ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INDIANA UTILITY REGULATORY COMMISSION'S INVESTIGATION INTO EXISTING GAS COST ADJUSTMENT PROCEDURES AND SCHEDULES UTILIZED BY GAS DISTRIBUTION UTILITIES WITHIN THE STATE OF INDIANA	)	CAUSE NO. 44374
	)	APPROVED: AUG 27 2014
RESPONDENTS: ALL JURISDICTIONAL GAS DISTRIBUTION UTILITIES	)	

ORDER OF THE COMMISSION

Presiding Officers:
Carol A. Stephan, Commission Chair
Gregory R. Ellis, Administrative Law Judge

On July 31, 2013, the Indiana Utility Regulatory Commission ("Commission") initiated an investigation to review and consider the need for revisions to the current Gas Cost Adjustment ("GCA") procedure and schedules. The Commission held a Prehearing Conference ("PHC") in this Cause at 9:30 a.m. on August 29, 2013 in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Northern Indiana Public Service Company ("NIPSCO"); Indiana Gas Company, Inc. and Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (collectively "Vectren Energy"); Midwest Natural Gas Corporation; Indiana Utilities Corporation; South Eastern Indiana Natural Gas Company, Inc.; Fountaintown Gas Company, Inc.; Community Natural Gas Company, Inc.; Boonville Natural Gas Corporation; Indiana Natural Gas Corporation; Switzerland County Natural Gas Company, Inc.; Aurora Municipal Gas Utility; the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Trustee of a Public Charitable Trust d/b/a Citizens Gas; Westfield Gas, L.L.C. d/b/a Citizens Gas of Westfield; Ohio Valley Gas Corporation; Ohio Valley Gas, Inc.; and Sycamore Gas Company (collectively "Respondents") appeared and participated. The Indiana Office of Utility Consumer Counselor ("OUCC") also appeared and participated at the PHC.

On September 27, 2013 parties to this Cause filed their list of issues relevant to this proceeding. On October 16, 2013 in accordance with the Commission's PHC Order and based upon the Parties' Submission of Prefiled List of Issues and Proposed Agenda the Commission issued a docket entry with a list of discussion items and attached appendices for a Technical Conference. On October 24, 2013, the Small Gas Utilities filed their discussion points for the Technical Conference.[1] On October 25, 2013 the Commission held a Technical Conference in

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[1] The eight Respondents collectively referred to as the Small Gas Utilities consist of Midwest Natural Gas Corporation; Indiana Utilities Corporation; South Eastern Indiana Natural Gas Company, Inc.; Fountaintown Gas Company, Inc.; Community Natural Gas Company, Inc. Boonville Natural Gas Corporation; Indiana Natural Gas Corporation; and Switzerland County Natural Gas Company, Inc.

Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Participants discussed relevant issues and any need for revisions to the existing GCA processes.

The Small Gas Utilities, NIPSCO, Vectren Energy and the OUCC prefiled their direct testimony and exhibits on December 18, 2013. The OUCC prefiled its responsive testimony on January 22, 2014. On February 21, 2014, the Presiding Officers issued a docket entry to the OUCC seeking clarification on prefiled testimony. The OUCC submitted its response to the Commission's February 21, 2014 docket entry on February 24, 2014.

The Commission held an Evidentiary Hearing in this Cause on February 26, 2014 at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Respondents and the OUCC were present and participated. The testimony and exhibits of the Respondents and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

Having considered the evidence and being duly advised, the Commission now finds:

1. Notice and Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Respondents 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 Respondents' rates and charges related to adjustments in gas costs. In addition, the Commission also has authority to initiate an investigation into matters relating to any public utility pursuant to Ind. Code § 8-1-2-58. Based upon the foregoing statutory authority, the Commission has jurisdiction over the parties and the subject matter of this investigation.

2. Scope of this Proceeding. On August 3, 1983, the Public Service Commission of Indiana ("PSC") issued an Order in Cause No. 37091 establishing a gas cost adjustment ("GCA") procedure to be followed by all gas distribution utilities in the State of Indiana when applying for any change in rates based upon a change in gas costs as authorized by Ind. Code § 8-1-2-42. On May 14, 1986, the PSC issued an Order revising the GCA procedure and establishing a set of schedules to be used by jurisdictional Indiana gas distribution utilities in their GCA applications. More than 25 years have passed since the issuance of the PSC's Order establishing the current GCA procedures and schedules to be utilized by gas distribution utilities in the State of Indiana when petitioning for a GCA. The Commission initiated this investigation to review and consider the need for revisions to the GCA procedures and schedules in order to improve the quality of the content in GCA filings and the efficiency of the GCA process.

3. Evidence.

A. OUCC Direct Testimony. The OUCC offered the testimony and exhibits of its witness Heather R. Poole, Senior Utility Analyst in its Natural Gas Division. She provided testimony proposing various revisions to current GCA procedures and schedules. Ms. Poole's testimony covered the OUCC recommendations and also addressed the areas that all Respondents were able to agree upon. Ms. Poole discussed changes to the timing and frequency of GCA filings, a variety of GCA schedules, GCA workpapers, and flex filings.

Ms. Poole stated most gas utilities file GCA schedules at the same time the GCA petition is filed. She explained that it is important for the GCA schedules to be filed with the petition given the GCA is an expedited proceeding and the OUCC's 30-day review period starts on the day the petition is filed. She testified that the OUCC is proposing all schedules be filed at the same time the petition is filed. She noted that all Respondents are in agreement with this proposal.

Ms. Poole testified that there are not any procedures regarding the timing of when a utility should file testimony in a GCA proceeding. She also testified the OUCC proposes all gas utilities file testimony at the same time the GCA petition is filed. She explained the testimony filed with the petition should give the reader an outline of what is included in the filing. The testimony should explain any changes in the utility's practices, as well as any unusual or large variances included in the filing. Without the testimony at the outset of the case, the reviewer of the filing does not have all the information needed to fully understand and analyze what is included in the filing. Currently, many utilities wait until any updates or revisions are filed before filing their testimony. She indicated this provides insufficient time for both the OUCC and Commission to evaluate and verify the information provided in testimony. Filing testimony at the same time the GCA petition is filed will provide information in a more timely manner and allow for a more accurate review of the filing. She also indicated that all Respondents are in agreement with the OUCC's proposal to have the testimony filed with the GCA petition.

Ms. Poole discussed how natural gas utilities explain their purchasing and estimating strategy in testimony and how most utilities review their purchasing and estimating strategy once per year with changes to the estimating strategy being made most often going into the winter season. She proposes a utility include its purchasing and estimating strategy once per year in testimony during the third quarter going into the winter season. If any changes are made to the utility's purchasing or estimating strategy at other times during the year, those changes should be described in testimony as they occur. If no changes have been made, a utility should include a short statement that no changes have been made to the purchasing and estimating strategy since the last GCA. She explained this proposal will reduce the amount of testimony a utility files with each GCA proceeding. She noted all Respondents are in agreement with this proposal.

Ms. Poole testified the OUCC proposes all updates or revisions to the original GCA filing be filed within 20 days of filing the Petition. She noted that currently a utility can file revised schedules up to 10 days prior to the hearing. This 10-day cut-off period often falls close to or after the OUCC's 30 day deadline to file its testimony and reports. She indicated the OUCC needs additional time to sufficiently review the updated filing and prepare its testimony and reports after the utility files updates. She explained the OUCC's proposal will allow sufficient time to review the utilities' updates and revisions. Under the proposed change, the OUCC will have at least 10 days to review the update and revisions and prepare its testimony and reports. She noted this proposal will also give the Commission additional time to review the OUCC's testimony and reports because the OUCC will be able to file its testimony and reports within the timeframe set by Ind. Code § 8-1-2-42(g)(1) on a more consistent basis. She stated this proposal will greatly reduce the OUCC's need to file motions requesting an extension of time and should create a more stream-lined regulatory process. She stated all Respondents are in agreement with the OUCC's proposal.

Ms. Poole testified that all natural gas utilities currently file GCA petitions on a quarterly basis with the exception of Valley Rural Utility Company which files an annual GCA. She noted some of the small utilities have expressed an interest in changing from a quarterly GCA filing to a semi-annual GCA filing. Ms. Poole explained many of the small utilities have filed semi-annual filings in the past, but changed to quarterly filings when gas prices were very volatile. The flex filing mechanism was not approved during this time frame; therefore, there was no way for a utility to update its gas costs closer to the beginning of each month. Changing from a semi-annual GCA to a quarterly GCA allowed these utilities to estimate gas costs closer to the periods in which those months' rates would go into effect. She noted the flex filing mechanism now provides a means for utilities to update their gas costs closer to the beginning of each month, which also cuts down on variances. She testified the OUCC has concerns with the small utilities changing to a semi-annual GCA filing. She explained that even though the GCA period would cover six months, the OUCC's statutory requirement for reviewing the filing and submitting its report to the Commission is still 30 days. Therefore, more information would be included in a semi-annual filing compared to a quarterly filing, but the amount of time to review and verify this information would remain the same. To help alleviate these concerns she explained the OUCC proposes that semi-annual filings be staggered so they are spread out over the year. The OUCC proposes no more than two utilities file semi-annual filings in any particular month. Because of the amount of information to be reviewed in a short amount of time, the OUCC is proposing only small utilities with less than 15,000 customers be considered for the change to semi-annual filings on a case-by-case basis. She also testified the OUCC believes it is critical that the estimation and reconciliation months on the GCA are the same so any variances or refunds are allocated to the same type of customers, thus eliminating any subsidization of seasonal customers.[2] She also testified the OUCC and the small utilities have discussed both the process of a utility changing to a semi-annual GCA as well as the OUCC's concerns related to the staggering of GCA filings and the matching of the estimation and reconciliation periods. The OUCC and the Small Gas Utilities are in agreement that these items must be considered if a small utility proposes changing to a semi-annual filing.

