ORIGINAL

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 FEBRUARY, MARCH AND APRIL 2011 PURSUANT TO IC 8-1-2-42, PL 43-1983	))))))	**CAUSE NO. 37418 GCA 108** **APPROVED:** JAN 26 2011

BY THE COMMISSION:
Gregory R. Ellis, Administrative Law Judge

On November 9, 2010, in accordance with Indiana Code § 8-1-2-42, Indiana Natural Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of February 2011 through April 2011 with the Indiana Utility Regulatory Commission ("Commission"). On December 17, 2010, Petitioner prefiled the direct testimony and revised schedules of David A. Osmon, Petitioner's Executive Vice President, supporting the proposed GCA factor. On December 21, 2010, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Lianne N. Lockhart, 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, an evidentiary hearing was held in this Cause at 9:30 a.m. Eastern Daylight Time, on January 4, 2011, in Suite 224, PNC 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, the Commission now finds:

1. **Statutory Notice and Commission Jurisdiction.** 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. **Petitioner's Characteristics.** 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 in Paoli, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in Orange, Johnson, Crawford, Dubois, Brown, Bartholomew, Harrison, 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 contractual arrangements with natural gas suppliers. Petitioner's witness, David A. Osmon, testified that Petitioner has continued purchasing fixed price contracts for future periods. He further stated that Petitioner 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 $454,591. Petitioner's evidence indicates that for the twelve (12) months ended September 30, 2010, Petitioner's actual net operating income was $416,032. Therefore, based on the evidence of record, the Commission finds that Petitioner is not earning in excess of the return authorized in its last rate case.

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 of Petitioner during the reconciliation period of July 1, 2010 through September 30, 2010 (the "Reconciliation Period") yielded an under-estimated weighted average error of 4.50%. 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 cost 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 costs for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an under-collection of $37,406 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 $15,056.

The variance from prior recovery periods applicable to this recovery period is an over-collection of $30,495. Combining this amount with the Reconciliation Period variance results in a total over-collection of $15,439 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has no refunds applicable to the current recovery period. Petitioner has a positive annual unaccounted-for gas of 0.62% as reflected on Schedule 11A. Due to the positive unaccounted-for gas percentage, Petitioner is not required to provide a refund to customers.

Petitioner has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no in refunds to be applied in this GCA as a decrease in the net cost of gas. 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 $1,976,573. Adjusting this total for variance and refund amounts yields gas costs to be recovered through this GCA of $1,961,134. After dividing that amount by estimated sales, adding demand costs, and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $5.9735/Dth for February 2011; $5.8775/Dth for March 2011; and $5.9469/Dth for April 2011.

9. **Effects on Residential Customers.** The GCA factor for February 2011 of $5.9735/Dth represents a decrease of $0.1733/Dth from the current GCA factor of $6.1468/Dth. The GCA factor for March 2011 of $5.8775/Dth represents a decrease of $0.2693/Dth from the current GCA factor of $6.1468/Dth. The GCA factor for April 2011 of $5.9469/Dth represents a decrease of $0.1999/Dth from the current GCA factor of $6.1468/Dth. The effects of these changes on residential customer bills at various consumption levels during the period covered by this GCA are shown in the following table:

Table 1
Proposed GCA Factor
vs.
Currently Approved GCA Factor

February 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$ 55.31	$ 56.17	($0.86)	-1.53%
10	97.35	99.09	(1.74)	-1.76%
15	139.40	142.00	(2.60)	-1.83%
20	181.44	184.91	(3.47)	-1.88%
25	223.49	227.82	(4.33)	-1.90%

March 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$54.83	$ 56.17	($1.34)	-2.39%
10	96.39	99.09	(2.70)	-2.72%
15	137.96	142.00	(4.04)	-2.85%
20	179.52	184.91	(5.39)	-2.91%
25	221.09	227.82	(6.73)	-2.95%

April 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$55.18	$ 56.17	($0.99)	-1.76%
10	97.09	99.09	(2.00)	-2.02%
15	139.00	142.00	(3.00)	-2.11%
20	180.91	184.91	(4.00)	-2.16%
25	222.83	227.82	(4.99)	-2.19%

The GCA factor for February 2011 of $5.9735/Dth represents a decrease of $1.0035/Dth from the prior year GCA factor of $6.9770/Dth. The GCA factor for March 2011 of $5.8775/Dth represents a decrease of $0.3987/Dth from the prior year GCA factor of $6.2762/Dth. The GCA factor for April 2011 of $5.9469/Dth represents an increase of $0.5144/Dth from the prior year GCA factor of $5.4325/Dth. The effects of these changes on residential customer bills at various consumption levels during the period covered by this GCA are shown in the following table:

Table 2

Proposed GCA Factor
vs.
Prior Year Approved GCA Factor

February 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$55.31	$60.33	($5.02)	-8.32%
10	97.35	107.39	(10.04)	-9.35%
15	139.40	154.45	(15.05)	-9.74%
20	181.44	201.51	(20.07)	-9.96%
25	223.49	248.59	(25.10)	-10.10%

March 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$54.83	$56.82	($1.99)	-3.50%
10	96.39	100.38	(3.99)	-3.97%
15	137.96	143.94	(5.98)	-4.15%
20	179.52	187.50	(7.98)	-4.26%
25	221.09	231.07	(9.98)	-4.32%

April 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$55.18	$52.60	$2.58	4.90%
10	97.09	91.94	5.15	5.60%
15	139.00	131.28	7.72	5.88%
20	180.91	170.62	10.29	6.03%
25	222.83	209.97	12.86	6.12%

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 finds that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. Monthly Flex Mechanism. Petitioner utilizes a flex mechanism each month to adjust the GCA for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex is to be priced at NYMEX prices on a day no more than six (6) business days prior to

the beginning of said calendar month. Changes in the market price included in the flex is limited to a maximum adjustment (up or down) of $1.00 from the initial market price.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

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 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.

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JAN 26 2011

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