ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Bennett	√		
Freeman	√		
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS CORPORATION FOR APPROVAL OF CHANGES IN ITS GAS RATES THROUGH A GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE §8-1-2-42(g)	)))))	**CAUSE NO. 37440 GCA 159** **APPROVED: OCT 31 2023**

ORDER OF THE COMMISSION

Presiding Officer:
Ann Pagonis, Administrative Law Judge

On, August 25, 2023, in accordance with Ind. Code § 8-1-2-42, Midwest Natural Gas Corporation ("Petitioner") filed its Petition with attached schedules for a gas cost adjustment ("GCA") to be applicable during the months of November 2023 through January 2024. In support of its Petition, Petitioner filed the direct testimony of Cody M. Osmon, Accountant for Petitioner. On September 13, 2023, Petitioner filed updated schedules.

On September 18, 2023, in conformance with the GCA statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of LaCresha N. Vaulx, Utility Analyst in the OUCC's Natural Gas Division. Petitioner filed its notice indicating that it did not intend to file rebuttal testimony on September 19, 2023.

The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause on October 18, 2023, at 2:00 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated at the hearing at which the testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection.

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

1. **Notice and 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. Petitioner's principal office is located at 101 S.E. Third Street, Washington, Indiana. Petitioner renders natural gas utility service to the public in Clark, Daviess, Greene, Knox, Jackson, Jennings, Monroe, Orange, Scott, and Washington 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 to provide gas to its retail customers at the lowest gas cost reasonably possible.

Petitioner's witness Mr. Osmon testified that Petitioner actively purchases fixed contracts, contracts relating to future periods, and appropriately sized contracts. Petitioner also plans for efficient use of storage. In addition, Mr. Osmon testified that Petitioner monitors market conditions, flexes its GCA factors as appropriate, and uses a normal temperature adjustment mechanism during the heating season.

Mr. Osmon also described the purchasing and estimating strategies for this petitioner and indicated that he believed the techniques continue to be reasonable. He explained Petitioner first considers total throughput (i.e. sales service and transport customers) of the prior year adjusted for degree-day data. He said this information is compared to the prior five years of actual sales volumes for reasonableness, again considering sales service volumes, transportation volumes and the combination of the two. The comparison considers unusual weather activity as well as other known changes. He explained from this information, a final estimate of expected gas needs is determined. Next, Petitioner examines the fixed contract gas it has in place and the storage gas that would be available to meet the expected sales. Next, Petitioner examines NYMEX pricing and also discusses trends in that pricing with its marketer. Next, Petitioner determines what additional gas should be purchased from spot gas, or whether additional fixed contracts should be acquired. He said based on such strategies, Petitioner prepares the schedules included in its GCA filings. He said historically, this approach has been found to be reasonable by this Commission. Finally, he explained that Petitioner is diligent in reviewing pricing, reviewing information on trends from its marketer, considering estimates of volumes to be sold, taking into account the hedging in place, and where appropriate, flexing Petitioner's estimates. Further, Petitioner has not changed its techniques from that previously described to the Commission.

The Commission has indicated that Indiana's natural 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 a current and forward-looking basis. 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 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 Petitioner's pipeline suppliers have requested or filed pursuant to the jurisdiction and procedures of a duly constituted regulatory authority for a change in the cost of gas proposed to be included in the GCA factor. The evidence of record indicates that the proposed gas costs include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C) prohibits approval of a GCA factor that results in a public utility earning a return in excess of the return authorized by the last Commission Order in which the gas utility's basic rates and charges were approved. The

Commission, in its August 16, 2017 Order in Cause No. 44880, authorized Petitioner to earn a net operating income of $1,153,217. Pursuant to the Commission's Order in Cause No. 44942 TDSIC 3, Petitioner's authorized earnings are now $1,298,452.

Petitioner's evidence indicates that for the 12 months ending June 30, 2023, Petitioner's actual net operating income was $340,261. Therefore, based upon the evidence of record, the Commission finds that Petitioner is not earning a return in excess of that authorized.

6. **<u>Estimation of Purchased Gas Costs</u>.** 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 variances related to cycle billing and seasonal fluctuations. The evidence presented indicates that Petitioner's 12-month rolling average comparison was negative 21.83% for the period ending June 30, 2023. Mr. Osmon explained that this variance resulted primarily due to the pricing from the GCA 158 update which set the level of pricing around the $5 to $6 mark. When it came time to flex for the months of May, June, and July 2023, the price had fallen below the $1.00 cap. As a result, Midwest was only able to partially mitigate the resulting variance through the flex filings. 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 are reasonable.

7. **<u>Reconciliations</u>.**

A. **<u>Variances</u>.** 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 established that the variance for the reconciliation period of April, May, and June 2023 ("Reconciliation Period") is an over-collection of $180,725 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 a decrease in the estimated net cost of gas is $79,916.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $859,120. Combining this amount with the Reconciliation Period variance results in a total over-collection of $939,036, to be applied in this GCA as a decrease in the estimated net cost of gas.

B. **<u>Refunds</u>.** Petitioner received one new refund during the Reconciliation Period and has a refund from prior periods applicable to the current recovery period. We find the amount to be refunded in this GCA is $118,577, as reflected on Schedule 12A.

C. **<u>Unaccounted-For Gas</u>.** Petitioner reported negative unaccounted-for gas on Schedule 11A, which results in a refund to customers of $140,999.

8. Resulting Gas Cost Adjustment Factor. The estimated net commodity cost of gas to be recovered is $931,314for November 2023, $1,298,051for December 2023, and $1,564,030 for January 2024. Adjusting this total for the variance, refunds, excess earnings, and demand amounts yields net gas costs to be recovered through the GCA factor of $367,394for November 2023, $726,078 for December 2023, and $993,940 for January 2024. After dividing that amount by estimated sales, Petitioner's recommended GCA factors are $2.9349/Dth for November 2023, $3.7305/Dth for December 2023, and $4.1140/Dth for January 2024. Ms. Valux testified that, based on the information provided by Petitioner, the OUCC found nothing to indicate Petitioner has not correctly calculated the proposed GCA 159 factors in accordance with all applicable requirements.

9. Effects on Residential Customers - (GCA Cost Comparison). The table below shows the commodity costs a residential customer will incur under the approved GCA factors based on 10 Dth of usage. The table also compares those GCA factors to what a residential customer paid most recently (August 2023 - $2.7492/Dth) and a year ago (November 2022 - $8.0956/Dth, December 2022 - $8.0860/Dth, and January 2023 - $8.1882/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	Gas Costs (10 Dth)	Difference
November 2023	$29.35	$27.49	$1.86	$80.96	($51.61)
December 2023	$37.31	$27.49	$9.82	$80.86	($43.55)
January 2024	$41.14	$27.49	$13.65	$81.88	($40.74)

10. Interim Rates. The Commission is unable to determine whether Petitioner will earn an excess return while the 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. 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.

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

1. The Petition of Midwest Natural Gas Corporation for the gas cost adjustments 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, Midwest Natural Gas Corporation 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, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR:

APPROVED: OCT 31 2023

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

Dana Kosco Digitally signed by Dana Kosco Date: 2023.10.31 10:18:18 -04'00'

Dana Kosco
Secretary of the Commission