Ms. Poole also discussed annualized demand on Schedule 1A and described how a utility estimates the annual amount of demand costs for the upcoming year and divides that amount by estimated annual sales to arrive at a unit cost per Dth. This unit cost per Dth is added to the commodity cost per Dth to determine the total costs to be recovered in the GCA. She stated that by annualizing demand, customers pay less than the actual demand costs incurred during the summer months and more than the actual demand costs incurred during the winter months. She also discussed that all utilities that do not file a Schedule 1A are able to estimate monthly demand charges on Schedule 3. Because all demand costs are billed on a monthly basis, utilities that annualize demand could also estimate a monthly or quarterly demand cost to be included in the GCA. She stated pipeline demand charges are reconciled within the GCA in the same manner as commodity charges. The actual demand charges for the month are compared to the amount of demand charges recovered from customers for the same month. The variance created

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[2] For example, a utility would file a GCA to determine factors for January through June 2015 and would reconcile January through June 2014 in that GCA.

by the difference is included on Schedule 12B and returned to/collected from customers over the next 12 months. She discussed the OUCC's proposal to eliminate annualized demand, and include a monthly or quarterly estimate of demand within the GCA. She testified using a monthly or quarterly demand estimate will more closely align the revenues collected from ratepayers to the actual costs billed by pipeline suppliers. While the OUCC's proposal would not totally eliminate all demand variances, it should reduce the amount of those variances, as the monthly/quarterly estimates will more closely compare to the actual gas costs paid by customers. She indicated there is no overall agreement on the OUCC's proposal to eliminate annualized demand.

Ms. Poole testified there are not any procedures for how a natural gas utility estimates sales on Schedule 2. Various methods are used to estimate sales, including using the prior year's actual sales; using an average of multiple years' actual sales; and reviewing historical customer sales data, heat factors, and anticipated usage by each customer class based on the current economic environment. She testified the OUCC proposes all historical data used in sales estimates cover a period of no less than the prior three years. The three-year history is the OUCC's recommended minimum forecasting method because using a one or two-year average is not reflective of normal use when you consider factors such as weather and customer fluctuations. Using at least a three-year average of actual sales volumes helps balance the swings caused by abnormal weather and customer fluctuations. The more sophisticated models used by some utilities remain acceptable to the OUCC. She indicated all Respondents are in agreement with the OUCC's proposal.

Ms. Poole discussed the Commission Staff's recommendation in the October 16, 2013 docket entry that all utilities file a weighted average cost of gas ("WACOG") summary with Schedule 3 and indicated it should be able to verify the information provided on this sheet with the information given on Schedule 3. The OUCC is in agreement that a Schedule 3 WACOG sheet would be helpful in breaking down the fixed, storage, and index gas to be purchased. Ms. Poole noted that if storage gas will be included in this WACOG sheet, the total Dth and cost per the WACOG sheet will not agree specifically to Schedule 3 for some utilities, but will be a combination of Schedules 3 and 5. Some utilities currently file a WACOG sheet with Schedule 3, which shows the WACOG purchased that ties to Schedule 3. She also noted that if the Commission would like storage included, the OUCC proposes a separate calculation be made at the bottom of this WACOG page to include storage. She noted that some Respondents questioned whether storage gas should be included in the WACOG sheet.

Ms. Poole also discussed Commission Staff's recommendation in the October 16, 2013 docket entry that utilities show the GCA factor(s) used for the calculation of incremental billing for the reconciliation period on Schedule 6 so that the Commission can verify the utility is using the correct GCA factor(s). Ms. Poole testified it would be helpful to have the actual GCA factor used for the calculation available. For utilities with multiple rates and volumes, or actual recovery dollars, the OUCC suggests the information be supplied as a workpaper.

The commodity variance will likely be over ten percent (10%) each month due to a mis-match between the purchasing cycle and the billing cycle. A utility's purchasing cycle is typically on a calendar month basis. However, a utility's billing cycle often runs mid-month to mid-month. Therefore, billing cycles going into the winter season will typically have fewer sales as part of the monthly billing is based on a warmer period. Billing cycles coming out of the winter season will typically have more sales, as part of the monthly billing is based on a colder period. The OUCC recommends each utility calculate a 12-month rolling average of variances compared to the incremental cost of gas on Schedule 6 as shown on HRP Attachment 4 of Public's Exhibit 1 because it will help eliminate the inherent variance related to cycle billing and seasonal fluctuations. The OUCC proposes each utility include this calculation in the workpapers to the GCA. The OUCC also proposes an explanation be included in testimony if any of the 12-month rolling averages for any month within the reconciliation period on Schedule 6 is over 10%. Ms. Poole noted the Respondents are in agreement with the OUCC's proposal.

Ms. Poole also discussed Commission Staff's proposals related to Schedule 8. The first recommendation suggested all utilities supply an actual WACOG page to show the amount of fixed, index, and storage gas used during the reconciliation period with Schedule 8. The OUCC is in agreement that a Schedule 8 WACOG sheet would be helpful in breaking down the fixed, storage, and index gas used during the reconciliation period by pipeline. Ms. Poole further stated the OUCC would note that if storage gas will be included in this WACOG sheet, the total Dth and cost per the WACOG sheet will not agree specifically to Schedule 8, but will be a combination of Schedules 8 and 10. If the Commission would like storage included, the OUCC proposes a separate calculation be made at the bottom of this WACOG page to include storage. She indicated some Respondents have a question as to whether storage gas should be included in the WACOG sheet and would like further clarification from the Commission.

Ms. Poole discussed the Commission Staff's second recommendation related to Schedule 8 that all utilities file an additional schedule summarizing actual purchases on a per contract basis. She stated the OUCC would like further clarification on this recommendation. Commission Staff gave an example of the type of information to be provided for this recommendation as Appendix 3 to the October 16, 2013 docket entry. This example shows the actual purchases broken down by pipeline. It does not show actual purchases broken down on a per contract basis. Therefore, the OUCC is unsure if the Commission would like to see Schedule 8 purchases broken down on either a per contract basis or a pipeline basis. Ms. Poole explained the OUCC had one proposal on Schedule 8 in which Schedule 8 is more of a summary sheet with details provided in the workpapers. Moving this information to the workpapers provides for a more concise filing. She indicated the Respondents are in agreement with the OUCC's proposal, but they need further clarification on the Commission's recommendations before they can agree.

Ms. Poole also testified that Commission Staff provided a recommendation in the October 16, 2013 docket entry on Schedule 11 that all utilities should calculate the unaccounted-for-gas ("UAFG") amount on a monthly basis. The UAFG percentage shown on Schedule 11 should be carried out to enough decimal places to produce the UAFG cost amount listed. The total column should be the sum of the individual monthly amounts. She testified the OUCC agrees with the Commission's recommendation and that no Respondents had any objections to this recommendation at the Technical Conference.

Ms. Poole testified that five natural gas utilities received Commission approval to recover UAFG costs through the GCA mechanism instead of base rates.[3] These utilities are authorized to recover, in their respective GCAs, the actual cost of UAFG volumes, up to a maximum percentage or "cap", which varies for each utility and is based on an amount determined in the last base rate case. No UAFG costs are included in base rates. This methodology removes the risk of over-recovery of gas costs from sales customers and ensures that customers are not at risk for increasing UAFG volumes. UAFG costs are estimated in the GCA at the cap. The actual UAFG percentage is determined annually on Schedule 11A in the GCA. If the actual annual UAFG percentage is less than or equal to the cap, then all actual UAFG costs are recoverable in the GCA. If the actual annual UAFG percentage exceeds the cap, any excess amount will be returned to customers as a refund within the GCA. These utilities provide a quarterly Schedule 11 within their GCA filing. However, because the UAFG is capped and recovered at a certain percentage, as well as reviewed annually on Schedule 11A, Schedule 11 is unnecessary. Therefore, the OUCC proposes these five utilities may eliminate Schedule 11 from their GCA filings.

Ms. Poole testified the other natural gas utilities recover UAFG through base rates. During a rate case, a percentage of UAFG is calculated and included in a utility's revenue requirements. Because UAFG for these utilities are recovered in base rates, UAFG costs are eliminated from the GCA. Actual UAFG volumes are calculated on Schedule 11. These volumes are divided by the total volume of gas available to arrive at a UAFG percentage. This percentage is multiplied by the net cost of gas for the applicable month to arrive at a cost of UAFG. This cost of UAFG is deducted from the actual gas costs incurred on Schedule 6 to determine the incremental cost of gas that should be recovered from customers. This process of deducting the UAFG costs on Schedule 6 removes all UAFG costs from the GCA proceeding. Therefore, there are no costs within the GCA related to UAFG, and the only cost a customer incurs related to UAFG is through base rates. Because Schedule 11 plays a vital role in the calculation of UAFG costs that should be removed from the GCA proceeding for these utilities, the OUCC proposes these utilities continue to file Schedule 11. She indicated the Respondents are in agreement with the OUCC's proposal.

