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 94** **APPROVED:** DEC 29 2010

BY THE COMMISSION:
Gregory R. Ellis, Administrative Law Judge

On November 4, 2010, in accordance with Indiana Code § 8-1-2-42, Fountaintown Gas Company, Inc. ("Petitioner" or "Fountaintown") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of January through March, 2011. On November 16, 2010, Petitioner prefiled the direct testimony of Jason L. Wortman, Fountaintown's Vice President, supporting the proposed GCA factors. On December 3, 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. On December 9, 2010, the Petitioner filed information in response to the Commission's docket entry of December 8, 2010.

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 December 13, 2010, 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 the OUCC were admitted into the record. In addition, Petitioner offered the testimony of Bonnie Mann in response to the OUCC testimony. 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. **<u>Source of Natural Gas.</u>** Indiana Code § 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, and keeping itself apprised of changing market conditions. Mr. Wortman indicated Petitioner has additional hedging in place relative to its estimated sale for this upcoming GCA, which is reflected on Petitioner's Exhibit 1, Schedule 3.

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 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. **<u>Purchased Gas Cost Rates.</u>** 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 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. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **<u>Return Earned.</u>** Indiana Code § 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 is Cause No. 43753-U. The Commission's March 17, 2010, Order in that Cause authorized Petitioner to earn a net operating income ("NOI") of $478,321. Petitioner's evidence herein indicates for the twelve (12) months ending August 31, 2010, Petitioner's actual net operating income was $210,656. Therefore, 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. **<u>Estimation of Purchased Gas Costs.</u>** Indiana Code § 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 estimates with the eventual actual costs. The evidence indicates Petitioner's estimating techniques during the reconciliation period of June through August, 2010 (the "Reconciliation Period"), yielded an under-estimated weighted average error of 7.95%. Petitioner's witness Mr. Wortman provided evidence as to the cause of the variance. Mr. Wortman indicated that the

variance was caused because of the timing difference between the estimation of gas prices and the actual purchases were incurred; and the manner in which the variance is calculated.

With respect to the timing element impacting Petitioner's variances, Mr. Wortman testified that the June estimates were made in January 2010. The July estimate was made in April. While those estimates were based on NYMEX prices, Petitioner could not capture the changes in spot gas prices. Mr. Wortman also noted the calculation of variance by calendar month caused what appear to be significant variances. He noted that what appeared to be an under-collection in June was offset by what appeared to be an over-collection in July.

The OUCC's Witness Lockhart, while noting that the overall variance for the Reconciliation Period was below 10%, also expressed concerns about the appearance of variances in June and July. Ms. Lockhart noted the variance as reflected on Schedule 13 for June was a variance of -30.19%. She also noted that the variance for July, though reflecting a positive number, was a variance of 34.03%. Ms. Lockhart explained that her concern was that such large variances on individual months should include a more thorough explanation of the cause. Ms. Lockhart also indicated that she believed Petitioner's original estimates had not included sufficient costs related to contract storage, related transportation of gas, and costs associated with gas injected and gas withdrawn, even though these costs were actually incurred. Ms. Lockhart also noted that during these months, the actual gas used was approximately two-thirds greater than the estimated usage.

In response to the concerns raised by Ms. Lockhart, the Petitioner offered the testimony of its Witness, Bonnie Mann. Ms. Mann noted that Petitioner's transport customers directly impacted the variances in June and July. She explained that the transport customers have both under-nominated and over-nominated their needs. She pointed out that such nomination was balanced through Petitioner's storage, which caused the variance reflected on Petitioner's schedules. She noted that the variances occurred during summer months, which amplified the impact. Ms. Mann went on to note that the variance of June was offset by July, resulting in an overall low variance for the Reconciliation Period. Finally, Ms. Mann indicated that she and her colleagues at London Witte had reviewed the manner in which estimates were made for contract storage, related transportation costs, and costs associated with gas injected and withdrawn from storage as suggested by Ms. Lockhart. She indicated that changes to these calculations have been made to avoid this issue in the future.

