

ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF SOUTH EASTERN INDIANA)
 NATURAL GAS CO., INC. FOR APPROVAL) CAUSE NO. 37785 GCA 123
 OF CHANGES TO ITS GCA RATES IN)
 ACCORDANCE WITH INDIANA CODE § 8-1-) APPROVED: JUN 28 2022
 2-42(G))**

ORDER OF THE COMMISSION

**Presiding Officer:
 Carol Sparks Drake, Senior Administrative Law Judge**

On May 2, 2022, South Eastern Indiana Natural Gas Company, Inc. (“South Eastern” or “Petitioner”) filed its Petition for Gas Cost Adjustment (“GCA”) with attached schedules to be applicable during the billing cycles of July 2022 through September 2022. Also on May 2, 2022, Petitioner prefiled the direct testimony of Bonnie J. Mann, Certified Public Accountant and a Principal with LWG CPAs and Advisors.

On May 18, 2022, Petitioner filed revised schedules and supplemental testimony from Ms. Mann. This filing included revised Schedules 1, 6, 11, 12a, and 12b, along with revised bill comparison charts.

On June 1, 2022, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled the direct testimony and exhibits of Scott O. Viefhaus, a Utility Analyst I in the OUCC’s Natural Gas Division. Petitioner filed no rebuttal.

The Commission set this matter for an evidentiary hearing to be held on June 9, 2022, at 1:30 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Per a docket entry dated May 24, 2022, the evidentiary hearing was continued and rescheduled to commence at 10:00 a.m. on June 13, 2022, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC, by counsel, participated in the evidentiary hearing, and their respective testimony and exhibits were admitted without objection.

Based upon the applicable law and the evidence of record, 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 Indiana law with its principal office located at 106 East Main Street, Morristown, Indiana. Petitioner renders natural gas utility service to the public in Dearborn and Ripley Counties in

Indiana and owns, operates, manages, and controls plant and equipment 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 natural gas supplies so as to provide gas to its retail customers at the lowest cost reasonably possible. Ms. Mann described Petitioner's approach in acquiring natural gas for its customers. This includes purchasing fixed contracts, focusing primarily on customers' needs during the heating season, acquiring and using storage gas, flexing GCA factors, keeping apprised of changing market conditions by monitoring NYMEX prices, and using a normal temperature adjustment mechanism. Ms. Mann also described Petitioner's estimating and gas supply purchasing strategies.

The Commission has indicated 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, we find Petitioner demonstrated it has followed and continues to follow a policy of securing natural gas supply at the lowest cost reasonably possible to meet anticipated customer requirements; therefore, we find 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 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 factors. The evidence indicates the proposed gas costs include rates that have been filed by Petitioner's pipeline suppliers as authorized by 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 this statutory requirement 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 Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's base rates and charges were approved. Petitioner's current base rates and charges were approved on October 3, 2018, in Cause No. 45027. The Commission authorized Petitioner to earn a net operating income of \$149,868.

Petitioner's evidence indicates that, for the 12 months ended February 28, 2022, Petitioner's actual net operating income was \$133,778; therefore, based on the evidence, we find Petitioner is not earning a return in excess of that authorized in its last rate case.

6. Estimation of Purchased Gas Costs. Ind. Code § 8-1-2-42(g)(3)(D) requires that 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 indicates Petitioner's 12-month rolling average comparison was 5.04% for the period ended February 28, 2022. Based on Petitioner's historical accuracy in estimating the cost of gas and the testimony offered explaining Petitioner's gas acquisition practices, the Commission finds 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 estimates for a previous recovery period with the actual purchased gas cost for that period. The evidence establishes that the variance for the reconciliation period of December 2021 through February 2022 ("Reconciliation Period") is an under-collection of \$50,260 from Petitioner's customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is \$2,181.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$32.00. Combining this amount with the Reconciliation Period variance results in a total under-collection of \$2,149 to be applied in this GCA as an increase in the estimated net cost of gas.