Ms. Poole testified the OUCC agrees with the Commission Staff's recommendation in the October 16, 2013 docket entry that all utilities should reflect the sum of the monthly amounts as the quarterly totals on Schedule 11A. She indicated the recommendation was not specifically discussed with the Respondents, but no objections were noted at the Technical Conference.

Regarding Schedule 13, Ms. Poole testified that the Commission Staff stated "[s]ome utilities report high estimating variance percentages coming out of the heating season months as a result of a staggered billing cycle compared to the purchase cycle. Staff would like the parties to think of ways that this information may be reported to more accurately reflect the actual variance." She stated the OUCC believes a more accurate comparison of a utility's estimated

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[3]These utilities include: Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. (Cause No. 43298), Southern Indiana Gas Company and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (Cause No. 43112), NIPSCO (Cause No. 43894), Westfield Gas Corporation, d/b/a Citizens Gas of Westfield (Cause No. 43624) and the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as successor trustee of a public charitable trust, d/b/a Citizens Gas (Cause No. 43975).

versus actual gas costs can be found on Schedule 6 in the variances. Therefore, the OUCC proposes to eliminate Schedule 13. All Respondents are in agreement with the OUCC's proposal.

She explained the OUCC proposes 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 comparison of the variance to the incremental cost of gas on Schedule 6 provides a percentage that indicates how well a utility is recovering its actual costs from the customer.

She testified that the Commission currently requires, in part, a comparison of prior estimates with the corresponding actual costs and the Commission uses the variances on Schedule 13 to review the reasonableness of estimates to actual costs. She explained there are problems with using Schedule 13 to review the reasonableness of estimates to actual costs because Schedule 13 compares the estimated net cost of gas per unit sold with the actual net cost of gas per unit sold. The estimated net cost of gas per unit sold is calculated by dividing the estimated total net cost of gas by the estimated sales for the same month. The actual net cost of gas per unit sold is calculated in a similar manner using actual data. The estimated net cost of gas per unit sold is then compared to the actual net cost of gas per unit sold to arrive at a variance. This variance does not represent the variance to be recovered or refunded to customers.

Ms Poole indicated the net cost of gas per unit sold calculated on Schedule 13 uses two different volumes (estimated sales volumes and actual sales volumes). To compare the prior estimates with the corresponding actual costs, the estimated net cost of gas should be compared to the actual net cost of gas. Any difference in the estimated and actual sales volumes will automatically skew the net cost of gas calculation. In order to arrive at a true estimated net cost of gas per unit sold, the estimated net cost of gas should be divided by the actual sales volume to alleviate any variances in estimated and actual sales.

Ms. Poole stated that a more accurate way to compare estimated costs to actual costs is to compare the incremental cost of gas on Schedule 6 to the gas cost actually recovered from customers on Schedule 6. The result provides a percentage that indicates how well a utility is recovering its estimated costs from the customer. She also testified that Schedule 6 includes inherent variances due to cycle billing and seasonal fluctuations. However, these inherent variances represent a timing difference. For those utilities with annualized demand, the demand variance will likely be over 10% every month due to the annualized demand rate which creates a mismatch of costs versus recovery. This demand variance would be reduced by the OUCC's proposal to eliminate annualized demand.

Ms. Poole also testified the information contained on Schedule 15 is not used for any other schedule. Unless a new base rate order is approved for a utility, the information relating to the last general rate case, date issued, rate of return granted, and rate base granted will not change. Many utilities do not report the change in customers section. Because this information is not used or provided in some cases, the OUCC proposes Schedule 15 be eliminated. The Respondents are in agreement with the OUCC's proposal.

Ms. Poole discussed how all utilities currently file an earnings test in the GCAs, but there are problems with the timing of when utilities file an earnings test. She explained it takes most utilities two to three months to close their books and prepare financial reports for any given time period. Earnings test data for the calendar or GCA reconciliation quarter is often not available until after a utility's GCA petition is filed. Therefore, many utilities provide earnings test information in their updated or revised GCA filing made up to 10 days before the hearing. She testified the OUCC proposes a utility may include the earnings test information on a one-quarter lag if they chose to do so. This will ensure the utility has enough time to close its books and prepare financial statements for any given period. This will also ensure all GCA schedules and information can be provided at the outset of the original filing. She explained there would be an adjustment period for this lag to take place. The first GCA filed after this investigation's Final Order would not have an earnings test included. The earnings test would resume with the second filed GCA after this investigation order has been issued. All Respondents are in agreement with the OUCC's proposal.

Ms. Poole testified that natural gas utilities in Indiana are subject to transport rates that have been requested or filed by its pipeline suppliers in accordance with Federal Energy Regulatory Commission ("FERC") procedures. She stated some of the natural gas utilities include the applicable FERC tariff sheets in Schedule 3 and Schedule 8. She explained the OUCC proposes all FERC tariff sheets (both for Schedule 3 and Schedule 8) be included in the workpapers. The pipeline service providers' tariff schedules contain data similar to purchased gas invoices that are included in the workpapers. Moving this information to the workpapers provides for a more concise filing. All Respondents are in agreement with the OUCC's proposal.

Ms. Poole indicated that no utilities collect the base cost of gas through the GCA. The last utility collecting the base cost of gas through the GCA proceeding was Ohio Valley Gas. In Ohio Valley's last rate case, Cause No. 44147 approved on December 5, 2012, the base cost of gas was determined to be fully recoverable in base rates.[4] She testified many of the smaller utilities still include lines relating to the base cost of gas throughout the GCA. She explained the OUCC proposes the lines relating to the base cost of gas be eliminated from the GCA schedules. The elimination of these unnecessary lines from the GCA will provide a more concise filing. All Respondents are in agreement with the OUCC's proposal.

Ms. Poole discussed the information reported on the bill comparisons within the GCA. The bill comparison tables compare the proposed GCA factors with the currently approved GCA factors as well as the proposed GCA factors with the GCA factors approved one-year ago for consumption at 5, 10, 15, 20, and 25 Dth. The purpose of this information is to give the customer an indication of how much the proposed GCA factors and other costs will change compared to the current and prior year GCA factors and other costs. She testified in April 2013, the Commission changed the way the bill comparison information is reported in its Final Orders.

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[4] In Cause No, 44147, Ohio Valley Gas Corporation and its wholly-owned subsidiary Ohio Valley Gas, Inc. filed their Joint Petition and were collectively referred to as Ohio Valley Gas.

The Commission replaced the bill comparison tables with a simplified table showing the proposed gas costs at 10 Dth, the current gas costs at 10 Dth, and the gas costs at 10 Dth from one year ago along with the differences between the current and year ago costs compared to the proposed costs. The simplified table does not include a utility's base rates or any applicable rate adjustment mechanisms. The OUCC proposes the current bill comparison tables be replaced with a simplified table similar to the information provided in the Commission's Final Order in Cause No. 37091. This simplified information provides a better indication to customers of how costs will change due to the cost of gas recovered within the GCA. All Respondents are in agreement with the OUCC's proposal.

Ms. Poole testified there are currently variations between utilities in the GCA schedules. She discussed how the OUCC recognizes that each utility is unique in the type of information reported within the GCA schedules and the OUCC is not proposing to standardize the GCA Schedules. All Respondents are in agreement with the OUCC's proposal.

Ms. Poole testified there are currently no procedures in place regarding the filing of GCA workpapers with the OUCC. She stated that GCAs are expedited proceedings, and the OUCC has a limited amount of time to review the filing for accuracy. Therefore, it is essential the OUCC receive workpapers and backup documentation in a timely fashion. There have been instances in the past two years in which the OUCC had a delay in receiving GCA workpapers. She explained the OUCC proposes all workpapers be submitted electronically to the OUCC within two business days of the GCA petition being filed. If the OUCC or its consultants request paper workpapers, they should be submitted within five calendar days. Workpapers submitted within two business days will provide information in a more timely manner and allow for a more accurate review of the filing. All Respondents are in agreement with the OUCC's proposal.

Ms. Poole explained the OUCC has a standard workpaper listing of what is needed for each GCA. She testified the OUCC proposes these listings be customized to each utility's GCA filing and once the investigation is completed, the OUCC will provide an updated listing of all workpapers needed to each utility. She explained the OUCC is proposing to wait until after this investigation is complete because there are numerous items in this GCA investigation that could impact the type of information requested from each utility. All Respondents are in agreement the OUCC's proposal.

