ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF FOUNTAINTOWN GAS COMPANY, INC. FOR APPROVAL OF CHANGES IN ITS GAS RATES THROUGH ITS GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g)	)))))	CAUSE NO. 37913 GCA 103 APPROVED: MAR 21 2013

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Marya E. Jones, Administrative Law Judge

On January 30, 2013, in accordance with Indiana 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 billing cycles of April 2013 through June 2013 with the Indiana Utility Regulatory Commission ("Commission"). On February 21, 2013, Petitioner prefiled the direct testimony and revised schedules of Bonnie J. Mann, Certified Public Accountant and Principal with London Witte Group, LLC, supporting the proposed GCA factors. On February 28, 2013, Petitioner prefiled the supplemental testimony and revised schedules of Ms. Mann. On March 1, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Laura J. Anderson, Utility Analyst.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 1:45 pm, on Tuesday, March 12, 2013, in Room 224, PNC Center, 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 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 herein, 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 is a public utility as that term is 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 duly organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 106 E. Main Street, Morristown, Indiana. Petitioner is engaged in rendering 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 used for the distribution and furnishing of such services.

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 gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible. Ms. Mann testified that Petitioner typically purchases fixed contracts, focusing primarily on the heating season. Petitioner also purchases spot gas. Petitioner's hedging strategy includes refilling storage gas on a regular pro rata basis during the non-heating months and withdrawing gas as needed. In addition, Ms. Mann testified that Petitioner keeps itself apprised of changing market conditions by regularly checking NYMEX prices. Petitioner will use index gas exclusively in the months of April, May, and June and inject 19,400 Dths into storage at $4.0073/Dth during each month in the quarter. This is consistent with Petitioner's practices for the past few years.

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 and considers market conditions and the price of natural gas on a current and forward-looking basis. 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, 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 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 Petition include transport rates that have been filed by Fountaintown Gas Company, Inc.'s pipeline suppliers in accordance with Federal Energy Regulatory Commission ("FERC") 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 by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rates and charges were approved is Cause No. 43753-U. The Commission's March 17, 2010 Order in that Cause authorized Petitioner to earn a net operating income of $478,321. Petitioner's evidence indicates that for the twelve (12) months ending November 2012, its actual net operating income was $447,832. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Indiana 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 estimations with the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of September through November 2012 ("the Reconciliation Period") yielded an over-estimated weighted average error of 22.58%.

The variance for September, an over-estimate of 64.08%, was caused by Petitioner's acquisition of additional fixed contract gas at a price lower than previously estimated when the GCA factor for September was established. In October an over-estimate of 11.48% was caused primarily by Petitioner's balancing of end users, which allowed Petitioner to acquire gas at a lower cost than previously estimated. Finally, the over-estimate of 21.52% for November was primarily caused by Petitioner's acquisition of additional fixed contracts changing the mix of gas source supply, which in turn created the variance in the net cost of gas per unit sold.

This is the fourth consecutive GCA in which Petitioner's quarterly estimate of purchased gas costs exceeded 10%. However, the current estimate is much lower than in Cause No. 37913 GCA 102, where the estimate of purchased gas costs was over 550%. At that time, Ms. Mann testified that the cause was due to an incorrect ANR Pipeline invoice. She specifically indicated that for the months of July and August 2012, the amount of gas that ANR reported as being injected into storage on Petitioner's behalf was more than Petitioner purchased. This created a negative cost of gas for the months of July and August. Petitioner stated it was in the process of contacting ANR to rectify this issue. However, Petitioner did not address the ANR Pipeline invoice issue in this Cause. Petitioner shall file testimony regarding its progress in resolving the issue with ANR Pipeline in Cause No. 37913 GCA 104.

Despite the above-mentioned issues, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas costs is reasonable based upon Petitioner's historical accuracy in estimating the cost of gas.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an over-collection of $60,104 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 estimated net cost of gas is $7,068.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $33,645. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $40,713 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 $1,328 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $1,328 in refunds to be returned in this Application. Based on the evidence presented, the

Commission finds that Petitioner's proposed GCA properly reconciles the difference between 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 $160,584. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $121,200. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $3.2944/Dth for April 2013, $2.5894/Dth for May 2013, and $1.8115/Dth for June 2013.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factors of $3.2944/Dth for April 2013, $2.5894/Dth for May 2013, and $1.8115/Dth for June 2013. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (February 2013 - $4.1418/Dth) and a year ago (April 2012 - $3.1228/Dth, May 2012 - $3.1360/Dth, and June 2012 - $3.3320/Dth). The table solely reflects costs that are approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	**Gas Costs at New GCA Factor at 10 Dths**	**Gas Costs at Current GCA Factor at 10 Dths**	**Dollar Change New vs. Current**	**Gas Costs at Year Ago GCA Factor at 10 Dths**	**Dollar Change New vs. Year Ago**
April	$32.94	$41.42	($ 8.48)	$31.23	$ 1.71
May	$25.89	$41.42	($15.53)	$31.36	($ 5.47)
June	$18.12	$41.42	($23.30)	$33.32	($15.20)

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 has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Monthly Flex Mechanism.** The Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a flex mechanism each month to adjust the GCA for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex are to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. Changes in the market price included in the flex are limited to a maximum adjustment (up or down) of $1.00 from the initial market price.

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

1. The Petition of Fountaintown Gas Company, Inc. for the 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. Fountaintown Gas Company, Inc. shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedule on these amendments.

3. Fountaintown Gas Company, Inc. shall file testimony in Cause No. 37913 GCA 104 regarding its progress in resolving its July and August 2012 gas delivery invoice issue with ANR Pipeline.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: MAR 21 2013

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

Shala M. Coe

Shala M. Coe
Acting Secretary to the Commission