PETITION OF BOONVILLE NATURAL GAS CORPORATION FOR APPROVAL OF GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF NOVEMBER AND DECEMBER, 2017 AND JANUARY, FEBRUARY, MARCH AND APRIL, 2018, PURSUANT TO I.C. 8-1-2-42(g), AS AMENDED

ORDER OF THE COMMISSION

Presiding Officer:
Carol Sparks Drake, Administrative Law Judge

On September 1, 2017, in accordance with Ind. Code § 8-1-2-42, Boonville Natural Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the months of November 2017 through April 2018. That same date, Petitioner prefiled the testimony of Paul M. Lewellyn, Petitioner’s Vice President and a member of its Board of Directors. On September 22, 2017, Petitioner filed a Submission of Revised Exhibits in Support of Petition for Approval of Gas Cost Adjustment. On September 29, 2017, Petitioner prefiled supplemental testimony from Mr. Lewellyn. In response to a Docket Entry issued on September 28, 2017, Petitioner on October 2, 2017, filed the testimony of Joseph S. Dixon, a Certified Public Accountant with LWG CPAs and Advisors, LLC.


The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause on October 10, 2017, at 9:00 a.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection. Mr. Dixon was present at the hearing and provided additional testimony at that time on Petitioner’s behalf. No members of the general public appeared at the hearing or sought to testify.

Based upon the applicable law and the evidence presented, the Commission finds:

1. Statutory Notice and Commission Jurisdiction. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Petitioner’s rates and charges related to adjustments in gas costs; therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.
2. **Petitioner’s Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner’s principal office is located at 1425 North Rockport Road, Boonville, Indiana. Petitioner renders natural gas utility service to the public in the City of Boonville, the Town of Chandler, and adjacent areas in Warrick County, Indiana, and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such service.

3. **Source of Natural Gas.** Ind. Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term gas supplies so as to provide gas to its customers at the lowest gas cost reasonably possible.

   Mr. Lewellyn testified that Petitioner’s gas supply plan attempts to mitigate price volatility through managing its natural gas storage levels and hedging natural gas contracts. Mr. Lewellyn explained that Petitioner attempts to hedge approximately 50 to 60 percent of its needs through advance hedges while utilizing spot purchases and gas in storage to meet the remainder of Petitioner’s anticipated load. He noted that because of low fixed market prices, Petitioner purchased a greater amount of fixed price gas this summer for the upcoming GCA period. Petitioner expects to also purchase and place gas into storage under its gas storage contract with Texas Gas to refill the gas pulled from storage to meet customers’ needs during the heating season. Mr. Lewellyn opined that he believes Petitioner is acquiring its supply of gas at the lowest cost reasonably possible.

   The Commission has indicated that Indiana’s gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both current and forward-looking bases. Based on the evidence offered, we find that Petitioner has demonstrated that it has and continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements; therefore, we find that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Ind. Code § 8-l-2-42(g)(3)(B) requires that Petitioner’s pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factor. The evidence of record indicates the proposed gas costs include transport rates that have been filed by Petitioner’s pipeline supplier in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charges and find the cost to be reasonable; therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-l-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor which results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner’s basic rates and charges were approved. Petitioner’s current basic rates and charges were approved on November 7, 2012, in Cause No. 44129. The Commission authorized Petitioner to earn a net operating income of $377,422.

   Petitioner’s evidence indicates that for the 12 months ending April 30, 2017, Petitioner’s actual net operating income was $351,419; therefore, based on the evidence in the record, the Commission finds that Petitioner is not earning in excess of the amount authorized in its last rate case.
6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Petitioner’s estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Petitioner’s 12-month rolling average comparison was 1.56% for the period ending April 30, 2017. Based on Petitioner’s historical accuracy in estimating the cost of gas, we find that Petitioner’s estimating techniques are sound, and Petitioner’s prospective average estimate of gas costs is reasonable.

