

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS)
 CORPORATION FOR APPROVAL OF) CAUSE NO. 37440 GCA 115
 CHANGES IN ITS GAS RATES THROUGH A)
 GAS COST ADJUSTMENT IN)
 ACCORDANCE WITH IND. CODE 8-1-2-) APPROVED: OCT 31 2012
 42(g))

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ORDER OF THE COMMISSION

Presiding Officers:

Kari A.E. Bennett, Commissioner

David E. Veleta, Administrative Law Judge

On August 9, 2012, 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 November, December 2012 and January 2013 with the Indiana Utility Regulatory Commission (“Commission”). On October 3, 2012, Petitioner prefiled the Verified Testimony of David A. Osmon, Petitioner’s Executive Vice President and Chief Operating Officer. On October 9, 2012, Petitioner filed Updated Schedules. On October 10, 2012, in conformance with the statute, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed the statistical report and direct testimony of Sherry L. Beaumont, 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 October 18, 2012, at 1:45 p.m., in Room 224, 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 the parties 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 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 ("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; acquiring and using storage; flexing GCA factors; keeping apprised of changing market conditions; and use of a normal temperature adjustment ("NTA") mechanism. Mr. Osmon testified that fixed contracts and storage gas are available for the upcoming GCA period. As of the filing of the Petition, Petitioner has hedged approximately 55% of its estimated sales. Mr. Osmon also explained various factors, including weather and the non-heating months of this GCA, which impacted Petitioner's decision on the amount of fixed contracts to purchase.

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 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. 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 June 30, 2012, Petitioner's actual net operating income was \$442,337. 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 April through June 2012 ("Reconciliation Period") yielded an over-estimated weighted average error of 0.35%.

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 \$106,659. 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 \$45,533.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$55,688. Combining this amount with the Reconciliation Period variance, results in a total over-collection of \$10,155 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has a negative annual unaccounted-for-gas amount of \$60,684 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 \$25,906.

Petitioner has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has \$25,906 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. Resulting Gas Cost Adjustment Factor. The estimated net commodity cost of gas to be recovered during the application period is \$2,577,838. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of \$2,541,777. After dividing that amount by estimated sales, adding fixed costs, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are \$4.7314/Dth for November, \$4.9727/Dth for December, and \$5.0418/Dth for January.

9. **Effects on Residential Customers.** The GCA factor for November 2012 of \$4.7314/Dth represents an increase of \$0.3950 from the current GCA factor of \$4.3364/Dth. The GCA factor for December 2012 of \$4.9727/Dth represents an increase of \$0.6363 from the current GCA factor of \$4.3364/Dth. The GCA factor for January 2013 of \$5.0418 represents an increase of \$0.7054 from the current GCA factor of \$4.3364/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 2012

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	\$49.42	\$47.44	\$1.98	4.17%
10	\$87.84	\$83.89	\$3.95	4.71%
15	\$122.27	\$116.34	\$5.93	5.10%
20	\$156.70	\$148.80	\$7.90	5.31%
25	\$191.13	\$181.26	\$9.87	5.45%

December 2012

Consumption Dth	Bill at New GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	\$50.63	\$47.44	\$3.19	6.72%
10	\$90.25	\$83.89	\$6.36	7.58%
15	\$125.89	\$116.34	\$9.55	8.21%
20	\$161.53	\$148.80	\$12.73	8.56%
25	\$197.17	\$181.26	\$15.91	8.78%

January 2013

Consumption <u>Dth</u>	Bill at New <u>GCA Factor</u>	Bill at Currently Approved <u>GCA Factor</u>	<u>Dollar Change</u>	<u>Percent Change</u>
5	\$50.97	\$47.44	\$3.53	7.44%
10	\$90.94	\$83.89	\$7.05	8.40%
15	\$126.93	\$116.34	\$10.59	9.10%
20	\$162.91	\$148.80	\$14.11	9.48%
25	\$198.89	\$181.26	\$17.63	9.73%

The GCA factor for November 2012 of \$4.7314/Dth represents a decrease of \$0.1135 from the GCA factor of \$4.8449/Dth billed one year ago. The GCA factor for December 2012 of \$4.9727/Dth represents a decrease of \$0.0989 from the GCA factor of \$5.0716/Dth billed one year ago. The GCA factor for January 2013 of \$5.0418/Dth represents an increase of \$0.1171 from the GCA factor of \$4.9247/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
Effect on Residential Customers
New vs. One Year Ago

November 2012

Consumption <u>Dth</u>	Bill at Proposed <u>GCA Factor</u>	Bill at Prior Year Approved <u>GCA Factor</u>	<u>Dollar Change</u>	<u>Percent Change</u>
5	\$49.42	\$49.99	\$(0.57)	(1.14)%
10	\$87.84	\$88.97	\$(1.13)	(1.27)%
15	\$122.27	\$123.97	\$(1.70)	(1.37)%
20	\$156.70	\$158.97	\$(2.27)	(1.43)%
25	\$191.13	\$193.97	\$(2.84)	(1.46)%

December 2012

<u>Consumption Dth</u>	<u>Bill at Proposed GCA Factor</u>	<u>Bill at Prior Year Approved GCA Factor</u>	<u>Dollar Change</u>	<u>Percent Change</u>
5	\$50.63	\$51.12	\$(0.49)	(0.96)%
10	\$90.25	\$91.24	\$(0.99)	(1.09)%
15	\$125.89	\$127.37	\$(1.48)	(1.16)%
20	\$161.53	\$163.51	\$(1.98)	(1.21)%
25	\$197.17	\$199.64	\$(2.47)	(1.24)%

January 2013

<u>Consumption Dth</u>	<u>Bill at Proposed GCA Factor</u>	<u>Bill at Prior Year Approved GCA Factor</u>	<u>Dollar Change</u>	<u>Percent Change</u>
5	\$50.97	\$50.39	\$0.58	1.15%
10	\$90.94	\$89.77	\$1.17	1.30%
15	\$126.93	\$125.17	\$1.76	1.41%
20	\$162.91	\$160.57	\$2.34	1.46%
25	\$198.89	\$195.97	\$2.92	1.49%

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

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, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: OCT 31 2012

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



**Brenda A. Howe
Secretary to the Commission**