ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA FUEL AND LIGHT COMPANY INC. FOR APPROVAL OF GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF FEBRUARY 2011 THROUGH APRIL 2011, PURSUANT TO IC 8-1-2-42	)	CAUSE NO. 38431 GCA 58 APPROVED: JAN 26 2011

BY THE COMMISSION:
Angela Rapp Weber, Administrative Law Judge

On November 29, 2010, in accordance with Indiana Code § 8-1-2-42, Northern Indiana Fuel and Light Co. Inc. ("Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition for a gas cost adjustment ("GCA") with attached schedules to be applicable during the months of February 2011 through April 2011. Also on November 29, 2010, Petitioner prefiled the direct testimony and supporting exhibits of Katherine A. Cherven, Manager of Compliance, Rates Department; Roger A. Huhn, Director of Resource Planning; and Mitchell E. Hershberger, Controller, supporting the proposed GCA factor. On December 21, 2010, Petitioner prefiled supplemental direct testimony of Ms. Cherven with revised schedules. On December 29, 2010, 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, CPA, 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, a public hearing was held in this Cause at 10:00 a.m. on January 12, 2011 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The evidence of both 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 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. Therefore, the Commission 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 has its principal office at 1153 Auburn Drive, Auburn, Indiana. Petitioner is engaged in rendering gas distribution 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. <u>Source of Natural Gas</u>. 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.

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 1,449,700 Dth and with Panhandle that provides an annual storage capacity of 500,000 Dth. In addition, Petitioner has short-haul firm transportation agreements that allow it to move gas on and off the system as needed. During the winter months, Petitioner relies on storage inventories to supply approximately 55% of its demand requirements. The remaining winter requirements are fulfilled by firm purchase arrangements on a term and spot basis.

The Commission has indicated 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 Petitioner has demonstrated 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 the requirement of this statutory provision has been fulfilled.

4. <u>Purchased Gas Cost Rates</u>. Indiana Code § 8-1-2-42(g)(3)(B) requires Petitioner's pipeline suppliers to 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 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 costs to be reasonable. Therefore, the Commission finds the requirement of this statutory provision has been fulfilled.

5. <u>Return Earned</u>. 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 base 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 for the twelve (12) months ending September 30, 2010, Petitioner's actual net operating income was $1,569,040. Therefore, based upon the evidence of record, the Commission finds Petitioner is not earning a return in excess of that authorized in its last rate case.

6. <u>Estimation of Purchased Gas Costs</u>. Indiana Code § 8-1-2-42(g)(3)(D) requires Petitioner's estimate of its prospective average gas costs for each future recovery period to be reasonable. The Commission has determined this requires, in part, a comparison of prior estimates with the eventual actual costs. The evidence presented indicates the estimating techniques of Petitioner during the period of August 2010 through October 2010 (the "Reconciliation Period") yielded an over-estimated weighted average error of 62.90%. Ms. Cherven explained the high variance percentage is the result of over-estimated commodity gas costs. Ms. Cherven also indicated that whenever commodity prices are low, even slight differences between actual net cost of gas and the estimated cost could produce a relatively high percentage of error. In this Cause, Petitioner's over-estimated weighted average error of 62.90% resulted in an over-estimation of $1.96 per Dth. For the previous twelve-month period, which encompasses GCA58–GCA55, Petitioner's weighted average error was an under-estimated 0.89%. Based upon Petitioner's history in estimating the cost of gas, the Commission finds Petitioner's estimating techniques are adequate and Petitioner's prospective average estimate of gas costs is reasonable. Further, Petitioner's proposal in Finding Paragraph 11 *infra* to implement a monthly flex mechanism may help to stabilize Petitioner's future variance percentages.

7. Reconciliation. Indiana Code § 8-1-2-42(g)(3)(D) also requires Petitioner to reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in the current proceeding establishes the variance for the Reconciliation Period is an under-collection of $48,059 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 an increase in the estimated net cost of gas is $18,907.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $115,705. Combining this amount with the Reconciliation Period variance results in a total over-collection of $96,798 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.

8. Resulting Gas Cost Adjustment Factor. The estimated net commodity cost of gas to be recovered during the application period is $7,486,213. Adjusting this total for the variance and refund amounts yields gas costs to be recovered through the GCA of $7,389,415. After dividing that amount by estimated sales and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are:

GCA per Therm			
Rate Class	**February 2011**	**March 2011**	**April 2011**
Residential (Rate 1)	$0.3003	$0.3023	$0.2571
Small General Service (Rate 2)	$0.3367	$0.3387	$0.2945
Large General Service (Rate 3)	$0.3405	$0.3397	$0.2940
Curtailable Service (Rate 6)	$0.3668	$0.3540	$0.2812

9. Effects on Residential Customers. The February 2011 GCA factor of $3.003/Dth for the applied billing cycle represents an increase of $0.139/Dth from the current GCA factor of

$2.864/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 for February 2011** **vs.** **Currently Approved GCA Factor**				
Monthly Consumption Dth	**Bill at New GCA Factor**	**Bill at Current GCA Factor**	**Dollar Change**	**Percent Change**
5	$46.81	$46.11	$0.70	1.52%
10	$83.85	$82.46	$1.39	1.69%
15	$119.29	$117.20	$2.09	1.78%
20	$154.72	$151.94	$2.78	1.83%
25	$190.16	$186.68	$3.48	1.86%

