ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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| 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 105<br>APPROVED: APR 14 2010 |

**BY THE COMMISSION:**
**David E. Veleta, Administrative Law Judge**

On February 9, 2010, 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 May, 2010 through July, 2010 with the Indiana Utility Regulatory Commission ("Commission"). On March 10, 2010, 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 March 15, 2010, 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 9:30 a.m., on March 23, 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. Petitioner transports 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; 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 39% to 46% of its 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 December 2009, Petitioner's actual net operating income was $965,152. 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 2009 through December 2009 ("the Reconciliation Period") yielded an under-estimated weighted average error of 8.11%. 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 $266,371 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 $19,658.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $115,633. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $95,975 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has no new refunds, but has one refund from GCA 103. The effect of applying this refund to this GCA period is a decrease in the cost of gas for this GCA of $3,837.

Based on the evidence presented, the Commission finds that Petitioner's proposed GCA factor properly reconciles the difference between the actual gas costs for the Reconciliation Period, and the gas costs to be recovered during the same period.

8. **<u>Resulting Gas Cost Adjustment Factor</u>.** The estimated net commodity cost of gas to be recovered during the application period is $642,068. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of $542,256. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $6.1787/Dth for May, $5.6770/Dth for June, and $5.4671/Dth for July.

9. **<u>Effects on Residential Customers</u>.** The GCA factor for May of $6.1787/Dth represents a decrease of $0.1053/Dth from the current GCA factor of $6.2840/Dth. The GCA factor for June of $5.6770/Dth represents a decrease of $0.6070/Dth from the current GCA factor of $6.2840/Dth. The GCA factor for July of $5.4671/Dth represents a decrease of $0.8169/Dth from the current GCA factor of $6.2840/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:

**<u>Table 1</u>**
**May, 2010**
**Proposed vs. Currently**
**Approved GCA Factor for Residential Customers**

| Consumption Dth | Bill at Proposed GCA Factor | Bill at Currently Approved GCA Factor | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $56.66 | $57.18 | $(0.52) | (0.91%) |
| 10 | 102.31 | 103.36 | (1.05) | (1.02%) |
| 15 | 143.98 | 145.56 | (1.58) | (1.09%) |
| 20 | 185.65 | 187.75 | (2.10) | (1.12%) |
| 25 | 227.32 | 229.95 | (2.63) | (1.14%) |

**Table 2**
**June, 2010**
**Proposed vs. Currently**
**Approved GCA Factor for Residential Customers**

| Consumption Dth | Bill at Proposed GCA Factor | Bill at Currently Approved GCA Factor | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $54.15 | $57.18 | $(3.03) | (5.30%) |
| 10 | 97.29 | 103.36 | (6.07) | (5.87%) |
| 15 | 136.45 | 145.56 | (9.11) | (6.26%) |
| 20 | 175.61 | 187.75 | (12.14) | (6.47%) |
| 25 | 214.77 | 229.95 | (15.18) | (6.60%) |

**Table 3**
**July, 2010**
**Proposed vs. Currently**
**Approved GCA Factor for Residential Customers**

| Consumption Dth | Bill at Proposed GCA Factor | Bill at Currently Approved GCA Factor | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $53.10 | $57.18 | $(4.08) | (7.14%) |
| 10 | 95.19 | 103.36 | (8.17) | (7.90%) |
| 15 | 133.31 | 145.56 | (12.25) | (8.42%) |
| 20 | 171.42 | 187.75 | (16.33) | (8.70%) |
| 25 | 209.53 | 229.95 | (20.42) | (8.88%) |

The GCA factor for May 2010 of $6.1787/Dth represents a decrease of $1.3412/Dth from the GCA factor of $7.5199/Dth billed one year ago in Cause No. 37440-GCA 101. The GCA factor for June 2010 of $5.6770/Dth represents a decrease of $1.5273/Dth from the GCA factor of $7.2043/Dth billed one year ago. The GCA factor for July 2010 of $5.4671/Dth represents a decrease of $1.8038/Dth from the GCA factor of $7.2709/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**
**May, 2010**
**Effect on Residential Customers**
Proposed vs. One Year Ago

| Consumption Dth | Bill at Proposed GCA Factor | Bill at GCA Factor One Year Ago | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $56.66 | $63.36 | $(6.70) | (10.57%) |
| 10 | 102.31 | 115.72 | (13.41) | (11.59%) |
| 15 | 143.98 | 164.10 | (20.12) | (12.26%) |
| 20 | 185.65 | 212.47 | (26.82) | (12.62%) |
| 25 | 227.32 | 260.85 | (33.53) | (12.85%) |

**Table 5**
**June, 2010**
**Effect on Residential Customers**
Proposed vs. One Year Ago

| Consumption Dth | Bill at Proposed GCA Factor | Bill at GCA Factor One Year Ago | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $54.15 | $61.78 | $(7.63) | (12.35%) |
| 10 | 97.29 | 112.57 | (15.28) | (13.57%) |
| 15 | 136.45 | 159.36 | (22.91) | (14.38%) |
| 20 | 175.61 | 206.16 | (30.55) | (14.82%) |
| 25 | 214.77 | 252.96 | (38.19) | (15.10%) |

**Table 6**
**July, 2010**
**Effect on Residential Customers**
Proposed vs. One Year Ago

| Consumption Dth | Bill at Proposed GCA Factor | Bill at GCA Factor One Year Ago | Dollar Change | Percent Change |
|---|---|---|---|---|
| 5 | $53.10 | $62.12 | $(9.02) | (14.52%) |
| 10 | 95.19 | 113.23 | (18.04) | (15.93%) |
| 15 | 133.31 | 160.36 | (27.05) | (16.87%) |
| 20 | 171.42 | 207.49 | (36.07) | (17.38%) |
| 25 | 209.53 | 254.62 | (45.09) | (17.71%) |

**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 COMMISION 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 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.

**HARDY, ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:**

**APPROVED:** APR 14 2010

**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**