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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF FOUNTAINTOWN GAS)
COMPANY, INC. FOR APPROVAL OF) CAUSE NO. 37913 GCA 92
CHANGES IN ITS GAS COST)
ADJUSTMENT IN ACCORDANCE WITH) APPROVED:
I.C. 8-1-2-42(g)) JUN 23 2010

BY THE COMMISSION:
Carolene Mays, Commissioner
Jeffery A. Earl, Administrative Law Judge

On April 29, 2010, in accordance with Indiana Code section 8-1-2-42, Fountaintown Gas Company, Inc. ("Petitioner") filed with the Indiana Utility Regulatory Commission (the "Commission") its petition for gas cost adjustment ("GCA") with attached schedules to be applicable during the billing cycles of July through September, 2010. On May 18, 2010, Petitioner prefiled the direct testimony of Jason L. Wortman, Vice President, supporting the proposed GCA factors. On May 25, 2010, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Lianne N. Lockhart, 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 10:00 a.m. on June 10, 2010, in Judicial Courtroom 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 the OUCC were admitted into the record. 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 operates a public gas utility and, as such, is subject to the jurisdiction of the Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over the parties and the subject matter herein.

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 within the State of Indiana. Petitioner owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

3. **Source of Natural Gas.** Indiana Code section 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its retail customers at the lowest gas cost reasonably possible.

Mr. Wortman testified regarding Petitioner's procurement practices, including: acquiring fixed contracts; acquiring and using stored gas; flexing GCA factors; keeping itself apprised of changing market conditions; and using a normal temperature adjustment mechanism. Mr. Wortman further noted while stored gas is available, Petitioner typically uses this period of the year to refill its storage for use during peak heating months. Mr. Wortman also indicated Petitioner's small customer base limits the benefits that can be obtained from hedging activities during non-heating months.

The Commission has indicated 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 upon the evidence offered, the Commission finds Petitioner has demonstrated 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 demand. Therefore, we find the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Indiana Code section 8-1-2-42(g)(3)(B) requires Petitioner's pipeline suppliers to 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 gas costs in this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs to be reasonable. As a result, the Commission finds the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code section 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment that results in the Petitioner earning a return in excess of the return authorized by the last Commission proceeding approving Petitioner's basic rates and charges. The most recent proceeding approving Petitioner's basic rates and charges relative to the reconciliation period ending February 28, 2010, is Cause No. 40494.¹ The Commission's March 5, 1997, Order in that Cause authorized Petitioner to earn a net operating income ("NOI") of \$492,253. Petitioner's evidence herein indicates for the twelve (12) months ending February 28, 2010, Petitioner's actual net operating income was \$35,540. Based upon the evidence of record, the Commission finds Petitioner has not earned in excess of the amount authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Indiana Code section 8-1-2-42(g)(3)(D) requires Petitioner's estimates of prospective average gas costs for each future recovery period to be reasonable. The Commission has determined this requires, in part, a comparison of prior

¹ On March 17, 2010, the Commission issued its most recent Order approving Petitioner's basic rates and charges in Cause No. 43753-U. That Order, which applies prospectively, authorized a rate of return of 8.57% and a net operating income of \$487,550, based upon a cost rate base of \$5,581,337.

estimates with the eventual actual costs. The evidence indicates Petitioner's estimating techniques during the reconciliation period of December, 2009 through February, 2010 (the "Reconciliation Period"), yielded an over-estimated weighted average error of 4.88%.

Mr. Wortman testified the amount of variance stemmed primarily from a 12.86% over-estimation of gas cost for the month of February, 2010. Mr. Wortman testified Petitioner's gas cost estimates for that month were made in November, 2009, based upon then current NYMEX market prices. Thereafter, the actual price of gas declined sharply, resulting in the variance.

Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas is reasonable.

7. **Reconciliation.** Indiana Code section 8-1-2-42(g)(3)(D) also requires Petitioner to reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established the variance for the Reconciliation Period is an over-collection of \$60,814 from Petitioner's customers. This amount should be included, based upon estimated sales percentages, in this GCA and in Petitioner's 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 \$3,174.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$85. Combining this amount with the Reconciliation Period variance results in a total over-collection of \$3,259 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has no new refunds during the Reconciliation Period and no refunds for prior GCA periods applicable to the current recovery period. Based upon the evidence presented, the Commission finds Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period, and the gas costs recovered during that same period.

8. **Resulting Gas Cost Adjustments.** The estimated net cost of gas to be recovered during the application period is \$115,122. Adjusting this total for the variance and refunds yields gas costs to be recovered through the GCA and Base Rates in the amount of \$111,862. After dividing that amount by estimated sales, adding the demand cost per unit of sales, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCAs are: \$5.4872/Dth for July, 2010; \$5.5758/Dth for August, 2010; and \$5.6524/Dth for September, 2010.

