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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA NATURAL GAS CORPORATION FOR APPROVAL OF GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF MAY, JUNE AND JULY 2010 PURSUANT TO IC 8-1-2-42 PL 43-1983	))))))	**CAUSE NO. 37418 GCA 105** **APPROVED:** APR 2 1 2010

<u>BY THE COMMISSION</u>:
James D. Atterholt, Commissioner
DeAnna L. Brunner, Administrative Law Judge

On February 9, 2010, in accordance with Indiana Code § 8-1-2-42, Indiana Natural Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment with attached Schedules ("GCA") to be applicable during the billing cycles of May 2010 through July 2010 with the Indiana Utility Regulatory Commission ("Commission"). On March 9, 2010, Petitioner filed its "Prefiled Direct Testimony of David A. Osmon," Petitioner's Executive Vice President, supporting the proposed GCA factor. On March 23, 2010, in conformance with the statute, the OUCC prefiled the statistical report and direct testimony of Lianne N. Lockhart, a Utility Analyst in the OUCC's Natural Gas Division.

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing was held in this Cause at 10:00 a.m., on April 6, 2010, in Suite 220, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented herein, and being duly advised, the Commission now finds:

1. <u>Commission Jurisdiction and Notice</u>. Due legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility, and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission therefore has jurisdiction over the parties and the subject matter herein.

2. <u>Petitioner's Characteristics</u>. Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 1080 West Hospital Road, Paoli, Indiana. Petitioner is engaged in rendering gas utility service to the public in Orange, Crawford, Dubois, Brown, Bartholomew, Harrison, Johnson, and Lawrence counties in Indiana; and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

3. **Source of Natural Gas.** Indiana 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.

Petitioner's gas supplies are currently acquired through a contractual arrangement with a natural gas marketer. The General Manager, Phil Ross, in response to a data request from the OUCC stated that Petitioner's approach is to be as flexible as possible with their purchasing strategy. He stated that near-term goals include completing the purchase of gas targeted for November 2010 through March 2011 and to look for purchases for periods after June 2011. Petitioner also monitors its purchasing practices in an attempt to keep purchased gas costs as low as economically feasible.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that works to mitigate gas price volatility and 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 in order to meet anticipated customer requirements. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Indiana 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 gas costs in this Petition include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission has reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the cost to be reasonable. Therefore, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C) in effect prohibits approval of a gas cost adjustment which results in the Petitioner earning a return in excess of the return authorized in the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rates and charges were approved is Cause No. 43434. The Commission's October 8, 2008 Order in that Cause authorized Petitioner to earn a net operating income of $454,590. Petitioner's evidence indicates that for the twelve (12) months ended December 31, 2009, Petitioner's actual net operating income was $456,908. Therefore, based on the evidence of record, the Commission finds that Petitioner is earning in excess of the return authorized in its last rate case.

Because Petitioner has earned a return in excess of the amount authorized, Indiana Code § 8-1-2-42.3 requires the Commission to determine the amount, if any, of the return to be refunded 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 Indiana Code § 8-1-2-42.3(a), is greater than zero. Based upon the evidence of record, the Commission finds the sum of the differentials during the relevant period is less than zero; therefore, it is not appropriate to require a refund of any of the amount Petitioner over-earned in this Cause.

6. **Estimation of Purchased Gas Costs**. Indiana Code § 8-1-2-42(g)(3)(D) requires that the Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimations with the eventual actual costs. The evidence indicates that the estimating techniques during the reconciliation period of October 1, 2009, through December 31, 2009 (the "Reconciliation Period") yielded an under-estimated weighted average error of 16.02%. Petitioner explained that the magnitude of the cost variance for the Reconciliation Period resulted from the timing of sales, as compared to purchases, and the effect of seasonal sales which can increase significantly heading into the winter heating season. Based on Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of its future gas costs is reasonable.

7. **Reconciliation**. Indiana § Code 8-1-2-42(g)(3)(D) also requires that the Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an under-collection of $316,512 from its 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 $29,182.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $81,453. When this amount is combined with the Reconciliation Period variance, the result is a total over-collection of $52,271 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Application. Based on the evidence presented, the Commission finds that Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period and the gas costs recovered during that same period.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is $466,298. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through this GCA of $414,027. After dividing that amount by estimated sales, adding demand costs, and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $5.8709/Dth for May, 2010; $5.8714/Dth for June, 2010; and $5.4618/Dth for July, 2010.

