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

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY NATURAL GAS CO., INC. FOR APPROVAL OF CHANGES IN ITS GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-l-2-42(g)	))))	**CAUSE NO. 37791 GCA 115** **APPROVED: OCT 30 2024**

ORDER OF THE COMMISSION

Presiding Officer:
Greg S. Loyd, Administrative Law Judge

On August 28, 2024, in accordance with Ind. Code § 8-1-2-42, Switzerland County Natural Gas Co., Inc. ("Petitioner") filed its Petition with attached schedules for a gas cost adjustment ("GCA") to be applicable during the months of November 2024, December 2024, and January 2025. Also on August 28, 2024, Petitioner prefiled the direct testimony of Bonnie J. Mann, a Certified Public Accountant with LWG CPAs & Advisors ("LWG"), supporting Petitioner's proposed GCA factor. On September 17, 2024, Petitioner filed revisions to its case-in-chief, including revised schedules, revisions to its Petition, and revisions to Ms. Mann's direct testimony. On September 27, 2024, 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, and Heather R. Poole, Director of the OUCC's Natural Gas Division. The OUCC's testimony and exhibits included recalculated GCA factors. On October 4, 2024, Petitioner filed Ms. Mann's rebuttal testimony, second revised set of schedules and attachments. The second revised set of GCA schedules agreed with those submitted by the OUCC.

The Indiana Utility Regulatory Commission ("Commission") held an evidentiary hearing in this Cause at 10:30 a.m. on October 22, 2024, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared at the hearing, during which their respective testimony and exhibits were admitted into the record without objection.

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

1. **<u>Statutory Notice and Commission Jurisdiction</u>.** Notice of the hearing in this Cause was given and published 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. **<u>Petitioner's Characteristics</u>.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 105 East Seminary Street, Vevay, Indiana. Petitioner renders natural gas utility service to the public in Switzerland County, Indiana, and owns, operates, manages, and controls plant and equipment for the distribution and furnishing of such services.

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 retail customers at the lowest gas cost reasonably possible. Ms. Mann explained how Petitioner obtains its gas supply. She stated that Petitioner is served by one interstate pipeline and, while Petitioner is very small, it has, with the assistance of its marketer, Utility Gas Management, been able to obtain sufficient gas at reasonable rates. Ms. Mann described Petitioner's estimating techniques and purchasing strategies. She explained Petitioner reviews its actual gas sales to its customer classes for the last three years, focusing on the historical usage for the months that match the months in its future usage period estimate. Based on that historical information, Petitioner develops an average use and adjusts that average based on known customer changes. Ms. Mann testified that it is then able to estimate its future gas use for an upcoming GCA period. Once estimated usage is established, Petitioner reviews trends in natural gas pricing by examining NYMEX information, holding discussions with its marketer, and by considering the hedging facilities it has in place. Based on this analysis, Petitioner then determines its planned mix of source of supply, such as fixed contracts, storage gas, and spot gas.

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 a current and a 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 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 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 that the proposed gas costs include transport 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), 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 basic rates and charges were approved. Petitioner's current basic rates and charges were approved on April 17, 2019, in Cause No. 45117. In that Order, the Commission authorized Petitioner to earn a rate of return of 7.19% and net operating income of $65,356 on an original cost rate base of $908,986.

The evidence indicates that for the 12 months ending June 30, 2024, Petitioner's actual net operating income was negative $25,336. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning 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 presented indicates Petitioner's 12-month rolling average comparison was negative 1.77% for the period ending June 30, 2024. 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. Reconciliations.

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 April 2024 through June 2024 ("Reconciliation Period") is an over-collection of $67,365 from 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 is a decrease in the estimated net cost of gas of $26,609.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $11,629. Combining this amount with the Reconciliation Period variance results in a total over-collection of $14,980 to be applied in this GCA as a decrease in the estimated net cost of gas.

B. Refunds. Petitioner received no new pipeline refunds during the Reconciliation Period and has no refunds from prior periods. However, the OUCC did identify during its annual audit that $5,162 is to be returned to ratepayers. OUCC Witness Ms. Vaulx also identified that $4,394 should be returned to ratepayers due to not billing the approved tariff in December 2023 and January 2024. Ms. Vaulx explained that she discovered Petitioner listed the incorrect refund amount on Schedule 12A for Petitioner's prior overbilling in November 2023 through January 2024. Ms. Vaulx testified that after the OUCC reviewed this information with Petitioner, Petitioner filed revised schedules that in part amended the refund amount. Ms. Vaulx noted that the revised refund amount was inaccurate as well and she recommended that the amount be reduced by $1,784 due to a prior issued refund. On rebuttal, Ms. Mann agreed this reduction recommended by Ms. Vaulx. We find that the amount to be refunded to customers in this GCA is $9,556 as found by Ms. Vaulx and agreed upon by Ms. Mann. Ms. Vaulx noted that the revised refund amount resulted in a change to the utility's originally proposed GCA factors.

