ORIGINAL

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 AUGUST 2009 THROUGH OCTOBER 2009 PURSUANT TO IC 8-1-2-42	CAUSE NO. 38431 GCA 52 APPROVED: JUL 3 0 2009

BY THE COMMISSION:
Larry S. Landis, Commissioner
Angela Rapp Weber, Administrative Law Judge

On May 27, 2009, in accordance with Indiana Code § 8-1-2-42, Northern Indian Fuel & Light Company, Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of August 2009 through October 2009 with the Indiana Utility Regulatory Commission ("Commission"). On May 27, 2009, Petitioner also prefiled the direct testimony and revised schedules of Katherine A. Cherven, Petitioner's Manager of Compliance in the Rates Department, and Karl E. Stanley, Petitioner's Executive Director of Energy Supply and Trading for Services, supporting the proposed GCA factor. On June 22, 2009, Petitioner submitted the supplemental testimony of Katherine A. Cherven. On June 29, 2009, in conformance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, a Certified Public Accountant. On July 2, 2009, Petitioner filed an omitted Schedule and a revised Schedule 12B with the Commission. On July 20, 2009, Petitioner filed Petitioner's Late-Filed Exhibit D pursuant to the Presiding Officers' Docket Entry dated July 16, 2009.

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 9:30 a.m. on July 14, 2009, in Suite 224, National City Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both Petitioner and OUCC were admitted into the record. 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 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 proceeding. The Commission therefore has jurisdiction over the parties and the subject matter herein.

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 220 East 7th Street, Auburn, Indiana. Petitioner is engaged in rendering natural gas utility service to the public in Allen, DeKalb, LaGrange, Noble and Steuben Counties in Indiana. Petitioner owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

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 gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

According to Mr. Stanley, Petitioner's portfolio is diverse so that Petitioner can acquire a reliable and firm natural gas supply at the lowest cost possible. Petitioner receives natural gas pursuant to several firm, long-term transportation contracts with several interstate pipeline suppliers: Panhandle Eastern Pipeline Company, Crossroads Pipeline Company, and ANR Pipeline Company. Mr. Stanley explained that the contracts are executed after Petitioner solicits bids for term firm supplies. When reviewing the bids received, Petitioner considers the current market conditions, value to customers, application to the portfolio, and a supplier's financial condition and historical performance. In addition, Mr. Stanley stated that Petitioner has entered into several firm, long-term contractual storage agreements in order to meet its customers' needs. Petitioner plans to rely on storage to satisfy about 55% of customer demand in the winter months. The remaining demand will be satisfied with firm purchase arrangements on a term and spot basis. Finally, Mr. Stanley stated that Petitioner is currently evaluating how best to restructure its price volatility mitigation plans to allow for the necessary flexibility to acquire additional hedges when gas prices appear to be at favorable price levels.

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 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 factor. 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. As a result, 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 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 February 3, 1993 Order in that Cause authorized Petitioner to earn a net operating income of $2,490,986. Petitioner's evidence herein indicates that for the twelve (12) months ending March 31, 2009, Petitioner's actual net operating income was $1,289,492. 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 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 the eventual actual costs. The evidence presented indicates that the estimating techniques of Petitioner during the reconciliation period of February 2009 through April 2009 ("the Reconciliation Period") yielded an over-estimated weighted average error of 17.43%. Ms. Chevren explained that this high percentage is a result of the lower commodity costs on average than those estimated in GCA 50 and lower usage of storage volumes. 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 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 over-collection of $1,569,127 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 $138,084.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $132,325. When this amount is combined with the Reconciliation Period variance, the result is a total over-collection of $270,409 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. Accordingly, Petitioner has no refunds to be returned in this Application. 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 of gas to be recovered during the application period is $1,844,080. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of $1,573,671. After dividing that amount by estimated sales, adding demand costs, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are as follows:

Class	Rate per Dth
Residential (Rate 1)	$1.902
Small General Service (Rate 2)	$1.840
Large General Service (Rate 3)	$2.665
Curtailment (Rate 6)	$4.131

9. **Effects on Residential Customers.** The GCA factor of $1.902/Dth represents a decrease of $0.003/Dth from the current GCA factor of $1.905/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 1
Proposed GCA Factor
Vs.
Currently Approved GCA Factor

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$ 41.30	$ 41.31	$(0.01)	(0.04)%
10	$ 72.83	$ 72.86	$(0.03)	(0.04)%
15	$ 102.76	$ 102.81	$(0.05)	(0.04)%
20	$ 132.69	$ 132.75	$(0.06)	(0.05)%
25	$ 162.62	$ 162.70	$(0.08)	(0.05)%

The GCA factor of $1.902/Dth represents decrease of $7.070/Dth from the GCA factor of $8.972/Dth billed one year ago. The effects of this change for various consumption levels of residential bills are shown in the following table:

Table 2
Proposed GCA Factor
Vs.
Prior Year GCA Factor

Monthly Consumption Dth	Bill at Proposed GCA Factor	Bill at Prior Year Approved GCA Factor	Dollar Change	Percent Change
5	$ 41.30	$ 76.65	$(35.35)	(46.12)%
10	$ 72.83	$ 143.53	$(70.70)	(49.26)%
15	$ 102.76	$ 208.81	$(106.05)	(50.79)%
20	$ 132.69	$ 274.09	$(141.40)	(51.59)%
25	$ 162.62	$ 339.37	$(176.75)	(52.08)%

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.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISION that:

1. The Petition of Northern Indiana Fuel & Light Company, Inc. for 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. Northern Indiana Fuel & Light Company, Inc. shall file with the Natural Gas Division of this Commission, prior to placing in effect the gas cost adjustment factors approved herein, 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.

HARDY, ATTERHOLT, LANDIS, AND ZIEGNER CONCUR; GOLC ABSENT:

APPROVED: JUL 30 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