ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR APPROVAL OF A GAS COST ADJUSTMENT TO BE APPLICABLE IN THE MONTHS OF SEPTEMBER, OCTOBER AND NOVEMBER 2010, PURSUANT TO IND. CODE § 8-1-2-42(g)	))))))	CAUSE NO. 43629 GCA 15 APPROVED: AUG 25 2010

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

On June 24, 2010, in accordance with Indiana 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 September 2010 through November 2010. On July 26, 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 July 26, 2010, in accordance with statute, 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 in the OUCC's Gas Division. Petitioner filed revised exhibit 2-E on July 26, 2010.

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 August 12, 2010 at 10:00 a.m. EDT, in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present at the hearing. Petitioner and the OUCC presented their respective evidence without objection and waived cross-examination of each other's witnesses.

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. 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 natural gas distribution service to the public in the State of Indiana and owns, operates, manages and controls, among other things, plants 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 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 September 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 and Northern Border Pipeline. 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 368,556 Dth and an off-peak MDQ of 273,123 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.; Kinder Morgan Texas Pipeline, L.P.; ENSTOR Operating Company; Washington 10 Storage Corporation and Egan Hub Partners, L.P. provide an annual storage capability of 26,473,724 Dth, with maximum daily withdrawal capability of 533,615 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 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. Thus, 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 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 has 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 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 June 30, 2010, Petitioner's actual net operating income was $12,378,288. 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.** 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 estimates with the eventual actual costs. Petitioner's evidence indicates that its estimating techniques during the reconciliation period of March through May 2010 ("Reconciliation Period") yielded an over-estimated weighted average error of 2.34%. Based upon Petitioner's historical accuracy in estimating the cost of gas, the Commission finds that Petitioner's estimating techniques for the reconciliation period are reasonable and Petitioner's average estimate of gas cost 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. Ms. Cherven testified that March through May 2010 are being reconciled in this filing.

The evidence presented in this current proceeding indicates that the commodity variance for the Reconciliation Period is an over-collection of $28,173,246 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 $5,880,288. The commodity variance from prior recovery periods applicable to the current recovery period is an under-collection of $12,065,121. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $6,184,833 to be applied in this GCA as an increase in the estimated net cost of gas.

The evidence presented also indicates that the demand variance for the Reconciliation Period is an under-collection of $2,943,237 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 increase in the estimated net cost of gas is $640,678. The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $172,667. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $813,345 to be applied in this GCA as an increase in the estimated net cost of gas.

The Commission notes that Petitioner has reflected rather large amounts of over- and under-collection variances in recent GCA filings. We are concerned with the degree of these variances based upon the expertise that Petitioner indicates it employs to procure gas, along with the monthly flex mechanism that Petitioner utilizes. We encourage Petitioner to further investigate and consider ways in which it may better control the extent of its variances as the Commission will continue to scrutinize these cost in future GCAs as a result of the impact they have on a customer's bill.

Ms. Katherine Cherven testified that GCA15 includes a refund in the amount of $250,503 from the Tennessee Gas Pipeline Company. Therefore, Petitioner has $250,503 in new refunds. These refunds should be returned, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period refund to be returned in this GCA is $52,386. Petitioner has $508,401 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $560,787 in total refunds to be applied as a decrease in the net cost of gas. 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 cost of gas to be recovered during the application periods of September 2010, October 2010 and November 2010 are $14,354,937, $24,371,537 and $37,984,134, respectively. Adjusting this total for the variance and refunds, yields gas costs to be recovered through the GCA and Base Rates of $83,147,999. 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:

Estimated GCA per Therm

Rate Class	September 2010	October 2010	November 2010
Residential (Class 1)	$0.2950	$0.2794	$0.2921
General & Interruptible (Class 2 & 3)	$0.2472	$0.2364	$0.2617
CNG (Class 4)	$0.1810	$0.1919	$0.2293

9. **<u>Effects on Residential Customers</u>.** The September 2010 GCA factor of \$2.9500/Dth represents a decrease of \$1.0710/Dth from the July 2010 GCA factor of \$4.0210/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 September 2010 vs. Currently Approved GCA Factor for July 2010				
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Currently Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	\$ 46.76	\$ 52.11	\$ (5.35)	(10.27)%
10	\$ 87.15	\$ 97.86	\$(10.71)	(10.94)%
15	\$127.55	\$143.61	\$(16.06)	(11.18)%
20	\$167.94	\$189.36	\$(21.42)	(11.31)%
25	\$216.09	\$242.87	\$(26.78)	(11.03)%