8. Resulting Gas Cost Adjustment Factor. The estimated net cost of gas to be recovered is $59,830 for November 2024, $74,919 for December 2024, and $101,582 for January 2025. Adjusting these totals for the variance and refund amounts yields gas costs to be recovered through the GCA factor of $51,652 for November 2024, $66,741 for December 2024, and $93,404 for January 2025. After dividing those amounts by estimated sales, Petitioner's recommended GCA factors are $3.2283/Dth for November 2024, $3.5127/Dth for December 2024, and $3.7362/Dth for January 2025. The Commission notes the parties ultimately agreed on the GCA factors to be approved. Ms. Vaulx presented the OUCC's calculations in Public's Exhibit 6, and Ms. Mann presented Petitioner's agreement with Ms. Vaulx's calculations as Attachment BJM-

1R to her rebuttal testimony. The Commission finds the above factors are properly calculated and should be approved, subject to refund in accordance with Paragraph 10 below.

9. <u>Effects on Residential Customers – (GCA Cost Comparison)</u>. Petitioner requests authority to approve the GCA factor of $3.2283/Dth for November 2024, $3.5127/Dth for December 2024, and $3.7362/Dth for January 2025. The table below shows the commodity costs a residential customer will incur under the proposed GCA factors based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently ($3.5950/Dth for August 2024) and a year ago ($3.9149/Dth for November 2023, $3.9149/Dth for December 2023, and $3.9330/Dth for January 2024). 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 2024	$32.28	$35.95	($3.67)	$38.60	($6.32)
December 2024	$35.13	$35.95	($0.82)	$39.15	($4.02)
January 2025	$37.36	$35.95	$1.41	$39.33	($1.97)

10. <u>Interim Rates</u>. 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. <u>Other Matters</u>. In our Order issued in Cause No. 37791 GCA 114 ("GCA 114 Order"), we directed Petitioner to provide testimony in the current Cause explaining what steps it has taken to ensure the accuracy of GCA filings going forward, to submit its schedules in Excel format and to state its total consultant fees for this GCA proceeding. We directed the OUCC to submit a cost analysis detailing its expenditure of time and resources to address any errors in Petitioner's testimony and/or schedules filed in that GCA proceeding. We note Petitioner and the OUCC complied with these requirements.

Ms. Mann testified that LWG held a team meeting specific to Petitioner's GCA to discuss how to prospectively reduce/eliminate the errors in its GCA schedules and how team members could assist each other to achieve that goal. Ms. Mann also stated LWG held an August 16, 2024 training for all LWG staff who work on GCA schedules. She stated that this training included the following topics: timely request and receipt of client documentation for GCA preparation, review of client documentation for completeness and correctness, timely preparation of GCA schedules to give reviewers, clients, and attorneys time for proper review, GCA errors and the need to reduce/eliminate them, and intrateam communication and assistance. She also noted that Petitioner provided its GCA schedules, in Excel format, but have no linkages to other sources or precursor spreadsheets, as was ordered of Petitioner in the GCA 114 Order. Ms. Mann testified that LWG charges Petitioner a $1,000 flat fee to handle a GCA proceeding, an amount which has not changed in 15 years.

Ms. Poole provided a cost analysis of the time OUCC staff members spent reviewing Petitioner's GCA 115 filing. She stated that the OUCC does not break down its staff's time by whether it was expended upon the regular review of a GCA or spent correcting errors. She estimated, based on personal familiarity with the Gas Division's efforts in this Cause, that between one-quarter to one-half of the 44 hours the Gas Division staff expended, i.e., 11 to 22 hours, was due to errors in Petitioner's filing and related follow up and/or correction of these errors.

Ms. Poole also provided a cost comparison analysis between the OUCC's time spent in the current case and its time working on *Midwest Natural Gas Company*, Cause No. 37440 GCA 163 ("*Midwest*"). She said that although the schedules in *Midwest* were more complex than those in the current Cause, OUCC staff spent more time reviewing the schedules submitted in current Cause (44 hours, costing $3,054) than *Midwest* schedules (32 hours costing $2,147). She also conducted a historical comparison of Petitioner's and Midwest's three prior GCA proceedings. She testified this historical cost analysis showed the OUCC has consistently identified more errors, spent at or above the number of hours, and incurred more cost for Petitioner's GCAs, notwithstanding its GCA is smaller in scope than Midwest's GCA.

