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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 FEBRUARY 2010 THROUGH APRIL 2010, PURSUANT TO IC 8-1-2-42)
CAUSE NO. 38431 GCA 54)
APPROVED: JAN 27 2010)

**BY THE COMMISSION:
James D. Atterholt, Commissioner
Angela Rapp Weber, Administrative Law Judge**

On November 23, 2009, in accordance with Indiana Code § 8-1-2-42, Northern Indiana Fuel & Light Co., Inc. ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached schedules to be applicable during the billing cycles of February 2010 through April 2010 with the Indiana Utility Regulatory Commission ("Commission"). On the same day, Petitioner prefiled the direct testimony and revised schedule of Katherine A. Cherven, Manager of Compliance, Rates Department; Roger A. Huhn, Executive Director of Resource Planning, Energy Supply and Trading; and Mitchell E. Hershberger, Controller. On December 21, 2009, in accordance with the statute, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the statistical report and direct testimony of Pamela Sue Sargent Haase, Partner at London Witte Group, LLC. On January 5, 2010, the Presiding Officer issued a Docket Entry requesting further clarification of Revised Schedule 9. On that same day, Petitioner filed with the Commission a Revised Schedule 9.

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 10:00 a.m. on January 6, 2010 in Room 224 of the 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 the 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 public utility corporation duly organized and existing under the laws of the State of Indiana. Petitioner's principal office is located at 1153 Auburn Drive, Auburn, Indiana. It is engaged in rendering gas distribution service to the public in Allen, DeKalb, LaGrange, Noble, and Steuben counties in the State of Indiana. Petitioner owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such service.

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 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 ("PEPL") and Crossroads Pipeline Company. Petitioner also has a firm storage contract with ANR that provides an annual storage capacity of 1,449,100 Dth and a firm storage contract with PEPL 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. Finally, Petitioner indicated that it will rely on stored gas to meet approximately 55% of customer demands during the winter heating months and will satisfy the remainder with firm purchase arrangements on a term and spot basis.

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 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.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment 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. Petitioner's evidence herein indicates that for the twelve (12) months ending September 30, 2009, Petitioner's actual net operating income was \$617,101. 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 indicates that the estimating techniques of Petitioner during the period of August 2009 through October 2009 (“Reconciliation Period”) yielded an over-estimated weighted average error of 37.48%. Ms. Cherven explained that the magnitude of the error resulted from lower commodity costs on average than those estimated in GCA 52. The Commission notes that Petitioner’s weighted average error is somewhat high and therefore requests that Petitioner provide additional testimony in future filings pertaining to reasonableness of the variance. 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 costs is reasonable.

7. **Reconciliation.** Indiana 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. The evidence presented in the current proceeding established that the variance for the Reconciliation Period is an over-collection of \$7,999 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 \$4,274.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of \$1,451,664. When this amount is combined with the Reconciliation Period variance, the result is a total over-collection of \$1,455,938 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 \$7,575,681. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA and Base Rates of \$6,119,743. 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)	\$1.790
Small General Service (Rate 2)	\$1.756
Large General Service (Rate 3)	\$2.556
Curtailment (Rate 6)	\$8.323

9. **Effects on Residential Customers.** The GCA factor of \$1.790/Dth represents a decrease of \$0.390/Dth from the current GCA factor of \$2.180/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 New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	\$ 40.74	\$ 42.69	(\$1.95)	(4.57%)
10	\$ 71.71	\$ 75.61	(\$3.90)	(5.16%)
15	\$101.08	\$106.93	(\$5.85)	(5.47%)
20	\$130.45	\$138.25	(\$7.80)	(5.64%)
25	\$159.82	\$169.57	(\$9.75)	(5.75%)

The GCA factor of \$1.790/Dth represents a decrease of \$3.452/Dth from the GCA factor billed one year ago of \$5.242/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 2				
Proposed GCA Factor				
Vs.				
GCA Factor One Year Ago				
Monthly Consumption Dth	Bill at New GCA Factor	Bill at Prior Year GCA Factor	Dollar Change	Percent Change
5	\$ 40.74	\$ 58.00	(\$ 17.26)	(29.76%)
10	\$ 71.71	\$106.23	(\$ 34.52)	(32.50%)
15	\$101.08	\$152.86	(\$ 51.78)	(33.87%)
20	\$130.45	\$199.49	(\$ 69.04)	(34.61%)
25	\$159.82	\$246.12	(\$ 86.30)	(35.06%)

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 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, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph 10.

2. Northern Indiana Fuel & Light Co. shall file with the Natural Gas Division of the Commission, prior to placing into effect the gas cost adjustments approved herein, separate amendments to its rate schedules with reasonable references reflecting thereon that such charges are applicable to the rate schedules reflected on these amendments.

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

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

APPROVED: JAN 27 2010

I hereby certify that the above is a true and correct copy of the order as approved.


Brenda A. Howe
Secretary to the Commission