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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA FUEL & LIGHT COMPANY, INC. FOR APPROVAL OF GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF MAY 2009 THROUGH JULY 2009, PURSUANT TO IC 8-1-2-42	))))))	CAUSE NO. 38431 GCA 51 APPROVED: APR 29 2009

BY THE COMMISSION:
Gregory D. Server, Commissioner
Loraine L. Seyfried, Administrative Law Judge

On February 25, 2009, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Fuel & Light Co., Inc. ("Petitioner" or "NIFL") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition in this Cause for approval of a Gas Cost Adjustment ("GCA") to be applicable during the billing cycles of May, 2009 through July, 2009. On the same day, Petitioner prefiled the direct testimony and supporting exhibits of Katherine A. Cherven, Manager of Compliance, Rates Department; Karl E. Stanley, Executive Director, Energy Supply and Trading; and Mitchell E. Hershberger, Controller. On March 20, 2009, Petitioner filed supplemental direct testimony revising the proposed GCA factors submitted in this Cause. On March 27, 2009, in accordance with Ind. Code § 8-1-2-42, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony and exhibits of Pamela Sue Sargent Haase, Partner at London Witte Group, LLC.

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, an evidentiary hearing was held in this Cause on April 16, 2009 at 2:00 p.m., in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, Petitioner and the OUCC presented their respective evidence without objection. By agreement, the Presiding Officers also took administrative notice of the testimony provided by Karl Stanley at the hearing in Cause No. 37396 GCA 64 concerning the near-term acquisition of gas supplies. No member of the rate paying public was present at the hearing.

Based upon the applicable law, the evidence presented herein, and being duly advised, the Commission now finds:

1. **Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the commencement of the public 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 this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this Cause. Therefore, this Commission has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a public utility corporation organized and existing under the laws of the State of Indiana, with its principal office located at 220 East Seventh Street, Auburn, Indiana. It is engaged in rendering gas distribution service in the State of Indiana. It owns, operates, manages and controls plants and equipment within the State of Indiana 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 natural gas supplies in order to provide gas to its retail customers at the lowest gas cost reasonably possible.

Petitioner purchases gas or transportation services from ANR Pipeline Company ("ANR"), Panhandle Eastern Pipeline Company ("Panhandle") and Crossroads Pipeline Company. Petitioner also has a firm storage contract with ANR that provides an annual storage capacity of 1,452,750 Dth and a firm storage contract with Panhandle that provides an annual storage capacity of 500,000 Dth. Further, Petitioner has short–haul firm transportation agreements that allow it to move gas on and off the system as needed. Petitioner indicated that it will rely on stored gas to meet approximately 40% of customer demands during the winter heating months and will satisfy the remainder with firm purchase arrangements on a term and spot basis. In addition, Petitioner has established a Price Volatility Mitigation Plan ("Plan") that targets hedging the price of 30% of its projected gas supply purchased requirements.

Mr. Stanley testified at the hearing in Cause No. 37396 GCA 64 that Petitioner's Plan follows a dollar cost averaging methodology which provides for making gas supply purchases at preplanned times and preplanned volumes. Tr. at p. 8. Mr. Stanley also indicated that Petitioner follows a similar plan with respect to filling storage inventories by purchasing one-seventh of its storage each month during the seven summer months. Tr. at p. 15. While acknowledging that gas prices have not been as low as they now are since 2002 and that it may be prudent to consider alternatives to strictly following the Plan, Mr. Stanley indicated that Petitioner did not intend to deviate from its Plan. Tr. at pp. 14, 16-17.

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 policy of securing natural gas supply designed to mitigate price volatility. However, the Commission recommends that Petitioner's Plan should include the flexibility to take advantage of current market conditions or opportunities to not only mitigate price volatility, but to effectively reduce the overall weighted cost of natural gas so as to provide the lowest gas cost reasonably possible in order to meet anticipated customer requirements. Given that Petitioner's current strategy does mitigate price volatility, the Commission finds 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 requested or filed, pursuant to the jurisdiction and procedures of a duly constituted regulatory agency, the costs proposed to be included in the GCA factor. The

evidence of record indicates that gas costs in this Petition include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission procedures. The Commission reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs to be reasonable. Accordingly, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Ind. Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a GCA that results in the Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's basic rates and charges were approved. The most recent proceeding in which Petitioner's basic rates and charges were approved is Cause No. 39145. The Commission's January 29, 1992 Order in that Cause authorized Petitioner to earn a net operating income of $2,490,986. The evidence of record indicates that for the twelve (12) months ending December 31, 2008, Petitioner's actual net operating income was $2,140,911. Therefore, the Commission finds that Petitioner is not earning a return in excess of that authorized in its last proceeding in which basic rates and charges were approved.

