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 2013 PURSUANT TO IC 8-1-2-42 PL 43-1983	) CAUSE NO. 37418 GCA 116) APPROVED:	JAN 23 2013

BY THE COMMISSION:
Kari A. E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On November 9, 2012, 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, March, and April 2013 with the Indiana Utility Regulatory Commission ("Commission"). On December 6, 2012, Petitioner prefiled the direct testimony of David A. Osmon, Petitioner's Executive Vice President, supporting the proposed GCA factor. On December 12, 2012, Petitioner filed the Supplemental Testimony of Mr. Osmon. Also on December 12, 2012, in conformance with the statute, the Indiana Office of the Utility Consumer Counselor ("OUCC") prefiled the statistical report and direct testimony of Sherry L. Beaumont, Utility Analyst.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, the Commission held an evidentiary hearing in this Cause at 9:30 a.m. on December 19, 2012, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated at the hearing. The testimony and exhibits of both the Petitioner and the OUCC were admitted into the record. No members of the public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence presented, 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 is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Petitioner's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

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, Paoli, Indiana. Petitioner is engaged in rendering 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 supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible. Mr. Osmon said that Petitioner is active in purchasing fixed contracts, purchasing contracts relating to periods well into the future, purchasing appropriately sized contracts, and planning for efficient use of storage. In addition, Mr. Osmon testified that Petitioner monitors market conditions, flexes its GCA factors both up and down as appropriate, and uses a normal temperature adjustment mechanism during the hearing season.

For the months of February, March, and April 2013, Petitioner has fixed-price contracts in place for approximately 33% of its anticipated demand. Petitioner also plans to purchase spot gas and to withdraw gas from storage.

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 both current and forward-looking bases. 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 Petitioner has met that 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 that 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, 2012, Petitioner's actual net operating income was $354,698. 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 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, 2012, through September 30, 2012 (the "Reconciliation Period") yielded an under-estimated weighted average error of 5.95%. 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 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 $34,539 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 $13,926.

The variance from prior recovery periods applicable to this recovery period is an under-collection of $2,970. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $16,896 to be applied in this GCA as an increase 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 0.72% as reflected on Schedule 11A. Due to the positive unaccounted-for gas percentage, Petitioner is not required to provide a refund to customers. 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. **MCFC Charge.** Mr. Osmon explained that Petitioner receives delivery of gas from Texas Gas Transmission ("TGT") pursuant to Firm Transportation contracts and a Small Gas Transport ("SGT") contract. The SGT contract contains embedded fixed costs that are not fully recovered unless Petitioner transports a minimum annual amount of gas (the Annual Minimum Quantity or "AMQ"), which is 20% of the sum of Petitioner's daily contract demands for a twelve-month period. If Petitioner does not transport the AMQ, it is subject to a Minimum Contribution to Fixed Cost ("MCFC") charge.

Due to the unseasonably warm weather during the last heating season, Petitioner did not transport the AMQ, and has been notified by TGT that it will be invoiced a MCFC charge beginning in January 2013. The total MCFC charge is $130,400 billed in three equal installments in January, February, and March 2013. Petitioner proposes to calculate the MCFC charge on a per dekatherm basis for volumes moved under the SGT contract. This amount would then be added to the normal SGT volumetric rate for the gas cost estimation for the months of February through July 2013. In August 2013, the variance created by the charge will begin to impact the GCA factor. Petitioner argues that this method will mitigate the impact of the MCFC charge on customers by spreading the charge over an eighteen-month period from February 2013 through July 2014. According to Mr. Osmon, spreading the MCFC charge over eighteen months results in an additional $0.2815 per dekatherm whereas spreading the MCFC charge over twelve months results in an additional $0.4222 per dekatherm.

The OUCC's witness, Ms. Beaumont, responded to Petitioner's proposed treatment of the MCFC charge. Ms. Beaumont asserts that Petitioner's proposal will allow it to collect money from ratepayers prior to actually incurring the MCFC charge. Instead, Ms. Beaumont proposes that Petitioner should reflect the MCFC charge when the January through March 2013 costs are reconciled as part of GCA 118. Under Ms. Beaumont's proposal, the MCFC charge would be collected from customers over the twelve months from August 2013 through July 2014.

Based on the evidence, the Commission finds that the MCFC charge is the result of unseasonably warm weather, which reduced Petitioner's ability to receive delivery of the AMQ. There is no evidence that the SGT contract or the MCFC charge is unreasonable. Regardless of the method in which the MCFC charge is recovered by Petitioner, it will ultimately impact the GCA factor. The MCFC charge is a known cost that Petitioner will incur in January, February, and March 2013. If we include the MCFC charge in this GCA factor, Petitioner will not begin collecting money from ratepayers prior to incurring the charge as Ms. Beaumont argued; rather, Petitioner will have already made its first installment payment prior to beginning to recover the cost through its GCA. In light of these facts, we conclude that the MCFC charge presents a unique situation that must be addressed on a case-by-case basis.

