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 106 APPROVED: DEC 30 2013

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Marya E. Jones, Administrative Law Judge

On November 1, 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 January 2014 through March 2014 with the Indiana Utility Regulatory Commission ("Commission"). On November 12, 2013, Petitioner prefiled the direct testimony of Bonnie J. Mann, Certified Public Accountant and Principal with London Witte Group, LLC, supporting the proposed GCA factors. On November 26, 2013, Petitioner filed revised schedules. On December 5, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the direct testimony and exhibits of Sherry L. Beaumont, Utility Analyst. On December 9, 2013 a docket entry was issued and Petitioner responded on December 10, 2013.

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 December 11, 2013 at 11:30 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 Petitioner typically purchases fixed contracts as well as spot gas. She stated Petitioner's hedging strategy includes refilling storage during the non-heating months and withdrawing gas as needed. In addition, Ms. Mann noted that Petitioner stays up to date on market conditions by regularly monitoring fixed contract and spot prices. Petitioner is focusing on using storage rather than fixed gas in this GCA in order to draw down storage levels to avoid penalties. Ms. Mann stated Petitioner will continue to monitor fixed contract prices, spot prices, and its load for potential additional 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 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 August 31, 2013, Petitioner's actual net operating income was $424,999. Therefore, based on the evidence of record, we find that Petitioner is not earning a return in excess of that authorized in its last rate case.

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 June 2013 through August 2013 ("Reconciliation Period") yielded an over-estimated weighted average error of 47.44%.

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 7th 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 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 and in Paragraph 6 of the September 25, 2013 Order in Cause No. 37913 GCA 105

In the current GCA, Ms. Mann testified ANR refuses to acknowledge any error on its part and that she does not does not believe this difficulty with ANR will create a problem for the Petitioner in the future. Ms. Mann testified that under Petitioner's contract with ANR, the pipeline can only correct any invoice from a prior period for a specified period of time. Therefore, with the passage of time a number of the invoices will be exempt from correction. Ms. Mann further testified that the only correction that could occur would be to reflect what was actually put in storage and ultimately used by the Petitioner. She noted that if such a correction occurs, Petitioner would flow that correction through the GCA and as customers use that gas, they would be billed for such use. Ms. Mann testified she does not believe there are any penalties or surcharges that would attach to such a correction. Ms. Mann stated that Petitioner's customers, at a minimum, are getting the time value of money since they are getting lower price gas now. Ms. Mann acknowledged this ANR issue has and continues to create issues that show up as variances, but concluded that Petitioner does not believe that this a significant problem looming over its customers.

The Commission is aware that these under billings are currently benefitting customers, and notes that if the corrected invoices are reconciled, costs may be passed on to customers. However, the Commission has the final determination. Therefore, Petitioner is still advised to work with ANR and present sufficient evidence in the future regarding the prudence of such costs.

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 $27,983 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 $13,071.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $131,915. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $144,986 to be applied in this GCA as a decrease in the estimated net cost of gas.

B. **Refunds.** Petitioner has $55,044 in new refunds and no prior period refunds to be returned in this GCA. We find that the amount to be refunded to customers in this GCA is $25,711 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for January 2014 is $330,056, for February 2014 is $316,053 and for March 2014 is $264,754. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $273,157 for January 2014, $259,154 for February 2014, and $207,855 for March 2014. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $4.3560/Dth for January 2014, $4.3128/Dth for February 2014, and $4.1362/Dth for March 2014.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factors of $4.3560/Dth for January 2014, $4.3128/Dth for February 2014, and $4.1362/Dth for March 2014. 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 (November 2013 - $4.6248) and a year ago (January 2013 - $4.2151/Dth, February 2013 - $4.1418/Dth, and March 2013 - $3.8998/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**
January	$43.56	$46.25	($2.69)	$42.15	$1.41
February	$43.13	$46.25	($3.12)	$41.42	$1.71
March	$41.36	$46.25	($4.89)	$39.00	$2.36

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 acknowledged the absence of errors in the submitted schedules for Cause No. 37913 GCA 105 and hoped those schedules were indicative of a trend in the quality of filings from this Petitioner. The Commission notes with regret the large amount of errors in Petitioner's current GCA filing, but acknowledges the review process Petitioner indicated it will implement in response to the December 9, 2013 Docket Entry regarding these errors. The Commission hopes the implementation of a review process will eliminate the excessive errors and ensure accuracy in the schedules submitted going forward.

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, MAYS, AND ZIEGNER CONCUR; LANDIS ASENT:

APPROVED: DEC 30 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