ORIGINAL

Cnl M
AB
ARW

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 109** **APPROVED:** SEP 24 2014

ORDER OF THE COMMISSION

Presiding Officer:
Marya E. Jones, Administrative Law Judge

On July 30, 2014, 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 2014 through December 2014. On August 21, 2014, Petitioner prefiled the direct testimony of Bonnie J. Mann, Certified Public Accountant and Principal with London Witte Group, LLC, along with certain revised schedules in support of its proposed GCA factors. On August 27, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Heather R. Poole, Senior Utility Analyst.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 2:00 p.m. on September 16, 2014, 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 has its principal office 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 about Petitioner's procurement practices, including acquiring fixed contracts; acquiring and using storage gas; flexing GCA factors; keeping itself apprised of changing market conditions through review of NYMEX prices; use of a normal temperature adjustment mechanism; and participating with other small gas companies to create a framework for energy efficiency in Cause No. 43995. Ms. Mann noted that Petitioner has acquired fixed, storage, and spot gas for use. in this GCA period. Ms. Mann also indicated 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. <u>Purchased Gas Cost Rates</u>. 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. <u>Earnings Test</u>. 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 May 31, 2014, Petitioner's actual net operating income was $405,593. 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. <u>Estimation of Purchased Gas Costs</u>. 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 2014 through May 2014 ("Reconciliation Period") yielded an over-estimated weighted average of 23.05%.

Petitioner over-estimated its purchased gas costs causing the variance on Schedule 13 of estimated versus actual gas costs to exceed 10% for the tenth consecutive quarter. Ms. Mann testified that the over-estimation of Petitioner's purchased gas costs was driven by variances in April and May 2014. She explained that the variances were created by incorrect billings from ANR where Petitioner was either underbilled for the amount of gas placed in storage or the amount of gas stored for Petitioner was overstated. Ms. Mann noted that Petitioner accepted the invoices in spite of the error and allowed the invoices to flow through the GCA process, thereby reducing the cost of gas to its customers.

Based on Petitioner's historical accuracy in estimating the cost of gas and the explanation of the cause of the variance 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 is an over-collection of $98,859 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and in 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 $32,109.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $45,758. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $77,867 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 but has $17,757 in refunds from a prior GCA applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $17,757 as reflected on Petitioner's Schedule 12A.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered for October 2014 is $141,832, for November 2014 is $270,431, and for December 2014 is $364,710. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $109,957 for October 2014, $238,556 for November 2014, and $332,835 for December 2014. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $3.8637/Dth for October 2014, $5.4656/Dth for November 2014, and $5.6980/Dth for December 2014.

9. Effects on Residential Customers. Petitioner requests authority to approve the GCA factors of $3.8637/Dth for October 2014, $5.4656/Dth for November 2014, and $5.6980/Dth for December 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 (July 2014 - $4.2135/Dth) and a year ago (October 2013 - $2.7449/Dth, November 2013 - $4.6248/Dth, and December 2013 - $5.1353/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 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
October 2014	$38.64	$42.14	($3.50)	$27.45	$11.19
November 2014	$54.66	$42.14	$12.52	$46.25	$ 8.41
December 2014	$56.98	$42.14	$14.84	$51.35	$ 5.63

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 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 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 less than three 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 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.

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.

MAYS-MEDLEY, WEBER AND ZIEGNER CONCUR; STEPHAN ABSENT:

APPROVED: SEP 24 2014

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