

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC )  
SERVICE COMPANY FOR APPROVAL OF A ) CAUSE NO. 43629 GCA 23  
GAS COST ADJUSTMENT TO BE )  
APPLICABLE IN THE MONTHS OF )  
SEPTEMBER, OCTOBER AND NOVEMBER ) APPROVED: AUG 29 2012  
2012, PURSUANT TO IND. CODE § 8-1-2-42(g). )

ORDER OF THE COMMISSION

**Presiding Officers:**  
**Kari A.E. Bennett, Commissioner**  
**Aaron Schmoll, Senior Administrative Law Judge**

On June 20, 2012, Northern Indiana Public Service Company (“Petitioner” or “NIPSCO”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Petition for approval of a Gas Cost Adjustment (“GCA”) to be applicable during the billing cycles of September, October and November 2012 in accordance with Indiana Code § 8-1-2-42. On July 25, 2012, Petitioner prefiled the direct testimony and supporting exhibits of Katherine A. Cherven, Manager of Compliance in the Rates and Regulatory Finance Department; Ronald G. Plantz, Controller; and Roger A Huhn, Manager–Strategic Initiatives in Energy Supply and Trading Department. On August 9, 2012, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its case-in-chief consisting of the testimony and exhibits of Pamela Sue Sargent Haase, CPA, Partner at London Witte Group LLC and testimony of Jerome D. Mierzwa, Principal and Vice President of Exeter Associates, Inc.

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 16, 2012 at 1:30 p.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The testimony and exhibits of 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 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 proceeding. Therefore, this Commission has jurisdiction over the parties and the subject matter herein.

**2. Petitioner's Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 801 East 86<sup>th</sup> Avenue, Merrillville, Indiana. Petitioner is engaged in rendering gas utility service to the public in Adams, Allen, Benton, Carroll, Cass, Clinton, DeKalb, Elkhart, Fulton, Howard, Huntington, Jasper, Kosciusko, LaGrange, Lake, LaPorte, Marshall, Miami, Newton, Noble, Porter, Pulaski, St. Joseph, Starke, Steuben, Tippecanoe, Tipton, Wabash, Warren, Wells, White and Whitley counties in Indiana. It 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 natural gas supplies in order to provide gas to its retail customers at the lowest gas cost reasonably possible.

Mr. Roger Huhn testified that Petitioner manages a balanced and 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 the utilization of a variety of pricing structures sourced from multiple locations. These gas supplies are delivered to Petitioner through multiple long-term firm transportation arrangements with several different interstate gas pipelines, providing access to multiple supply basins. Mr. Huhn testified Petitioner 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, 2012, Petitioner will purchase supply under firm arrangements on both a term- and spot-market basis. To achieve diversity of supply, he stated Petitioner has contracted with several pipelines permitting access to multiple supply basins. Petitioner 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, Crossroads Pipeline and Northern Border Pipeline. The long-term, firm, long-haul transportation contracts with Natural, Panhandle, Trunkline, Crossroads and ANR have an aggregate Maximum Daily Quantity during the peak season of 471,000 Dth per day.

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., Washington 10 Storage Corporation and Egan Hub Partners, L.P. provide an annual storage capability of 29,430,000 Dth, with maximum daily withdrawal capability of 579,000 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 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 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 factors. The evidence of record indicates 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 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. 43894. The Commission's November 4, 2010 Order in that Cause authorized Petitioner to earn a net operating income of \$39,841,895. In the Commission's Order dated May 31, 2011 in Consolidated Cause Nos. 43941, 43942 and 43943 ("Merger Order"), the Commission authorized an incremental annual net operating income of \$4,602,071 associated with the combined operations of the former Kokomo Gas and Fuel Company and Northern Indiana Fuel & Light Co. and their merger into NIPSCO, and such incremental net operating income is to be added to the authorized net operating income approved for NIPSCO of \$39,841,895 in Cause No. 43894 for purpose of the earnings test calculation beginning with the first consolidated GCA filed on behalf of the consolidated NIPSCO. Petitioner's combined authorized net operating income is \$44,443,966.

