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 112** **APPROVED:** JAN 25 2012

BY THE COMMISSION:
Kari A. E. Bennett, Commissioner
Angela Rapp Weber, Administrative Law Judge

On November 15, 2011, 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 through April 2012 with the Indiana Utility Regulatory Commission ("Commission"). On December 15, 2011, Petitioner prefiled the verified testimony of David A. Osmon, Petitioner's Executive Vice President and Chief Operating Officer. On December 21, 2011, the Petitioner filed updated schedules reflecting changes in its fixed contract purchases, spot market gas prices, and revised GCA factors. On December 27, 2011, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Heather R. Poole, 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 January 3, 2012 at 10:00 a.m. in Room 222 of the 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 the 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, 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 the 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 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 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 gas utility service to the public in those counties.

3. **Source of Natural Gas.** Indiana 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 gas 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 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 mechanism. Mr. Osmon testified that fixed contracts for the upcoming GCA period as of the filing of the Petition represented approximately 44% of its estimated sales. Mr. Osmon also testified Petitioner would continue to monitor the price of fixed contracts and the usage of its customers for possible increases in fixed contract purchases. We note that Petitioner's updated schedules reflect that it has increased its fixed contract purchases for this GCA period.

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 Petitioner has demonstrated that it has and continues to follow a sound policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Therefore, the Commission finds Petitioner has met the requirements of this statutory provision.

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. 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 in 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 in that Cause authorized the Petitioner to earn a net operating income of $1,003,414. Petitioner's evidence indicates that for the twelve (12) months ending September 30, 2011, Petitioner's actual net operating income was $738,359. 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 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 July through September 2011 ("Reconciliation Period") yielded an over-estimated weighted average error of 6.14%.

Based upon the evidence presented 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 $113,772. This amount should be included in this GCA and in Petitioner's next three GCAs based on estimated sales percentages. The amount of the Reconciliation Period variance to be included in this GCA as an increase in the estimated net cost of gas is $43,711.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $212,463. When that amount is combined with the Reconciliation Period variance, the result is a total over-collection of $168,752 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has no new refunds during the Reconciliation Period, and has $48,479 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $48,479 in 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 $2,457,398. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $2,240,167. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $4.7938/Dth for February, $4.7068/Dth for March, and $4.4544/Dth for April.

9. **Effects on Residential Customers.** The GCA factor for February of $4.7938/Dth represents a decrease of $0.2778/Dth from the current GCA factor of $5.0716/Dth. The GCA factor for March of $4.7068/Dth represents a decrease of $0.3648/Dth from the current GCA factor of $5.0716/Dth. The GCA factor for April of $4.4544/Dth represents a decrease of $0.6172/Dth from the current GCA factor of $5.0716/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
Proposed vs. Currently Approved GCA Factor
For Residential Customers

February 2012

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$49.73	$51.12	$(1.39)	-2.72%
10	$88.46	$91.24	$(2.78)	-3.05%
15	$123.21	$127.37	$(4.16)	-3.27%
20	$157.95	$163.50	$(5.55)	-3.39%
25	$192.69	$199.64	$(6.95)	-3.48%

March 2012

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$49.30	$51.12	$(1.82)	-3.56%
10	$87.59	$91.24	$(3.65)	-4.00%
15	$121.90	$127.37	$(5.47)	-4.29%
20	$156.21	$163.50	$(7.29)	-4.46%
25	$190.52	$199.64	$(9.12)	-4.57%

April 2012

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$48.03	$51.12	$(3.09)	-6.04%
10	$85.07	$91.24	$(6.17)	-6.76%
15	$118.11	$127.37	$(9.26)	-7.27%
20	$151.16	$163.50	$(12.34)	-7.55%
25	$184.21	$199.64	$(15.43)	-7.73%

The GCA factor for February 2012 of $4.7938/Dth represents a decrease of $1.2023/Dth from the GCA factor of $5.9961/Dth billed one year ago. The GCA factor for March 2012 of $4.7068/Dth represents a decrease of $0.7989/Dth from the GCA factor of $5.5057/Dth billed one year ago. The GCA factor for April 2012 of $4.4544/Dth represents a decrease of $0.6629/Dth from the GCA factor of $5.1173/Dth billed one year ago. The effects of these changes for various consumption levels of residential customer bills are shown in the following table:

Table 2
Proposed vs. Prior Year Approved GCA Factor
For Residential Customers

February 2012

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$49.73	$55.74	$(6.01)	-10.78%
10	$88.46	$100.48	$(12.02)	-11.96%
15	$123.21	$141.24	$(18.03)	-12.77%
20	$157.95	$182.00	$(24.05)	-13.21%
25	$192.69	$222.75	$(30.06)	-13.49%

March 2012

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$49.30	$53.29	$(3.99)	-7.49%
10	$87.59	$95.58	$(7.99)	-8.36%
15	$121.90	$133.88	$(11.98)	-8.95%
20	$156.21	$172.19	$(15.98)	-9.28%
25	$190.52	$210.49	$(19.97)	-9.49%

April 2012

Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$48.03	$51.35	$(3.32)	-6.47%
10	$85.07	$91.70	$(6.63)	-7.23%
15	$118.11	$128.06	$(9.95)	-7.77%
20	$151.16	$164.42	$(13.26)	-8.06%
25	$184.21	$200.78	$(16.57)	-8.25%

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 rates approved herein should be interim rates, subject to refund, pending reconciliation of the gas costs in a subsequent GCA 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 the maximum adjustment (up or down) of $1.00 from the initial market price.

The 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 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. Petitioner 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 schedules on these amendments.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR; BENNETT ABSENT:

APPROVED: JAN 25 2012

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