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 JANUARY, FEBRUARY AND MARCH 2014 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT DECEMBER 15, 2013.	)	**CAUSE NO. 44147 GCA 04** **APPROVED:** DEC 30 2013

ORDER OF THE COMMISSION

Presiding Officers:
Carolene Mays, Commissioner
Gregory R. Ellis, Administrative Law Judge

On November 1, 2013, in accordance with Ind. Code § 8-1-2-42, Ohio Valley Gas Corporation ("OVGC") and its wholly-owned subsidiary Ohio Valley Gas, Inc. ("OVGI") (collectively, "Ohio Valley" or "Applicants") filed their Application for Gas Cost Adjustment ("GCA") to be applicable during the months of January 2014 through March 2014. Applicants filed their Supplemental Filing, including all Schedules to its GCA, and the verified testimony of S. Mark Kerney, Vice President and Chief Financial Officer, supporting the proposed GCA factors on November 4, 2013. On November 20, 2013, Applicants filed Amendment No. 1 to their Application. On December 2, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Laura J. Anderson, Utility Analyst in its Natural Gas Division.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Indiana Utility Regulatory Commission ("Commission"), an Evidentiary Hearing was held in this Cause at 9:30 a.m. on December 10, 2013, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Ohio Valley and the OUCC were present and participated. The testimony and exhibits of Ohio Valley and 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. Applicant 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 Applicant's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause.

2. **Applicants' Characteristics.** Applicants are 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 service. 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 natural gas supplies so as to provide service to their retail customers at the lowest gas cost reasonably possible.

Ohio Valley's witness S. Mark Kerney testified that Applicants have long-term contracts with ANR and Texas Gas for pipeline capacity and storage. Applicants replaced one transportation contract it had with ANR. The new contract with ANR will become effective November 1, 2013 and will expire March 31, 2016. All other 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 four (4) of their 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 contract for natural gas supply requirements from the production areas with British Petroleum ("BP") November 1, 2013 for all service areas. The BP contract contains fixed and index components and provides for a fee of $.01 per Dth purchased whether under the index or 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 83% 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 Ohio Valley's 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. Ohio Valley's 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.

Ohio Valley's evidence indicates that for the twelve (12) months ending August 31, 2013, Applicants' actual net operating income was $3,099,900. Therefore, based on the evidence of record, we find that Applicants are not earning a return 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 their prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimates with the corresponding actual costs. The evidence presented indicates that Applicants' estimating techniques during the reconciliation period of June 2013 through August 2013 ("Reconciliation Period") yielded an over-estimated weighted average error of 38.25%. Applicant's witness Kerney testified the over-estimation was caused by the August 2013 estimated average unit costs per Dth, which were 94.7% greater than the abnormally low actual unit costs due primarily to the upward adjustment to August sales for the annual adjustment to estimated unbilled sales. The benefit of the increase in August sales due to this adjustment was much greater than the impact on the August cost of gas causing unit gas costs to be much lower than normal. Based on Ohio Valley's 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 their estimates 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 is an over-collection of $51,114 from their 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 a decrease in the estimated net cost of gas is $26,508.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $335,842. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $309,334 to be applied in this GCA as an increase in the estimated net cost of gas.

B. **Refunds.** The Applicants received no new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period. Applicants have a negative annual unaccounted-for gas amount of $244,695 as reflected on Schedule 11A. We find that the amount to be refunded to customers in this GCA is $126,899, as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for January 2014 is $3,133,627, for February 2014 is $2,578,144, and for March 2014 is $2,004,732. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $3,207,915 for January 2014, $2,639,059 for February 2014, and $2,051,964 for March 2014. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Applicants' recommended GCA factors are $5.292/Dth for January 2014, $5.309/Dth for February 2014, and $5.325/Dth for March 2014.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicants request authority to approve the GCA factors of $5.292/Dth for January 2014, $5.309/Dth for February 2014, and $5.325/Dth for March 2014 for all of their pipeline service areas. The tables below show the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dths of usage. The tables also compare the proposed gas costs to what a residential customer paid most recently ($5.376/Dth for November 2013) and a year ago ($5.834/Dth for January 2013, $5.854/Dth for February 2013, and $5.799/Dth for March 2013 for the ANR service area; $5.084/Dth for January 2013, $5.158/Dth for February 2013, and $5.070/Dth for March 2013 for the Texas Gas service area; and $4.335/Dth for January 2013, $4.447/Dth for February 2013, and $4.409/Dth for March 2013 for the OVGI service area). The tables solely reflect costs that are approved through the GCA process. They do not include Applicants' base rates or any applicable rate adjustment mechanisms.

ANR

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
January 2014	$52.92	$53.76	($0.84)	$58.34	($5.42)
February 2014	$53.09	$53.76	($0.67)	$58.54	($5.45)
March 2014	$53.25	$53.76	($0.51)	$57.99	($4.74)

Texas Gas

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
January 2014	$52.92	$53.76	($0.84)	$50.84	$2.08
February 2014	$53.09	$53.76	($0.67)	$51.58	$1.51
March 2014	$53.25	$53.76	($0.51)	$50.70	$2.55

OVGI

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
January 2014	$52.92	$53.76	($0.84)	$43.35	$9.57
February 2014	$53.09	$53.76	($0.67)	$44.47	$8.62
March 2014	$53.25	$53.76	($0.51)	$44.09	$9.16

10. **Interim Rates.** The Commission is 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 applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no later 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 six (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 (higher or lower) of $1.00 from the initial market price.

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

1. The Application 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 GCA factors approved above or any future flexed factor, Ohio Valley Gas Corporation and Ohio Valley Gas, Inc. shall file with the Commission under this Cause the applicable rate schedules for the factor.

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

ATTERHOLT, MAYS, AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: DEC 30 2013

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