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 123** **APPROVED:** OCT 15 2014

ORDER OF THE COMMISSION

Presiding Officer:
Gregory R. Ellis, Administrative Law Judge

On August 14, 2014, 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 2014 through January 2015. On August 19, 2014, Petitioner prefiled the direct testimony of David A. Osmon, Midwest's Executive Vice President and Chief Operating Officer, supporting the proposed GCA factors. On September 19, 2014, Petitioner filed supplemental testimony and revised schedules. On September 23, 2014, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the statistical calculations and direct testimony of Laura J. Anderson, Utility Analyst.

The Indiana Utility Regulatory Commission ("Commission") held an Evidentiary Hearing in this Cause at 10:30 a.m. on October 1, 2014, 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 services.

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 52% of its estimated sales through fixed contracts or storage gas for this upcoming GCA period. Mr. Osmon noted that Petitioner is diligent in reviewing pricing, reviewing information on trends from its marketer, considering estimates of volumes to be sold, taking into account the hedging in place, and where appropriate, flexing its estimates.

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 12 months ending June 30, 2014, Petitioner's actual net operating income was $857,124. 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 2014 ("Reconciliation Period") yielded an over-estimated weighted average error of approximately 29.6%. Mr. Osmon testified that the cause of such variance was primarily the staggered billing used by Petitioner and the calculations performed for Schedule 13. He explained that had the

comparison been of estimated costs to actual costs, Petitioner's variance for the three months of this reconciliation period would have been 2.40%, 3.18%, and 1.29% respectively. 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 $201,716 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 $94,302.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $146,745. Combining this amount with the Reconciliation Period variance results in a total under-collection of $52,443 to be applied in this GCA as an increase in the estimated net cost of gas.

B. **Refunds.** Petitioner received no new refunds during the Reconciliation Period, but has $13,757 to refund related to unaccounted for gas for the twelve months ending June 30, 2014. Allocation of such refund to this quarter results in a refund of $6,431. We find that the amount to be refunded to customers in this GCA is $6,431 as reflected on Schedule 12A.

8. **Resulting Gas Cost Adjustment Factor.** The estimated commodity cost of gas to be recovered is $635,575 for November 2014; $1,122,379 for December 2014; and $1,469,137 for January 2015. Adjusting this total for variance and refund amounts yields gas costs to be recovered through the GCA of $650,912 for November 2014; $1,137,716 for December 2014; and $1,484,474 for January 2015. After dividing that amount by estimated sales, adding in fixed costs, and adjusting for the Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are $5.5218/Dth for November 2014, $5.4725/Dth for December 2014, and $5.5214/Dth for January 2015.

9. **Effects on Residential Customers – (GCA Cost Comparison).** Petitioner requests authority to approve the GCA factors of $5.5218/Dth for November 2014, $5.4725/Dth for December 2014, and $5.5214/Dth for January 2015. The table below shows the commodity costs a residential customer will incur under the proposed GCA factors based on 10 Dths of usage. The table also compares the proposed gas costs to what a residential customer paid most recently (August 2014 - $5.3504/Dth) and a year ago (November 2013 - $4.6768/Dth, December 2013 - $4.9689/Dth, and January 2014 - $5.3557/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 Dths)	Current Gas Costs (10 Dths)	Current Difference from Current	Year Ago Gas Costs (10 Dths)	Year Ago Difference from Year Ago
November 2014	$55.22	$53.50	$1.72	$46.77	$8.45
December 2014	$54.73	$53.50	$1.23	$49.69	$5.04
January 2015	$55.21	$53.50	$1.71	$53.56	$1.65

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 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 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.

STEPHAN, MAYS-MEDLEY, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: OCT 15 2014

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