Ms. Poole discussed the current restrictions on the updates made in a flex filing, also known as a monthly price update. Utilities file a monthly price update no less than three business days before the beginning of each month. The utilities use the New York Mercantile Exchange ("NYMEX") settlement prices from a day no more than six business days prior to the beginning of the next calendar month. The monthly adjustments to the market price approved in the quarterly filing are capped and floored at $1.00. She testified the flex mechanism has worked well in the past. The flex mechanism allows utilities to provide the appropriate market price signals to customers by updating the market price of gas closer to the beginning of the month. It also helps reduce the amount of gas cost variances because estimates to the spot price of gas are updated much closer to the beginning of the month. Ms. Poole testified natural gas utilities can only update the spot price of gas within the flex mechanism. Allowing a utility to update the volumes and prices of gas on spot, fixed, and storage will provide a much better picture of the actual gas costs a utility will incur during the subsequent month. She explained the OUCC proposes a utility may change the mix of volumes between spot, fixed, and storage volumes as long as the total volumes remain unchanged from the utility's total volumes approved in the applicable GCA period. The OUCC also proposes a utility may change the unit price of spot, fixed, and storage gas as well. This change will allow utilities to capture more current information, such as any additional fixed contracts that have been put into place since the original GCA petition was filed, as well as take advantage of any changes in expected injections or withdrawals from storage. All the Respondents are in agreement with the OUCC's proposal.

Ms. Poole provided testimony that not all natural gas utilities currently have a flex filing mechanism in place. There are three utilities that do not utilize a flex filing mechanism. These utilities are Switzerland County Natural Gas ("Switzerland"), Boonville Natural Gas ("Boonville"), and Citizens Gas of Westfield ("Westfield"). The OUCC proposes that Boonville and Westfield implement a flex filing mechanism. There are currently four utilities that have a smaller customer base than Boonville and Westfield which have implemented a flex filing mechanism. Ms. Poole testified that Boonville and Westfield have the administrative staff available to implement a flex filing mechanism. As noted above, the flex filing mechanism provides appropriate market price signals to customers by updating gas prices closer to the beginning of the month, and helps reduce the amount of gas cost variances.

Ms. Poole further explained the OUCC proposes Switzerland be exempted from implementing a flex filing mechanism due to the size of the utility. Switzerland is a very small gas utility with 728 customers as of the 2012 Annual Report filed with the Commission. Making a flex filing mandatory for this utility would impose an administrative burden on the utility's staff as this utility only has one office employee. Therefore, the OUCC is proposing Switzerland be exempt from implementing a flex filing mechanism. The Respondents are in agreement with the OUCC's proposal.

Ms. Poole testified that a utility may file a monthly price update no less than three business days before the beginning of each month during the GCA quarter. The OUCC proposes all flex filings should be filed no later than five business days before the beginning of the calendar month in which the rates will go into effect. She explained the OUCC is proposing to allow changes in the price of spot, fixed, and storage volumes in the flex. Therefore, the OUCC will need additional time to review these changes. With the addition of Boonville and Westfield as noted above, the OUCC will have 15 flex filings to review in a very limited amount of time. Because of the increased amount of information that can be changed as well as the number of flex filings to review, the OUCC is requesting all flex filings be filed no later than five business days before the beginning of the calendar month in which the rates will go into effect.

Ms. Poole stated utilities currently use NYMEX settlement prices from a day no more than six business days prior to the beginning of the next calendar month. She explained to accommodate the OUCC's proposal regarding flex filings being filed no later than five business days before the beginning of the month, the OUCC proposes spot purchases in the flex be priced at NYMEX prices on a day no more than 10 business days prior to the beginning of the calendar month in which the rates will go into effect. She noted the OUCC discussed this proposal with the Respondents in this Cause. Some utilities are in agreement with the filing of a flex no later than five business days before the beginning of the calendar month in which the rates will go into effect. However, there was no overall agreement reached on this proposal with the Respondents.

Ms. Poole testified there are no requirements on the information to be provided within a flex filing. The OUCC proposes a utility submit a copy of its Schedule 3 WACOG sheet to the OUCC, showing the total effect of changes on the weighted average cost of gas for the month; a copy of all additional fixed contracts that have been entered into and reflected on Schedule 3; and the date the utility used to update the NYMEX information in the flex filing. All of this information will aid in the review of the utility's changes to the original volumes and prices of gas approved by the Commission in the original GCA filing. Respondents are in agreement with the OUCC's proposals.

Ms. Poole noted not all eligible utilities able to flex file do flex file every month. The most common reason for a utility not flexing is because changes to the spot price of gas were immaterial and therefore, a change to the GCA factor would be immaterial as well. Currently, there is no requirement that a utility provide the reason for not flexing. The OUCC proposes a mandatory flex filing when the weighted average unit cost of gas on a utility's Schedule 3 WACOG sheet, including storage injections and withdrawals, changes plus or minus $0.10 or more. She explained there have been instances in the past when the spot price of gas has changed by a minimal amount between the time the original GCA was filed and when the utility reviewed the NYMEX prices to update the flex filing. For a lot of the smaller utilities, there are very few Dth to be purchased on the spot market in the summer months. In these instances, the minimal change to the spot price of gas coupled with the low Dth to be purchased on the spot market caused no actual change to the GCA factor. Therefore, a change in the individual components that go into a flex filing, such as the mix between spot, fixed, and storage gas volumes, or the changes to prices of spot, fixed, or storage gas could be immaterial. If those individual changes are immaterial in nature, the actual GCA factor might not change. However, if the total combined components that go into a flex filing change up or down by more than $0.10, it is more likely that a change to the actual GCA factor will occur. Therefore, the OUCC is proposing to use the WACOG unit price of gas as the trigger to determine if a flex filing should be filed. The Respondents agree with the OUCC's proposal.

Ms. Poole testified there are no requirements that a utility notify the OUCC and Commission when they are not flexing. However, in the past, the OUCC has asked all utilities to provide notification if they will not be filing a flex. The OUCC proposes a requirement that all utilities file a notification with the Commission and the OUCC if a flex filing will not be made. The OUCC also proposes a copy of the Schedule 3 WACOG sheet be submitted showing the overall Schedule 3 WACOG price has not increased/decreased by $0.10 or more. In addition, the OUCC proposes the utility provide the date used as the benchmark date for the spot price of gas. Respondents are in agreement with the OUCC's proposals.

Ms. Poole indicated that monthly adjustments to the market price approved in Petitioner's quarterly filings are capped and floored (i.e., collared) at $1.00. The $1.00 monthly flex parameter limits the customers' exposure to market price volatility and provides the price stability customers desire. The $1.00 monthly flex parameter also permits a utility to reduce its gas cost variances and more accurately price the gas it sells to its GCA customers. The OUCC proposes to keep the $1.00 cap in place for spot prices of gas. She testified a review of the past four years flex filings for four gas utilities show spot prices have dropped by more than $1.00 only a few times. She explained the results of the past four years indicate the gas markets have stabilized. The cap was put in place to limit the customer's exposure to gas price volatility. In all instances in which the cap was met, the price of spot gas was lower than originally estimated in the GCA filing. For these reasons, the OUCC recommends the $1.00 cap on spot or market priced gas remain the same. She indicated the OUCC discussed this proposal with the Respondents in this Cause. Some utilities are in agreement with leaving the $1.00 cap as is. NIPSCO specifically raised issues with the $1.00 cap and provided testimony on this issue. Therefore, there was no overall agreement reached on this proposal with the Respondents.

B. Small Gas Utilities Direct Testimony. The Small Gas Utilities provided the testimony of Duane C. Mercer and Bonnie J. Mann both Certified Public Accountants that regularly appear before the Commission in GCA proceedings. Mr. Mercer opined that the Small Gas Utilities approach GCA proceedings significantly different than the larger natural gas utilities.[5] Mr. Mercer pointed to a number of those differences including the differences in personnel actually involved in the acquisition of natural gas and the GCA process before the Commission. Mr. Mercer opined the GCA process for these Small Gas Utilities should be changed to an annual or semi-annual process. He suggested any schedules required to be filed should only be focused on the reasonableness of the estimates of revenue required for gas costs and the reconciliation of actual gas costs. Mr. Mercer went on to describe his own familiarity with the GCA statute noting that he was a member of the OUCC at the time the GCA statute was created. He described the reasons behind the creation of the GCA statute as well as his understanding that the purpose of the GCA statute was designed to allow local distribution companies to collect their reasonably estimated gas costs that were thereafter to be reconciled against the actual costs of gas incurred. He suggested a semi-annual or annual GCA process for the Small Gas Utilities would be sufficient to meet those purposes. Mr. Mercer noted nothing in the current statute requires a quarterly filing by utilities and further noted some of the current quarterly filing schedules no longer provide relevant information.

The testimony of Bonnie J. Mann focused on the changes both she and Mr. Mercer proposed regarding the currently required schedules and her agreement with the suggestions of others involved in this investigation. Ms. Mann suggested the following:

Schedule 1 - The Small Gas Utilities agreed costs should not be duplicated on both Schedule 1 and Schedule 1A.

Schedule 1A – The Small Gas Utilities agreed with the recommendation that the calculations on this Schedule reflect monthly or quarterly calculations rather than annual calculations; though she noted that currently most of the Small Gas Utilities don't file a Schedule 1A.

[5] Mr. Mercer indicated that he defined the Small Gas Utilities that he represents based on geographical and customer difference in size of local gas distributing companies. He stated that they typically serve from approximately 1,000 to 15,000 customers in rural areas and small communities.

Schedule 2 – The OUCC recommended natural gas utilities use at least three years of historical sales to estimate sales for future GCA periods. Ms. Mann indicated the Small Gas Utilities are willing to change estimates to include at least three years of sales.

