ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF OHIO VALLEY GAS CORPORATION AND OHIO VALLEY GAS, INC. FOR APPROVAL OF A GAS COST ADJUSTMENT PURSUANT TO INDIANA CODE 8-1-2-42 TO BE APPLICABLE DURING THE MONTHS OF, OCTOBER, NOVEMBER, AND DECEMBER 2016 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT SEPTEMBER 15, 2016.	)	CAUSE NO. 44147 GCA 15 APPROVED: SEP 28 2016

ORDER OF THE COMMISSION

Presiding Officers:
Marya E. Jones, Administrative Law Judge

On August 4, 2016, in accordance with Ind. Code § 8-1-2-42, Ohio Valley Gas Corporation ("OVGC") and Ohio Valley Gas, Inc. ("OVGI") (collectively "Ohio Valley" or "Applicants") filed its Application for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of October 2016 through December 2016, and prefiled, the direct testimony of Ronald P. Salkie, Chief Financial and Information Officer, supporting the proposed GCA factors. On August 24, 2016, Applicants filed their Supplemental Filing Amendment No. 1 to Application. On September 6, 2016, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Farheen Ahmed, Utility Analyst II in its Natural Gas Division.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 10:30 a.m. on September 13, 2016, in 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Applicants and the OUCC were present and participated. The testimony and exhibits of Applicants 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. Applicants is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Applicants' rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Applicants and the subject matter of this Cause.

2. **Applicants' Characteristics.** Applicants are public utility corporations organized

and existing under the laws of the State of Indiana. Applicants' principal office is located at 111 Energy Park Drive, Winchester, Indiana. Applicants render natural gas utility service to the public and own, operate, manage, and control plant and equipment used for the distribution and furnishing of such services. OVGC's ANR Pipeline Company ("ANR") service area is comprised of natural gas customers in Dubois, Jay, Randolph, Spencer, and Wayne Counties in Indiana. OVGC's Texas Gas Transmission, LLC ("Texas Gas") service area is comprised of natural gas customers in Dearborn, Fayette, Franklin, Perry, Ripley, Spencer, and Union Counties in Indiana. OVGI serves natural gas customers in Greene, Knox, Pike, Sullivan, and Vigo Counties in Indiana.

3. **Source of Natural Gas.** Ind. Code § 8-1-2-42(g)(3)(A) requires Applicants 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.

Applicants' witness Ronald P. Salkie testified that Applicants have long-term contracts with ANR and Texas Gas for pipeline capacity and storage. All ANR contracts are not subject to renewal until March 31, 2019. The contracted maximum daily quantity for the ANR service area is 14,970 Dth. Applicants renewed and restructured their four contracts with Texas Gas effective November 1, 2013, to expire October 31, 2018. The maximum daily quantity for the Texas Gas service area will be 18,781 Dth, and 7,584 Dth for the OVGI area. Applicants renewed their natural gas supply requirements from the production areas contract with British Petroleum ("BP") November 1, 2015 for all service areas. The BP contract contains two components (fixed and index). The contract with BP provides for a fee of $0.01 per Dth purchased whether under the index component or the fixed-price component. Applicants' testimony indicated that gas purchased under NYMEX futures contracts and storage gas used during this GCA period are estimated to represent approximately 70% of total required supply.

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 Applicants have demonstrated that they have and continue 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. **Purchased Gas Cost Rates.** Ind. Code § 8-1-2-42(g)(3)(B) requires that Applicants' 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 Applicants' 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. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Applicants earning a return in excess of the return authorized by the

last Commission Order in which Applicants' basic rates and charges were approved. Applicants' current basic rates and charges were approved on December 5, 2012 in Cause No. 44147. The Commission authorized Applicants to earn a net operating income of $3,667,036.

Applicants' evidence indicates that for the 12 months ending May 31, 2016, Applicants' actual net operating income was $2,649,650. Therefore, based on the evidence of record, the Commission finds that Applicants is not earning in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Applicants' estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Applicants' 12-month rolling average comparison was negative 0.52% for the period ending May 31, 2016. Based on Applicants' historical accuracy in estimating the cost of gas, we find that Applicants' estimating techniques are sound, and Applicants' prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

A. **Variances.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Applicants 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 of March 2016 through May 2016 ("Reconciliation Period") is an under-collection of $220,911 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the 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 $69,786.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $93,285. Combining this amount with the Reconciliation Period variance results in a total over-collection of $23,499 to be applied in this GCA as a decrease in the estimated net cost of gas.

B. **Refunds.** Applicants received no new refunds during the Reconciliation Period and has $40,648 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $40,648 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for October 2016 is $707,071, for November 2016 is $1,234,850, and for December 2016 is $1,809,102. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $696,064 for October 2016, $1,214,400 for November 2016, and $1,776,412 for December 2016. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Applicants' recommended GCA factors are

$4.575 /Dth for October 2016, $4.296 /Dth for November 2016, and $3.932 /Dth for December 2016.

9. Effects on Residential Customers – (GCA Cost Comparison). Applicants' request authority to approve the GCA factor of $4.575 /Dth for October 2016, $4.296 /Dth for November 2016, and $3.932 /Dth for December 2016. 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 (August 2016 - $6.692/Dth) and a year ago (October 2015 - $4.571/Dth, November 2015 - $4.142/Dth, and December 2015 - $3.749/Dth). The table reflects costs approved through the GCA process. It does not include Applicants' base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference	Gas Costs (10 Dth)	Difference
October 2016	$45.75	$66.92	($21.17)	$45.71	$0.04
November 2016	$42.96	$66.92	($23.96)	$41.42	$1.54
December 2016	$39.32	$66.92	($27.60)	$37.49	$1.83

10. Interim Rates. We are unable to determine whether Applicants 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 indicated in prior Orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Applicants' approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Applicants may utilize a monthly flex mechanism to adjust the GCA factor for the subsequent month. The flex mechanism applies to the mix of volumes between spot, fixed, and storage gas purchases as long as the total volumes remain unchanged from the total monthly volume of gas estimated in this GCA proceeding. The flex mechanism also applies to the estimated unit price of spot, fixed, or storage gas purchases. The flex mechanism is to be filed no later than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism are to be priced at NYMEX prices on a day no more than ten business days prior to the beginning of said calendar month. Changes in the market price included in the flex mechanism are limited to a maximum adjustment (higher or lower) of $1.00 from the initial market price in this GCA proceeding. Finally, Applicants shall file all material that supports its decision to flex or not to flex as outlined in our Order in Cause No. 44374.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Ohio Valley Gas Corporation and Ohio Valley Gas, 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 authorized rates, Ohio Valley Gas Corporation and Ohio Valley Gas, Inc. shall file the applicable rate schedules under this Cause for approval by the Commission's Energy Division.

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

FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR; STEPHAN ABSENT:

APPROVED: SEP 28 2016

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

Mary M Becerra

Mary M. Becerra
Secretary of the Commission