

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS)
CORPORATION FOR APPROVAL OF) CAUSE NO. 37440 GCA 101
CHANGES IN ITS GAS RATES THROUGH A)
GAS COST ADJUSTMENT IN ACCORDANCE) APPROVED:
WITH IND. CODE §8-1-2-42(g)) APR 29 2009

BY THE COMMISSION:

Gregory D. Server, Commissioner
David E. Veleta, Administrative Law Judge

On February 10, 2009, in accordance with Indiana Code § 8-1-2-42, Midwest Natural Gas Corporation ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycle of May, 2009 through July, 2009 with the Indiana Utility Regulatory Commission ("Commission"). On March 23, 2009, Petitioner prefiled the verified testimony and revised schedules of David A. Osmon, Petitioner's Executive Vice President and Chief Operating Officer, supporting the proposed GCA factor. On April 1, 2009, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony and exhibits of Lianne N. Lockhart, 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 13, 2009 at 10:00 a.m. in Room 224 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and the 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. The Commission therefore has jurisdiction over the parties 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 107 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,

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Orange, Scott, and Washington Counties in Indiana. It 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 natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible. Petitioner transports natural gas on two interstate pipelines, Texas Gas Transmission Company and Texas Eastern Transmission Company.

Mr. Osmon testified about Petitioner's attempts to mitigate gas price volatility. He stated that Petitioner is active in purchasing fixed contracts. Fixed contracts cover 50% of the estimated sales for this upcoming GCA period. Petitioner keeps itself apprised of market conditions and flexes GCA factors both up and down on a monthly basis. Mr. Osmon testified that Petitioner implemented a normal temperature adjustment mechanism during the heating season. Finally, Mr. Osmon noted that stored gas would not be used for this GCA period due to storage being refilled.

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 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 reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the cost to be reasonable. Accordingly, 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 Petitioner's earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's base rates were approved. The most recent proceeding in which Petitioner's base rates were approved is Cause No. 43229. The Commission's November 20, 2007 Order authorized the company to earn a net operating income of \$1,003,414. Petitioner's evidence indicates that for the twelve (12) months ending December 31, 2008, its actual net operating income was \$1,403,630. Such a result suggests that Petitioner earned in excess of that authorized in its last rate case in an amount of \$400,216. However, pursuant to Indiana Code § 8-1-2-42.3, the Commission must also consider the petitioning utility's earnings over a period of the immediately preceding 59 months, and thereafter calculate the sum of the differentials by quarter for that period of time. The evidence

here reveals that Petitioner has a negative sum of the differentials over this prior period. Based on Indiana Code § 8-1-2-42.3, there is no further need to reduce the Petitioner's proposed GCA factor 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 actual costs. The evidence indicates that the estimating techniques of Petitioner during the reconciliation period of October, 2008 through December, 2008 yielded an underestimated weighted average error of 1.03%. The Commission also notes that Petitioner's witness Osmon provided evidence as to the variance, noting the run-up in the price of natural gas beginning in February and lasting until July, which created the difference between estimated costs and actual costs. 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 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 \$119,104. 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 \$9,838.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of \$5,172. When this amount is combined with the reconciliation period variance, the result is a total under-collection of \$15,010 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner has no refunds from the reconciliation period, but has a refund from GCA 99. The effect of applying this refund to this GCA period is a decrease in the cost of gas for this GCA in the amount of \$13,710.

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 \$906,143. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of \$907,443. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is \$8.0297/Dth for May, \$7.6667/Dth for June, and \$7.6472/Dth for July. These proposed factors also recognize the elimination of gas commodity costs from Petitioner's base rates as authorized in Cause No. 43229. The Commission finds that such proposed GCA factor should be approved.

