STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA NATURAL GAS CORPORATION FOR APPROVAL OF GAS COST ADJUSTMENTS TO BE APPLICABLE IN THE MONTHS OF MAY, JUNE AND JULY 2012 PURSUANT TO IC § 8-1-2-42, PL 43-1983	**CAUSE NO. 37418 GCA 113** **APPROVED:** APR 25 2012

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
David E. Veleta, Administrative Law Judge

On February 13, 2012, 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 May, June and July 2012, with the Indiana Utility Regulatory Commission ("Commission"). On April 2, 2012, Petitioner prefiled the direct testimony and revised schedules of David A. Osmon, Petitioner's Executive Vice President, supporting the proposed GCA factor. On April 4, 2012, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Heather R. Poole, Utility Analyst.

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 on April 12, 2012 at 10:00 a.m., in Room 222, 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. Therefore, the Commission has jurisdiction over the Petitioner 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 Bartholomew, Brown, Crawford, Dubois, Harrison, Johnson, Lawrence and Orange

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 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 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 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 herein indicates that for the twelve (12) months ending December 31, 2011, Petitioner's actual net operating income was $413,225. 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 the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of October 1, 2011 through December

31, 2011 ("the Reconciliation Period") yielded an under-estimated weighted average error of 13.29%.

Mr. Osmon explained that the billing period of the majority of customers does not coincide with the calendar month, which is the purchase cycle. Thus, when temperatures begin to change, the difference between sales and purchases can be significant. Further, since Schedule 13 divides cost of purchases by sales volumes, as opposed to purchased volumes, the calculation can cause unintended results.

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 cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an under-collection of $155,640 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 $13,307.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $27,012. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $13,705 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 pipeline refunds to be returned to its customers 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 cost of gas to be recovered during the application period is $281,706. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA. After dividing that amount by estimated sales, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $3.8563/Dth for May, 2012; $4.4450/Dth for June, 2012; and $4.3108/Dth for July, 2012.

9. **Effects on Residential Customers.** The GCA factor for May 2012 of $3.8563/Dth represents a decrease of $0.3280/Dth from the current GCA factor of $4.1843/Dth. The GCA factor for June 2012 of $4.4450/Dth represents an increase of $0.2607/Dth from the current GCA factor of $4.1843/Dth. The GCA factor for July 2012 of $4.3108/Dth represents an increase of $0.1265/Dth from the current GCA factor of $4.1843/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

May 2012 Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 44.72	$ 46.36	($1.64)	-3.54%
10	$ 76.18	$ 79.46	($3.28)	-4.13%
15	$107.64	$112.56	($4.92)	-4.37%
20	$139.10	$145.66	($6.56)	-4.50%
25	$170.56	$178.76	($8.20)	-4.59%

June 2012 Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 47.67	$ 46.36	$1.31	2.83%
10	$ 82.07	$ 79.46	$2.61	3.28%
15	$116.47	$112.56	$3.91	3.47%
20	$150.87	$145.66	$5.21	3.58%
25	$185.28	$178.76	$6.52	3.65%

July 2012 Consumption Dth	Bill at Proposed GCA Factor	Bill at Current Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 46.99	$ 46.36	$ 0.63	1.36%
10	$ 80.73	$ 79.46	$ 1.27	1.60%
15	$114.46	$112.56	$ 1.90	1.69%
20	$148.19	$145.66	$ 2.53	1.74%
25	$181.92	$178.76	$ 3.16	1.77%

The GCA factor for May 2012 of $3.8563/Dth represents a decrease of $1.8391/Dth from the GCA factor of $5.6954/Dth billed one year ago in GCA 109. The GCA factor for June 2012 of $4.4450/Dth represents a decrease of $1.3601/Dth from the GCA factor of $5.8051/Dth billed one year ago. The GCA factor for July 2012 of $4.3108/Dth represents a decrease of $1.0631/Dth from the GCA factor of $5.3739/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:

Proposed vs. Prior Year Approved GCA Factor
For Residential Customers

May 2012 Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 44.72	$ 53.92	($ 9.20)	-17.06%
10	$ 76.18	$ 94.57	($ 18.39)	-19.45%
15	$107.64	$135.23	($ 27.59)	-20.40%
20	$139.10	$175.88	($ 36.78)	-20.91%
25	$170.56	$216.55	($ 45.99)	-21.24%

June 2012 Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 47.67	$ 54.47	($ 6.80)	-12.48%
10	$ 82.07	$ 95.67	($13.60)	-14.22%
15	$116.47	$136.87	($20.40)	-14.90%
20	$150.87	$178.08	($27.21)	-15.28%
25	$185.28	$219.29	($34.01)	-15.51%

July 2012 Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Increase (Decrease)	Percent Change
5	$ 46.99	$ 52.31	($ 5.32)	-10.17%
10	$ 80.73	$ 91.36	($ 10.63)	-11.64%
15	$ 114.46	$130.41	($ 15.95)	-12.23%
20	$148.19	$169.45	($ 21.26)	-12.55%
25	$181.92	$208.51	($ 26.59)	-12.75%

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.

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 the gas cost adjustment for natural gas service, as set forth in Finding Paragraph No. 8, shall be and hereby is 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 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, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: APR 25 2012

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