Schedule 3 – The Commission Staff recommended that all utilities file a WACOG sheet with their respective Schedule 3. Ms. Mann indicated the Small Gas Utilities agreed with this recommendation.

Schedule 6 – The OUCC recommended that Schedule 6 be changed in order to compare revenue actually recovered against the actual cost of gas, and only variances greater than 10% following this comparison be explained. Ms. Mann indicated the Small Gas Utilities believe this comparison is a reasonable change, but noted that further discussion with the OUCC suggested the comparison be made each month on a rolling 12 month total. She also noted the Commission Staff asked that Schedule 6 list the factors used within the Schedule 6 calculation. Ms. Mann indicated the Small Gas Utilities agreed with all of these suggested changes.

Schedule 8 – The Small Gas Utilities indicated they agreed with the suggestions from both the Commission Staff and the OUCC that Schedule 8 be changed to provide a summary of costs with detail provided in work papers, and not in the schedule. The Commission Staff recommended inclusion of information in the form of a WACOG related to the reconciliation of the period summarized on Schedule 8 in order to show amounts and prices used for fixed, storage, and spot gas. Ms. Mann stated the Small Gas Utilities were in agreement with this recommendation.

Schedule 11 – The Commission Staff recommended UAFG be reflected on a monthly basis and that Schedule 11 be changed to reflect the sum of the monthly amounts included in quarterly totals reflecting unaccounted for gas. Ms. Mann also noted the Small Gas Utilities understand the Commission Staff's recommendations and agreed with these suggested changes.

Schedule 13 – The Small Gas Utilities agreed Schedule 13 should be eliminated as it is no longer necessary.

Schedule 15 – The Small Gas Utilities agreed Schedule 15 is no longer relevant in the GCA proceedings.

Earnings Test – The OUCC recommended an initial lag in information for the earnings test and the Small Gas Utilities agreed the recognition of such a lag as part of this GCA investigation is appropriate.

Bill Comparison – The Small Gas Utilities agreed the bill comparisons no longer provide relevant information and should be eliminated from the Schedules filed in GCA proceedings.

Work Papers – The OUCC and the Small Gas Utilities agreed that some information currently contained in Schedules by some utilities could simply be included in work papers. Further the Small Gas Utilities agreed that filing the work papers with the Commission and the

OUCC within two business days after the filing of a GCA petition is generally a reasonable approach to providing information supportive of the proposed GCA factor.

Ms. Mann and Mr. Mercer proposed that the Small Gas Utilities serving less than 15,000 customers utilize an annual or semi-annual GCA process followed by monthly flex filings that would incorporate changes in the price of gas and any change in the gas supply mix. Ms. Mann noted the OUCC recommended a semi-annual GCA process but agreed with the flex filing of all forms of natural gas provided no change occurred in the total volume of gas estimated. She also noted the OUCC proposed all but the very smallest of the Small Gas Utilities (Switzerland) be required to flex file if the WACOG changed by $0.10 or more. When no flex filing is to occur, she noted the OUCC proposed that it, along with the Commission, be advised of the intention not to flex file. Ms. Mann noted the Small Gas Utilities were in agreement with the OUCC's recommendation provided all of the recommendations of the OUCC and the Small Gas Utilities are accepted together. Accepting part of the recommendations without accepting all of the recommendations could create significant problems for the Small Gas Utilities. Ms. Mann also noted this change in the GCA filing coupled with the ability to flex file all natural gas inputs should cause the Small Gas Utilities to reduce the amount of testimony that is filed with each petition. As an example, Ms. Mann noted there is no reason for the Small Gas Utilities to describe their purchasing strategies or estimating strategies at each GCA petition if those strategies have not changed. Ms. Mann also noted the Small Gas Utilities would agree to spread out their respective semi-annual filings such that no more than three semi-annual filings would be initiated in any calendar month.

C. <u>NIPSCO Direct Testimony</u>. Katherine A. Cherven, Manager of Compliance in the Rates and Regulatory Finance Department of NIPSCO addressed NIPSCO's position on the $1.00 cap included in the flex mechanism. She stated that NIPSCO is in agreement with the recommendations made in OUCC witness Poole's testimony with the exception of the OUCC's position to maintain within the flex mechanism the current $1.00 cap, up or down, on the market price established in the filing. She also responded to the OUCC's proposal on the elimination of annualized demand.

Ms. Cherven explained that NIPSCO's quarterly GCA filings include an original filing, an additional update to the quarterly estimates approximately one month after the original filing, and a final flex adjustment each billing month of the filing approximately five days prior to the beginning of each month. She explained that the cap was originally intended primarily as a protection for retail customers from the potential for volatility in the spot price of natural gas between the time a GCA factor was approved and the time that a flex filing was made. She stated at the time flex mechanisms were put in place, the experience of periods of high volatility in spot prices from the early part of the decade was fresh in the minds of all parties.

Ms. Cherven testified that since NIPSCO started its flex mechanism in 2009, there has not been the same level of volatility in the commodity markets that drove the imposition of the cap. As a result, for NIPSCO the cap has not had a meaningful impact on volatility. She stated that since its implementation of its flex mechanism in 2009, NIPSCO has filed 49 flex filings. Of those 49 flex filings, only six have been impacted by the $1.00 cap on the market price. In each of those impacted cases, the reduction in commodity cost in the GCA calculation was capped, meaning the cap resulted in a higher GCA rate than would have otherwise applied. She testified NIPSCO has never been impacted by the cap on an upward price swing.

Ms. Cherven stated that the four-year experience in the commodity price from the update filing to the monthly NIPSCO flex filing indicates the majority of the changes are decreases. She stated the information also indicates the vast majority of the commodity price changes, 32 out of 49 or 65%, fall within a very small band of ±\$0.50. She testified elimination of the flex restriction would also greatly reduce or totally eliminate the update filings that NIPSCO currently makes and illustrated the commodity price change from the initial filing to the flex filing. She stated while there is minimal difference, the number of filings in the ±\$0.50 band has decreased which supports the theory that an update filing does create a better cost estimate which could assist in a restricted flex environment.

Ms. Cherven testified NIPSCO is sensitive to the potential impact of rising natural gas prices on ratepayers' bills. As a result, programs are in place to mitigate price volatility. She explained NIPSCO uses a combination of financial hedges and storage assets, including Liquefied Natural Gas, to mitigate the immediate impact of a significant commodity price increase in natural gas. In addition, NIPSCO offers a budget plan for customers designed to spread out the impact of volatile prices. Ms. Cherven testified that currently 28% of NIPSCO's customers participate in a budget billing plan and alternative pricing programs. Price Protection Service and "DependaBill" are also available to help protect customers against fluctuating natural gas prices.

Ms. Cherven explained the administrative benefits arising by removing the \$1.00 cap on the market price of gas included in flex submissions. She stated NIPSCO, as well as other gas distribution utilities, file updates to the initial GCA filing in order to have the most current pricing information in place for each GCA flex filing. That updated pricing information also has the advantage of being closer in time to the flex filings that are made after approval of the GCA factor. Pricing information that is one to three months out from the timing of the flex filings is likely to be more accurate than the pricing information that is used for the initial GCA filing. She stated that NIPSCO would likely not file updates to its initial GCA filing in the absence of a \$1.00 cap. She explained that one of the reasons NIPSCO updates its GCA filings is to limit the likelihood its flex filings could exceed the \$1.00 cap. This benefits NIPSCO's customers by not artificially limiting the benefit of downward price movements. She stated if the flex filings were not subject to a cap, updated filings would not be needed which would eliminate the administrative time spent preparing and reviewing the filings and would also create efficiencies for the OUCC and the Commission by reducing the number of filings to be reviewed.

Ms. Cherven also explained the disadvantages the \$1.00 cap creates on the market price. She explained, as with any calculation in which components depend on each other, a restriction of any one component can have unintended results. She stated when NIPSCO makes decisions about the optimal mix of spot purchases, fixed price contracts, and storage to be incorporated into its GCA portfolio, part of the decision is based on the comparative market price of natural gas relative to the other resources. When a cap is imposed on only one component, such as the price of the spot purchases, dollars recovered through the GCA will be skewed in comparison to the portfolio makeup, resulting in the potential for greater variances to be incorporated into subsequent GCA filings.

Ms. Cherven indicated that the forecasted Interruptible Overtake Service and Interdepartmental Sales are dependent on the market price and would be impacted by a restricted price, as well as any hedges which would be included. In addition, the bad debt and utility receipts tax factors would also be affected.

Ms. Cherven testified NIPSCO strongly prefers the elimination of the cap on the flex entirely, but if the Commission decides that a cap of some sort is still appropriate, NIPSCO proposes the cap be set on the total GCA factor rather than the commodity market price. This would allow forecast models to run as intended and eliminate the unavoidable impact to other components.

Lastly, Ms. Cherven testified NIPSCO supports the OUCC's proposal for the elimination of annualized demand and inclusion of a monthly or quarterly estimate of demand within the GCA and agrees a quarterly or monthly estimate could reduce demand variances through this improved matching of revenues collected with costs incurred.

