ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF FOUNTAINTOWN GAS COMPANY, INC. FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENT IN ACCORDANCE WITH I.C. 8-1-2-42(g)	)))))	CAUSE NO. 37913 GCA 105 APPROVED: SEP 25 2013

ORDER OF THE COMMISSION

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

On July 31, 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 months of October 2013 through December 2013 with the Indiana Utility Regulatory Commission ("Commission"). On August 28, 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 August 30, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Laura J. Anderson, 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, an Evidentiary Hearing was held in this Cause on September 17, 2013 at 10:45 a.m. 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 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 106 East 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 typically purchases fixed contracts, focusing primarily on the heating season. Petitioner's hedging strategy includes refilling storage during the non-heating months and withdrawing gas from storage as needed. Ms. Mann further testified that Petitioner keeps itself apprised of market conditions by regularly checking NYMEX prices and flexing its GCA factors, both up and down as appropriate. Ms. Mann testified Petitioner has significant storage gas available for use in this GCA period. She stated that Petitioner recognizes spot gas prices have been and are anticipated to stay relatively low during this GCA period. Ms. Mann testified further that in order to benefit from the low spot prices, Petitioner is relying on storage gas for this early portion of the heating season. Ms. Mann stated Petitioner will continue to monitor fixed contract prices, spot prices, and its load for potential future purchases of fixed contracts 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 transport rates that have been filed by Fountaintown Gas Company, Inc. 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. 44292. The Commission authorized Petitioner to earn a net operating income of $477,934.

Petitioner's evidence indicates that for the twelve (12) months ending May 31, 2013, Petitioner's actual net operating income was $482,394. 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 of any of the amount over-earned in this Cause.

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 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 March 2013 through May 2013 ("Reconciliation Period") yielded an over-estimated weighted average error of 39.93%.

The Commission notes that Petitioner significantly overestimated its purchased gas costs this quarter, causing the variance of estimated versus actual gas costs to exceed 10% for the 6th consecutive quarter. Petitioner has provided a variety of explanations for the variances over the course of this period, and there appears to be no single root cause of the overestimations. As it concerns this GCA, Ms. Mann explained that Petitioner, for the second time in recent months, has experienced unique variances created by certain invoices submitted by ANR. The prior circumstance of this issue was explained and discussed in Paragraph 6 of the December 27, 2012 Order in Cause No. 37913 GCA 102.

In the current GCA, Ms. Mann stated that May 2013 is another example of ANR undercharging Petitioner, which decreased the net cost of gas per unit sold. She explained that Petitioner's invoice for May 2013 suggests that Petitioner had 4,000 Dth available; however, Petitioner's sales records reflect approximately 15,000 Dth for sale to its GCA customers. In response to the Presiding Officers' inquiries made through a Docket Entry dated September 10, 2013, Petitioner responded that ANR, when contacted to address the May 2013 invoice, stated there was no error in that invoice. Petitioner responded similarly that it has made contact with ANR multiple times in the past three months to address the GCA 102 invoice and ANR stated there was no error in those invoices. The Commission is unaware of any other utility currently struggling with this issue. While these under billings are currently benefitting customers, the Commission notes that if the corrected invoices are reconciled, costs may be passed on to customers. However, the Commission has the final determination and Petitioner is advised to work with ANR and present sufficient evidence in the future regarding the prudence of such costs.

Additionally, Ms. Mann explained that the weather in the Reconciliation Period was colder than the three year weather average used to estimate sales. Despite the above-mentioned issues and based upon Petitioner's described methodology, we find that Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

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 is an over-collection of $128,601 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 decrease in the estimated net cost of gas is $41,770.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $76,373. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $118,143 to be applied in this GCA as a decrease in the estimated net cost of gas.

B. **Refunds.** Petitioner received no new refunds during the Reconciliation Period and has $3,811 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 $3,811 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for October 2013 is $97,944, for November 2013 is $214,638, and for December 2013 is $356,083. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $57,293 for October 2013, $173,987 for November 2013, and $315,432 for December 2013. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $2.7411/Dth for October 2013, $4.6620/Dth for November 2013, and $5.1436/Dth for December 2013.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of $2.7411/Dth for October 2013, $4.6620/Dth for November 2013, and $5.1436/Dth for December 2013. 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 2013 - $1.4530/Dth) and a year ago (October 2012 - $3.1867/Dth, November 2012 - $4.1736/Dth, and December 2012 - $4.4667/Dth). The table reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	Proposed Gas Costs (10 Dth)	Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
October	$27.41	$14.53	$12.88	$31.87	($4.46)
November	$46.62	$14.53	$32.09	$41.74	$4.88
December	$51.44	$14.53	$36.91	$44.67	$6.77

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. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism to adjust the GCA factor 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 later 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 (higher or lower) of $1.00 from the initial market price.

12. **Other Matters.** The Commission's Order in Cause No. 37913 GCA 104 noted a large amount of errors in Petitioner's filings for the past two GCA proceedings. The Order urged Petitioner to review evidence for accuracy prior to submission as well as explain any adjustments or changes to schedules in testimony when they are submitted. The Commission acknowledges the absence of errors in the submitted schedules for the current GCA application and hopes this is indicative of a trend in the quality of filings from this Petitioner.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:

APPROVED: SEP 25 2013

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