Ms. Poole recommended the Commission order (1) Petitioner pay closer attention to all the rates (including base rates and GCA rates) billed to its customers in the future to ensure customers are being charged the Commission approved rates and (2) Petitioner and Ms. Mann to implement such additional procedures as will ensure the accuracy of Petitioner's future GCA filings.

On rebuttal, Ms. Mann emphasized that the effort for greater accuracy should focus on process improvement. She said LWG strives to use lessons learned from every GCA proceeding. She noted that after the OUCC prefiled its evidence in the current Cause, LWG held a meeting to primarily discuss the results of the OUCC annual review. Ms. Mann stated that based on this discussion, LWG initiated additional procedures to aid Petitioner in verifying the accuracy of information provided regarding GCA periods. Ms. Mann added that Petitioner and LWG are "willing to consider any specific process improvements for how the OUCC can assist to improve filings." Petitioner Exhibit 3 at 1. Ms. Mann emphasized that she believes the focus should be on "continued process improvement, both for [Petitioner] and the OUCC."

Ms. Mann argued that Ms. Poole's estimate of the amount of time that the OUCC spent on Petitioner's alleged errors was speculative. As support, she noted Ms. Poole admitted the OUCC did not divide its staff's time between reviewing a GCA as opposed to time correcting errors and instead only provided an estimate that a quarter to a half of the OUCC's time was spent addressing the OUCC's perceived errors. Ms. Mann recommended the OUCC better track its expended time and resources going forward. She also stated any analysis of additional procedures should weigh affordability and Petitioner's small size. Ms. Mann testified the Commission should evaluate whether additional costs should be expended for additional procedures by balancing LWG's cost for GCA services to Petitioner's ratepayers against the cost of the OUCC. She stated an understanding of the impacts of errors on the OUCC's time and resources cannot be determined because the OUCC did not provide the data that the Commission requested in its Order issued in Cause No. 37791 GCA 114.

Ms. Mann testified that the OUCC's identification of errors in GCA Causes generally do not distinguish between material and immaterial errors. In particular, she noted some mistakes impact GCA factors while other mistakes (such as scrivener errors) do not. She said without making such a distinguishment, the OUCC's identified errors, for example, can be misleading in terms of the amount of resources the OUCC expended reviewing a GCA and serve as a distraction from material errors that impact GCA factors.

Ms. Mann also argued that because OUCC employee salaries are paid regardless of the OUCC's review of Petitioner's GCA, the real consideration is what the OUCC employees would do with any time saved by not finding any errors in a GCA filing. She asserted that information would provide the Commission with insight on how the errors in any GCA filing are impacting the OUCC's workload and what the benefit would be to changing such procedures.

Ms. Mann testified that LWG takes GCA factor accuracy seriously and works toward process improvement and to the extent the OUCC's review can be used to improve processes LWG makes attempts to do so. She said that as she explained in Cause 37791 GCA 114 and in her direct testimony in this Cause, she and LWG strive to minimize errors in the GCA filings and will continue their work with that important goal in mind. However, she does not recommend that the Commission Order any additional procedures that would result in additional costs to Petitioner and its ratepayers.

We note the underlying issue at hand is process improvement. That is, the process improvements that Petitioner (as opposed to the OUCC) must implement to increase the accuracy of Petitioner's initially prefiled schedules and testimony and to minimize Petitioner's errors that require one or even a second set of revisions. Through Petitioner's process improvement, we expect greater accuracy in Petitioner's initial prefilings. Petitioner should work to eliminate instances in which material errors in Petitioner's prefilings must be corrected in revised schedules/testimony or worse, through a second set of revised schedules, as happened in the current Cause. We expect this improvement particularly in terms of material mistakes, such as those that led Petitioner to revise its proposed GCA factors twice. While we are not imposing particular requirements upon Petitioner to improve its processes, we emphasize that such improvements must occur.

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

1. The Petition of Switzerland County Natural Gas Co., 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 in this Order, 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. This Order shall be effective on and after the date of its approval.

<u>HUSTON, BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR</u>:

APPROVED: OCT 30 2024

**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: 2024.10.30 10:15:53
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Dana Kosco
Secretary of the Commission