ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF MARCH 2010, APRIL 2010 AND MAY 2010, PURSUANT TO IC 8-1-2-42	)	**CAUSE NO. 43629 GCA 13**
	)	**APPROVED:** MAR 03 2010

BY THE COMMISSION:
James D. Atterholt, Commissioner
Lorraine Hitz-Bradley, Administrative Law Judge

On December 23, 2009, in accordance with Ind. Code § 8-1-2-42, Northern Indiana Public Service Company ("Petitioner" or "NIPSCO") 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 March 2010 through May 2010. On January 25, 2010, Petitioner pre-filed the direct testimony and supporting exhibits of Katherine A. Cherven, Manager of Compliance, Rates Department; Roger A. Huhn, Director of Resource Planning, Energy Supply and Trading; and Mitchell E. Hershberger, Controller. On January 28, 2010, in accordance with I.C. § 8-1-2-42, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its statistical report and the direct testimony and exhibits of Lianne N. Lockhart, a Utility Analyst with the OUCC.

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 February 9, 2010 at 10:00 a.m. EDT, in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner, the OUCC, NIPSCO Industrial Group ("NIG") and the City of Hammond all attended the hearing. NIG's Petition to Intervene was granted in a docket entry dated January 12, 2010. The City of Hammond's Petition to Intervene was granted on the record. Petitioner presented its evidence without objection, as did the OUCC, although the testimony of Ms. Lockhart was amended from what was prefiled on January 28, 2010, to indicate the OUCC had not yet completed its review, and to request that the rates for August through November 2009 not be finalized until NIPSCO's next GCA. 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 finds as follows.

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 801 East 86th Avenue, Merrillville, Indiana. It is engaged in rendering gas distribution service in the State of Indiana and owns, operates, manages and controls, among other things, plants and equipment within the State of Indiana used for the distribution and furnishing of such service to the public.

3. **Source of Natural Gas.** I.C. § 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.

Mr. Roger Huhn testified that NIPSCO meets this objective by managing a balanced and fully diversified gas supply portfolio comprised of a variety of commodity, transportation and storage resources. The commodity portfolio is balanced with a combination of fixed-price (physical and financial) and market-based purchases. The commodity portfolio diversification is achieved by acquiring gas from a number of suppliers through a competitive bidding process and utilizing a variety of pricing structures sourced from multiple locations. These gas supplies are delivered to NIPSCO through multiple long-term firm transportation arrangements with several different interstate gas pipelines, providing access to multiple supply basins. Mr. Huhn testified that NIPSCO also has several long-term firm contractual storage services as well as on-system storage capability to meet its gas customers' requirements. The storage portfolio is further diversified through a variety of storage service types in multiple locations in the market area, as well as in producing regions.

Mr. Huhn further testified that during the three-month recovery period beginning March 1, 2010, NIPSCO will purchase supply under firm arrangements on both a term and spot market basis. To achieve diversity of supply, he stated that NIPSCO has contracted with several pipelines permitting access to multiple supply basins. NIPSCO has long-term firm transportation contracts with Natural Gas Pipeline Company of America ("Natural"), Panhandle Eastern Pipe Line Company ("Panhandle"), Trunkline Gas Company ("Trunkline"), ANR Pipeline Company ("ANR"), Vector Pipeline ("Vector") and Northern Border Pipeline ("Border"). The long-term, firm, long-haul transportation contracts with Natural, Panhandle, Trunkline, and ANR have an aggregate Maximum Daily Quantity ("MDQ") during the peak season of 458,151 Dth and an off-peak MDQ of 340,174 Dth. Generally speaking, he noted the winter season is defined as the peak season, and the summer season is defined as the off-peak season.

With regard to storage, Mr. Huhn testified that firm storage service contracts with Natural, Panhandle, ANR, Moss Bluff Hub Partners, L.P. ("Moss Bluff"), Kinder Morgan Texas Pipeline, L.P. ("KMTP"), ENSTOR Operating Company ("Katy"), Washington 10 Storage Corporation ("Washington 10") and Egan Hub Partners, L.P. ("Egan") provide an annual storage capability of 31,745,601 Dth, with maximum daily withdrawal capability of 639,083 Dth to meet winter peaks.

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 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. Thus, the Commission finds that the requirement of this statutory provision has been fulfilled.

