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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 95** **APPROVED:** MAR 30 2011

<u>BY THE COMMISSION</u>:
Carolene R. Mays, Commissioner
Jeffery A. Earl, Administrative Law Judge

On February 3, 2011, in accordance with Indiana Code § 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 April through June, 2011. On February 10, 2010, Petitioner prefiled the direct testimony of Bonnie Mann, certified public accountant with the firm London Witte Group, supporting the proposed GCA factors. On March 1 and 9, 2011, Petitioner prefiled Supplemental Testimony of Ms. Mann. On March 14, 2011, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Sherry Beaumont, 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 10:15 a.m. on March 11, 2011, in Hearing Room 222, 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. <u>Statutory Notice and Commission Jurisdiction.</u> 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. <u>Petitioner's Characteristics.</u> 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 § 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.

Ms. Mann 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. Ms. Mann further testified Petitioner has fixed contracts for gas supplies for May and June in the upcoming GCA period. Petitioner has not purchased fixed contracts for April because April is a shoulder month, and as a result, gas purchased for the previous heating season, but unused during that season, will be available for use in April. Ms. Mann indicated stored gas would be available; however, she also indicated Petitioner typically injects gas into storage during this GCA.

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 § 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 § 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 November 30, 2010, Petitioner's actual NOI was $252,349. 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 § 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 period of September through November, 2010 (the "Reconciliation

Period"), yielded an over-estimated weighted average error of 0.04%. Although the average error over the Reconciliation Period is very low, Petitioner under-estimated its gas costs by 255.77% in September and over-estimated its gas costs by 18.14% in November of the Reconciliation Period.

With respect to the September variance, Ms. Mann explained that this large variance was a direct result of the over-estimation of gas needs by Petitioner's transport customers. Ms. Mann also explained that Petitioner's transport customers determine their respective estimates. The over-estimations were caused, in part, by a mechanical failure which caused a transport customer to shut down its production facilities for a period of time. This excess gas was cashed out by Petitioner under its tariff balancing provisions. This over-estimation, once cashed out by Petitioner, caused the price of gas for Petitioner to be significantly below the estimated price used to originally establish the GCA factors for the Reconciliation Period. The result, though reflecting an unusually large variance on Schedule 13, causes the actual cost of gas to Petitioner's GCA customers to be reduced, ultimately benefitting those customers because of Petitioner's balancing requirement.

We also note that Ms. Mann's testimony in this proceeding explained how Petitioner's balancing mechanism works as required by the Commission's Order in GCA 94. Ms. Mann described the cash-out procedure, which results in benefits to Petitioner's customers. She described the charge from ANR for transport customer over-nomination, which is injected into Petitioner's storage. She noted that the ANR charge is a cost that Petitioner will collect from its transport customers as part of the balancing provision. Ms. Mann also explained how she and her firm have reviewed Petitioner's pricing for storage gas and believe that they have now properly included the correct transportation costs necessary for the gas Petitioner injected into storage for its own GCA customers use as part of the schedules included in this cause.

With respect to the November variance, Ms. Mann testified that the November variance was caused by the early onset of winter and the need for Petitioner to draw down storage gas beyond the amount it had originally estimated for this period. This change in the mix of gas sources resulted in a different price of gas actually sold, causing the variance reflected on Schedule 13.

The Commission finds Petitioner has adequately explained the unusual variances during the Reconciliation Period. 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. <u>Reconciliation.</u> Indiana Code § 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 $14,743 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 $1,784.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $19,434. Combining this amount with the Reconciliation Period variance results in a total over-collection of $21,218, 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 $258,160. Adjusting this total for the variance and refunds yields gas costs to be recovered through the GCA in the amount of $236,942. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCAs are: $5.4299/Dth for April, 2011; $5.1531/Dth for May, 2011; and $4.6650/Dth for June, 2011.

9. Effects on Residential Customers. The GCA factor for April, 2011, of $5.4299/Dth represents an increase of $0.4503 from the current GCA factor of $4.9796/Dth. The GCA factor for May, 2011, of $5.1531/Dth represents an increase of $0.1735 from the current GCA factor of $4.9796/Dth. The GCA factor for June, 2011, of $4.6650/Dth represents a decrease of $0.3146 from the current GCA factor of $4.9796/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

April 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 56.60	$ 54.34	$ 2.26	4.16%
10	$102.69	$ 98.19	$ 4.50	4.59%
15	$145.69	$138.94	$ 6.75	4.86%
20	$188.70	$179.69	$ 9.01	5.01%
25	$231.70	$220.44	$11.26	5.11%

May 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	**$ 55.21**	**$ 54.34**	**$ 0.87**	**1.60%**
10	**$ 99.92**	**$ 98.19**	**$ 1.73**	**1.76%**
15	**$141.54**	**$138.94**	**$ 2.60**	**1.87%**
20	**$183.16**	**$179.69**	**$ 3.47**	**1.93%**
25	**$224.78**	**$220.44**	**$ 4.34**	**1.97%**

June 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	**$ 52.77**	**$ 54.34**	**($ 1.57)**	**-2.89%**
10	**$ 95.04**	**$ 98.19**	**($ 3.15)**	**-3.20%**
15	**$134.22**	**$138.94**	**($ 4.72)**	**-3.40%**
20	**$173.40**	**$179.69**	**($ 6.29)**	**-3.50%**
25	**$212.57**	**$220.44**	**($ 7.87)**	**-3.57%**

The GCA factor for April, 2011, of $5.4299/Dth represents an increase of $0.3133/Dth from the GCA factor of $5.1166/Dth billed one year prior. The GCA factor for May, 2011, of $5.1531/Dth represents an increase of $0.3167 from the GCA factor of $4.8364/Dth billed one year prior. The GCA factor for June, 2011, of $4.6650/Dth represents an increase of $1.5553/Dth from the GCA factor of $3.1097/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

April 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	**$ 56.60**	**$ 55.03**	**$ 1.57**	**2.85%**
10	**$102.69**	**$ 99.56**	**$ 3.13**	**3.15%**
15	**$145.69**	**$140.99**	**$ 4.70**	**3.33%**
20	**$188.70**	**$182.43**	**$ 6.27**	**3.44%**
25	**$231.70**	**$223.86**	**$ 7.84**	**3.50%**

May 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.21	$ 53.63	$ 1.58	2.95%
10	$ 99.92	$ 96.76	$ 3.16	3.27%
15	$141.54	$136.79	$ 4.75	3.47%
20	$183.16	$176.83	$ 6.33	3.58%
25	$224.78	$216.86	$ 7.92	3.65%

June 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 52.77	$ 45.00	$ 7.77	17.27%
10	$ 95.04	$ 79.49	$ 15.55	19.56%
15	$134.22	$110.89	$ 23.33	21.04%
20	$173.40	$142.29	$ 31.11	21.86%
25	$212.57	$173.69	$ 38.88	22.38%

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

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

APPROVED: MAR 30 2011

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