The net operating income calculated in this Cause is calculated in accordance with the provisions of the Merger Order. The evidence of record indicates that for the twelve (12) months ending June 30, 2012, Petitioner's actual net operating income was \$18,568,918. 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 estimates with the eventual actual costs. The evidence presented indicates that Petitioner's estimating techniques during the reconciliation period of March 2012 through May 2012 ("Reconciliation Period") yielded an under-estimated weighted average error of 8.31%. 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 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. The evidence presented in this current proceeding established that the commodity and bad debt variance for the Reconciliation Period is an over-collection of \$21,629,317 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 commodity and bad debt variance to be included in this GCA as a decrease in the estimated net cost of gas is \$4,149,771. The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an under-collection of \$4,253,373. When this amount is combined with the Reconciliation Period commodity and bad debt variance, the result is a total under-collection of \$103,602 to be included in this GCA as an increase in the estimated net cost of gas.

The evidence presented in this current proceeding indicates the demand variance for the Reconciliation Period is an under-collection of \$2,593,126 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 demand variance to be included in this GCA as an increase in the estimated net cost of gas is \$528,172. The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of \$1,718,682. Combining this amount with the Reconciliation Period demand variance results in a total under-collection of \$2,246,854 to be included in this GCA as an increase in the estimated net cost of gas.

Petitioner received \$523,446 in refunds applicable to the current recovery period. 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 \$101,274. Petitioner has \$300,193 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has \$401,467 in refunds to be applied in this GCA as a decrease in the net cost of gas.

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 cost of gas to be recovered during the application periods of September, October and November 2012 are \$4,610,496, \$11,278,585 and \$26,911,366, respectively. Adjusting this total for the commodity and demand variance and refunds yields gas costs to be recovered through the GCA of \$44,749,436. After dividing that amount by estimated sales, adding the demand costs, and adjusting for Bad Debt expense as provided in Cause No. 43894 and Indiana Utility Receipts Tax, Petitioner’s recommended GCA factors are:

<b><u>Estimated GCA per Therm</u></b>			
<b><u>Rate Class</u></b>	<b><u>September 2012</u></b>	<b><u>October 2012</u></b>	<b><u>November 2012</u></b>
Residential	\$0.3242	\$0.3710	\$0.4385
General Service	\$0.3902	\$0.4320	\$0.4946

9. **Effects on Residential Customers.** The September 2012 GCA factor of \$3.242/Dth represents an increase of \$0.437/Dth from the July 2012 GCA factor<sup>1</sup> of \$2.805/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 1:

<b>Table 1</b>				
<b>Proposed GCA Factor for September 2012</b>				
<b>vs.</b>				
<b>Approved GCA Factor for July 2012</b>				
<b>Monthly Consumption Mcf or Dth</b>	<b>Bill at Proposed GCA Factor</b>	<b>Bill at Approved GCA Factor</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$ 34.22	\$ 32.04 <sup>2</sup>	\$ 2.18	6.80%
10	\$ 57.43	\$ 53.06 <sup>2</sup>	\$ 4.37	8.24%
15	\$ 80.65	\$ 74.10 <sup>2</sup>	\$ 6.55	8.84%
20	\$103.86	\$ 95.12 <sup>2</sup>	\$ 8.74	9.19%
25	\$127.08	\$116.16 <sup>2</sup>	\$10.92	9.40%

The October 2012 GCA factor of \$3.710/Dth represents an increase of \$0.905/Dth from the current July 2012 GCA factor of \$2.805/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 2:

<b>Table 2</b>				
<b>Proposed GCA Factor for October 2012</b>				
<b>vs.</b>				
<b>Approved GCA Factor for July 2012</b>				
<b>Monthly Consumption Mcf or Dth</b>	<b>Bill at Proposed GCA Factor</b>	<b>Bill at Approved GCA Factor</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$ 36.57	\$ 32.04 <sup>2</sup>	\$ 4.53	14.14%
10	\$ 62.11	\$ 53.06 <sup>2</sup>	\$ 9.05	17.06%
15	\$ 87.68	\$ 74.10 <sup>2</sup>	\$13.58	18.33%
20	\$113.22	\$ 95.12 <sup>2</sup>	\$18.10	19.03%
25	\$138.79	\$116.16 <sup>2</sup>	\$22.63	19.48%

<sup>1</sup> NIPSCO filed its supplemental testimony one day before the August flex factor was filed with the Commission. The parties did not update their bill comparisons to reflect the August factor, and because the August factor is not part of the record of this Cause, we will use the bill comparisons using the July GCA factor as presented by the parties.

<sup>2</sup> The bill calculations included in Petitioner's July 2012 Flex Filing included an Energy Efficiency factor of \$0.00348 per therm. After the July Flex was filed, new Energy Efficiency factors were approved effective July 1, 2012. The above bill calculations have incorporated the new Energy Efficiency factor of \$0.02329 per therm.