4. **Purchased Gas Cost Rates.** I.C. § 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.** I.C. § 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. 38380. The Commission's October 26, 1988 Order in that Cause authorized Petitioner to earn a net operating income of $63,182,056. The evidence of record indicates that for the twelve (12) months ending December 31, 2009, Petitioner's actual net operating income was $13,771,609. Therefore, the Commission finds that Petitioner is not earning in excess of that authorized in its last proceeding in which basic rates and charges were approved.

6. **Estimation of Purchased Gas Costs.** I.C. § 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. Petitioner's evidence indicates that the estimating techniques during the months of October and November 2009 ("Reconciliation Period") yielded an under-estimated weighted average error of 6.09%. Ms. Cherven explained that the primary reason for the difference is that the wholesale price of gas increased during this period, causing actual unit costs to be higher than the estimates. 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.** I.C. § 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 is in the process of transitioning from an annual GCA to a quarterly GCA, as addressed by the Commission's August 26, 2009 order in Cause No. 43629 ("Transition Order"). Ms. Cherven testified that October 2009 and November 2009 are being reconciled in this filing, and that the previous reconciliations for August 2009 and September 2009 are also being finalized in this filing. Ms. Cherven testified that pursuant to the Transition Order, this transition filing does not include the normal three reconciliation months (September, October, November) because the reconciliation for the month of September 2009 was already included in the GCA-11 monthly filing, filed with the Commission on October 23, 2009. In addition, Ms. Cherven pointed out that pursuant to the Transition Order, this GCA13 order includes the approval of the August 2009 and September 2009

reconciliations. OUCC witness Lianne Lockhart testified that the OUCC agreed with Petitioner's calculation of the proposed GCA 13 factors, as amended by the January 25, 2010 prefiled Supplemental Testimony and Exhibits of Katherine Cherven. However, Ms. Lockhart further indicated that the OUCC had not completed its review of the reconciliation months of August through November 2009. Accordingly, Ms. Lockhart requested that the rates for those months not be finalized until the next GCA.

The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an under collection of $7,620,449 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 $1,766,871.

The variance from prior recovery periods applicable to the current recovery period is an over collection of $31,576,129. Combining this amount with the Reconciliation Period variance, results in a total over collection of $29,809,258 to be applied in this GCA as a decrease in the estimated net cost of gas.

Based upon the evidence presented, and subject to further testimony from the OUCC, 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. Refund related to Unaccounted-for Gas. Ms. Katherine Cherven testified that GCA13 includes a refund in the amount of $4,087,418 pursuant to the Commission's final order in Cause No. 41338-GCA10, issued on October 21, 2009. The distribution of refunds for the months March, April, and May 2010 are $2,124,421, $1,243,785, and $719,212 respectively.

9. Resulting Gas Cost Adjustment Factor. The estimated net commodity cost of gas to be recovered during the application periods of March 2010, April 2010 and May 2010 are $46,626,930, $29,909,103 and $18,377,739, respectively. Adjusting this total for the commodity variance yields gas costs to be recovered through the GCA and Base Rates of $65,104,514. After dividing that amount by estimated sales, adding the demand costs, subtracting the base cost of gas, subtracting refunds, and adjusting for Indiana Utility Receipts Tax, Petitioner's recommended GCA factors are:

Estimated GCA per Therm

Rate Class	March 2010	April 2010	May 2010
Residential (Class 1)	$0.0131	$0.1506	$0.2567
General & Interruptible (Class 2 & 3)	$0.0561	$0.1600	$0.2452
CNG (Class 4)	$0.2472	$0.2737	$0.2893

10. **<u>Effects on Residential Customers</u>.** The March 2010 GCA factor of $0.131/Dth represents an increase of $1.285/Dth from the current February 2010 GCA factor of $(1.154)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in table 1:

<u>Table 1</u>
Proposed GCA Factor for March 2010
vs.
Currently Approved GCA Factor for February 2010

Monthly Consumption Mcf or Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$32.30	$25.87	$6.43	24.86%
10	$58.23	$45.38	$12.85	28.32%
15	$84.17	$64.89	$19.28	29.71%
20	$110.10	$84.40	$25.70	30.45%
25	$143.79	$111.67	$32.12	28.76%

The April 2010 GCA factor of $1.506/Dth represents an increase of $2.660/Dth from the current February 2010 GCA factor of $(1.154)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in table 2:

<u>Table 2</u>
Proposed GCA Factor for April 2010
vs.
Currently Approved GCA Factor for February 2010

