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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 96** **APPROVED:** JUN 29 2011

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

On May 5, 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 July through September, 2011. On May 25, 2011, Petitioner prefiled the direct testimony of Jason Wortman, Petitioner's Vice-President, supporting the proposed GCA factors. On June 6, 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. On June 8, 2011, the OUCC filed Notice of Corrections to its Pre-Filed Case-In-Chief Testimony. Also on June 8, 2011, Petitioner filed a Motion to Substitute Schedules, which the Commission granted by Docket Entry dated June 10, 2011.

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 9:45 a.m. on June 13, 2011, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. 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 § 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 testified Petitioner has fixed contracts for gas supplies for the upcoming GCA period. Mr. Wortman also indicated that while stored gas would be available for the upcoming GCA period, Petitioner typically refills its storage at this time of year.

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 requirements. 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 February 28, 2011, Petitioner's actual NOI was $487,977. Based upon the evidence of record, the Commission finds Petitioner has earned in excess of the amount authorized in its last rate case.

Because Petitioner has earned a return in excess of the amount authorized, Indiana Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Indiana Code § 8-1-2-42.3(a), is greater than zero.

Based upon the evidence of record, the Commission finds the sum of the differentials during the relevant period is less than zero, and therefore, it is not appropriate to require a refund of any of the amount over earned in this Cause.

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 December, 2010, through February, 2011, (the "Reconciliation Period") yielded an over-estimated weighted average error of 9.75%. 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 § 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 $107,396 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 $5,424.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $5,830. Combining this amount with the Reconciliation Period variance results in a total over-collection of $11,254, 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 $112,798. Adjusting this total for the variance and refunds yields gas costs to be recovered through the GCA in the amount of $101,544. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCAs are: $5.2777/Dth for July, 2011; $5.2795/Dth for August, 2011; and $5.4778/Dth for September, 2011.

9. **Effects on Residential Customers.** The GCA factor for July, 2011, of $5.2777/Dth represents an increase of $0.2619 from the May GCA factor of $5.0158/Dth. The GCA factor for August, 2011, of $5.2795/Dth represents an increase of $0.2637 from the May GCA factor of $5.0158/Dth. The GCA factor for September, 2011, of $5.4778/Dth represents an increase of $0.4620 from the May GCA factor of $5.0158/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 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.84	$ 54.53	$ 1.31	2.40%
10	$101.17	$ 98.55	$ 2.62	2.66%
15	$143.41	$139.48	$ 3.93	2.82%
20	$185.65	$180.41	$ 5.24	2.90%
25	$227.89	$221.34	$ 6.55	2.96%

August 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.84	$ 54.53	$ 1.31	2.40%
10	$101.19	$ 98.55	$ 2.64	2.68%
15	$143.44	$139.48	$ 3.96	2.84%
20	$185.69	$180.41	$ 5.28	2.93%
25	$227.94	$221.34	$ 6.60	2.98%

September 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 56.84	$ 54.53	$ 2.31	4.24%
10	$103.17	$ 98.55	$ 4.62	4.69%
15	$146.41	$139.48	$ 6.93	4.97%
20	$189.65	$180.41	$ 9.24	5.12%
25	$232.89	$221.34	$11.55	5.22%

The GCA factor for July, 2011, of $5.2777/Dth represents a decrease of $0.2095/Dth from the GCA factor of $5.4872/Dth billed one year prior. The GCA factor for August, 2011, of $5.2795/Dth represents a decrease of $0.2963 from the GCA factor of $5.5758/Dth billed one year prior. The GCA factor for September, 2011, of $5.4778/Dth represents an increase of $0.8133/Dth from the GCA factor of $4.6645/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 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.84	$ 56.88	($ 1.04)	(1.83%)
10	$101.17	$103.27	($ 2.10)	(2.03%)
15	$143.41	$146.55	($ 3.14)	(2.14%)
20	$185.65	$189.84	($ 4.19)	(2.21%)
25	$227.89	$233.13	($ 5.24)	(2.25%)

August 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 55.84	$ 57.33	($ 1.49)	(2.60%)
10	$101.19	$104.15	($ 2.96)	(2.84%)
15	$143.44	$147.88	($ 4.44)	(3.00%)
20	$185.69	$191.61	($ 5.92)	(3.09%)
25	$227.94	$235.34	($ 7.40)	(3.14%)

September 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 56.84	$ 52.77	$ 4.07	7.71%
10	$103.17	$ 95.04	$ 8.13	8.55%
15	$146.41	$134.21	$12.20	9.09%
20	$189.65	$173.39	$16.26	9.38%
25	$232.89	$212.56	$20.33	9.56%

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.

In his testimony, Mr. Wortman stated that Petitioner incorrectly billed its customers the originally approved GCA factor of $5.3886/Dth for the month of February, 2011, rather than the flexed factor of $5.4661/Dth. Mr. Wortman explained that the error resulted from an oversight in entering the GCA factor when Petitioner implemented an upgrade to its billing software. OUCC witness Beaumont confirmed the mistake and recommended Petitioner take additional care or create new procedures to ensure that the approved flex factors be used when billing customers. The result of the error is that Petitioner charged its customers $0.0775/Dth less than the approved flexed factor; however Petitioner is not seeking to recover the difference from its customers. Therefore, the Commission finds that no action is necessary to correct the error.

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, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: JUN 29 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