D. <u>Vectren Direct Testimony</u>. Perry M. Pergola, Director of Gas Supply for Vectren Utility Holdings, Inc., testified on behalf of Vectren Energy. He stated Vectren Energy supports the Commission's investigation in this Cause with the aim of improving efficiency and consistency going forward.

Mr. Pergola testified Vectren Energy agreed with the recommendations made by the OUCC relating to the timing and frequency of filings, GCA schedules, and workpapers. Specifically, Vectren Energy agreed with filing all schedules and testimony at the time of the petition filing. Mr. Pergola stated Vectren Energy also agrees with: (1) the elimination of annualized demand on Schedule 1A and inclusion of a quarterly estimate within the GCA, (2) inclusion of a WACOG summary on Schedule 3, (3) adding GCA factors on Schedule 6, and (4) elimination of Schedule 13.

However, Mr. Pergola testified Vectren Energy disagreed with the OUCC's position regarding the timing of flex filings. Vectren Energy proposed all flex filings be filed no later than three business days, as opposed to five business days, before the beginning of the calendar month in which the rates will go into effect. Mr. Pergola stated the NYMEX contract applicable to any month is settled three business days prior to month end and this NYMEX settlement price directly determines the first-of-the-month index prices for all monthly priced supplies of natural gas. As a result, Mr. Pergola supported retaining the three business days as currently allowed to provide more accurate pricing for the GCA customers via the flex filings. He considered the OUCC proposals, other than the timing of the flex filings, to be reasonable and in the public interest and recommended the Commission approve them.

E. <u>OUCC Responsive Testimony</u>. Ms. Poole provided responsive testimony for the OUCC pertaining to various items addressed in the direct testimony of Respondents in this Cause. She discussed semi-annual vs. annual GCA filings, the Small Gas

Utilities' proposal on the timing of semi-annual filings, Vectren's proposal on the timing of flex filings, and NIPSCO's proposal on restrictions within the flex filing mechanism.

The OUCC proposed only utilities with less than 15,000 customers be considered for a change to semi-annual filings on a case-by-case basis. She explained the OUCC's reasoning for proposing a change to semi-annual filings instead of an annual filing. Variances that occur during a semi-annual filing will be recovered from/returned to customers over an 18 month period. For example, an estimation period of July 2014 through December 2014 should reconcile July 2013 through December 2013 so that any variances or refunds are allocated to the same type of customers. For July 2013, there is an 18 month period until those variances are fully recovered from/returned to customers in December 2014. Variances created during an annual filing would take longer to be recovered from/returned to customers, and an annual filing might be more cumbersome if variances are recovered from or returned to customers in a different way than the current methodology within the GCA process. Therefore, the OUCC proposed a semi-annual filing instead of an annual filing for these small utilities.

Ms. Poole discussed the OUCC's original proposal related to the timing of semi-annual filings. The OUCC proposed semi-annual filings be staggered so they are spread out over the year. The OUCC also proposed no more than two utilities file semi-annual filings in any particular month. She noted that Ms. Mann offered testimony on this subject indicating that three filings per month rather than two are more appropriate. Ms. Poole explained Ms. Mann's proposal for the number of filings within the same month is acceptable to the OUCC. She noted that because the OUCC's statutory requirement for reviewing the filing and submitting its report to the Commission will still be 30 days, and the amount of information that needs to be reviewed and verified within a semi-annual filing, the OUCC proposes no more than three utilities file semi-annual filings in any particular month.

Ms. Poole discussed the OUCC's original proposal related to the timing of flex filings being filed no later than five business days before the beginning of the calendar month in which rates will go into effect. Mr. Pergola offered testimony on this subject indicating that all flex filings be filed no later than three business days before the beginning of the calendar month. His testimony is based on the NYMEX contract applicable to any month being settled three business days prior to month end. Ms. Poole explained this proposal is not acceptable to the OUCC. She stated the OUCC understands and appreciates Mr. Pergola's point about NYMEX contracts settling three business days prior to the month end. She explained because of the proposed increase to the amount of information that can be changed within the flex filing mechanism, as well as the number of flex filings to review, the OUCC is requesting all flex filings be filed no later than five business days before the beginning of the calendar month in which the rates will go into effect. Given the OUCC's current staffing, it is not practical for the OUCC to review 15 filings in which updates can be made to every item on Schedule 3 in a period of three days.

Ms. Poole discussed the OUCC's original proposal to keep the $1.00 cap in place for the spot price of gas within the flex filing mechanism. She noted NIPSCO prefers the elimination of the cap on the flex, but if the Commission decides that a cap of some sort is still appropriate, then the cap should be set on the total GCA factor - not on the commodity market price. Ms. Poole testified the OUCC requested additional information from NIPSCO on its proposal relating to the cap being set on the total GCA factor and not the commodity market price. Specifically, the OUCC asked if NIPSCO had prepared an analysis which supports this proposed change of setting the cap on the total GCA factor and not the commodity market price. NIPSCO indicated they have not prepared such an analysis since the relationship between purchases and storage activity and pricing is not linear, it is difficult to represent hypothetical scenarios without substantial time and resources. Ms. Poole explained NIPSCO's proposal is not acceptable to the OUCC because NIPSCO has not provided the OUCC any analysis as to the impact a cap on the total GCA factor would have on GCA customers, either going forward or based on past GCAs in which the $1.00 cap on the spot market price of gas was imposed.

Ms. Poole indicated that NIPSCO described an alternative approach to determining the benefits of a cap on the total GCA factor in its response to the OUCC data request question. NIPSCO suggested an acceptable approach to determining the benefits of a cap on the total GCA factor would be similar to the approach originally taken for the $1.00 restriction which initially received interim approval and required the parties involved to formally review the performance based on empirical evidence. Ms. Poole explained that NIPSCO's alternative approach of receiving interim approval to determine the benefits of a cap on the total GCA factor is not acceptable to the OUCC on an across-the-board basis for every gas utility. The OUCC would prefer an analysis be done up front as to the impact on GCA customers of a cap on the total GCA factor and a sharing of that analysis with the OUCC and other Respondents in this Cause to determine if this is an acceptable cap. She also testified if the Commission approves NIPSCO's request for approval of a cap on the total GCA factor, then the OUCC requests this approval be solely for NIPSCO and on an interim basis. After at least one year's worth of experience under the interim methodology, the OUCC recommends NIPSCO prepare an analysis and share that analysis and the results with the Commission, the OUCC and the other Respondents.

4. Discussion and Findings. In the Commission's July 31, 2013 Order initiating this investigation, we noted a significant amount of time has elapsed since the Commission's establishment of the current GCA procedures and application schedules. The purpose of this investigation is to review and consider the need for revisions to the GCA procedures and schedules in order to improve the quality of the content and the efficiency of the GCA process. We address the issues raised by the OUCC and Respondents below.

A. Timing and Frequency of Filings.

i. Filing of Petition. The OUCC recommended the GCA schedules be filed at the same time the petition or application is filed. The GCA process is an expedited proceeding with a short time to review the information contained in the filing. To allow for a more efficient review of the information and given that Respondents are in agreement, we agree with the OUCC's recommendation. Therefore, we find that the GCA schedules shall be filed at the same time as the petition or application.

ii. Filing of Testimony. The OUCC recommended all natural gas utilities file testimony at the same time their GCA petitions are filed because the GCA proceedings follow an expedited process and all relevant information must be provided at the beginning of the review period. The testimony should provide an outline of and explain the information contained in the schedules. The testimony should also address any issues reflected in the schedules. Submitting the testimony when the petition is filed will improve the efficiency of the review process. Respondents are in agreement that the testimony should be filed with the petition. The Commission agrees. Accordingly, we find that testimony shall be filed at the same time the GCA petition is filed.

iii. <u>Purchasing and Estimating Strategy</u>. The OUCC proposed a utility should provide testimony regarding its purchasing and estimating strategy annually during the third quarter of each calendar year. The OUCC indicated that most utilities review their purchasing and estimating strategies once per year and most often changes are made going into the winter season. We agree that having the purchasing and estimating strategy included only once per year will reduce the amount of testimony a utility files with each GCA, will improve the GCA process, and provide the Commission with sufficient information to determine whether the utility is utilizing a comprehensive gas procurement strategy. Accordingly, we find the purchasing and estimating strategy shall be updated once a year during the third quarter but prior to October. If any changes are made to the purchasing or estimating strategy at other times, testimony shall be provided describing those changes prior to the occurrence. If no changes have been made, a utility shall indicate no changes have been made and reference the GCA number where the strategy was presented.

iv. <u>Timing of Updated Filings</u>. The OUCC proposed that all updates or revisions to the original GCA filings be filed within 20 days of filing the GCA petition. The current timing of the updated filings causes delays in the process that can be avoided. Respondents and the OUCC are in agreement to file all updates or revisions within 20 days of filing the GCA petition. The Commission finds that having all updates or revisions to GCA filings submitted within 20 days of filing the GCA petition will make the review of the GCA petition more efficient. Therefore, we find all updates or revisions to the GCA filings shall be filed within 20 days of the GCA petition.

v. <u>Frequency of Filings</u>. The Small Gas Utilities proposed a semi-annual or annual GCA process instead of quarterly filings. The OUCC proposed only utilities with less than 15,000 customers be considered for the change to semi-annual filings. Variances that occur during a semi-annual filing will be recovered from/returned to customers over an 18 month period. Variances created during an annual filing will take longer to be recovered from/returned to customers. We find that when switching to a semi-annual filing the estimation and reconciliation months on the GCA must be the same so that variances and/or refunds are allocated properly. We note there is a large disparity between the number of customers served by the four largest regulated natural gas utilities and the smaller gas utilities. We further find the use of a semi-annual GCA filing would lessen the burden on both the smaller gas utilities and the OUCC and provide for the efficient review of GCA petitions. Accordingly, we find, to allow for growth, small utilities with less than 35,000 customers may petition for semi-annual GCA filings on a case-by-case basis.

vi. <u>Timing of Semi-Annual Filings</u>. The Small Gas Utilities proposed that three utilities be permitted to file semi-annual filings in the same month. The OUCC found this proposal to be acceptable. We find the proposal to allow three small utilities to file semi-annual filings in the same month is reasonable. Therefore, a maximum of three small utilities shall be permitted to file a semi-annual GCA filing in the same month. The Commission expects the utilities and the OUCC to coordinate and provide the Commission with a reasonable listing of the proposed filing schedule.