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 eventual actual costs. The evidence indicates that the estimating techniques during the period of November 2008 through January 2009 ("Reconciliation Period") yielded an over-estimated weighted average error of 16.14%. Petitioner's witness Katherine Cherven explained that the main factor resulting in the 16.14% estimation error is due to lower commodity costs than was estimated. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's average estimate of gas cost is reasonable.

7. **Reconciliation.** Ind. Code § 8-1-2-42(g)(3)(D) also requires that Petitioner reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. Petitioner's evidence presented in the current proceeding established that the variance for the Reconciliation Period is an over-collection of $3,148,589 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 $276,308.

The variance from prior recovery periods applicable to the current recovery period is an under-collection of $133,806. When this amount is combined with the Reconciliation Period variance, the result is a total over-collection of $142,502 to be applied in this GCA as a decrease in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period and has no refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has no refunds to be returned in this Application.

Based upon 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 $1,690,279. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of $1,547,777. After dividing that amount by estimated sales, adding the demand costs, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are:

Class	Rate per Dth
Residential (Rate 1)	$1.905
Small General Service (Rate 2)	$1.487
Large General Service (Rate 3)	$2.612
Curtailment (Rate 6)	$3.852

9. **Effects on Residential Customers.** The GCA factor of $1.905/Dth represents a decrease of $3.337/Dth from the current GCA factor of $5.242/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Effect on Residential Customers
New vs. Current

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$ 41.31	$ 58.00	($16.69)	(28.77)%
10	$ 72.86	$106.23	($33.37)	(31.41)%
15	$102.81	$152.86	($50.05)	(32.75)%
20	$132.75	$199.49	($66.74)	(33.46)%
25	$162.70	$246.12	($83.42)	(33.90)%

The GCA factor of $1.905/Dth represents a decrease of $4.270/Dth from the GCA factor billed one year ago of $6.175/Dth. The effects of this change 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				
Monthly Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Yr GCA Factor**	**Dollar Change**	**Percent Change**
5	$ 41.31	$ 62.66	($ 21.35)	(34.07)%
10	$ 72.86	$115.56	($ 42.70)	(36.95)%
15	$102.81	$166.86	($ 64.05)	(38.39)%
20	$132.75	$218.15	($ 85.40)	(39.15)%
25	$162.70	$269.45	($106.75)	(39.62)%

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 has authorized that the approved rates herein should be interim rates subject to refund pending reconciliation in the event an excess return is earned.

11. **Unaccounted for Gas**. In accordance with the Commission's directive first issued in GCA 36, Petitioner continues to closely monitor its system unaccounted for gas levels, defined as the difference between the amount of gas sold and purchased. Since Petitioner received Commission approval to "zero-out" the amount of negative unaccounted for gas, Petitioner has investigated several potential causes for the negative unaccounted for gas. The most recent effort has yielded promising results. Beginning in September 2006, Petitioner implemented a new gas management system that provides timelier actual pipeline volumes. To date, the timely availability of these actual pipeline volumes appears to have significantly diminished the level of negative unaccounted-for gas.

On February 22, 2007 as recommended in GCA 42, Petitioner's representatives met with OUCC staff and Commission staff to discuss the unaccounted for gas issue and the progress that had been made to date. At the meeting, it was agreed that recent improvements warranted having Petitioner discontinue "zeroing out" the negative unaccounted for gas. In GCA 49, Mr. Steve Auld identified factors that contributed to the negative unaccounted for gas and described actions taken by Petitioner that he is optimistic will improve, or possibly eliminate, the negative unaccounted for gas situation. Mr. Auld cautioned that the best way to ascertain whether the corrective actions being implemented by Petitioner will resolve the issue would be to analyze the unaccounted for gas over a twelve-month period. In this Cause, Ms. Cherven testified that the current three months unaccounted for gas is a positive 0.65%. The Commission finds that Petitioner should continue to monitor the situation, its methodology for calculating unaccounted for gas and its use of the new gas management system and the impacts on unaccounted for gas amounts.

IT IS, THEREFORE, ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Northern Indiana Fuel & Light Co., Inc. for the gas cost adjustment for natural gas service, as set forth in Finding Paragraph No. 8, is hereby approved, subject to refund in accordance with Finding Paragraph 10.

2. Petitioner shall file with the Natural Gas Division of the Commission, prior to placing into effect the gas cost adjustments herein approved, separate amendments to its rate schedule with reasonable reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

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

HARDY, GOLC, LANDIS, SERVER AND ZIEGNER CONCUR:

APPROVED: APR 29 2009

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