STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF OHIO VALLEY GAS CORPORATION AND OHIO VALLEY GAS, INC. FOR APPROVAL OF A GAS COST ADJUSTMENT PURSUANT TO INDIANA CODE 8-1-2-42 TO BE APPLICABLE DURING THE MONTHS OF OCTOBER, NOVEMBER, AND DECEMBER 2018 WITH THE CONSUMPTION PERIOD STARTING ON OR ABOUT SEPTEMBER 15, 2018.

CAUSE NO. 44147 GCA 23
APPROVED: SEP 26 2018

ORDER OF THE COMMISSION

Presiding Officer:
Brad J. Pope, Administrative Law Judge

On August 8, 2018, in accordance with Ind. Code § 8-1-2-42, Ohio Valley Gas Corporation ("OVGC") and Ohio Valley Gas, Inc. ("OVGI") (collectively, "Ohio Valley" or "Applicants") filed their Application for Gas Cost Adjustment ("GCA") to be applicable during the months of October, November, and December 2018, including all Exhibits and Schedules to its GCA, and the verified testimony of Ronald P. Salkie, Vice President, CFO and CIO of Applicants, supporting the proposed GCA factors. On August 31, 2018, Applicants filed their Supplemental Filing Amendment No. 1 to Application. On September 7, 2018, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report, factor calculations and testimony of Heather R. Poole, Natural Gas Division Assistant Director.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause on September 18, 2018, at 9:00 a.m. in Room 224 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Ohio Valley and the OUCC were present and participated. The testimony and exhibits of Ohio Valley reflecting the amendments filed August 31, 2018, and the testimony and exhibits of the OUCC were admitted into the record without objection.

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

1. **Statutory Notice and Commission Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Applicants are public utilities as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Applicants’ rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Applicants and the subject matter of this Cause.

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

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

Ohio Valley’s witness Salkie testified that Applicants have long-term contracts with ANR and Texas Gas for pipeline capacity and storage. All ANR contracts are scheduled to expire on March 31, 2019. The contracted maximum daily quantity for the ANR service area is 14,970 Dth. Applicants renewed and restructured their four contracts with Texas Gas effective November 1, 2018, to expire October 31, 2023. The maximum daily quantity will be 18,781 Dth for the Texas Gas service area and 7,584 Dth for the OVGI area. Applicants renewed their contract with British Petroleum (“BP”) for natural gas supply requirements from the production area on November 1, 2017, for all service areas. The contract with BP contains two components (fixed and index) and provides for a fee of $.01 per Dth purchased whether under the fixed-price or index component. Applicants’ testimony indicated that together, gas purchased under NYMEX futures contracts and storage gas used during this GCA period are estimated to represent approximately 74.3% of total supply.

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

4. Purchased Gas Cost Rates. Ind. Code § 8-1-2-42(g)(3)(B) requires that Applicants’ pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority the costs proposed to be included in the GCA factors. The evidence of record indicates that the proposed gas costs include transport rates that have been filed by Applicants’ pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. Earnings Test. Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Applicants earning a return in excess of the return authorized by the last Commission Order in which Applicants’ basic rates and charges were approved. Ohio Valley’s current basic rates and charges were approved on October 17, 2017 in Cause No. 44891. The Commission authorized Applicants to earn a net operating income of $4,131,611.
Applicants’ evidence indicates that for the 12 months ending May 31, 2018, Applicants’ actual net operating income was $5,284,318. Therefore, based on the evidence of record, we find Applicants are earning a return in excess of that authorized in their last rate case.

Because Applicants have earned a return in excess of that authorized, Ind. Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded to customers through the variance in this Cause. A refund is only appropriate if the sum of the differentials (both positive and negative) between the determined return and the authorized return during the relevant period, as defined by Ind. Code § 8-1-2-42.3(a), is greater than zero. Based on the evidence of record, we find the sum of the differentials during the relevant period is less than zero, and therefore, it is not appropriate to require a refund of any of the amount over-earned in this Cause.

