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 MARCH, APRIL AND MAY 2013, PURSUANT TO IND. CODE § 8-1-2-42(g).	)))))	**CAUSE NO. 43629 GCA 25** **APPROVED:** FEB 27 2013

BY THE COMMISSION:
Kari A.E. Bennett, Commissioner
David E. Veleta, Administrative Law Judge

On December 19, 2012, in accordance with Indiana Code § 8-1-2-42, Northern Indiana Public Service Company ("Petitioner") filed its Petition for Gas Cost Adjustment ("GCA") with attached Schedules to be applicable during the billing cycles of March, April and May 2013 with the Indiana Utility Regulatory Commission ("Commission"). On January 18, 2013, 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 Douglas J. Burton, Director of Resource Planning in Energy Supply and Trading Department. On February 5, 2013, 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, a public hearing was held in this Cause on February 12, 2013 at 9:30 a.m. in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Petitioner and the OUCC were present and participated. The testimony and exhibits of both 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 hearing in this Cause was given and published by the Commission as required by law. Petitioner is a public utility as that term is defined in Ind. Code § 8-1-2-1(a). Under Ind. Code § 8-1-2-42(g), the Commission has jurisdiction over changes to Petitioner's rates and charges related to adjustments in gas costs. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a corporation duly organized and existing under the laws of the State of Indiana. Petitioner has its principal office at 801 East 86th 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 gas supplies so as to provide gas to its retail customers at the lowest gas cost reasonably possible.

Mr. Douglas Burton 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. Burton 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. Burton further testified that during the three-month recovery period beginning March 1, 2013, 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 ("Crossroads") 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 448,000 Dth per day.

With regard to storage, Mr. Burton testified that firm storage service contracts with Natural, Panhandle, ANR, Moss Bluff Hub Partners, L.P., Washington 10 Storage Corporation and Egan Hub Partners, L.P. provide an annual storage capability of 28,919,000 Dth, with maximum daily withdrawal capability of 571,000 Dth to meet winter peaks. Mr. Burton described some changes to Petitioner's transport and storage services portfolio starting with the period covered in this GCA proceeding to reflect expiring transportation and storage service contracts being moved to different transportation and storage services in order to reflect changes in the supply markets. He explained that the changes result in approximately the same net storage and reduced long-haul and short-haul transportation contracts. In addition, Mr. Burton testified that as a result of the changes in Petitioner's transport and storage services portfolio, Petitioner is forecasting a reduction of approximately \$7 - \$10 million in demand dollar cost for the entire gas portfolio (including the assets allocated to the Choice Program) for the year starting April 1, 2013.

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 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 that 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 cost to be reasonable. Therefore, 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 December 31, 2012, Petitioner's actual net operating income was $41,969,724. 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 presented indicates that the estimating techniques of Petitioner during the reconciliation period of September 2012 through November 2012 ("the Reconciliation Period") yielded an over-estimated weighted average error of 2.89%. 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 costs is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the 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 under-collection of $19,736,442 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 $4,440,604.

The commodity and bad debt variance from prior recovery periods applicable to the current recovery period is an over-collection of $2,667,618. Combining this amount with the Reconciliation Period variance, results in a total under-collection of $1,772,986 to be applied 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 $7,924,003 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 $1,784,397. The demand variance from prior recovery periods applicable to the current recovery period is an under-collection of $1,912,550. Combining this amount with the Reconciliation Period demand variance results in a total under-collection of $3,696,947 to be included in this GCA as an increase in the estimated net cost of gas.

There are no new refunds to be applied in this GCA. Petitioner has $238,214 in refunds from prior periods applicable to the current recovery period. Therefore, Petitioner has $238,214 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 March, April and May 2013 are $32,253,003, $16,836,844 and $9,212,198, respectively. Adjusting this total for the commodity and demand variance and refunds yields gas costs to be recovered through the GCA of $63,533,764. 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:

Estimated GCA per Therm

Rate Class	March 2013	April 2013	May 2013
Residential	$0.4817	$0.4497	$0.4319
General Service	$0.5368	$0.5049	$0.4844

9. **Effects on Residential Customers.** Petitioner requests authority to approve the GCA factor of $4.817/Dth for March 2013, $4.497/Dth for April 2013, and $4.319/Dth for May 2013. As illustrated in the table below, a residential customer would incur the following commodity costs based on 10 Dths of usage. Moreover, the table compares the proposed gas costs to what a residential customer paid most recently (December 2012 - $4.879/Dth) and a year ago (March 2012 - $4.658/Dth, April 2012 - $3.424/Dth, and May 2012 - $2.666/Dth). The table solely reflects costs that are approved through the GCA process. It does not include Petitioner's base rates or any applicable rate adjustment mechanisms.

		Current		Year Ago	
Month	**Gas Costs at New GCA Factor @ 10 Dths**	**Gas Costs at Current GCA Factor @10 Dths**	**Dollar Change New vs. Current**	**Gas Costs at Year Ago GCA Factor @10 Dths**	**Dollar Change New vs. Year Ago**
March 2013	$ 48.17	$ 48.79	$ (0.62)	$ 46.58	$ 1.59
April 2013	$ 44.97	$ 48.79	$ (3.82)	$ 34.24	$ 10.73
May 2013	$ 43.19	$ 48.79	$ (5.60)	$ 26.66	$ 69.85

10. <u>**Interim Rates**</u>. 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. <u>**Monthly Flex Mechanism**</u>. The Commission has indicated in prior orders that Indiana's gas utilities should make reasonable efforts to mitigate gas price volatility. Petitioner's approved monthly flex mechanism is designed to address the Commission's concerns. Therefore, Petitioner may utilize 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 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 are limited to a maximum adjustment (up or down) of $1.00 from the initial market price.

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. Petitioner 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.

<u>**ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:**</u>

APPROVED: FEB 27 2013

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