Based upon the evidence of record and 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. <u>Reconciliation.</u> Indiana Code § 8-1-2-42(g)(3)(D) also requires Petitioner to 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 the variance for the Reconciliation Period is an under-collection of $5,872 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 an increase in the estimated net cost of gas is $2,936.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $112,909. Combining this amount with the Reconciliation Period variance results in a total over-collection of $109,973 to be applied in this GCA as a decrease in the estimated net cost of gas.

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

8. **Resulting Gas Cost Adjustment Factors.** The estimated net cost of gas to be recovered during the application period is $1,114,683. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $1,004,709. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.4296/Dth for January 2011, $5.3886/Dth for February 2011, and $5.0536/Dth for March 2011.

9. **Effects on Residential Customers.** The GCA factor for January 2011 of $5.4296/Dth represents an increase of $0.5718/Dth from the GCA factor for November 2010 of $4.8578/Dth. The GCA factor for February 2011 of $5.3886/Dth represents an increase of $0.5308/Dth from the GCA factor for November 2010 of $4.8578/Dth. The GCA factor for March 2011 of $5.0536 represents an increase of $0.1958/Dth from the GCA factor for November 2010 of $4.8578/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following table:

Table 1

Proposed vs. Currently Approved GCA Factor
For Residential Customers

January 2011

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor November 2010	Dollar Change	Percent Change
5	$56.59	$53.74	$2.85	5.30%
10	$102.69	$96.97	$5.72	5.90%
15	$145.69	$137.11	$8.58	6.26%
20	$188.69	$177.25	$11.44	6.45%
25	$231.69	$217.39	$14.30	6.58%

February 2011

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor November 2010	Dollar Change	Percent Change
5	$56.39	$53.74	$2.65	4.93%
10	$102.28	$96.97	$5.31	5.48%
15	$145.07	$137.11	$7.96	5.81%
20	$187.87	$177.25	$10.62	5.99%
25	$230.66	$217.39	$13.27	6.10%

March 2011

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor November 2010	Dollar Change	Percent Change
5	$54.71	$53.74	$0.97	1.80%
10	$98.93	$96.97	$1.96	2.02%
15	$140.05	$137.11	$2.94	2.14%
20	$181.17	$177.25	$3.92	2.21%
25	$222.29	$217.39	$4.90	2.25%

The GCA factor for January 2011 of $5.4296/Dth represents an increase of $3.4536/Dth from the prior year GCA factor of $1.9760/Dth billed in Cause No. 37440 GCA90. Petitioner's base rates one year ago included gas commodity costs. The GCA factor for February 2011 of $5.3886/Dth represents an increase of $3.4178/Dth from the prior year GCA factor of $1.9708/Dth. The GCA factor for March 2011 of $5.0536/Dth represents a decrease of $0.1681/Dth from the prior year GCA factor of $5.2217/Dth. The effects of these changes for various consumption levels of residential customer bills are shown in the following table:

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

January 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$56.59	$47.06	$9.53	20.25%
10	$102.69	$88.03	$14.66	16.65%
15	$145.69	$127.20	$18.49	14.54%
20	$188.69	$166.37	$22.32	13.42%
25	$231.69	$205.54	$26.15	12.72%

February 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$56.39	$47.04	$9.35	19.88%
10	$102.28	$87.98	$14.30	16.25%
15	$145.07	$127.12	$17.95	14.12%
20	$187.87	$166.27	$21.60	12.99%
25	$230.66	$205.41	$25.25	12.29%

March 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$54.71	$63.29	($8.58)	(13.56%)
10	$98.93	$120.49	($21.56)	(17.89%)
15	$140.05	$175.89	($35.84)	(20.38%)
20	$181.17	$231.28	($50.11)	(21.67%)
25	$222.29	$286.68	($64.39)	(22.46%)

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.** Petitioner utilizes 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 (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.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

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. Petitioner shall include in GCA 95 the calculation changes for contract storage, related transportation costs, and costs associated with gas injected and withdrawn from storage as stated in Ms. Mann's testimony provided at the Evidentiary Hearing.

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

ATTERHOLT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: DEC 2 9 2010

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