9. **Effects on Residential Customers.** The GCA factor for July, 2010, of \$5.4872/Dth represents an increase of \$0.3706/Dth from the current GCA factor of \$5.1166/Dth. The GCA factor for August, 2010, of \$5.5758/Dth represents an increase of \$0.4592/Dth from the current GCA factor of \$5.1166/Dth. The GCA factor for September, 2010, of \$5.6524 represents an increase of \$0.5358/Dth from the current GCA factor of \$5.1166/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following tables:

Table 1
Proposed vs. Currently Approved GCA Factor
For Residential Customers

July 2010

| <i>Monthly Consumption Dth</i> | <i>Bill at New GCA Factor</i> | <i>Bill at Current GCA Factor</i> | <i>Dollar Change</i> | <i>Percent Change</i> |
|--------------------------------|-------------------------------|-----------------------------------|----------------------|-----------------------|
| 5 | \$ 56.88 | \$ 55.03 | \$1.85 | 3.37% |
| 10 | \$103.27 | \$ 99.56 | \$3.71 | 3.72% |
| 15 | \$146.55 | \$140.99 | \$5.56 | 3.94% |
| 20 | \$189.84 | \$182.43 | \$7.41 | 4.06% |
| 25 | \$233.13 | \$223.86 | \$9.27 | 4.14% |

August 2010

| <i>Monthly Consumption Dth</i> | <i>Bill at New GCA Factor</i> | <i>Bill at Current GCA Factor</i> | <i>Dollar Change</i> | <i>Percent Change</i> |
|--------------------------------|-------------------------------|-----------------------------------|----------------------|-----------------------|
| 5 | \$ 57.33 | \$ 55.03 | \$ 2.30 | 4.17% |
| 10 | \$104.15 | \$ 99.56 | \$ 4.59 | 4.61% |
| 15 | \$147.88 | \$140.99 | \$ 6.89 | 4.89% |
| 20 | \$191.61 | \$182.43 | \$ 9.18 | 5.03% |
| 25 | \$235.34 | \$223.86 | \$11.48 | 5.13% |

September 2010

| <i>Monthly Consumption Dth</i> | <i>Bill at New GCA Factor</i> | <i>Bill at Current GCA Factor</i> | <i>Dollar Change</i> | <i>Percent Change</i> |
|--------------------------------|-------------------------------|-----------------------------------|----------------------|-----------------------|
| 5 | \$ 57.71 | \$ 55.03 | \$ 2.68 | 4.87% |
| 10 | \$104.92 | \$ 99.56 | \$ 5.36 | 5.38% |
| 15 | \$149.03 | \$140.99 | \$ 8.04 | 5.70% |
| 20 | \$193.15 | \$182.43 | \$10.72 | 5.87% |
| 25 | \$237.26 | \$223.86 | \$13.40 | 5.98% |

The GCA factor for July, 2010, of \$5.4872/Dth represents an increase of \$2.4573/Dth from the GCA factor of \$3.0299/Dth billed one year prior. The GCA factor for August, 2010, of \$5.5758/Dth represents an increase of \$2.3708 from the GCA factor of \$3.2050/Dth billed one year prior. The GCA factor for September, 2010, of \$5.6524/Dth represents an increase of \$2.7782 from the GCA factor of \$2.8742/Dth billed one year prior. The effects of these changes for various consumption levels of residential bills are shown in the following tables:

Table 2
Proposed vs. Prior Year Approved GCA Factor
For Residential Customers

July 2010

| <i>Monthly Consumption Dth</i> | <i>Bill at New GCA Factor</i> | <i>Bill at Prior Yr GCA Factor</i> | <i>Dollar Change</i> | <i>Percent Change</i> |
|--------------------------------|-------------------------------|------------------------------------|----------------------|-----------------------|
| 5 | \$ 56.88 | \$ 52.33 | \$4.55 | 8.69% |
| 10 | \$103.27 | \$ 98.57 | \$4.70 | 4.76% |
| 15 | \$146.55 | \$143.01 | \$3.54 | 2.48% |
| 20 | \$189.84 | \$187.45 | \$2.39 | 1.28% |
| 25 | \$233.13 | \$231.89 | \$1.24 | 0.54% |

August 2010

| <i>Monthly Consumption Dth</i> | <i>Bill at New GCA Factor</i> | <i>Bill at Prior Yr GCA Factor</i> | <i>Dollar Change</i> | <i>Percent Change</i> |
|--------------------------------|-------------------------------|------------------------------------|----------------------|-----------------------|
| 5 | \$ 57.33 | \$ 53.21 | \$4.12 | 7.74% |
| 10 | \$104.15 | \$100.32 | \$3.83 | 3.81% |
| 15 | \$147.88 | \$145.64 | \$2.24 | 1.54% |
| 20 | \$191.61 | \$190.95 | \$0.66 | 0.35% |
| 25 | \$235.34 | \$236.26 | (\$0.92) | (0.39%) |

September 2010

| <i>Monthly Consumption Dth</i> | <i>Bill at New GCA Factor</i> | <i>Bill at Prior Yr GCA Factor</i> | <i>Dollar Change</i> | <i>Percent Change</i> |
|--------------------------------|-------------------------------|------------------------------------|----------------------|-----------------------|
| 5 | \$ 57.71 | \$ 51.55 | \$ 6.16 | 11.94% |
| 10 | \$104.92 | \$ 97.02 | \$ 7.90 | 8.14% |
| 15 | \$149.03 | \$140.68 | \$ 8.35 | 5.94% |
| 20 | \$193.15 | \$184.33 | \$ 8.82 | 4.78% |
| 25 | \$237.26 | \$227.99 | \$ 9.27 | 4.06% |

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.

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 such charges are applicable to the rate schedule on these amendments.

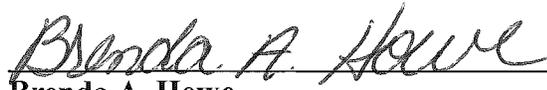
3. This Order shall be effective on or after the date of its approval.

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

APPROVED:

JUN 23 2010

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



**Brenda A. Howe,
Secretary to the Commission**