9. **Effects on Residential Customers**. The GCA factor for May 2010 of $5.8709/Dth represents a decrease of $0.4053/Dth from the current average GCA factor of

$6.2762/Dth[1]. The GCA factor for June 2010 of $5.8714/Dth represents a decrease of $0.4048/Dth from the current average GCA factor of $6.2762/Dth. The GCA factor for July 2010 of $5.4618/Dth represents a decrease of $0.8144/Dth from the current average GCA factor of $6.2762/Dth. The effects of these changes for the three months and for various consumption levels of residential customer bills are shown in the following table:

Table 1

Proposed GCA Factor
vs.
Currently Approved GCA Factor

May 2010

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$54.80	$56.82	($2.02)	(3.56%)
10	$96.33	$100.38	($4.05)	(4.03%)
15	$137.86	$143.94	($6.08)	(4.22%)
20	$179.39	$187.50	($8.11)	(4.33%)
25	$220.93	$231.06	($10.13)	(4.38%)

June 2010

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$54.80	$56.82	($2.02)	(3.56%)
10	$96.33	$100.38	($4.05)	(4.03%)
15	$137.87	$143.94	($6.07)	(4.22%)
20	$179.40	$187.50	($8.10)	(4.32%)
25	$220.94	$231.06	($10.12)	(4.38%)

[1] Applicable during March 2010.

July 2010

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$52.75	$56.82	($4.07)	(7.16%)
10	$92.24	$100.38	($8.14)	(8.11%)
15	$131.72	$143.94	($12.22)	(8.49%)
20	$171.21	$187.50	($16.29)	(8.69%)
25	$210.70	$231.06	($20.36)	(8.81%)

The GCA factor for May 2010 of $5.8709/Dth represents an increase of $0.0924/Dth from the GCA factor of $5.7785/Dth billed one year ago. The GCA factor for June 2010 of $5.8714/Dth represents a decrease of $0.8785/Dth from the GCA factor of $6.7499/Dth billed one year ago. The GCA factor for July 2010 of $5.4618/Dth represents a decrease of $2.2783/Dth from the GCA factor of $7.7401/Dth billed one year ago. The effects of these changes for the three months for various consumption levels of residential customer bills are shown in the following table:

Table 2

Proposed GCA Factor
vs.
GCA Factor One Year Ago

May 2010

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$54.80	$54.33	$0.47	0.87%
10	$96.33	$95.40	$0.93	0.97%
15	$137.86	$136.47	$1.39	1.02%
20	$179.39	$177.54	$1.85	1.04%
25	$220.93	$218.62	$2.31	1.06%

June 2010

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$54.80	$59.19	($4.39)	(7.42%)
10	$96.33	$105.12	($8.79)	(8.36%)
15	$137.87	$151.05	($13.18)	(8.73%)
20	$179.40	$196.97	($17.57)	(8.92%)
25	$220.94	$242.91	($21.97)	(9.04%)

July 2010

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$52.75	$64.14	($11.39)	(17.76%)
10	$92.24	$115.02	($22.78)	(19.81%)
15	$131.72	$165.90	($34.18)	(20.60%)
20	$171.21	$216.78	($45.57)	(21.02%)
25	$210.70	$267.66	($56.96)	(21.28%)

10. Interim Rates. The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission has authorized that the approved rates herein should be interim rates, subject to refund pending reconciliation in the event an excess return is earned.

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

1. The Petition of Indiana Natural Gas Corporation for approval of a gas cost adjustment factor for natural gas service, as set forth in Finding Paragraph No. 8, shall be and is hereby approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Indiana Natural Gas Corporation shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedule on these amendments.

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

LANDIS, MAYS AND ZIEGNER CONCUR; HARDY AND ATTERHOLT ABSENT:

APPROVED: APR 21 2010

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

Brenda A. Howe

Brenda A. Howe,
Secretary to the Commission