7. **Reconciliation.**

   A. **Variances.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the variance for the reconciliation period of November 2016 through April 2017 (“Reconciliation Period”) is an under-collection of $17,604 from its customers. This amount should be included in the current GCA as an increase in the estimated net cost of gas.

   B. **Refunds.** Petitioner received no new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period. We find the amount to be refunded to customers in this GCA is $0.00 as reflected on Schedule 12a.

8. **Resulting Gas Cost Adjustment Factors.** The estimated net cost of gas to be recovered by Petitioner for November 2017 is $187,087, for December 2017 is $266,901, for January 2018 is $345,201, for February 2018 is $292,588, for March 2018 is $211,140, and for April 2018 is $86,098. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA for November 2017 of $190,021, for December 2017 of $269,835, for January 2018 of $348,135, for February 2018 of $295,522, for March 2018 of $214,074, and for April 2018 of $89,032. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are $4.1042/Dth for November 2017, $4.0883/Dth for December 2017, $4.0621/Dth for January 2018, $4.0539/Dth for February 2018, $4.0243/Dth for March 2018, and $3.9295/Dth for April 2018.

Proposed Current Year Ago

<table>
<thead>
<tr>
<th>Month</th>
<th>Proposed Gas Costs (10 Dth)</th>
<th>Current Gas Costs (10 Dth)</th>
<th>Difference</th>
<th>Year Ago Gas Costs (10 Dth)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2017</td>
<td>$41.04</td>
<td>$38.43</td>
<td>$2.61</td>
<td>$40.26</td>
<td>$0.78</td>
</tr>
<tr>
<td>December 2017</td>
<td>$40.88</td>
<td>$38.43</td>
<td>$2.45</td>
<td>$39.60</td>
<td>$1.28</td>
</tr>
<tr>
<td>January 2018</td>
<td>$40.62</td>
<td>$38.43</td>
<td>$2.19</td>
<td>$39.17</td>
<td>$1.45</td>
</tr>
<tr>
<td>February 2018</td>
<td>$40.54</td>
<td>$38.43</td>
<td>$2.11</td>
<td>$39.76</td>
<td>$0.78</td>
</tr>
<tr>
<td>March 2018</td>
<td>$40.24</td>
<td>$38.43</td>
<td>$1.81</td>
<td>$39.92</td>
<td>$0.32</td>
</tr>
<tr>
<td>April 2018</td>
<td>$39.30</td>
<td>$38.43</td>
<td>$0.87</td>
<td>$40.39</td>
<td>($1.09)</td>
</tr>
</tbody>
</table>

10. **Interim Rates.** We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

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

12. **Other Matters.** Multiple errors were made in Petitioner’s Schedules and an Appendix as originally filed which Mr. Dermody testified were brought to Petitioner’s attention during discovery. More specifically, errors were made on Schedules 2, 6, 8, and 16 and on Appendix A. These included incorrectly calculating state income taxes by using a 7.00% tax rate instead of 6.25% and showing an incorrect GCA factor for February 2017. Mr. Dixon acknowledged that he supervised preparation of the Schedules filed. He confirmed the correct GCA factor of $3.9762 was used in Petitioner’s calculations for the revised Schedules, notwithstanding the incorrect factor of $3.9897 shown. Mr. Dixon agreed that the incorrect GCA factor was also shown in Petitioner’s March flex filing, causing Petitioner’s March and April 2017 tariff sheets to incorrectly reflect the February rate. In addition, a Docket Entry was prompted in this Cause after reviewing Petitioner’s Schedule 6 REVISED. Petitioner subsequently filed a Second Revised Appendix A because it was found to contain the incorrect February GCA factor.

Petitioner is encouraged to carefully review future GCA and flex filings with the objective of improving their accuracy.
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Boonville Natural Gas Corporation for the gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the rate(s) or future flexed factor, Petitioner shall file the tariff and applicable rate schedules under this Cause for approval by the Commission’s Energy Division. Such rate(s) shall be effective on or after the Order date subject to Division review and agreement with the amounts reflected.

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

ATTERHOLT, FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: OCT 17 2017

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

Mary M. Becerra
Secretary of the Commission