B. Refunds. Petitioner received no refunds during the Reconciliation Period and has no refunds from prior periods, as reflected on Schedule 12a.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered for July 2022 is \$23,504, for August 2022 is \$23,508, and for September 2022 is \$27,129. Adjusting these totals for variance and refund amounts yields gas costs to be recovered through the GCA factor of \$24,220 for July 2022, \$24,224 for August 2022, and \$27,845 for September 2022. After dividing that amount by estimated sales, Petitioner's recommended GCA factors are \$8.8459/Dth for July 2022, \$8.8441/Dth for August 2022, and \$8.7234/Dth for September 2022.

9. Effects on Residential Customers. Petitioner initially requested authority to approve GCA factors for July, August, and September 2022 that were incorrect for each of these months. After the OUCC inquired about these discrepancies in discovery, Petitioner filed supplemental testimony and revised Schedules. As revised, Petitioner requests approval of the GCA factors of \$8.8459 /Dth for July 2022, \$8.8441/Dth for August 2022, and \$8.7234/Dth for September 2022. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (May 2022 – \$6.3978/Dth) and one year ago (July 2021 – \$4.7990/Dth, August 2021 – \$3.8622/Dth, and September 2021 – \$5.2102/Dth). The table reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
July 2022	\$88.46	\$63.98	\$24.48	\$47.99	\$40.47
August 2022	\$88.44	\$63.98	\$24.46	\$38.62	\$49.82
September 2022	\$87.23	\$63.98	\$23.25	\$52.10	\$35.13

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 a change in the mix of volumes among spot, fixed, and storage gas as long as the total volume of gas remains 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. The flex mechanism is to be filed no less than three business days before the beginning of each calendar month during the GCA period. Market purchases in the flex mechanism related specifically to spot gas 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 market price included in the flex are limited to a maximum adjustment (higher or lower) of \$1.00 from the initial unit price estimated in this GCA proceeding. In addition, Petitioner shall notify the Commission and the OUCC consistent with our findings in Cause No. 44374 if no flex mechanism is to be used for the months of this GCA. 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. **Indiana Utility Receipts Tax (“IURT”).** Ms. Mann testified Petitioner removed from Schedule 1 the calculation adjusting its GCA factor for collection of the IURT because this GCA will be applicable after the effective date of the IURT’s repeal. This calculation is no longer appropriate.

13. **Other Matters.** Ms. Mann testified South Eastern has temporarily put a hold on changes to its GCA calculation methodologies while it focuses on assuring previous changes are implemented with fewer errors. This approach was not entirely successful as OUCC witness Viefhaus testified there were multiple discrepancies in Petitioner’s exhibits as originally filed. When the OUCC inquired in discovery about these discrepancies, Petitioner filed supplemental testimony and revised exhibits on May 18, 2022. Mr. Viehaus noted these revised schedules also contained several errors in Appendix A.

South Eastern was ordered in Cause No 37785 GCA 122 to markedly improve the accuracy of its GCA filings. South Eastern, however, again filed inaccurate Schedules in this GCA, prompting the OUCC to bring these inaccuracies to Petitioner’s attention. The revised Schedules Petitioner filed on May 18, 2022, also contained errors. We reiterate, it is Petitioner’s responsibility

to file accurate testimony and Schedules. South Eastern is directed to improve the accuracy of its GCA filings and shall, therefore, evaluate its GCA process and determine what actions need to be implemented in-house or between Petitioner and its accountant for Petitioner to present accurate and reliable information to the Commission in its GCA filings. In its next GCA filing (GCA 124), South Eastern shall explain the actions taken to improve the accuracy of its GCA filings, including identifying all such actions taken after our order in GCA 122 and any additional actions implemented after this Order.

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

1. The Petition of South Eastern Indiana Natural Gas Company, Inc. for the gas cost adjustment for natural gas service, as set forth above in Paragraph No. 8, is approved, subject to refund in accordance with Paragraph No. 10.

2. Prior to implementing the GCA factors approved above or any future flexed factor, Petitioner 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. Petitioner is directed to take the actions needed to markedly improve the accuracy of its GCA filings from the outset and shall explain and identify these actions in Petitioner's next GCA filing (GCA 124) consistent with Paragraph No. 13 above.

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

HUSTON, FREEMAN, KREVDA, AND ZIEGNER CONCUR:

APPROVED: JUN 28 2022

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

**Dana Kosco
Secretary of the Commission**