The March 2011 GCA factor of $3.023/Dth for the applied billing cycle represents an increase of $0.159/Dth from the current GCA factor of $2.864/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 for March 2011** **vs.** **Currently Approved GCA Factor**				
Monthly Consumption Dth	**Bill at New GCA Factor**	**Bill at Current GCA Factor**	**Dollar Change**	**Percent Change**
5	$46.91	$46.11	$0.80	1.73%
10	$84.05	$82.46	$1.59	1.93%
15	$119.59	$117.20	$2.39	2.04%
20	$155.12	$151.94	$3.18	2.09%
25	$190.66	$186.68	$3.98	2.13%

The April 2011 GCA factor of $2.571/Dth for the applied billing cycle represents a decrease of $0.293/Dth from the current GCA factor of $2.864/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 3 **Proposed GCA Factor for April 2011** **vs.** **Currently Approved GCA Factor**				
Monthly Consumption Dth	**Bill at New GCA Factor**	**Bill at Current GCA Factor**	**Dollar Change**	**Percent Change**
5	$44.65	$46.11	($1.46)	(3.17%)
10	$79.53	$82.46	($2.93)	(3.55%)
15	$112.81	$117.20	($4.39)	(3.75%)
20	$146.08	$151.94	($5.86)	(3.86%)
25	$179.36	$186.68	($7.32)	(3.92%)

The February 2011 GCA factor of $3.003/Dth represents an increase of $1.213/Dth from the GCA factor billed one year ago of $1.790/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 4 **Proposed GCA Factor for February 2011** **vs.** **GCA Factor Prior Year**				
Monthly Consumption Dth	**Bill at New GCA Factor**	**Bill at Prior Yr GCA Factor**	**Dollar Change**	**Percent Change**
5	$46.81	$40.74	$6.07	14.89%
10	$83.85	$71.72	$12.13	16.91%
15	$119.29	$101.09	$18.20	18.00%
20	$154.72	$130.46	$24.26	18.60%
25	$190.16	$159.83	$30.33	18.98%

The March 2011 GCA factor of $3.023/Dth represents an increase of $1.233/Dth from the GCA factor billed one year ago of $1.790/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 5 Proposed GCA Factor for March 2011 vs. GCA Factor Prior Year				
Monthly Consumption Dth	**Bill at New GCA Factor**	**Bill at Prior Yr GCA Factor**	**Dollar Change**	**Percent Change**
5	$46.91	$40.74	$6.17	15.13%
10	$84.05	$71.72	$12.33	17.19%
15	$119.59	$101.09	$18.50	18.30%
20	$155.12	$130.46	$24.66	18.90%
25	$190.66	$159.83	$30.83	19.29%

The April 2011 GCA factor of $2.571/Dth represents an increase of $0.781/Dth from the GCA factor billed one year ago of $1.790/Dth. The effects of this change for various consumption levels of residential customer bills are shown in the following table:

Table 6 Proposed GCA Factor for April 2011 vs. GCA Factor Prior Year				
Monthly Consumption Dth	**Bill at New GCA Factor**	**Bill at Prior Yr GCA Factor**	**Dollar Change**	**Percent Change**
5	$44.65	$40.74	$3.91	9.59%
10	$79.53	$71.72	$7.81	10.89%
15	$112.81	$101.09	$11.72	11.59%
20	$146.08	$130.46	$15.62	11.97%
25	$179.36	$159.83	$19.53	12.22%

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. **Monthly Flex Mechanism.** In its Petition, Petitioner requested authority to begin utilizing a monthly flex mechanism, consistent with mechanisms approved for Citizens Gas in Cause No. 37399 GCA75, Vectren North and Vectren South in Cause No. 42890, and NIPSCO in Cause No. 43629. The flex mechanism will include a $1.00 "flex-collar" on the spot market-priced portion of Petitioner's GCA portfolio. Petitioner's witness Ms. Cherven testified the flex will be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. She further stated the schedules filed in this Cause have been modified to calculate GCA factors for each month instead of the previous accumulation of three months of cost into one GCA factor for the quarter. Also, the variance allocation on Schedule 12B will be changed to reflect monthly allocations instead of four quarterly allocations.

OUCC witness Ms. Haase testified the OUCC has no objection to Petitioner implementing the flex mechanism, starting with consumption in the current GCA for the months of February 2011 through April 2011. She stated the flex would apply only to estimated pricing of estimated market purchases in the GCA.

This Commission has previously approved flex mechanisms similar to Petitioner's proposal. Based on the parties' agreement herein, the Commission finds Petitioner should be permitted to employ a $1.00 per dekatherm flex mechanism that is consistent with the mechanisms approved for Citizens Gas in Cause No. 37399-GCA75, Vectren North and Vectren South in Cause No. 42890, and NIPSCO in Cause No. 43629.

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

1. Petitioner shall be permitted to implement a $1.00 per dekatherm "flex" mechanism as indicated herein in association with its quarterly GCA applications.

2. The Petition of Northern Indiana Fuel and 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 10.

3. Northern Indiana Fuel and Light Company Inc. shall file with the Commission under this Cause, prior to placing into effect the gas cost adjustment factors approved herein or any future flexed factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedule on these amendments.

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

ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JAN 26 2011

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