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 119 APPROVED: OCT 10 2013

ORDER OF THE COMMISSION

Presiding Officers:
Kari A.E. Bennett, Commissioner
Gregory R. Ellis, Administrative Law Judge

On August 15, 2013, in accordance with Ind. Code § 8-1-2-42, Midwest Natural Gas Corporation ("Petitioner" or "Midwest") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing months of November 2013 through January 2014. On September 10, 2013, Petitioner prefiled the direct testimony and revised schedules of David A. Osmon, Midwest's Executive Vice President and Chief Operating Officer, supporting the proposed GCA factor. On September 16, 2013, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") the statistical report and direct testimony of Sherry L. Beaumont, Utility Analyst.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Indiana Utility Regulatory Commission ("Commission"), an Evidentiary Hearing was held in this Cause at 9:30 a.m. on September 24, 2013, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of 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 finds:

1. **Statutory Notice and Commission Jurisdiction**. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as 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 organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 101 Southeast Third Street, Washington, Indiana. Petitioner renders 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 service.

3. **Source of Natural Gas.** Ind. 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.

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. Petitioner has hedged approximately 53% of its estimated sales. Mr. Osmon noted that Petitioner monitors its customers' needs as hedging decisions are made and will continue to do so as this GCA period approaches.

The Commission has indicated that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. This includes a program that considers market conditions and the price of natural gas on both current and forward-looking bases. 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, we find that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** Ind. 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 the proposed gas costs include transport rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. We have reviewed the cost of gas included in the proposed gas cost adjustment charge and find the cost to be reasonable. Therefore, we find that the requirement of this statutory provision has been fulfilled.

5. **Earnings Test.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA factor that results in Petitioner earning a return in excess of the return authorized by the last Commission Order in which Petitioner's basic rates and charges were approved. Petitioner's current basic rates and charges were approved on November 7, 2012 in Cause No. 44063. The Commission authorized Petitioner to earn a net operating income of $934,787.

Petitioner's evidence indicates that for the twelve (12) months ending June 30, 2013, Petitioner's actual net operating income was $637,912. Therefore, based on the evidence of record, we find that Petitioner is not earning a return in excess of that authorized in its last rate case.

6. **Estimation of Purchased Gas Costs.** Ind. 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 estimates with the corresponding actual costs. The evidence presented indicates that Petitioner's estimating techniques during the reconciliation period of April through June 2013

("Reconciliation Period") yielded an over-estimated weighted average error of 42.34%. Petitioner explained estimated costs were higher than the actual costs by more than 10% for the Reconciliation Period because in months heading out of the winter heating season it experienced sales volumes that are greater than the purchase volumes, which is the result of a staggered billing cycle as compared to the purchase cycle. Based on Petitioner's historical accuracy in estimating the cost of gas, we find that Petitioner's estimating techniques are sound, and Petitioner's prospective average estimate of gas costs is reasonable.

7. **Reconciliations.**

A. **Variances**. Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimate for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this proceeding establishes that the variance for the Reconciliation Period is an over-collection of $235,332 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 a decrease in the estimated net cost of gas is $109,288.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $53,230. Combining this amount with the Reconciliation Period variance results in a total over-collection of $162,518 to be applied in this GCA as a decrease in the estimated net cost of gas.

B. **Refunds**. Petitioner received $64,674 in new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period. We find that the amount to be refunded to customers in this GCA is $30,035 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated commodity cost of gas to be recovered is $590,026 for November 2013; $963,682 for December 2013; and $1,369,247 for January 2014. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $525,842 for November 2013; $899,498 for December 2013; and $1,305,063 for January 2014. After dividing that amount by estimated sales, adding in fixed costs, and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factor is $4.6768/Dth for November 2013, $4.9689/Dth for December 2013, and $5.0908/Dth for January 2014.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factor of $4.6768/Dth for November 2013, $4.9689/Dth for December 2013, and $5.0908/Dth for January 2014. The table below shows the commodity costs a residential customer will incur under the proposed GCA factor based on 10 Dth of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (August 2013 - $5.0620/Dth) and a year ago (November 2012 - $4.8152/Dth, December 2012 - $4.9727/Dth, and January 2013 - $4.8726/Dth). . The table reflects costs approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

Month	Proposed Gas Costs (10 Dth)	Current		Year Ago	
		Gas Costs (10 Dth)	Difference from Current	Gas Costs (10 Dth)	Difference from Year Ago
November 2013	$ 46.77	$ 50.62	$ (3.85)	$ 48.15	$ (1.38)
December 2013	$ 49.69	$ 50.62	$ (0.93)	$ 49.73	$ (0.04)
January 2014	$ 50.91	$ 50.62	$ 0.29	$ 48.73	$ 2.18

10. Interim Rates. We are unable to determine whether Petitioner will earn an excess return while these GCA factors are in effect. Accordingly, the rates approved in this Order are interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. Monthly Flex Mechanism. The Commission 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 monthly flex mechanism to adjust the GCA factor 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 later 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 (higher or lower) 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. Prior to implementing the GCA factors approved above or any future flexed factor, Midwest Natural Gas Corporation shall file with the Commission under this Cause the applicable rate schedules for the factor.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: OCT 10 2013

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