The November 2012 GCA factor of \$4.385/Dth represents an increase of \$1.580/Dth from the current July 2012 GCA factor of \$2.805/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 3:

<b>Table 3</b>				
<b>Proposed GCA Factor for November 2012</b>				
<b>vs.</b>				
<b>Approved GCA Factor for July 2012</b>				
<b>Monthly Consumption Mcf or Dth</b>	<b>Bill at Proposed GCA Factor</b>	<b>Bill at Approved GCA Factor</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$39.94	\$32.04 <sup>2</sup>	\$ 7.90	24.66%
10	\$68.86	\$53.06 <sup>2</sup>	\$15.80	29.78%
15	\$ 97.80	\$ 74.10 <sup>2</sup>	\$23.70	31.98%
20	\$126.72	\$ 95.12 <sup>2</sup>	\$31.60	33.22%
25	\$155.66	\$116.16 <sup>2</sup>	\$39.50	34.00%

The September 2012 GCA factor of \$3.242/Dth represents a decrease of \$1.753/Dth from the GCA factor billed one year ago of \$4.995/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 4:

<b>Table 4</b>				
<b>Proposed GCA Factor for September 2012</b>				
<b>vs.</b>				
<b>GCA Factor Prior Year for September 2011</b>				
<b>Monthly Consumption Mcf or Dth</b>	<b>Bill at Proposed GCA Factor</b>	<b>Bill at Prior Year Approved GCA Factor</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$ 34.22	\$ 42.00	(\$7.78)	(18.52)%
10	\$ 57.43	\$ 72.98	(\$15.55)	(21.31)%
15	\$ 80.65	\$103.98	(\$23.33)	(22.44)%
20	\$103.86	\$134.96	(\$31.10)	(23.04)%
25	\$127.08	\$165.96	(\$38.88)	(23.43)%

The October 2012 GCA factor of \$3.710/Dth represents a decrease of \$1.158/Dth from the GCA factor billed one year ago of \$4.868/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 5:

<p align="center"><b>Table 5</b>  <b>Proposed GCA Factor for October 2012</b>  vs.  <b>GCA Factor Prior Year for October 2011</b></p>				
<b>Monthly Consumption Mcf or Dth</b>	<b>Bill at Proposed GCA Factor</b>	<b>Bill at Prior Year Approved GCA Factor</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$ 36.57	\$ 41.37	(\$ 4.80)	(11.60)%
10	\$ 62.11	\$ 71.71	(\$ 9.60)	(13.39)%
15	\$ 87.68	\$102.08	(\$14.40)	(14.11)%
20	\$113.22	\$132.42	(\$19.20)	(14.50)%
25	\$138.79	\$162.79	(\$24.00)	(14.74)%

The November 2012 GCA factor of \$4.385/Dth represents a decrease of \$0.724/Dth from the GCA factor billed one year ago of \$5.109/Dth. The effects of this change for various consumption levels of residential customer bills are shown in Table 6:

<p align="center"><b>Table 6</b>  <b>Proposed GCA Factor for November 2012</b>  vs.  <b>GCA Factor Prior Year for November 2011</b></p>				
<b>Monthly Consumption Mcf or Dth</b>	<b>Bill at Proposed GCA Factor</b>	<b>Bill at Prior Year Approved GCA Factor</b>	<b>Dollar Change</b>	<b>Percent Change</b>
5	\$ 39.94	\$ 42.57	(\$ 2.63)	(6.18)%
10	\$ 68.86	\$ 74.12	(\$ 5.26)	(7.10)%
15	\$ 97.80	\$105.69	(\$ 7.89)	(7.47)%
20	\$126.72	\$137.24	(\$10.52)	(7.67)%
25	\$155.66	\$168.81	(\$13.15)	(7.79)%

**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 will be filed no less than three (3) days before the beginning of each calendar month during the GCA quarter. Market purchases in the flex are 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 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 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, is hereby approved, subject to refund in accordance with Finding Paragraph 10.

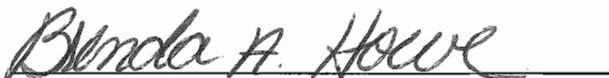
2. Petitioner shall file with the Commission under this Cause, prior to placing in effect the gas cost adjustments approved herein, or any future flex factor, separate amendments to its rate schedules with reasonable references thereon reflecting that such charges are applicable to the rate schedules reflected on these amendments.

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

**ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:**

**APPROVED:** AUG 29 2012

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



**Brenda A. Howe  
Secretary to the Commission**