B. GCA Schedules.

i. Schedule 1A. The OUCC proposed to eliminate annualized demand and include a monthly or quarterly estimate of demand within the GCA. During the last GCA investigation, annualized demand was approved because Respondents indicated that over time, the large variances that occur due to annualized demand would tend to cancel each other out. However, the OUCC's testimony demonstrated that the demand variances for NIPSCO and Vectren Energy for 2011 and 2012 did not cancel each other out. Therefore, we find that utilities should use either a monthly or a quarterly demand estimate to more closely align the revenues collected from ratepayers to the actual costs billed by pipeline suppliers. The elimination of annualized demand will also cause the removal of the annualized demand factor on Schedule 1. A reduction in variances improves the GCA filings and should aid in the efficient review of GCA petitions. Accordingly, the annualized demand is eliminated and a monthly or quarterly estimate of demand shall be included in the GCA filing.

ii. Schedule 2. The OUCC proposed all historical data used in sales estimates in Schedule 2 cover a period of no less than the prior three years. We note that there are various methods used to estimate sales and currently no established procedures. We find the proposal that sales estimates cover a period of no less than the prior three years is reasonable. Using a period less than three years would not be reflective of normal use when factors such as weather and customer fluctuations are considered. The use of a three-year average of actual sales will help balance the swings caused by abnormal weather and customer fluctuations. The Commission further finds that using at least a three-year period will improve the quality of the sales estimates submitted with the GCA petition given there are various methods used to estimate sales. Therefore, the historical data used in sales estimates in Schedule 2 shall cover a period of no less than the prior three years. However, we also find the use of more sophisticated models may continue as long as the method is reasonable.

iii. Schedule 3. The OUCC agreed with the recommendation that a Schedule 3 WACOG sheet would be helpful in breaking down the fixed, storage, and index gas to be purchased. We find the requirement that all utilities file a WACOG with Schedule 3 is reasonable. Further, the inclusion of the WACOG will improve the quality of the content in the GCA filings and will aid in the efficient review of the GCA petition. Accordingly, all utilities shall file a WACOG with Schedule 3 that includes fixed, index, and storage gas.

iv. Schedule 6. Commission Staff recommended utilities show the GCA factor(s) used for the determination of the incremental billing for the reconciliation period. The OUCC agreed with the recommendation and indicated that utilities with multiple rates and volumes, or actual recovery dollars, would supply that information in a workpaper. We find the recommendation to have utilities show the GCA factor(s) used or supply a workpaper supporting the determination of the incremental billing for the reconciliation period reasonable. Providing the GCA factor(s) or workpapers will allow for verification that the utility is using the correct GCA factor(s). This verification will aid in the efficiency of the GCA process.

The OUCC recommended 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. The OUCC proposed each utility calculate a 12-month rolling average of variances compared to the incremental cost of gas on Schedule 6. We find the OUCC's recommendation to be reasonable. A comparison of the variance to the incremental cost of gas on Schedule 6 provides a percentage that indicates how well a utility is recovering its actual costs from the customer. In addition to providing this comparison on a monthly basis, the schedules shall also reflect a total comparison for the reconciliation period months.

Currently, the Commission uses the variances on Schedule 13 to review the reasonableness of estimates to actual costs. Schedule 13 compares the estimated net cost of gas per unit sold with the actual net cost of gas per unit sold. The net cost of gas per unit sold calculated on Schedule 13 uses two different volumes. Any difference in the estimated and actual sales volumes will automatically skew the net cost of gas. We find comparing the incremental cost of gas on Schedule 6 to the gas cost actually recovered from customers on Schedule 6 to be more accurate. A 12-month rolling comparison will help eliminate the inherent variance related to cycle billing and seasonal fluctuations.

Therefore, utilities shall show the GCA factor(s) used for the determination of incremental billing for the reconciliation period on Schedule 6. For utilities with multiple rates and volumes, or actual recovery dollars, the information shall be supplied as a workpaper. We also find each utility shall calculate a 12-month rolling average of variances compared to the incremental cost of gas on Schedule 6 and each utility shall include this calculation in the GCA workpapers. If any of the 12-month rolling averages for any month within the reconciliation period on Schedule 6 is over 10%, an explanation shall be included in testimony.

v. <u>Schedule 8</u>. The Commission Staff also made two recommendations related to Schedule 8. One recommendation was that all utilities supply an actual WACOG page to show the amount of fixed, index, and storage gas used during the reconciliation period with Schedule 8. The OUCC agreed with this recommendation. We find that a WACOG sheet would be helpful in breaking down the fixed, storage, and index gas used during the reconciliation period by pipeline. Including the WACOG sheet will aid in the efficient review of GCA petitions.

The other Commission Staff recommendation was that all utilities file an additional schedule summarizing actual purchases on a per contract basis. However, the OUCC questioned whether the Commission wanted to see purchases broken down by pipeline or on a per contract basis. The OUCC proposed Schedule 8 be a summary sheet with details provided in the workpapers. We find that providing this information through the workpapers provides for a more concise filing and aids the efficiency of reviewing GCA petitions. We find all utilities shall supply a WACOG sheet to be included in the GCA schedules filed showing the amount of fixed, index, and storage gas used during the reconciliation period in addition to Schedule 8.

We also find all purchases shown on Schedule 8 shall summarize all contracts for each specific pipeline with the individual contract details provided in the workpapers.

vi. Schedule 11. In regard to Schedule 11, Commission Staff recommended all utilities calculate the UAFG amount on a monthly basis. The OUCC agreed with the recommendation. The OUCC also recommended that Schedule 11 be eliminated for those utilities which are approved to track UAFG in the GCA mechanism instead of through base rates. Since the quarterly filing of Schedule 11 provides the Commission the ability to verify the UAFG amounts detailed in the Schedule 11A filed annually, we find that Schedule 11 shall continue to be filed with the petition. We also find that the UAFG shall be calculated on a monthly basis. Therefore, we find that all utilities shall reflect the sum of the monthly amounts as quarterly totals on Schedule 11A.

vii. Schedule 13. The OUCC proposed to eliminate Schedule 13. The Commission previously approved the use of Schedule 6 to compare a utility's estimated versus actual gas costs. Thus, Schedule 13 is no longer necessary. Accordingly, we find Schedule 13 shall be eliminated from the GCA petition.

viii. Schedule 15. The OUCC proposed to eliminate Schedule 15. We note that unless there has been a new base rate order, the information related to the last general rate case will not change. The information on Schedule 15 is not used or in some cases not provided. We find there is no reason to continue having utilities submit Schedule 15 with its GCA petition. Therefore, the elimination of Schedule 15 improves the relevance of the content in GCA filings. Accordingly, Schedule 15 shall be eliminated from the GCA petition.

ix. Earnings Test. The OUCC proposed a utility may include the earnings test information on a one-quarter lag if they chose to do so because earnings test data is often not available until after a utility's GCA petition is filed, thus causing some utilities to provide this information in the updated or revised filing made up to 10 days before the hearing. The Commission notes that the additional time gained by having all updates or revisions to the original GCA filing being submitted within 20 days of filing the petition should provide enough time to address the OUCC's concerns. In addition, the one quarter lag delays any potential over-earning refunds due to customers. Therefore, we find that utilities may not include the earnings test information on a one-quarter lag.

x. FERC Tariff Sheets. The OUCC proposed all FERC tariff sheets be included in the workpapers. We find the recommendation to be reasonable since the pipeline service providers' tariff schedules contain data similar to purchased gas invoices that are already included in the workpapers. Including the FERC tariff sheets in the workpapers will create a more concise filing and improve the quality of the content in GCA filings. We find all FERC tariff sheets for both Schedule 3 and Schedule 8 shall be included in the workpapers. In addition, we find that all utilities shall provide testimony as to whether the proposed gas costs include transport rates that have been filed by the utilities' pipeline suppliers in accordance with FERC procedures.

xi. **Base Cost of Gas.** The OUCC proposed the lines relating to base cost of gas be eliminated from the GCA schedules. Because there are no utilities that collect the base cost of gas through the GCA proceedings, we find the elimination of the lines dealing with the base cost of gas will provide a more concise filing and improve the content in GCA filings. Therefore, the lines relating to base cost of gas shall be eliminated from the GCA schedules.

xii. **Bill Comparisons.** The OUCC also proposed the current bill comparison tables be replaced with a simplified table. We note the Commission recently changed the way the bill comparison information is reported in individual utility GCA Orders. The simplified table in the recent GCA Order shows the proposed gas costs at 10 Dth, the current gas costs at 10 Dth and the gas costs at 10 Dth from one year ago with current and year ago comparisons to the proposed gas costs. We note that the Commission publishes the bill comparison currently provided in the GCA on its website for informational purposes for consumers and other interested parties. Reflecting only the gas costs on the website does not provide an accurate reflection of customers' total bill amounts. Therefore, we find that the parties shall continue to provide bill comparison tables to reflect the total bills at 5, 10, 15, 20, and 25 Dths.

