

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 104

APPROVED:

JAN 27 2010

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BY THE COMMISSION:

James D. Atterholt, Commissioner

David E. Veleta, Administrative Law Judge

On November 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 cycles of February, 2010 through April, 2010 with the Indiana Utility Regulatory Commission ("Commission"). On December 18, 2009, Petitioner prefiled the direct testimony and revised schedules of David A. Osmon, Petitioner's Executive Vice President and Chief Operating Officer, supporting the proposed GCA factor. On December 21, 2009, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony 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 at 10:30 a.m., on January 6, 2010, in Suite 224, 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 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, 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. 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.

Mr. Osmon testified about Petitioner's procurement practices in acquiring fixed contracts; including purchasing appropriately sized contracts; Petitioner's use of storage during the heating season; the flexing of GCA factors by the Petitioner; that Petitioner keeps itself apprised of changing market conditions; and Petitioner's use of a normal temperature adjustment ("NTA") mechanism. Mr. Osmon also testified that fixed contracts and storage for the upcoming GCA period range from 63% for February's estimated sales to 32% for April's estimated sales.

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. 43229. The Commission's November 20, 2007 order in that Cause authorized Petitioner to earn a net operating income of \$1,003,414. Petitioner's evidence herein indicates that for the twelve (12) months ending September 30, 2009, Petitioner's actual net operating income was \$900,780. 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 presented indicates that the estimating techniques of Petitioner during the reconciliation period of July through September of 2009 yielded an underestimated weighted average error of 0.95%. Petitioner's witness Mr. Osmon provided evidence as to the variance describing in detail the timing of Petitioner's estimates, and the mismatch of the variance calculations between sales and purchase periods. Though Petitioner based its price estimates on market prices as of the dates its various estimates were made, Petitioner could not eliminate the variances. Mr. Osmon also noted that Petitioner had fixed contracts in place during this period. 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. **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 \$157,101 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 \$62,840.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$550,488. Combining this amount with the Reconciliation Period variance, results in a total over-collection of \$487,648 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 \$17,786 refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has \$17,786 refunds to be returned 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 commodity cost of gas to be recovered during the application period is \$3,922,183. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of \$3,416,749. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is \$6.8165/Dth for February, \$6.6674/Dth for March, and \$5.8352/Dth for April. 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.** The GCA factor for February of \$6.8165/Dth represents an increase of \$0.3685/Dth from the current GCA factor of \$6.4480/Dth. The GCA factor for March of \$6.6674/Dth represents an increase of \$0.2194/Dth from the current GCA factor of \$6.4480/Dth. The GCA factor for April of \$5.8352/Dth represents a decrease of \$0.6128/Dth from the current GCA factor of \$6.4480/Dth. The effects of these changes for the three months and for various consumption levels of residential customer bills are shown in the following tables:

Table 1
February, 2010
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	\$59.84	\$58.00	\$1.84	3.17%
10	108.69	105.00	3.69	3.51%
15	153.55	148.02	5.53	3.74%
20	198.40	191.03	7.37	3.86%
25	243.26	234.05	9.21	3.94%

Table 2
March, 2010
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	\$59.10	\$58.00	\$1.10	1.90%
10	107.20	105.00	2.19	2.09%
15	151.31	148.02	3.29	2.22%
20	195.42	191.03	4.39	2.30%
25	239.53	234.05	5.48	2.34%

Table 3
April, 2010
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	\$54.94	\$58.00	\$(3.06)	(5.28%)
10	98.88	105.00	(6.12)	(5.83%)
15	138.83	148.02	(9.19)	(6.21%)
20	178.78	191.03	(12.25)	(6.41%)
25	218.73	234.05	(15.32)	(6.55%)

The GCA factor for February 2010 of \$6.8165/Dth represents a decrease of \$2.0054/Dth from the GCA factor of \$8.8219/Dth billed one year ago in Cause No. 37440-GCA 100. The GCA factor for March 2010 of \$6.6674/Dth represents a decrease of \$2.1228/Dth from the GCA factor of \$8.7902/Dth billed one year ago. The GCA factor for April 2010 of \$5.8352/Dth represents a decrease of \$2.9243/Dth from the GCA factor of \$8.7595/Dth billed one year ago. The effects of these decreases for various consumption levels of residential customer bills are shown in the following tables:

Table 4
February, 2010
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	\$59.84	\$69.87	\$(10.03)	(14.36%)
10	108.69	128.74	(20.05)	(15.57%)
15	153.55	183.63	(30.08)	(16.38%)
20	198.40	238.51	(40.11)	(16.82%)
25	243.26	293.40	(50.14)	(17.09%)

Table 5
March, 2010
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	\$59.10	\$69.71	\$(10.61)	(15.22%)
10	107.20	128.43	(21.23)	(16.53%)
15	151.31	183.15	(31.84)	(17.38%)
20	195.42	237.88	(42.46)	(17.85%)
25	239.53	292.60	(53.07)	(18.14%)

Table 6
April, 2010
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	\$54.94	\$69.56	\$(14.62)	(21.02%)
10	98.88	128.12	(29.24)	(22.82%)
15	138.83	182.69	(43.86)	(24.01%)
20	178.78	237.26	(58.48)	(24.65%)
25	218.73	291.84	(73.11)	(25.05%)

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.

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 Natural Gas Corporation shall file with the Natural Gas Division of this Commission, prior to placing in effect the gas cost adjustment factors approved herein, 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, ATTERHOLT, GOLC, LANDIS, AND ZIEGNER CONCUR:

APPROVED: JAN 27 2010

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



Brenda A. Howe
Secretary to the Commission