Ind. Code § 8-1-2-42(g) allows a GCA to include the utility's costs for gas purchased from pipeline suppliers, including costs incurred for related transportation. The MCFC charge stems directly from Petitioner's transportation contract and, therefore, is properly included in its GCA factor. In light of the amount of the charge, we find that it is reasonable to mitigate the impact of the MCFC charge on ratepayers by spreading the cost out over a longer period. Therefore, we conclude that Petitioner's proposed allocation of the MCFC charge over eighteen months, beginning February 2013 is reasonable. Petitioner's supplemental evidence provides corrected GCA factors, which include the MCFC charge.

9. <u>Resulting Gas Cost Adjustment Factor</u>. The estimated net commodity cost of gas to be recovered for February is $761,880. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $767,512. The estimated net commodity cost of gas to be recovered for March is $524,324. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $529,956. The estimated net commodity cost of gas to be recovered for April is $299,418. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $305,050. After dividing that amount by estimated sales, adding the fixed cost per Dth, and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.1860/Dth for February, $5.1257/Dth for March, and $5.3220/Dth for April.

10. <u>Effects on Residential Customers</u>. The GCA factor for February of $5.1860/Dth represents an increase of $0.1243/Dth from the current GCA factor of $5.0617/Dth. The GCA factor for March of $5.1257/Dth represents an increase of $0.0640/Dth from the current GCA factor of $5.0617/Dth. The GCA factor for April of $5.3220/Dth represents an increase of $0.2603/Dth from the current GCA factor of $5.0617/Dth. The effects of these changes, in addition to changes from Petitioner's base rates and any applicable rate adjustment

mechanisms[1], are shown in the following tables for various consumption levels of residential bills:

Table 1
Effect on Residential Customers
Proposed vs. Currently Approved GCA Factor (December 2012)

February 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.37	$ 50.75	$ 0.62	1.22%
10	89.48	88.24	1.24	1.41%
15	127.59	125.72	1.87	1.49%
20	165.69	163.21	2.48	1.52%
25	203.80	200.70	3.10	1.54%

March 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.07	$ 50.75	$ 0.32	0.63%
10	88.88	88.24	0.64	0.73%
15	126.68	125.72	0.96	0.76%
20	164.49	163.21	1.28	0.78%
25	202.30	200.70	1.60	0.80%

April 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 52.05	$ 50.75	$ 1.30	2.56%
10	90.84	88.24	2.60	2.95%
15	129.63	125.72	3.91	3.11%
20	168.41	163.21	5.20	3.19%
25	207.20	200.70	6.50	3.24%

The GCA factor for February of $5.1860/Dth represents an increase of $0.3896/Dth from the GCA factor of $4.7964/Dth billed one year ago. The GCA factor for March of $5.1257/Dth represents an increase of $0.4787/Dth from the GCA factor of $4.6470/Dth billed one year ago. The GCA factor for April 2013 of $5.3220/Dth represents an increase of $1.1377/Dth from the GCA factor of $4.1843/Dth billed one year ago. The effects of these changes, in addition to

[1] Because changes in other bill rate adjustment mechanisms may exceed the change in the GCA factor, any increase or decrease in the GCA factor may not necessarily result in an increase or decrease in the total bill.

changes from Petitioner's base rates and any applicable rate adjustment mechanisms[2], are shown in the following tables for various consumption levels of residential bills:

Table 2

Effect on Residential Customers
Proposed vs. GCA Factor One Year Ago

February 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.37	$ 49.42	$ 1.95	3.95%
10	89.48	85.58	3.90	4.56%
15	127.59	121.74	5.85	4.81%
20	165.69	157.90	7.79	4.93%
25	203.80	194.07	9.73	5.01%

March 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.07	$ 48.68	$ 2.39	4.91%
10	88.88	84.09	4.79	5.70%
15	126.68	119.50	7.18	6.01%
20	164.49	154.91	9.58	6.18%
25	202.30	190.34	11.96	6.28%

April 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 52.05	$ 46.36	$ 5.69	12.27%
10	90.84	79.46	11.38	14.32%
15	129.63	112.56	17.07	15.17%
20	168.41	145.66	22.75	15.62%
25	207.20	178.77	28.43	15.90%

11. **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.

[2] Because changes in other bill rate adjustment mechanisms may exceed the change in the GCA factor, any increase or decrease in the GCA factor may not necessarily result in an increase or decrease in the total bill.

12. **Monthly Flex Mechanism.** The Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize 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.

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. 9, shall be and is hereby approved, subject to refund in accordance with Finding Paragraph No. 11.

2. Petitioner shall file with the Natural Gas Division of this Commission, 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, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JAN 23 2013

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