30, 2018, before requesting implementation of semi-annual GCA filings.

**B. Transportation Customer Penalty Revenue.** Ms. Ahmed testified that Petitioner is not in compliance with the Commission's March 30, 2016 Order in 37913 GCA 113 ("GCA 113 Order"), relating to transportation customer penalty revenue. Ms. Ahmed testified that moving the transportation customer penalty revenue from Schedule 8 to Schedule 12a did not create a difference in GCA factors for GCA 113. Further, Ms. Ahmed testified Petitioner should not be able to pick and choose which method they want to use in dealing with transportation customer penalty revenue. In rebuttal, Ms. Mann testified that because Petitioner is using a quarterly GCA filing in this Cause, the transportation penalty revenue is already included on an annualized basis without the need to flow it through Schedule 12a. Ms. Mann testified that in her opinion, the use of Schedule 12a is no longer necessary for this Petitioner since it is using a quarterly GCA filing.

We found in the GCA 113 Order that Petitioner should use the Schedule 8 values it proposed, which are the actual commodity costs to transportation customers, and record the total cost of the penalty on Schedule 12a as a refund to be returned to customers over a 12-month period. There have been no further Orders issued by the Commission that indicate otherwise. However, the Commission's GCA 113 Order addressed a special circumstance to avoid negative GCA factors for Petitioner by spreading the penalty over a full year instead of six months. The Order states, "The question is how to return the credit to GCA customers." The GCA 113 Order addressed this specific credit. Thus, we find that Petitioner properly reflected transportation customer penalty revenue in this GCA.

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

1. The Petition of Fountaintown Gas Company, Inc., for the GCA 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, Fountaintown Gas Company, Inc., shall file with the Commission under this Cause the applicable rate schedules for the factor.

3. Petitioner shall seek Commission approval to change its filing frequency prior to implementation in future GCA filings and shall maintain a two-year minimum period of quarterly GCA filings through September 30, 2018, before requesting implementation of semi-annual GCA filings.

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

**FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR; STEPHAN ABSENT:**

**APPROVED: SEP 28 2016**

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

  
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Mary M. Becerra  
Secretary of the Commission