ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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PETITION OF INDIANA NATURAL GAS CORPORATION FOR APPROVAL OF GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF NOVEMBER, DECEMBER 2011 AND JANUARY 2012 PURSUANT TO IC 8-1-2-42(g)	))))))	**CAUSE NO. 37418 GCA 111** **APPROVED:** OCT 25 2011

ORDER OF THE COMMISSION

Presiding Officers:
James D. Atterholt, Chairman
Aaron A. Schmoll, Senior Administrative Law Judge

On August 10, 2011, 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 November, December 2011 and January 2012, with the Indiana Utility Regulatory Commission ("Commission"). On September 28, 2011, Petitioner prefiled the direct testimony of David A. Osmon, Petitioner's Executive Vice President, supporting the proposed GCA factor. On October 6, 2011, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") prefiled the statistical report and direct testimony of Heather R. Poole, Utility Analyst in the OUCC's Natural Gas Division.

Pursuant to notice 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 on October 12, 2011 at 10:00 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present. The testimony and exhibits of both the Petitioner and the OUCC were admitted into the record without objection. No members of the public appeared or sought to testify at the hearing.

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

1. **Commission Notice and 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 organized and existing under the laws of the State of Indiana. Petitioner's principal office is located 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 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 marketers. Petitioner's Executive Vice President, David A. Osmon, testified that Petitioner has continued purchasing fixed price contracts for future periods. 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 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 by 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 June 30, 2011, Petitioner's actual net operating income was $530,418. Therefore, based on the evidence of record, the Commission finds that Petitioner is earning in excess of that 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 ($435,673), which is less than zero and, therefore, it is not appropriate to require a refund of any of the amount over earned in this Cause.

6. **Estimation of Purchased Gas Costs.** Indiana 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 this requires, in part, a comparison of prior estimations with the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of April 1, 2011, through June 30, 2011 (the "Reconciliation Period") yielded an over-estimated weighted average error of 28.28%.

Mr. Osmon explained the weighted average error was due to staggered billing cycles compared to the calendar month purchase cycle. Purchased gas costs are based on purchased volumes, and dividing those costs by sales volumes does not always provide comparable data. In consecutive months where weather is consistent, sales and purchase volumes may compare more favorably. We note that through the past four GCAs, Petitioner has underestimated its purchased gas costs by 0.56%.

Based upon 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 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 costs for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an over-collection of $149,334 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 a decrease in the estimated net cost of gas is $60,570.

The variance from prior recovery periods applicable to this recovery period is an under-collection of $65,471. Combining this amount with the Reconciliation Period variance results in a total under-collection of $4,901 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has no new refunds during the Reconciliation Period and had no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Cause. 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 $1,779,335. Adjusting this total for variance and refund amounts yields gas costs to be recovered through this GCA of $1,784,236. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.6260/Dth for November, 2011; $5.5186/Dth for December, 2011; and $5.6983/Dth for January, 2012.

9. **Effects on Residential Customers.** The GCA factor for November 2011 of $5.6260/Dth represents an increase of $0.1800 from the current GCA factor of $5.4460/Dth. The GCA factor for December 2011 of $5.5186/Dth represents an increase of $0.0726 from the current GCA factor of $5.4460/Dth. The GCA factor for January 2012 of $5.6983/Dth represents an increase of $0.2523 from the current GCA factor of $5.4460/Dth. The effects of these changes on residential customer bills at various consumption levels during the period covered by this GCA are shown below:

Proposed vs. Currently Approved GCA Factor
For Residential Customers

November 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 53.57	$ 52.67	$0.90	1.71%
10	$ 93.88	$ 92.08	$1.80	1.95%
15	$134.19	$131.49	$2.70	2.05%
20	$174.49	$170.89	$3.60	2.11%
25	$214.80	$210.30	$4.50	2.14%

December 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 53.03	$ 52.67	$0.36	0.68%
10	$ 92.80	$ 92.08	$0.72	0.78%
15	$132.58	$131.49	$1.09	0.83%
20	$172.35	$170.89	$1.46	0.85%
25	$212.12	$210.30	$1.82	0.87%

January 2012

Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 53.93	$ 52.67	$ 1.26	2.39%
10	$ 94.60	$ 92.08	$ 2.52	2.74%
15	$135.27	$131.49	$ 3.78	2.87%
20	$175.94	$170.89	$ 5.05	2.96%
25	$216.61	$210.30	$ 6.31	3.00%

The GCA factor for November 2011 of $5.6260/Dth represents a decrease of $0.4757 from the GCA factor of $6.1017/Dth billed one year ago. The GCA factor for December 2011 of $5.5186/Dth represents a decrease of $0.6282 from the GCA factor of $6.1468/Dth billed one year ago. The GCA factor for January 2012 of $5.6983/Dth represents a decrease of $0.3614 from the GCA factor of $6.0597/Dth billed one year ago. The effects of those changes on residential customer bills at various consumption levels during the period covered by this GCA are shown below:

Table 2

Proposed vs. Prior Year Approved GCA Factor For Residential Customers

November 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 53.57	$ 55.95	$(2.38)	-4.25%
10	$ 93.88	$ 98.64	$(4.76)	-4.83%
15	$134.19	$141.32	$(7.13)	-5.05%
20	$174.49	$184.01	$(9.52)	-5.17%
25	$214.80	$226.70	$(11.90)	-5.25%

December 2011

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 53.03	$ 56.17	$(3.14)	-5.59%
10	$ 92.80	$ 99.09	$(6.29)	-6.35%
15	$132.58	$142.00	$ (9.42)	-6.63%
20	$172.35	$184.91	$(12.56)	-6.79%
25	$212.12	$227.83	$(15.71)	-6.90%

January 2012

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 53.93	$ 55.74	$(1.81)	-3.25%
10	$ 94.60	$ 98.22	$(3.62)	-3.69%
15	$ 135.27	$140.69	$(5.42)	-3.85%
20	$175.94	$183.17	$(7.23)	-3.95%
25	$216.61	$225.65	$(9.04)	-4.01%

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 rates approved 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 are 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 are 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 a gas cost adjustment 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. Petitioner 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 reference thereon reflecting that such charges are applicable to the rate schedules on these amendments.

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

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

APPROVED: OCT 25 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