6. **Estimation of Purchased Gas Costs.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Applicants’ estimate of their prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of the variance to the incremental cost of gas on Schedule 6 be used to determine if the prior estimates are reasonable when compared to the corresponding actual costs. A 12-month rolling average comparison helps to eliminate the inherent variance related to cycle billing and seasonal fluctuations. The evidence presented indicates Applicants’ 12-month rolling average comparison for the reconciliation period was -2.07% for the period ending May 31, 2018. Based upon Ohio Valley’s historical accuracy in estimating the cost of gas, we find that Applicants’ estimating techniques are sound, and Applicants’ prospective average estimate of gas costs is reasonable.

7. **Reconciliation.**

   A. **Variances.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that the Applicants reconcile their estimates for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the variance for the reconciliation period of March 2018 through May 2018 ("Reconciliation Period") is an over-collection of $68,618 from their customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be included in this GCA as a decrease in the estimated net cost of gas is $22,795.

   The variances from prior recovery periods applicable to the current recovery period is an over-collection of $64,127. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $86,922 to be applied in this GCA as a decrease in the estimated net cost of gas.

   B. **Refunds.** Applicants received no new refunds during the Reconciliation Period and have $31,669 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $31,669, as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered for October 2018 is $638,322, for November 2018 is $1,312,802, and for December
2018 is $1,925,918. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $622,857 for October 2018, $1,273,916 for November 2018, and $1,861,678 for December 2018. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Applicants’ recommended GCA factors are $4.993/Dth for October 2018, $4.059/Dth for November 2018, and $3.592/Dth for December 2018.

9. Effects on Residential Customers. Applicants request authority to approve the GCA factors of $4.993/Dth for October 2018, $4.059/Dth for November 2018, and $3.592/Dth for December 2018 for all their pipeline service areas. The table below shows the commodity costs a residential customer will incur under the proposed GCA factors based on 10 Dths of usage. The table also compares the proposed gas costs to what a residential customer paid most recently $8.533/Dth (August 2018) and a year ago $5.437/Dth (October 2017), $4.921/Dth (November 2017), and $4.348/Dth (December 2017) for all their pipeline service areas. The table reflects costs approved through the GCA process. It does not include Applicants’ base rates or any applicable rate adjustment mechanisms.

<table>
<thead>
<tr>
<th>Month</th>
<th>Proposed Gas Costs (10 Dth)</th>
<th>Current Gas Costs (10 Dth)</th>
<th>Difference From Current Gas Costs (10 Dth)</th>
<th>Year Ago Gas Costs (10 Dth)</th>
<th>Difference From Year Ago Gas Costs (10 Dth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2018</td>
<td>$49.93</td>
<td>$85.33</td>
<td>($35.40)</td>
<td>$54.37</td>
<td>($4.44)</td>
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<td>November 2018</td>
<td>$40.59</td>
<td>$85.33</td>
<td>($44.74)</td>
<td>$49.21</td>
<td>($8.62)</td>
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<tr>
<td>December 2018</td>
<td>$35.92</td>
<td>$85.33</td>
<td>($49.41)</td>
<td>$43.48</td>
<td>($7.56)</td>
</tr>
</tbody>
</table>

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

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

1. The Application of Ohio Valley Gas Corporation and Ohio Valley Gas, Inc. for the gas cost adjustment for natural gas service, as set forth in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the rates approved above or any future flexed factor, Ohio Valley Gas Corporation and Ohio Valley Gas, Inc. shall file the tariff and applicable rate schedules under this Cause for approval by the Commission’s Energy Division. Such rates 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.

HUSTON, KREVD, OBER, AND ZIEGNER CONCUR; FREEMAN ABSENT:

APPROVED: SEP 26 2018

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

Mary M. Becerra
Secretary of the Commission