The October 2010 GCA factor of \$2.7940/Dth represents a decrease of \$1.2270/Dth from the July 2010 GCA factor of \$4.0210/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 October 2010 vs. Currently Approved GCA Factor for July 2010				
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Currently Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	\$ 45.98	\$ 52.11	\$ (6.13)	(11.76)%
10	\$ 85.59	\$ 97.86	\$(12.27)	(12.54)%
15	\$125.21	\$143.61	\$(18.40)	(12.81)%
20	\$164.82	\$189.36	\$(24.54)	(12.96)%
25	\$212.19	\$242.87	\$(30.68)	(12.63)%

The November 2010 GCA factor of \$2.9210Dth represents an decrease of \$1.1000/Dth from the July 2010 GCA factor of \$4.0210/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 November 2010** **vs.** **Currently Approved GCA Factor for July 2010**				
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Currently Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$ 46.61	$ 52.11	$ (5.50)	(10.55)%
10	$ 86.86	$ 97.86	$(11.00)	(11.24)%
15	$127.11	$ 143.61	$(16.50)	(11.49)%
20	$167.36	$189.36	$(22.00)	(11.62)%
25	$215.37	$242.87	$(27.50)	(11.32)%

The September 2010 GCA factor of $2.9500/Dth represents an increase of $4.1400/Dth from the GCA factor billed one year ago of $(1.1900)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 4:

Table 4[1] **Proposed GCA Factor for September 2010** **vs.** **GCA Factor Prior Year for September 2009**				
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$ 46.76	$ 25.85	$ 20.91	80.89%
10	$ 87.15	$ 45.34	$ 41.81	92.21%
15	$127.55	$ 64.83	$ 62.72	96.75%
20	$167.94	$ 84.32	$ 83.62	99.17%
25	$216.09	$111.56	$104.53	93.70%

The October 2010 GCA factor of $2.7940/Dth represents an increase of $4.3560/Dth from the GCA factor billed one year ago of ($1.5620)/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 5:

[1] The prior year GCA factors depicted in Tables 4, 5 and 6 for the months of September, October and November included an over-collection variance that reduced those GCA factors. The variance was a result of NIPSCO's estimation of natural gas prices in their annual GCA. This has since been addressed in Cause No. 43629 changing the annual GCA filing to a quarterly review process.

Table 5 Proposed GCA Factor for October 2010 vs. GCA Factor Prior Year for October 2009				
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$ 45.98	$ 23.83	$ 22.15	92.95%
10	$ 85.59	$ 41.30	$ 44.29	107.24%
15	$125.21	$ 58.77	$ 66.44	113.05%
20	$164.82	$ 76.24	$ 88.58	116.19%
25	$212.19	$101.47	$110.72	109.12%

The November 2010 GCA factor of $2.9210/Dth represents an increase of $3.2740/Dth from the GCA factor billed one year ago of ($0.3530)/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 November 2010 vs. GCA Factor Prior Year for November 2009				
Consumption Dth	**Bill at Proposed GCA Factor**	**Bill at Prior Year Approved GCA Factor**	**Dollar Change**	**Percent Change**
5	$ 46.61	$ 29.88	$ 16.73	55.99%
10	$ 86.86	$ 53.39	$ 33.47	62.69%
15	$127.11	$ 76.91	$ 50.20	65.27%
20	$167.36	$100.42	$ 66.94	66.66%
25	$215.37	$131.69	$ 83.68	63.54%

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. Petitioner utilizes a flex mechanism each month to adjust the GCA for the subsequent month. The flex applies only to estimated pricing of estimated market purchases (the initial market price) in the GCA. The flex is to be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex is to be priced at NYMEX prices on a day no more than six (6) business days prior to the beginning of said calendar month. Changes in the market price included in the flex are 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 monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize a monthly flex mechanism.

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. 8, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Northern Indiana Public Service Company shall file with the Commission under this Cause, prior to placing in 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.

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

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

APPROVED: AUG 25 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