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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 2014 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT SEPTEMBER 15, 2014.	)	**CAUSE NO. 44147 GCA 07** **APPROVED:** OCT 01 2014

ORDER OF THE COMMISSION

Presiding Officer:
Gregory R. Ellis, Administrative Law Judge

On July 30, 2014, 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 October 2014 through December 2014. Applicants filed their Supplemental Filing, including all GCA Schedules, and the verified testimony of S. Mark Kerney, Vice President and Chief Administrative Officer, supporting the proposed GCA factors on August 1, 2014. On August 22, 2014, Applicants filed Amendment No. 1 to their Application. On September 3, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical calculations, factor calculations, and direct testimony of Laura J. Anderson, Utility Analyst in its Natural Gas Division.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 9:30 a.m. on September 9, 2014, 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. Applicants are public utilities 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 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 Pipeline Company ("ANR") and Texas Gas Transmission, LLC ("Texas Gas") for pipeline capacity and storage. Applicants replaced one transportation contract it had with ANR. The new contract with ANR became 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 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 70% of the 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 months ending May 31, 2014, Applicants' actual net operating income was $4,178,590. Therefore, based on the evidence of record, we find that Applicants are earning a return in excess of that authorized in their last rate case.

Because Applicants have earned a return in excess of that authorized, Ind. Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded to customers 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 Ind. Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence of record, we find 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.** 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 March 2014 through May 2014 ("Reconciliation Period") yielded an under-estimated weighted average error of 10.81%. Applicant's witness Kerney testified the under-estimation was caused by March 2014's total cost of gas being greater than estimated due to colder than normal temperatures and due to low storage gas inventories requiring Applicants to purchase more higher-priced spot gas than anticipated. He indicated the April 2014 net cost of gas per Dth sold was approximately 10.3% higher than estimated. Mr. Kerney noted the May 2014 actual unit cost per Dth sold was 18.5% higher than estimated because injected storage gas unit costs were lower than May's overall actual purchased gas costs, causing May's system supply gas costs to be greater than estimated. Based upon 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 under-collection of $517,577 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 an increase in the estimated net cost of gas is $173,233.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $160,270. Combining this amount with the Reconciliation Period variance results in a total under-collection of $12,963 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 have $77,764 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 $77,764 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for October 2014 is $857,845, for November 2014 is $1,759,644, and for December 2014 is $2,844,348. Adjusting these totals for the variances to be recovered by the Applicants in this GCA and refund amounts to be returned to customers in this GCA yields gas costs to be recovered through the GCA factor of $847,055 for October 2014, $1,738,895 for November 2014, and $2,811,086 for December 2014. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Applicants' recommended GCA factors are $5.180/Dth for October 2014, $5.529/Dth for November 2014, and $5.575/Dth for December 2014.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Applicants request authority to approve the GCA factors of $5.180/Dth for October 2014, $5.529/Dth for November 2014, and $5.575/Dth for December 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 ($5.440/Dth for July 2014) and a year ago ($5.058/Dth for October 2013, $5.376/Dth for November 2013, and $5.401/Dth for December 2013). The table reflects costs approved through the GCA process. It does not include Applicants' base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	**Proposed Gas Costs (10 Dth)**	**Gas Costs (10 Dth)**	**Difference from Current**	**Gas Costs (10 Dth)**	**Difference from Year Ago**
October 2014	$51.80	$54.40	($2.60)	$50.58	$1.22
November 2014	$55.29	$54.40	$0.89	$53.76	$1.53
December 2014	$55.75	$54.40	$1.35	$54.01	$1.74

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 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 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.

STEPHAN, MAYS-MEDLEY AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: OCT 01 2014

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