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 107** **APPROVED:** OCT 14 2010

BY THE COMMISSION:
James D. Atterholt, Chairman
Jeffery A. Earl, Administrative Law Judge

On August 10, 2010, in accordance with Indiana Code section 8-1-2-42, Midwest Natural Gas Corporation ("Petitioner") filed with the Indiana Utility Regulatory Commission (the "Commission") its petition for a gas cost adjustment ("GCA") with attached schedules to be applicable during the billing cycles of November, 2010, through January, 2011. On September 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 and documentary evidence support Mr. Osmon's testimony. On September 14, 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 September 20, 2010, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. 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. Therefore, the Commission 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. Petitioner owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

3. **Source of Natural Gas.** Indiana Code section 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 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 regarding Petitioner's procurement practices in acquiring fixed contracts, which include: purchasing appropriately sized contracts; using stored gas during the heating season; flexing of GCA factors; keeping itself apprised of changing market conditions; and using a normal temperature adjustment mechanism. Mr. Osmon also testified fixed contracts and storage for the upcoming GCA period represent approximately 63% of its estimated sales.

The Commission has indicated 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 upon the evidence offered, we find Petitioner has demonstrated 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 the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Indiana Code section 8-1-2-42(g)(3)(B) requires Petitioner's pipeline suppliers to 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 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 the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code section 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment that results in 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 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 for the twelve (12) months ending June 30, 2010, Petitioner's actual net operating income was $864,512. Therefore, based upon the evidence of record, the Commission finds Petitioner is not earning in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Indiana Code section 8-1-2-42(g)(3)(D) requires Petitioner's estimate of its prospective average gas costs for each future recovery period to be reasonable. The Commission has determined this requires, in part, a comparison of prior estimations with the eventual actual costs. The evidence presented indicates the estimating

techniques of Petitioner during the reconciliation period of April through June, 2010, (the "Reconciliation Period") yielded an over-estimated weighted average error of 16.23%.

Petitioner's Witness, Mr. Osmon, testified the variance results primarily from a mismatch between the actual billing months of the utility and the calendar months used in the schedule. For example, Mr. Osmon testified the billing cycle for April actually begins near mid-March with various cycles staggered throughout the month. This causes a resulting correlating mismatch in the calculation of the price of gas. Mr. Osmon further testified if the actual purchase cost of gas per unit sold was compared to the estimate of that cost, the resulting variance would be insignificant for the reconciliation period. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas costs is reasonable.

7. **<u>Reconciliation</u>.** Indiana Code section 8-1-2-42(g)(3)(D) also requires Petitioner to reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding establishes the variance for the Reconciliation Period is an over-collection of $119,929. This amount should be included, based upon 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 a decrease in the estimated net cost of gas is $52,565.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $158,096. Combining this amount with the Reconciliation Period variance, results in a total over-collection of $210,661 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has no refunds applicable to the current recovery period. Petitioner has a negative annual unaccounted-for gas amount of $52,543 as reflected on Schedule 11A. This amount will be refunded to customers in this GCA and the next three GCAs as a decrease in the cost of gas. The amount of the refund to be included in this GCA is $23,030.

Petitioner has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $23,030 in refunds to be applied in this GCA as a decrease in the net cost of gas. 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. **<u>Resulting Gas Cost Adjustment Factor</u>.** The estimated net commodity cost of gas to be recovered during the application period is $3,635,233. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $3,401,542. After dividing that amount by estimated sales, adding demand costs, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.9419/Dth for November, 2010, $6.1079/Dth for December, 2010, and $6.1920/Dth for January, 2011.

9. **<u>Effects on Residential Customers</u>.** The GCA factor for November, 2010, of $5.9419/Dth represents an increase of $0.1995/Dth from the current GCA factor of $5.7424/Dth.

The GCA factor for December, 2010, of $6.1079/Dth represents an increase of $0.3655/Dth from the current GCA factor of $5.7424/Dth. The GCA factor for January, 2011, of $6.1920/Dth represents an increase of $0.4496/Dth from the current GCA factor of $5.7424/Dth. The effects of these changes for the three months and for various consumption levels of residential customer bills are shown in the following table:

Table 1
Effect on Residential Customers
Proposed vs. Currently Approved GCA Factor

November, 2010

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$55.47	$54.47	$1.00	1.84%
10	99.94	97.95	1.99	2.03%
15	140.43	137.43	3.00	2.18%
20	180.91	176.92	3.99	2.26%
25	221.40	216.41	4.99	2.31%

December, 2010

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$56.30	$54.47	$1.83	3.36%
10	101.60	97.95	3.65	3.73%
15	142.92	137.43	5.49	3.99%
20	184.23	176.92	7.31	4.13%
25	225.55	216.41	9.14	4.22%

January, 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$56.72	$54.47	$2.25	4.13%
10	102.44	97.95	4.49	4.58%
15	144.18	137.43	6.75	4.91%
20	185.91	176.92	8.99	5.08%
25	227.65	216.41	11.24	5.19%

The GCA factor for November, 2010, of $5.9419/Dth represents a decrease of $0.3146/Dth from the GCA factor of $6.2565/Dth billed one year prior. The GCA factor for December, 2010, of $6.1079/Dth represents a decrease of $0.3401/Dth from the GCA factor of $6.4480/Dth billed one year prior. The GCA factor for January, 2011, of $6.1920/Dth represents a decrease of $0.8518/Dth from the GCA factor of $7.0438/Dth billed one year prior. The effects of these decreases for various consumption levels of residential customer bills are shown in the following table:

Table 2
Effect on Residential Customers
Proposed vs. One Year Ago

November, 2010

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$55.47	$57.04	$(1.57)	(2.75%)
10	99.94	103.09	(3.15)	(3.06%)
15	140.43	145.15	(4.72)	(3.25%)
20	180.91	187.20	(6.29)	(3.36%)
25	221.40	229.26	(7.86)	(3.43%)

December, 2010

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$56.30	$58.00	$(1.70)	(2.93%)
10	101.60	105.00	(3.40)	(3.24%)
15	142.92	148.02	(5.10)	(3.45%)
20	184.23	191.03	(6.80)	(3.56%)
25	225.55	234.05	(8.50)	(3.63%)

January, 2011

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$56.72	$60.98	$(4.26)	(6.99%)
10	102.44	110.96	(8.52)	(7.68%)
15	144.18	156.96	(12.78)	(8.14%)
20	185.91	202.95	(17.04)	(8.40%)
25	227.65	248.94	(21.29)	(8.55%)

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.** Petitioner utilizes 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.

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

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

1. The Petition of Midwest Natural Gas Corporation for a 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, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: OCT 14 2010

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

Brenda A. Howe

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Secretary to the Commission