Monthly Consumption Mcf or Dth	Bill at Proposed GCA Factor	Bill at Currently Approved GCA Factor	Dollar Change	Percent Change
5	$39.17	$25.87	$13.30	51.41%
10	$71.98	$45.38	$26.60	58.62%
15	$104.79	$64.89	$39.90	61.49%
20	$137.60	$84.40	$53.20	63.03%
25	$178.17	$111.67	$66.50	59.55%

The May 2010 GCA factor of \$2.567/Dth represents an increase of \$3.721/Dth from the current February 2010 GCA factor of \$(1.154)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in table 3:

Table 3 **Proposed GCA Factor for May 2010** **vs.** **Currently Approved GCA Factor for February 2010**				
Monthly Consumption Mcf or Dth	**Bill at Proposed GCA Factor**	**Bill at Currently Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	\$44.48	\$25.87	\$18.61	71.94%
10	\$82.59	\$45.38	\$37.21	82.00%
15	\$120.71	\$64.89	\$55.82	86.02%
20	\$158.82	\$84.40	\$74.42	88.18%
25	\$204.69	\$111.67	\$93.02	83.30%

The March 2010 GCA factor of \$0.1310/Dth represents a decrease of \$4.854Dth from the GCA factor billed one year ago of \$4.985/Dth. The effects of this change for various consumption levels of residential customer bills are shown in table 4:

Table 4 **Proposed GCA Factor for March 2010** **vs.** **GCA Factor Prior Year for March 2009**				
Monthly Consumption Mcf or Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	\$32.30	\$56.72	(\$24.42)	(43.05)%
10	\$58.23	\$107.09	(\$48.86)	(45.63)%
15	\$84.17	\$157.45	(\$73.28)	(46.54)%
20	\$110.10	\$207.82	(\$97.72)	(47.02)%
25	\$143.79	\$265.94	(\$122.15)	(45.93)%

The April 2010 GCA factor of $1.506/Dth represents an increase of $1.072/Dth from the GCA factor billed one year ago of $0.4340/Dth. The effects of this change for various consumption levels of residential customer bills are shown in table 5:

Table 5 **Proposed GCA Factor for April 2010** **vs.** **GCA Factor Prior Year for April 2009**				
Monthly Consumption Mcf or Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$39.17	$33.97	$5.20	15.31%
10	$71.98	$61.58	$10.40	16.89%
15	$104.79	$89.19	$15.60	17.49%
20	$137.60	$116.80	$20.80	17.81%
25	$178.17	$152.16	$26.01	17.09%

The May 2010 GCA factor of $2.567/Dth represents an increase of $3.364/Dth from the GCA factor billed one year ago of ($0.7970)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in table 6:

Table 6 **Proposed GCA Factor for May 2010** **vs.** **GCA Factor Prior Year for May 2009**				
Monthly Consumption Mcf or Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$44.48	$27.81	$16.67	59.94%
10	$82.59	$49.27	$33.32	67.63%
15	$120.71	$70.72	$49.99	70.69%
20	$158.82	$92.18	$66.64	72.29%
25	$204.69	$121.39	$83.30	68.62%

11. **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. The Commission further finds that the OUCC's request that the rates herein not be finalized until the next GCA should be granted, consistent with the amended testimony of Ms. Lianne Lockhart.

12. **Monthly Flex Mechanism**. Petitioner proposed to utilize a flex mechanism each month to adjust the GCA for the subsequent month, consistent with the practices of other Indiana gas utilities and the Commission's August 26, 2009 Order in Cause No. 43629. The flex will apply only to estimated pricing of estimated market purchases ("the initial market price") in the GCA. The flex will be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Changes in the market price included in the flex will be limited to a maximum adjustment (up or down) of $1.00 from the initial market price

This Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's proposal for a month flexing mechanism is designed to address this Commission's concerns. In addition, the Commission authorized this mechanism for other gas utilities. Therefore, it is reasonable to authorize Petitioner to initiate a monthly flex mechanism in the manner it has here proposed.

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

1. The Petition of Northern Indiana Public Service Company for the gas cost adjustment for natural gas service, as set forth in Finding Paragraph No. 9, is hereby approved, subject to refund in accordance with Finding Paragraph 11.

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 for the billing cycles of March 2010 through May 2010.

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

APPROVED: MAR 03 2010

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