

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA NATURAL GAS )
CORP. FOR APPROVAL OF GAS COST ) CAUSE NO. 37418 GCA 112
ADJUSTMENTS TO BE APPLICABLE IN )
THE MONTHS OF FEBRUARY, MARCH )
AND APRIL 2012 PURSUANT TO IC 8-1-2- ) APPROVED: JAN 25 2012
42, PL 43-1983 )

BY THE COMMISSION:
Kari A. E. Bennett, Commissioner
Angela Rapp Weber, Administrative Law Judge

On November 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 February through April 2012 with the Indiana Utility Regulatory Commission ("Commission"). On December 19, 2011, Petitioner prefiled the direct testimony of David A. Osmon, Petitioner's Executive Vice President. On December 27, 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.

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, a public hearing was held in this Cause on January 3, 2012 at 10:15 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were represented by counsel at the hearing. The testimony and exhibits of the Petitioner and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to participate at the hearing.

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

1. Commission Jurisdiction and Notice. 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 the 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 Petitioner and the subject matter of this Cause.

2. Petitioner's Characteristics. Petitioner is a corporation 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 gas utility service to the public in Orange, Johnson, Crawford, Dubois, Brown, Bartholomew, Harrison, and Lawrence counties in

Indiana. Petitioner owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of gas utility service in those counties.

**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 natural gas supplies so as to provide gas to its 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. According to the evidence, Indiana Natural included in this GCA period storage withdrawals for February and March as part of its supply portfolio. The overall hedged percentage for this GCA period is 50%.

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 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 Petitioner has met the statutory requirement.

**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, 2011, Petitioner's actual net operating income was \$380,391. 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.** 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 actual costs. The evidence indicates that the estimating techniques during the

reconciliation period of July 1, 2011 through September 30, 2011 (the "Reconciliation Period") yielded an under-estimated weighted average error of 3.28%.

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 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. Petitioner's evidence established that the variance for the Reconciliation Period is an under-collection of \$38,026. This amount should be included in this GCA and Petitioner's 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 \$15,758.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$12,212. When that amount is combined with the Reconciliation Period variance, the result is a total under-collection of \$3,546 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 pipeline 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 \$1,589,309. Adjusting this total for variance and refund amounts yields gas costs to be recovered through this GCA of \$1,592,855. After dividing that amount by estimated sales and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are \$5.0140/Dth for February 2012; \$5.0029/Dth for March 2012; and \$4.9306/Dth for April 2012.

9. **Effects on Residential Customers.** The GCA factor for February 2012 of \$5.0140/Dth represents a decrease of \$0.3234/Dth from the current GCA factor of \$5.3374/Dth. The GCA factor for March 2012 of \$5.0029/Dth represents a decrease of \$0.3345/Dth from the current GCA factor of \$5.3374/Dth. The GCA factor for April 2012 of \$4.9306/Dth represents a decrease of \$0.4068 from the current GCA factor of \$5.3374/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**

<b>February 2012</b> Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	\$ 50.51	\$ 52.13	(\$1.62)	-3.11%
10	\$ 87.76	\$ 90.99	(\$3.23)	-3.55%
15	\$125.01	\$129.86	(\$4.85)	-3.73%
20	\$162.25	\$168.72	(\$6.47)	-3.83%
25	\$199.50	\$207.59	(\$8.09)	-3.90%

<b>March 2012</b> Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	\$ 50.46	\$ 52.13	(\$1.67)	-3.20%
10	\$ 87.65	\$ 90.99	(\$3.34)	-3.67%
15	\$124.84	\$129.86	(\$5.02)	-3.87%
20	\$162.03	\$168.72	(\$6.69)	-3.97%
25	\$199.23	\$207.59	(\$8.36)	-4.03%

<b>April 2012</b> Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	\$ 50.09	\$ 52.13	(\$ 2.04)	-3.91%
10	\$ 86.92	\$ 90.99	(\$ 4.07)	-4.47%
15	\$123.76	\$129.86	(\$ 6.10)	-4.70%
20	\$160.59	\$168.72	(\$ 8.13)	-4.82%
25	\$197.42	\$207.59	(\$ 10.17)	-4.90%

The GCA factor for February 2012 of \$5.0140/Dth represents a decrease of \$1.0450/Dth from the GCA factor of \$6.0590/Dth billed one year ago. The GCA factor for March 2012 of \$5.0029/Dth represents a decrease of \$0.6444/Dth from the GCA factor of \$5.6473/Dth billed one year ago. The GCA factor for April 2012 of \$4.9306/Dth represents a decrease of \$1.1409/Dth from the GCA factor of \$6.0715/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**

**February 2012**

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	\$ 50.51	\$ 55.74	(\$ 5.23)	-9.38%
10	\$ 87.76	\$ 98.21	(\$ 10.45)	-10.64%
15	\$125.01	\$140.68	(\$ 15.67)	-11.14%
20	\$162.25	\$183.15	(\$ 20.90)	-11.41%
25	\$199.50	\$225.64	(\$ 26.14)	-11.58%

**March 2012**

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	\$ 50.46	\$ 53.68	(\$3.22)	-6.00%
10	\$ 87.65	\$ 94.09	(\$6.44)	-6.84%
15	\$124.84	\$134.51	(\$9.67)	-7.19%
20	\$162.03	\$174.92	(\$12.89)	-7.37%
25	\$199.23	\$215.34	(\$16.11)	-7.48%

**April 2012**

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	\$ 50.09	\$ 55.80	(\$ 5.71)	-10.23%
10	\$ 86.92	\$ 98.33	(\$ 11.41)	-11.60%
15	\$ 123.76	\$140.87	(\$ 17.11)	-12.15%
20	\$160.59	\$183.40	(\$ 22.81)	-12.44%
25	\$197.42	\$225.95	(\$ 28.53)	-12.63%

**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 of the gas costs in a subsequent GCA 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 the maximum adjustment (up or down) of \$1.00 from the initial market price.

The 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. Petitioner shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustment factor approved herein, 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, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:**

**APPROVED:     JAN 25 2012**

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



**Brenda A. Howe  
Secretary to the Commission**