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 116** **APPROVED:** JAN 23 2013

BY THE COMMISSION:
Kari A.E. Bennett, Commissioner
Jeffery A. Earl, Administrative Law Judge

On November 8, 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 February through April 2013 with the Indiana Utility Regulatory Commission ("Commission"). On December 6, 2012, Petitioner prefiled the Verified Testimony of David A. Osmon, Petitioner's Executive Vice President and Chief Operating Officer, with Updated Schedules. On December 12, 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 at 9:45 a.m. on December 19, 2012, in Hearing Room 224, 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 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 is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Petitioner's rates and charges related to adjustments in gas costs. Therefore, the Commission 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 service 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 40% of its estimated sales. Mr. Osmon also explained various factors, including weather during last year's heating season, 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 that 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 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 this 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 Commission most recently approved Petitioner's base rates in its November 7, 2012 Order in Cause No. 44063. The effects of that Order will be reflected in Petitioner's next GCA filing for purposes of the earnings test. In this proceeding, the base rates approved in Cause No. 43229 will be utilized. The Commission's November 20, 2007 Order in 43229 authorized the company to earn a net operating income of $1,003,414. Petitioner's evidence indicates that for the twelve

(12) months ending September 30, 2012, actual net operating income was $582,612. Therefore, based on the evidence of record, the Commission finds that Petitioner has not earned in excess of the return 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, 2012 ("Reconciliation Period") yielded an overe-estimated weighted average error of 18.48%. Mr. Osmon explained that the variances during the Reconciliation Period were primarily caused by differences in the demand/reservation charges created by additional transport volumes required by Petitioner's customers to complete construction of Interstate 69. In addition, Mr. Osmon noted that the variances were also impacted by changes of certain specific customers from their historical usage, including one customer with alternative fuel capabilities, one asphalt plant, and the early onset of grain drying. We find Petitioner's explanation of the variances sufficient and, 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 $94,452. 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 $35,561.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $47,651. Combining this amount with the Reconciliation Period variance results in a total over-collection of $12,090 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner has a refund created by unaccounted for gas that was reported in GCA 115 in the amount of $24,280 to be recovered 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 factor properly reconciles the variances and refunds noted above and thus properly reflects the actual gas costs to be recovered.

8. **Resulting Gas Cost Adjustment Factor.** The estimated net commodity cost of gas to be recovered during the application period is $2,194,969. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $2,158,599. After dividing that amount by estimated sales, adding the fixed cost per Dth, and adjusting for Indiana

Utility Receipts Tax, Petitioner's recommended GCA factor is $5.0298/Dth for February, $5.0016/Dth for March, and $4.8874/Dth for April.

9. **Effects on Residential Customers.** The GCA factor for February 2013 of $5.0298/Dth represents an increase of $0.0571/Dth from the current GCA factor of $4.9727/Dth. The GCA factor for March 2013 of $5.0016/Dth represents an increase of $0.0289/Dth from the current GCA factor of $4.9727/Dth. The GCA factor for April 2013 of $4.8874 represents a decrease of $0.0853/Dth from the current GCA factor of $4.9727/Dth. The effects of these changes, in addition to changes from Petitioner's base rates and any applicable rate adjustment mechanisms[1], are shown in the following tables for various consumption levels of residential bills:

Table 1
Proposed vs. Currently Approved GCA Factor (December 2012)
For Residential Customers
February 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 52.53	$ 50.63	$ 1.90	3.75%
10	93.05	90.25	2.80	3.10%
15	129.36	125.89	3.47	2.76%
20	165.66	161.53	4.13	2.56%
25	201.97	197.17	4.80	2.43%

March 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 52.38	$ 50.63	$ 1.75	3.46%
10	92.77	90.25	2.52	2.79%
15	128.93	125.89	3.04	2.41%
20	165.10	161.53	3.57	2.21%
25	201.27	197.17	4.10	2.08%

[1] Because changes in other bill rate adjustment mechanisms may exceed the change in the GCA factor, any increase or decrease in the GCA factor may not necessarily result in an increase or decrease in the total bill.

April 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Current GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.81	$ 50.63	$ 1.18	2.33%
10	91.63	90.25	1.38	1.53%
15	127.22	125.89	1.33	1.06%
20	162.82	161.53	1.29	0.80%
25	198.41	197.17	1.24	0.63%

The GCA factor for February 2013 of $5.0298/Dth represents an increase of $0.4843/Dth from the GCA factor of $4.5455/Dth billed one year ago. The GCA factor for March 2013 of $5.0016/Dth represents an increase of $0.7300/Dth from the GCA factor of $4.2716/Dth billed one year ago. The GCA factor for April 2013 of $4.8874/Dth represents an increase of $1.1248/Dth from the GCA factor of $3.7626/Dth billed one year ago. The effects of these changes, in addition to changes from Petitioner's base rates and any applicable rate adjustment mechanisms[2], are shown in the following tables for various consumption levels of residential bills:

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

February 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 52.53	$ 48.49	$ 4.04	8.33%
10	93.05	85.98	7.07	8.22%
15	129.36	119.48	9.88	8.27%
20	165.66	152.98	12.68	8.29%
25	201.97	186.49	15.48	8.30%

[2] Because changes in other bill rate adjustment mechanisms may exceed the change in the GCA factor, any increase or decrease in the GCA factor may not necessarily result in an increase or decrease in the total bill.

March 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 52.38	$ 47.12	$ 5.26	11.16%
10	92.77	83.24	9.53	11.45%
15	128.93	115.37	13.56	11.75%
20	165.10	147.51	17.59	11.92%
25	201.27	179.64	21.63	12.04%

April 2013

Monthly Consumption Dth	*Bill at New GCA Factor*	*Bill at Prior Yr GCA Factor*	*Dollar Change*	*Percent Change*
5	$ 51.81	$ 44.57	$ 7.24	16.24%
10	91.63	78.15	13.48	17.25%
15	127.22	107.74	19.48	18.08%
20	162.82	137.33	25.49	18.56%
25	198.41	166.91	31.50	18.87%

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 Natural Gas Division of this Commission, prior to placing in effect the gas cost adjustment factors approved herein, or any future flexed factors, 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: JAN 23 2013

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