C. GCA Workpapers.

i. **Submission of Workpapers.** The OUCC proposed all workpapers be submitted electronically to the OUCC within two business days of the GCA petition being filed. If paper copies of workpapers are requested, they should be submitted within five calendar days of the GCA petition being filed. We find that because GCAs are expedited proceedings, it is important that all relevant information be available for the review process. Having the workpapers submitted within two business days, or five calendar days if paper copies are requested, will allow for a more accurate review of the filing and improve the efficient review of GCA petitions. Accordingly, all workpapers shall be submitted electronically to the OUCC within two business days of the GCA petition being filed or submitted within five calendar days if the OUCC requests paper copies.

ii. **List of Workpapers Needed.** The OUCC also proposed to provide each utility with an updated listing of all workpapers needed once this investigation is concluded. We find that given there are numerous items in this GCA investigation that could impact the type of information requested from each utility, it is appropriate to wait until the investigation is completed to provide the list of workpapers to each utility. Customizing the workpaper list to each utility's GCA filing should improve the quality of the content in GCA filings and improve the efficiency of the process. Therefore, the OUCC shall file under this Cause a listing of the workpapers needed for each utility's GCA filing on or before December 1, 2014. Any subsequent changes to the list shall also be filed with the Commission under this Cause.

D. Flex Filings.

i. **Updates to Flex Filing.** The OUCC proposed to allow a utility to change the mix of volumes between spot, fixed, and storage volumes as long as the total volumes remain unchanged from the utility's total volumes approved in the applicable GCA period. The OUCC also proposes allowing a utility to change the unit price of spot, fixed, and storage gas. The Respondents are in agreement with the OUCC's proposal.

Since the flex mechanism has worked well and allows utilities to provide the appropriate market price signals to customers, we find the proposal to be reasonable. Allowing a utility to update the volumes and prices of gas on spot, fixed, and storage provides a much better picture of the actual gas costs a utility will incur during the subsequent month, allows utilities to capture more current information as well as take advantage of any changes in expected injections or withdrawals from storage, improves the quality of the content in GCA filings, and increases the efficiency of the GCA process. Therefore, we find all gas utilities shall be permitted to change the mix of volumes between spot, fixed, and storage volumes in flex filings as long as the total volumes remain unchanged from the utility's total volumes approved in the applicable GCA period. Further, all gas utilities shall be permitted to change the unit price of spot, fixed, and storage gas based current market conditions and subject to the applicable price caps discussed below.

ii. <u>Applicability and Timing of Flex Filings</u>. The OUCC proposed to have Boonville and Westfield implement a flex filing mechanism. The Respondents are in agreement with the OUCC's proposal.

The OUCC also proposed all flex filings should be filed no later than five business days before the beginning of the calendar month in which the rates will go into effect and that spot purchases in the flex filing be priced at NYMEX prices on a day no more than 10 business days prior to the beginning of the calendar month in which the rates will go into effect. Vectren Energy proposed all flex filings be filed no later than three business days before the beginning of the calendar month in which the rates will go into effect. Vectren raised concerns that the NYMEX contract applicable to any month is settled three business days prior to month end and the NYMEX settlement price directly determines the first-of-the-month index prices.

Because the NYMEX settlement price directly determines the first-of-the-month index, retaining the three business day timing as currently allowed provides accurate pricing for utility customers via the flex filings. Therefore, we find all flex filings shall be filed no later than three business days before the beginning of the calendar month in which the rates will go into effect. Spot purchases in the flex filing shall be priced at NYMEX prices on a day no more than 10 business days prior to the beginning of the calendar month in which the rates go into effect.

Consistent with the Commission's July 30, 2009 Order in Cause No. 37368 GCA 103, Sycamore Gas Company's flex filing is to be submitted no less than five days before the beginning of each calendar month during the GCA quarter due to its business relationship with Aurora Municipal Gas Utility.

iii. <u>Information to be Provided to the OUCC</u>. The OUCC recommended that utilities submit a copy of their Schedule 3 WACOG sheet to the OUCC, showing the total effect of changes on the weighted average cost of gas for the month. The OUCC also proposed utilities submit a copy of all additional fixed contracts that have been entered into and reflected on Schedule 3 and the date used to update the NYMEX information in the flex fling. The Respondents agreed. The Commission finds that allowing the utilities to make changes to spot, fixed, and storage volumes and/or prices requires the utilities to provide additional information that will aid in the review of changes to the original volumes and prices of gas approved by the Commission in the original GCA filing. This additional information will improve the efficiency of the GCA process. We further find all natural gas utilities shall submit a copy of their Schedule 3 WACOG sheet to the OUCC showing the total effect of changes on the weighted average cost of gas for the month. The utilities shall also submit a copy of all additional fixed contracts that have been reflected on Schedule 3 and include the date used to update the NYMEX information in the flex filing.

iv. <u>When Flex Filings are Mandatory</u>. The OUCC proposed a flex filing be mandatory when the weighted average unit cost of gas on a utility's Schedule 3 WACOG sheet, including storage injections and withdrawals, changes up or down by \$0.10 or more. The Respondents agreed. We note that a change in the individual components that go into a flex filing, such as the mix between spot, fixed, and storage gas volumes, or the changes to prices of spot, fixed or storage gas prices could be immaterial. If those individual changes are immaterial in nature, the actual GCA factor might not change. If the total combined components that go into a flex filing changes by more than \$0.10, it is more likely that a material change to the actual GCA factor will occur. We find using the WACOG unit price of gas as the trigger to determine if a flex filing should be filed is a reasonable approach and improves the quality of the content and efficiency of processing flex filings. Accordingly, all gas distribution utilities shall be required to make a flex filing when the weighted average unit cost of gas on a utility's Schedule 3 WACOG sheet, including storage injections and withdrawals, changes ±\$0.10 or more in the relevant month.

v. <u>Utility Notification of Not Flexing</u>. The OUCC recommended all utilities file a notification with the Commission and the OUCC if a flex filing will not be made. The Respondents agreed. Therefore, we find all gas distribution utilities shall file notification with the Commission and the OUCC when a flex filing will not be made. The notification shall include a copy of the Schedule 3 WACOG sheet showing the WACOG price has not increased/decreased by \$0.10 or more. The notification should also include the date used as the benchmark date for the spot price of gas.

vi. <u>Restrictions on Flex Filings</u>. The OUCC proposed to maintain within the flex filing mechanism the current \$1.00 cap, up or down, on the market price established in the GCA filing. NIPSCO proposed elimination of the flex cap or in the alternative proposed the cap be set on the total GCA factor not the commodity market price. We note the \$1.00 cap was put in place to limit gas distribution utilities' customers' exposure to market price volatility. NIPSCO testified that of its 49 flex filings; only 6 have been impacted by the \$1.00 cap on the market price. In all six instances, the spot price of gas had dropped by more than \$1.00. NIPSCO's argument does not indicate the \$1.00 cap is not working or is flawed. NIPSCO's argument proves that the cap is doing what it was set up to do, which is limit customers' exposure to market price volatility. The OUCC also performed an analysis for three other gas utilities for the past four years. The OUCC's analysis indicated the same result – in all instances in which the cap was used, the price of gas had dropped by more than \$1.00. The cap was put in place to limit the customer's exposure to gas price volatility, whether it be up or down. Therefore, we find the $1.00 cap on the spot price of gas within the flex filing mechanism shall continue.

Based upon the above findings, the $1.00 cap, up or down, on the spot price of gas within the flex filing, shall be maintained in addition to applying to fixed and storage gas prices to protect customers from the potential of future gas price volatility.

E. <u>Effectiveness of Revised GCA Filing Requirements</u>. The Commission notes that to provide for a smooth transition to the revised GCA process set forth in this Order a transitional period may be required so that Respondents can gather the appropriate information that is required to be submitted with their GCA petitions. Therefore, the revised requirements for filing a GCA petition as set out in this Order shall be effective for GCA petitions filed on or after January 1, 2015.

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

1. A revised GCA procedure in conformance with Ind. Code § 8-1-2-42 and all of the findings as set forth in Paragraph No. 4 is approved. All utilities shall file GCA petitions using the revised procedure contained herein beginning with GCA petitions filed on or after January 1, 2015.

2. Consistent with the findings set forth in this Order, the investigation initiated on July 31, 2013 is hereby closed.

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

<u>STEPHAN, MAYS-MEDLEY, AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:</u>

APPROVED: AUG 27 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