9. **Effects on Residential Customers.** For purposes of considering the impact of these GCA factors on residential customers, the Commission must first recognize that our Order in Petitioner's recent rate case, Cause No. 43229, both eliminated the commodity costs for gas from base rates and eliminated Peoples Gas & Power Division's separate rate blocks. The effect of such change is that the GCA factors here approved will have the same effect on bills for former Peoples Gas & Power Division customers as they do for Midwest Division customers on a current basis.

The GCA factor for May 2009 of \$8.0297/Dth represents a decrease of \$0.7605 from the current average GCA factor of \$8.7902/Dth. The GCA factor for June 2009 of \$7.6667/Dth represents a decrease of \$1.1235 from the current average GCA factor of \$8.7902/Dth. The GCA factor for July 2009 of \$7.6472/Dth represents a decrease of \$1.1430 from the current average GCA factor of \$8.7902/Dth. The effects of these decreases for the three months and for various consumption levels of residential customer bills are shown in the following tables:

Table 1
May, 2009
Proposed vs. Currently
Approved GCA Factor for Residential Customers

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$65.91	\$69.71	\$(3.80)	(5.45%)
10	120.82	128.43	(7.61)	(5.93%)
15	171.74	183.15	(11.41)	(6.23%)
20	222.67	237.88	(15.21)	(6.39%)
25	273.59	292.60	(19.01)	(6.50%)

Table 2
June, 2009
Proposed vs. Currently
Approved GCA Factor for Residential Customers

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$64.10	\$69.71	\$(5.61)	(8.05%)
10	117.19	128.43	(11.24)	(8.75%)
15	166.30	183.15	(16.85)	(9.20%)
20	215.41	237.88	(22.47)	(9.45%)
25	264.52	292.60	(28.08)	(9.60%)

Table 3
July, 2009
Proposed vs. Currently
Approved GCA Factor for Residential Customers

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$64.00	\$69.71	\$(5.71)	(8.19%)
10	117.00	128.43	(11.43)	(8.90%)
15	166.01	183.15	(17.14)	(9.36%)
20	215.02	237.88	(22.86)	(9.61%)
25	264.03	292.60	(28.57)	(9.76%)

The GCA factor for May 2009 of \$8.0297/Dth represents a decrease of \$2.2769 from the GCA factor of \$10.3066/Dth billed one year ago in Cause No. 37440-GCA 97. The GCA factor for June 2009 of \$7.6667/Dth represents a decrease of \$2.7508 from the GCA factor of \$10.4175/Dth billed one year ago. The GCA factor for July 2009 of \$7.6472/Dth represents a decrease of \$2.9319 from the GCA factor of \$10.5791/Dth billed one year ago. The effects of these decreases for various consumption levels of residential customer bills are shown in the following table:

Table 4
May, 2009
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$65.91	\$77.29	\$(11.38)	(14.72%)
10	120.82	143.59	(22.77)	(15.86%)
15	171.74	205.90	(34.16)	(16.59%)
20	222.67	268.21	(45.54)	(16.98%)
25	273.59	330.51	(56.92)	(17.22%)

Table 5
June, 2009
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$64.10	\$77.85	\$(13.75)	(17.66%)
10	117.19	144.70	(27.51)	(19.01%)
15	166.30	207.56	(41.26)	(19.88%)
20	215.41	270.42	(55.01)	(20.34%)
25	264.52	333.29	(68.77)	(20.63%)

Table 6
July, 2009
Effect on Residential Customers
New vs. One Year Ago

Monthly Consumption Dth	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	\$64.00	\$78.66	\$(14.66)	(18.64%)
10	117.00	146.31	(29.31)	(20.03%)
15	166.01	209.99	(43.98)	(20.94%)
20	215.02	273.66	(58.64)	(21.43%)
25	264.03	337.33	(73.30)	(21.73%)

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 approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Midwest 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. Midwest shall file with the Natural Gas Division of this Commission, 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 schedules on these amendments.

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

HARDY, GOLC, LANDIS, SERVER, AND ZIEGNER CONCUR:

APPROVED: APR 29 2009

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



Brenda A. Howe
Secretary to the Commission