ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS CORPORATION FOR APPROVAL OF CHANGES IN ITS GAS RATES THROUGH A GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g)	))))))	**CAUSE NO. 37440 GCA 117** **APPROVED:** APR 24 2013

BY THE COMMISSION:
Kari A.E. Bennett, Commissioner
Gregory R. Ellis, Administrative Law Judge

On February 8, 2013, in accordance with Ind. Code § 8-1-2-42, Midwest Natural Gas Corporation ("Petitioner" or "Midwest") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of May 2013 through July 2013 with the Indiana Utility Regulatory Commission ("Commission"). On March 6, 2013, Petitioner prefiled the Verified Testimony of David A. Osmon, Midwest's Executive Vice President and Chief Operating Officer, with Updated Schedules. On March 18, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Sherry L. Beaumont, 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 March 26, 2013, at 9:45 a.m., in Room 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 without objection. 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 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 101 Southeast Third Street, Washington, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in Clark, Daviess, Greene, Knox, Jackson, Jennings, Monroe, Orange, Scott, and Washington 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.** Ind. Code § 8-1-2-42(g)(3)(A) requires the Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its

customers at the lowest gas cost reasonably possible. Petitioner received natural gas on two interstate pipelines, Texas Gas Transmission Company ("Texas Gas") and Texas Eastern Transmission Company ("Texas Eastern").

Mr. Osmon testified about Petitioner's procurement practices in acquiring fixed contracts, including purchasing appropriately sized contracts; acquiring and using storage; flexing GCA factors; keeping apprised of changing market conditions; and use of a normal temperature adjustment ("NTA") mechanism. Petitioner has hedged approximately 27% of its estimated sales. Mr. Osmon explained various factors impacting Petitioner's hedging decisions, including that the upcoming period typically represents a period of the lowest sales on Petitioner's system and noting that one fixed contract would exceed the estimated monthly sales within the Texas Eastern service area. Petitioner has eliminated its exposure to usage charges on Texas Eastern pipeline by cashing out its differences between nominations and actual usage, which also provides Petitioner access to daily cash pricing.

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.** Ind. 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.** Ind. 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 base rates were approved is Cause No. 44063. The Commission's November 7, 2012 Order in that Cause authorized Petitioner to earn a net operating income of $934,787. Petitioner's evidence indicates that for the twelve (12) months ending December 31, 2012, Petitioner's actual net operating income was $581,378. 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.** Ind. Code § 8-1-2-42(g)(3)(D) requires that Petitioner's estimate of its total 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 presented indicates that the estimating techniques of Petitioner during the reconciliation period of October through December 2012 ("Reconciliation Period") yielded an under-estimated weighted average error of 7.68%. Based upon the evidence of record and 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. **Reconciliations.**

A. **Variances.** Ind. 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 $205,805 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 $16,588.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $7,700. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $8,888 to be applied in this GCA as an increase in the estimated net cost of gas.

B. **Refunds.** Petitioner received no new refunds during the Reconciliation Period and has $5,073 in refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $5,073 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net cost of gas to be recovered during the application period is $215,780 for May 2013, $145,056 for June 2013, and $115,540 for July 2013. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $217,052 for May 2013, $146,328 for June 2013, and $116,812 for July 2013. After dividing that amount by estimated sales, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $5.1258/Dth for May, $5.2896/Dth for June, and $5.1339/Dth for July.

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factor of $5.1258/Dth for May 2013, $5.2896/Dth for June 2013 and $5.1339/Dth for July 2013. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (February 2013 - $4.9224/Dth) and a year ago (May 2012 - $3.7478/Dth, June 2012 - $4.3159/Dth, and July 2012 - $3.9714/Dth). The table only reflects costs that are approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	Proposed Gas Costs (10 Dths)	Gas Costs (10 Dths)	Difference from Current	Gas Costs (10 Dths)	Difference from Year Ago
May 2013	$51.26	$49.22	$2.04	$37.48	$13.78
June 2013	$52.90	$49.22	$3.68	$43.16	$9.74
July 2013	$51.34	$49.22	$2.12	$39.71	$11.63

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 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.** 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 Midwest Natural Gas Corporation for approval of 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. Midwest 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 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, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: APR 24 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